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New realities for the EU milk farming

EDF Congress, Groningen, 18 June 2008

Martin van Driel, DG AGRI, animal products

- World dairy outlook
- EU dairy outlook: price volatility, consumption/production trends and WTO
- EU dairy outlook: Health Check and soft landing
- Restructuring and Number of EU producers

World outlook

- Old reality: Milk production 654 million tonnes in 2006 (annual increase of 1-2%). This is expected to continue increasing (despite water energy)
- New reality: Demand is expected to grow as well but a slightly faster pace; <u>world market</u> prices will gradually increase.
- **Challenge**: who will supply the additional demand and at what price (€/$: ?)

Price developments world and EU

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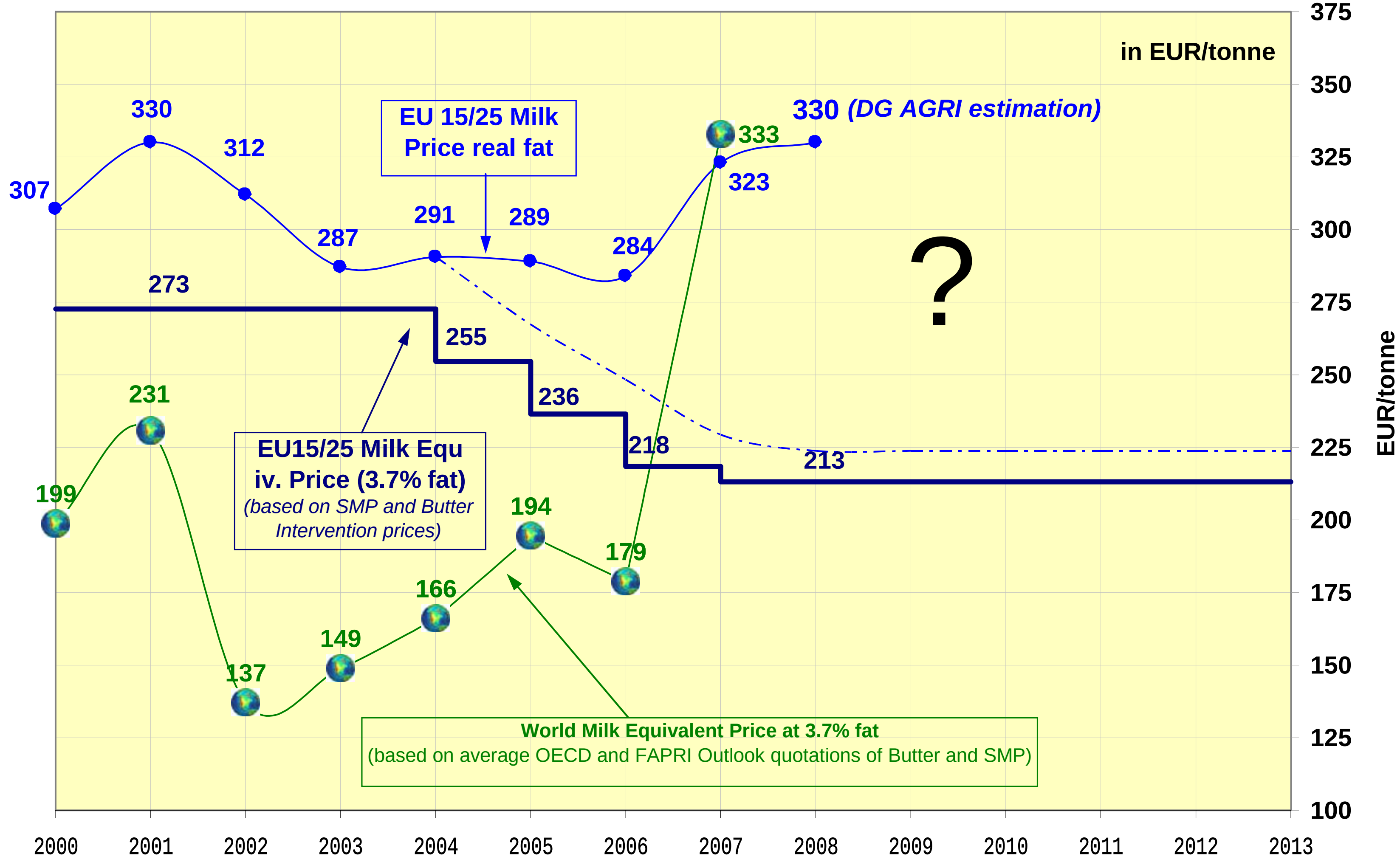

EU dairy outlook: price, consumption/production

- Pre reform milk prices were always close to the supported levels and rather stable;
- After the 2003 reform the prices moved away from supported levels, showing the strength of the dairy chain to add value;
- Cheese will continue to drive consumption growth in the EU

Health Check 2008

- After 30 years, quota expire in 2015 with risk of ‘hard landing’; big shock & uneven development between Member States;
- The system must be carefully dismantled, a so called ‘soft landing’;
  - 5 times 1% in next 5 years (On top of the 2% in 2008)
  - Review in June 2011 with a view to smooth phasing out of quotas.
- But…risk for vulnerable areas once quotas are gone;
- Market measures cannot be left untouched
  - Intervention: by tender
  - Private storage: only butter and not compulsory
  - Internal disposal: only for proteins and not compulsory
  - Refunds: unchanged

Milk prices

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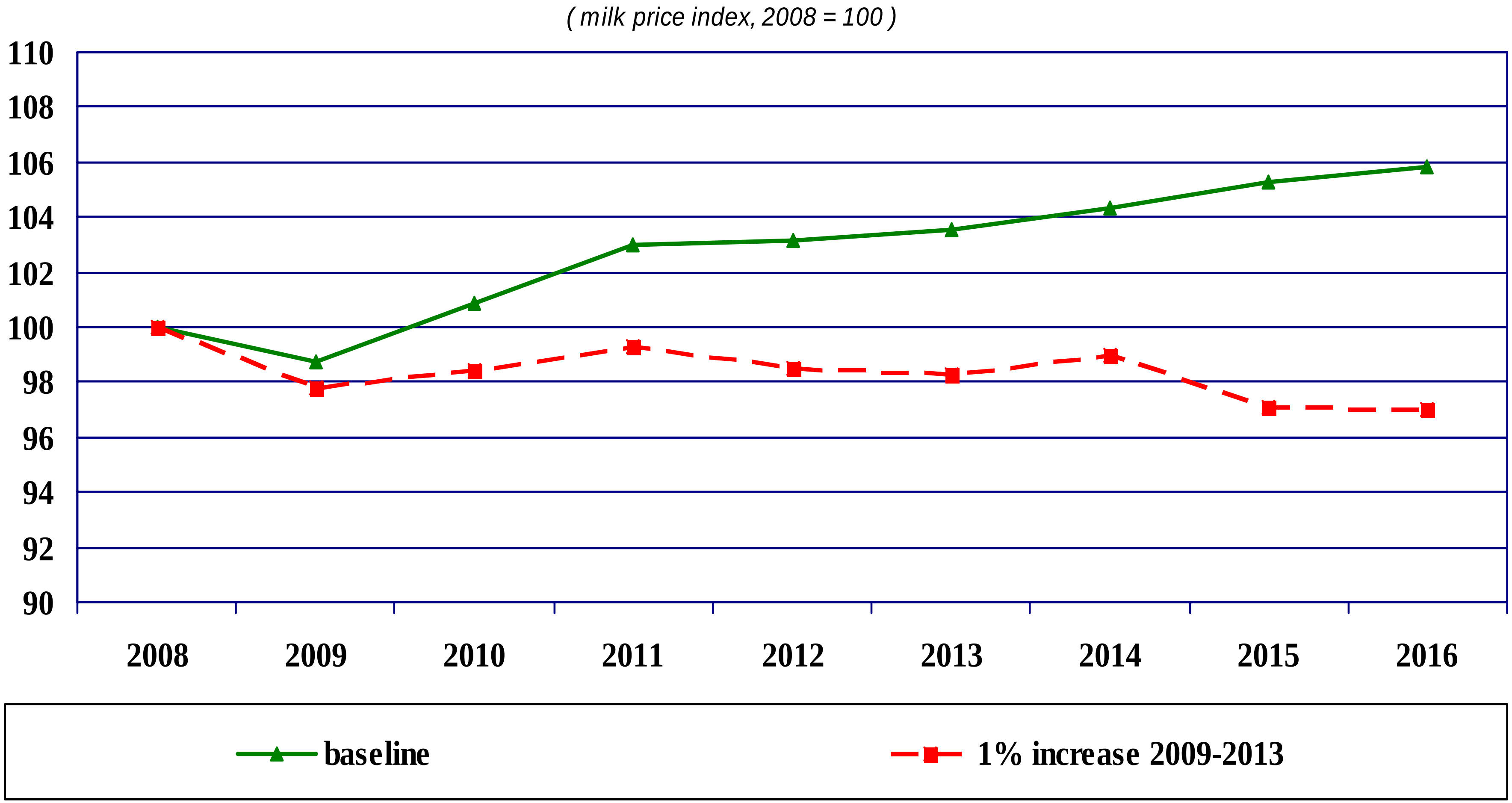

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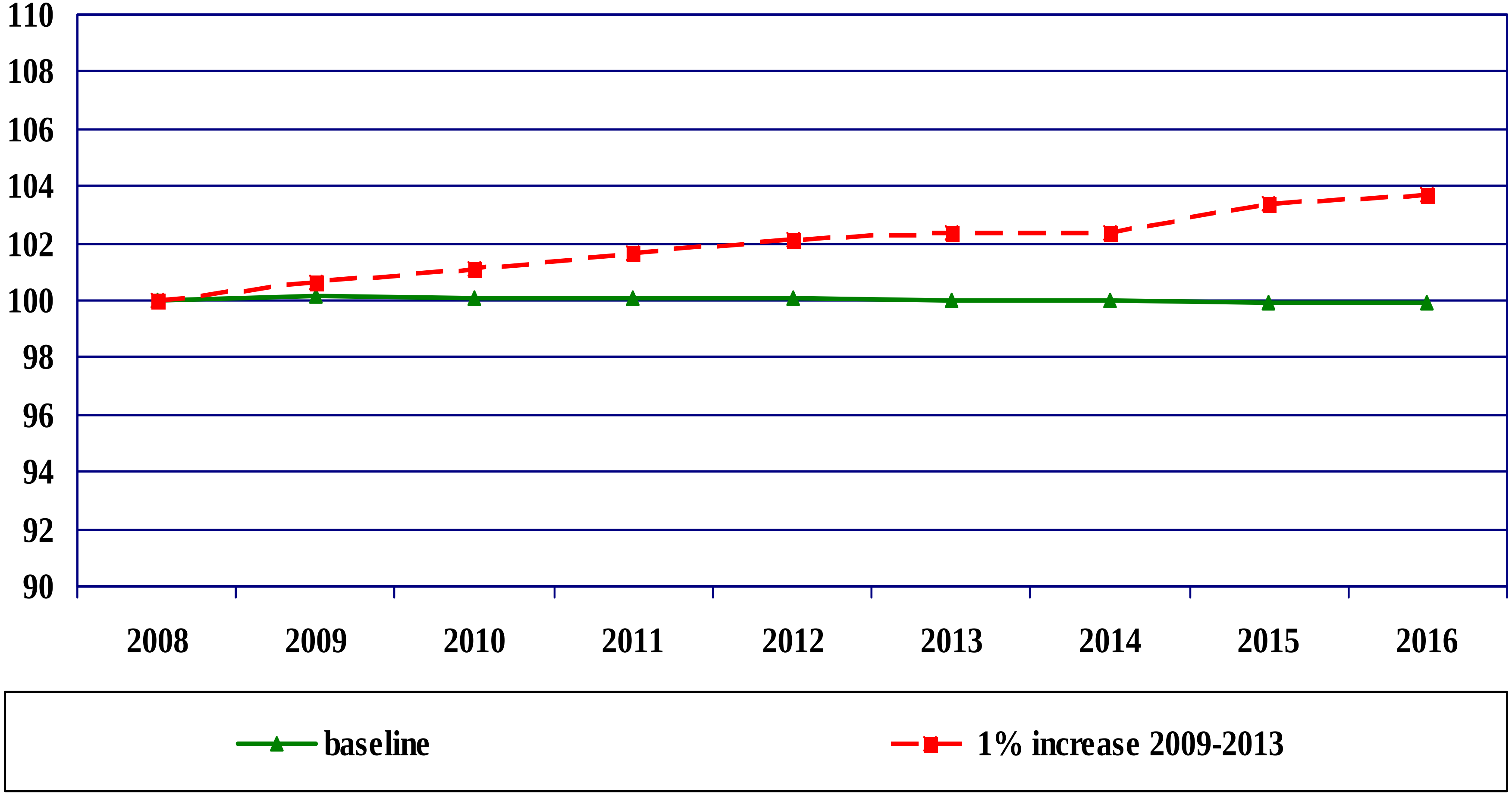
(milk production index, 2008 = 100)



Liberalisation reality?

- WTO deal? US farm bill: higher MILC payments, for more cows and a “feed cost adjuster”.
- EU FTA’s: S. Korea, ASEAN, Andean, Central America, India, EPA’s, Mercosur.
- Existing FTA’s: Mexico, S. Africa, Chile,
- FTA’s EU neighbours: Switzerland, EFTA, Balkans, Ukraine

Expected reality milk price

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- Milk prices will become more volatile
- But milk prices will not increase a lot due to production increase and further liberalisation (bilateral or WTO)
- Balance between cost increases (feed energy, fertilizer) vs. cost decrease (no quota costs, more efficiency)
- EU milk price in 2016 slightly below 2008 level, not 40 cents/litre;
- ‘Soft landing’: quota value/rent gradually down to zero in most Member States in 2015.

Expected reality (milk) production

- Therefore a relatively small increase in production between 2009 and 2016 of 3.8%.
- Which is about equal to EU demand increase;
- Small quantities of additional commodities (butter, SMP) must be exported in order to keep markets balanced;
- Farmer/processor have to set the appropriate production levels.
- Will milk produced in all corners of the EU?

Number of dairy farmers

- Farmers with quota:
  - 2007: 1.250.000 o. w. 800.000 in the NMS-10;
  - 2014: 600.000 o. w. 400.000 in the NMS-10;
  - 2015-20: 0 farmers with quota!
- Currently there are 750.000 EU dairy farmers without quota(=subsistence farming); their numbers are decreasing even faster:
  - 2020: 500.000 farmers?

conclusion

- Restructuring will continue:
  - Not everybody is prepared to milk cows 7 days a week, twice a day.
  - Increasing scale (lower costs/unit) is necessary for sufficient income
- We should not limit this restructuring by policy barriers for those that are committed to stay in dairy- business.
- Instead we should facilitate new entrants into the sector,
- In order to prevent a lack of dairy farmers in 2020

World milk production

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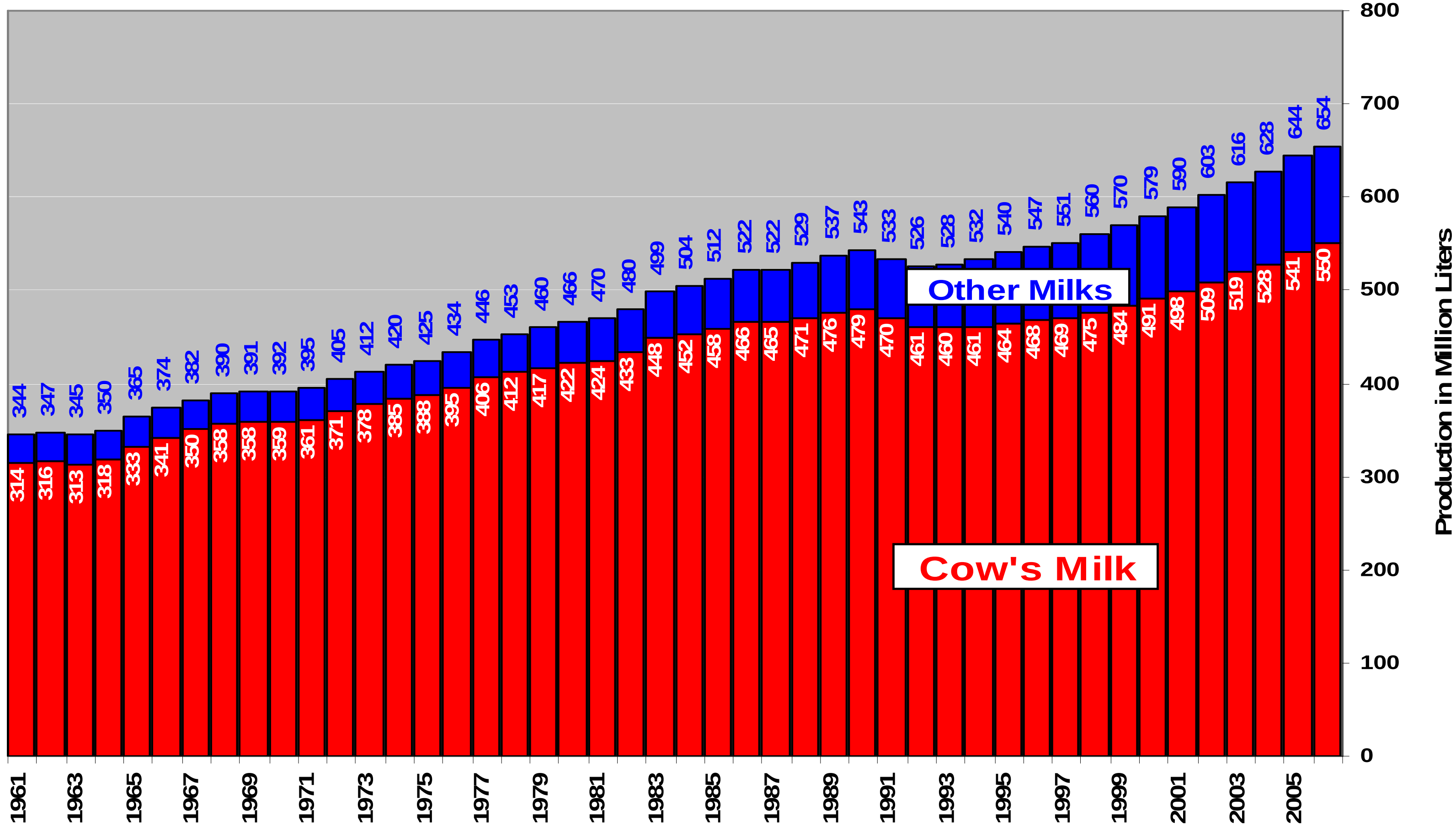
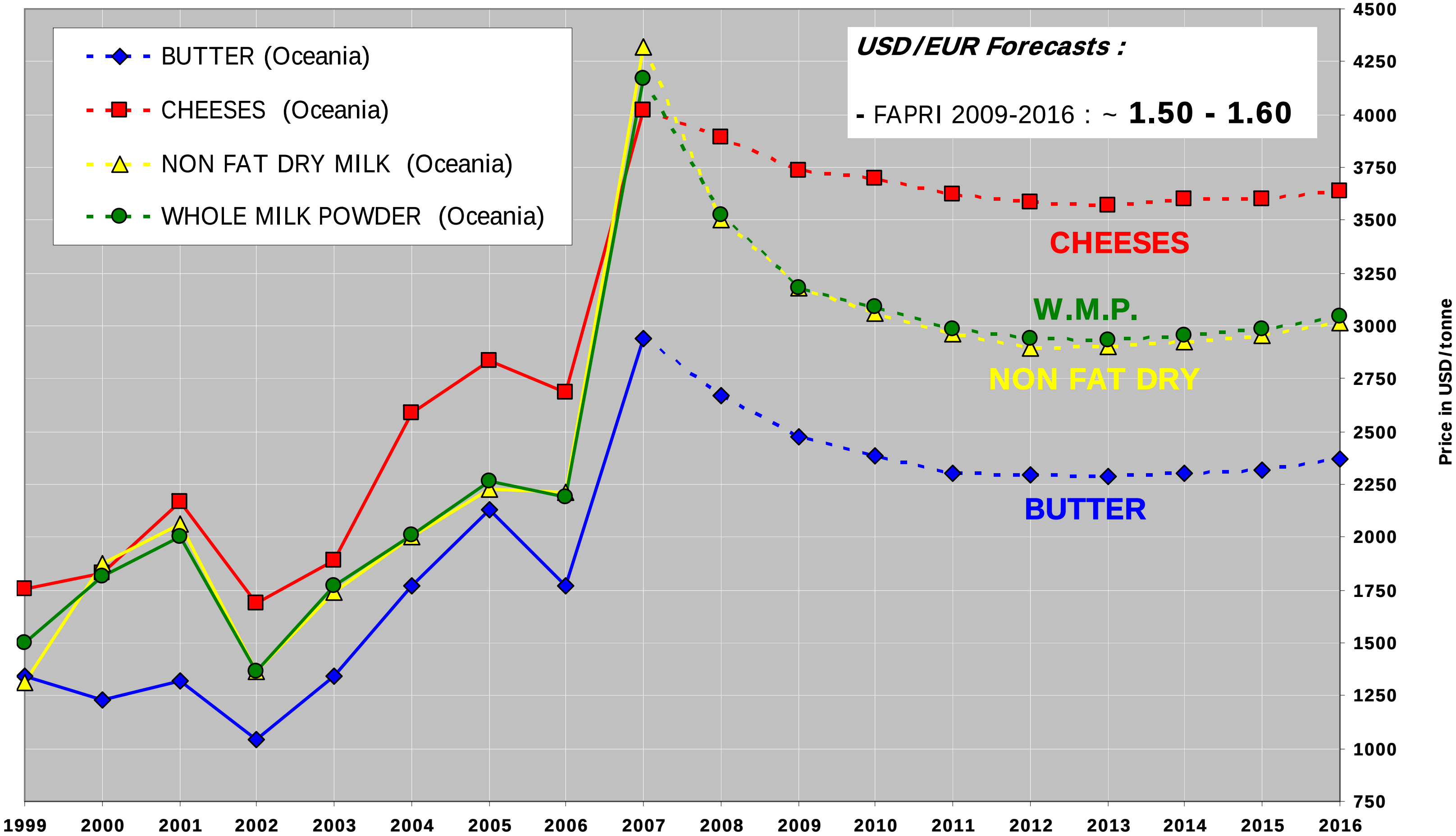


FAPRI estimations 2009-2016



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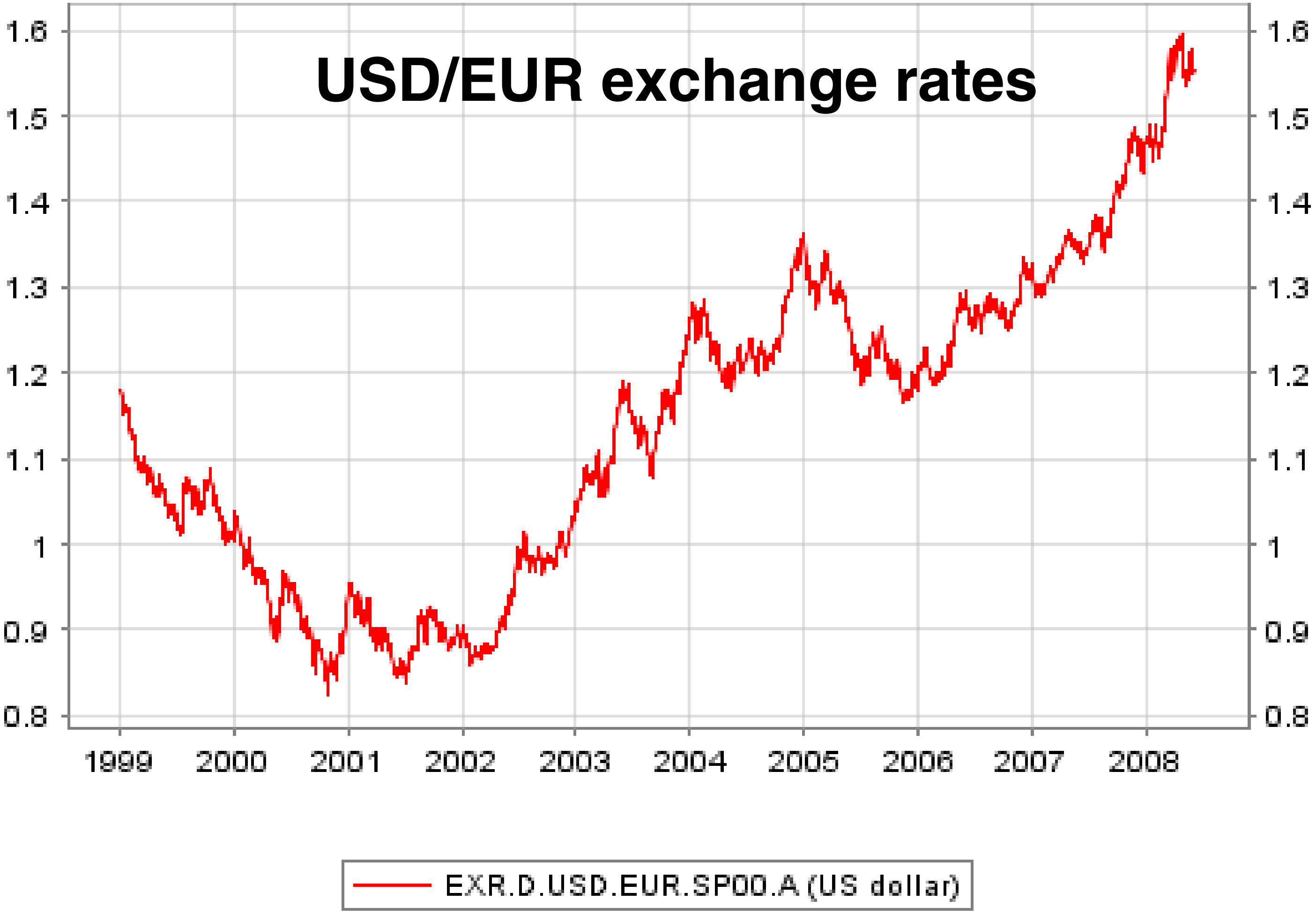
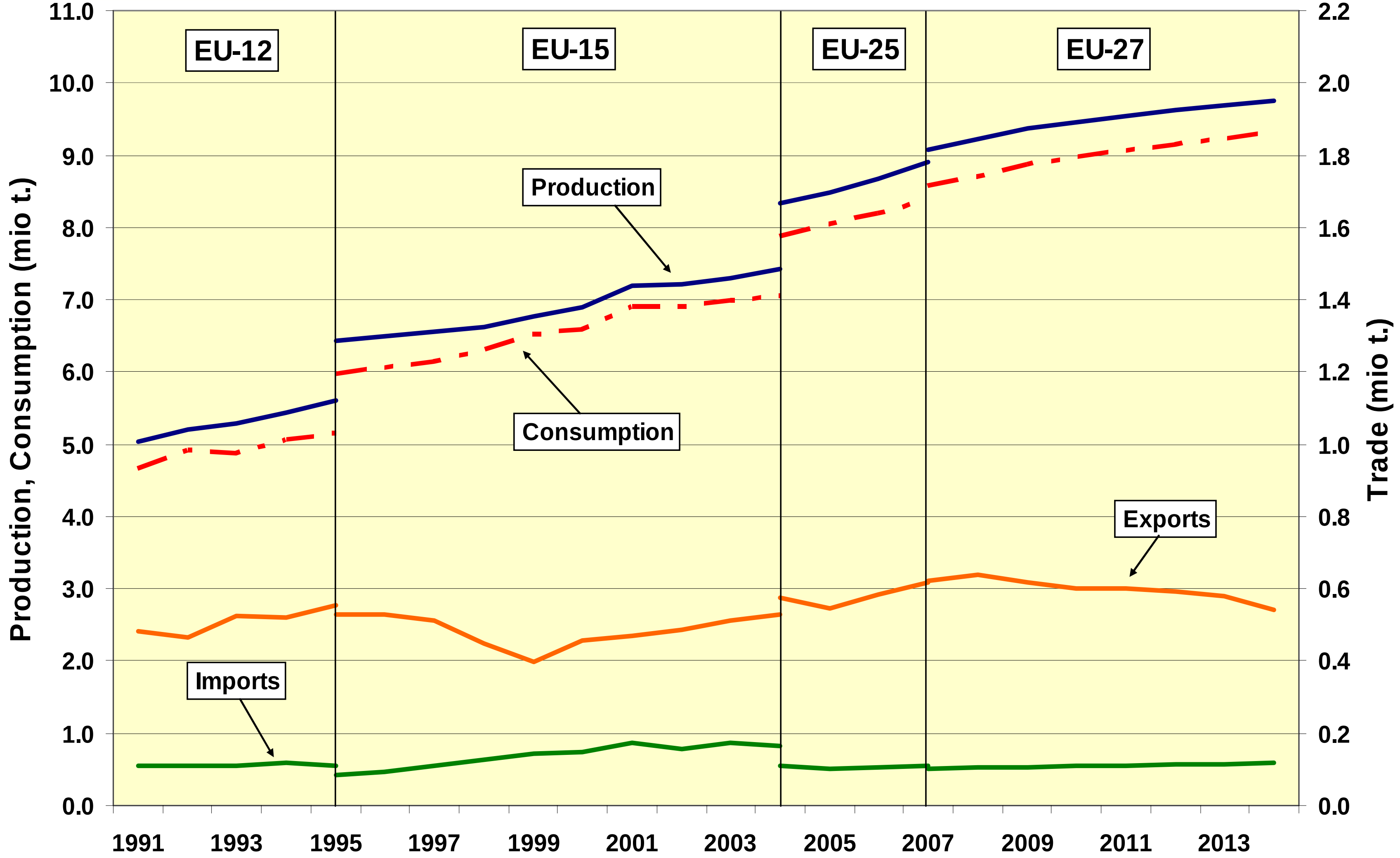


Cheese production in the EU 1991-2014: gradual increase



WTO pressure

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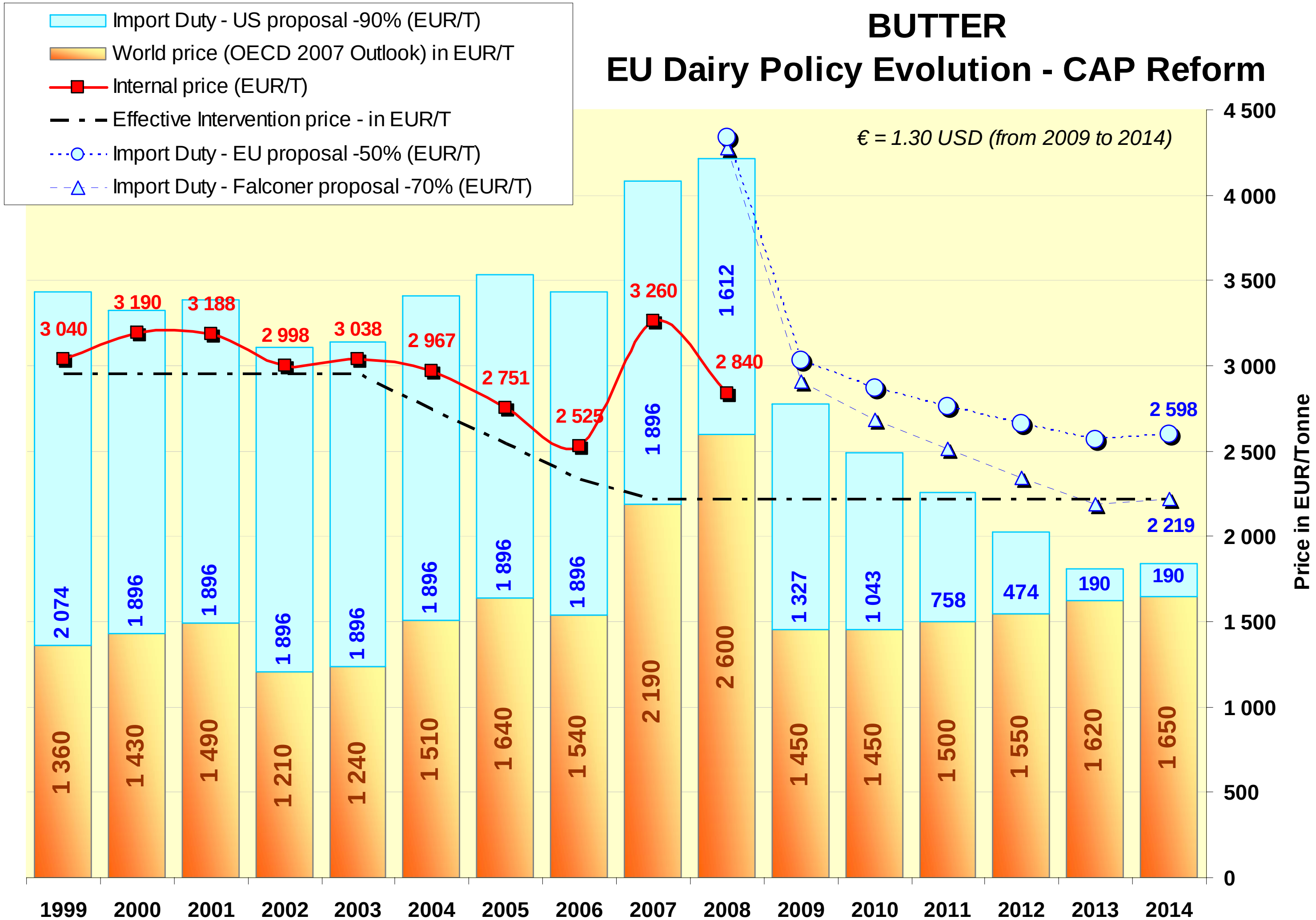

Number of Dairy Holdings (Source : Quota questionnaire)