Last update : 28.06.2016

MMO Economic Board

Meeting of 28 June 2016

- The 16th meeting of the MMO Economic Board took place on 28 June 2016, with the participation of experts from the various steps in the milk supply chain: CEJA (young farmers), COPA-COGECA (producers and cooperatives), ECVC (Via Campesina), EDA (dairy industry), Eucolait (dairy trade) and Eurocommerce (retail). EMB (European Milk Board) was not present. DG AGRI presentations and information exchanged during the meeting showed the following.

- EU milk collection was up by 5.6% in the first four months of 2016. Milk deliveries were 1.6% higher in April 2016 (= + 220 000 t), NL, IT, DE and PL having reported the biggest growth in volume terms. These figures relate to milk collection, i.e. milk collected by dairies and reported by the latter to their national authorities, irrespective of whether milk comes from producers located in the same MS or in another one.

- Average farm gate milk prices approximated 27.3 c/kg in April, meaning a 19% decrease compared to a 5-year average. A further decrease is expected for May (26.6 c/kg). Experts do not expect an improvement in milk prices before September 2016.

- Applications for private storage aid reached 102 000 t butter, 28 200 t SMP so far in 2016 and 48 000 t cheese in the 2nd round. With regard to offers for sale of SMP into public intervention, 296 500 t have been bought-in in 2016 (both at fixed price and by tender). Buying-in at fixed price under an increased ceiling of 350 000 t will resume on 30 June.

- Dairy product prices have generally improved since May, notably for butter and WMP, although they are still lower than at the beginning of the year (except for whey powder). SMP prices continue to oscillate around intervention level although with a slightly upward trend. The exchange rate evolution has partially offset this development when showing EU prices in US$. Despite this effect, world quotations of dairy products have generally increased in the main exporting regions.

- The Commission presented final figures to be included in the Summer Short Term Outlook. Developments in terms of cow slaughtering, weather patterns and recent milk production evolution substantiate the projection of a lower milk output in the second half of 2016, with an overall 1.4% increase of deliveries in the year.

- The assessment of EU stock levels based on a residual approach (production + imports – consumption - exports) confirmed a healthy situation of private stocks for SMP, as public intervention has absorbed surplus production. Offers to public intervention are expected to decline in the following weeks, in line with market recovery. Butter stocks are regarded as appropriate, given strong demand (both domestic and global). A relatively low increase in cheese production has allowed keeping cheese stocks at a rather reasonable level.

- At world level, milk production increased by some 3% in Jan-Apr 2016. FAO outlook for 2016 forecasts a 1.6% world milk production growth. US production increased in April (+ 1.2%) driven by higher yield per cow and expanded dairy herd. The USDA forecast for 2016 is + 1.9%. NZ and Australia will end their seasons with negative figures and further decreases are expected for next campaign (ranging from -2% to -5%). EU exports have been strong in April, with China as the main market both in volume and value. Only SMP exports have decreased, due to a global slowdown for this product and the effect of public intervention. Global demand remains healthy, except for some oil producing countries.

- With regard to EU retail sales, decreasing consumption was reported for drinking milk in FR, PT, ES and the UK, with SE being stable. The trend is more positive for added value fresh products. Demand for organic products is reported as very dynamic in FR, with double digit growth for many dairy products.

- The Commission presented the evolution of milk production costs, margins and income, based on the 2015 FADN report. Gross margins would have improved in 2013 and 2014 due to milk price and feed cost developments. Farm income is substantially higher in EU15 than in EU-N13, with direct payments representing some 40% in both cases.

- Despite the overall improvement of market sentiment, a correction on the supply side is still considered necessary

ANNEX 1

Milk Market Situation

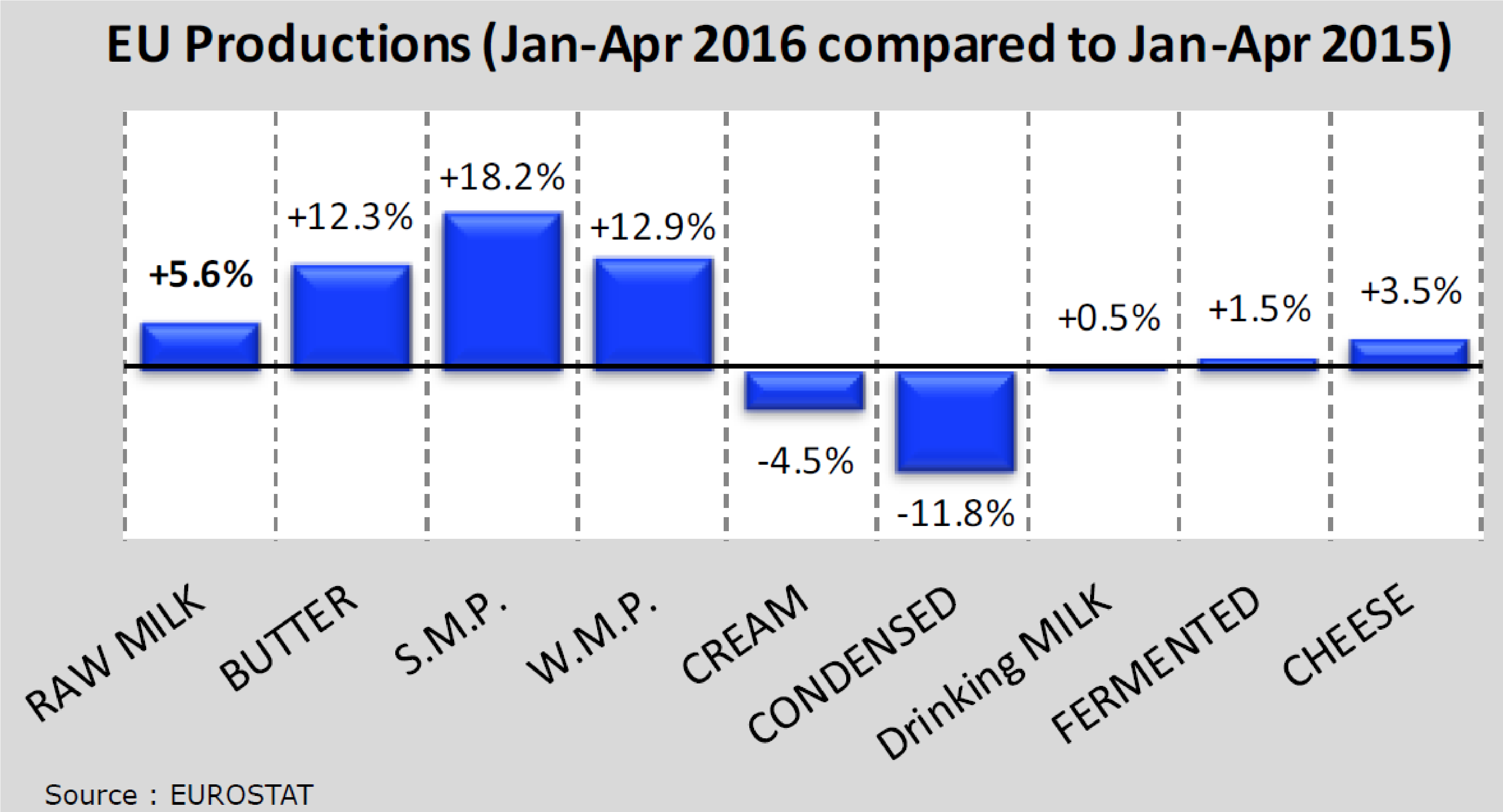
European Commission

Milk Market Situation

Brussels, 28 June 2016

EU Productions

European Commission

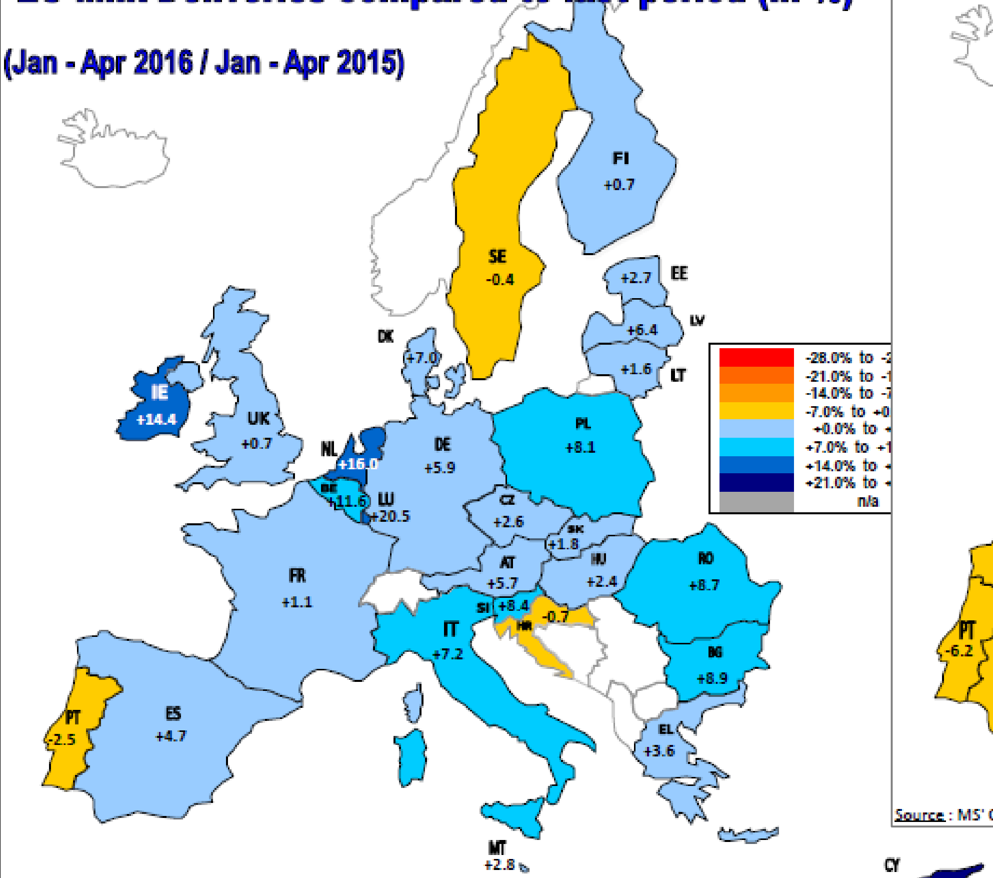


!!! Data from some Member States are confidential and are NOT included in this table !!!

European Commission

EU Milk Deliveries compared to last period (in %)

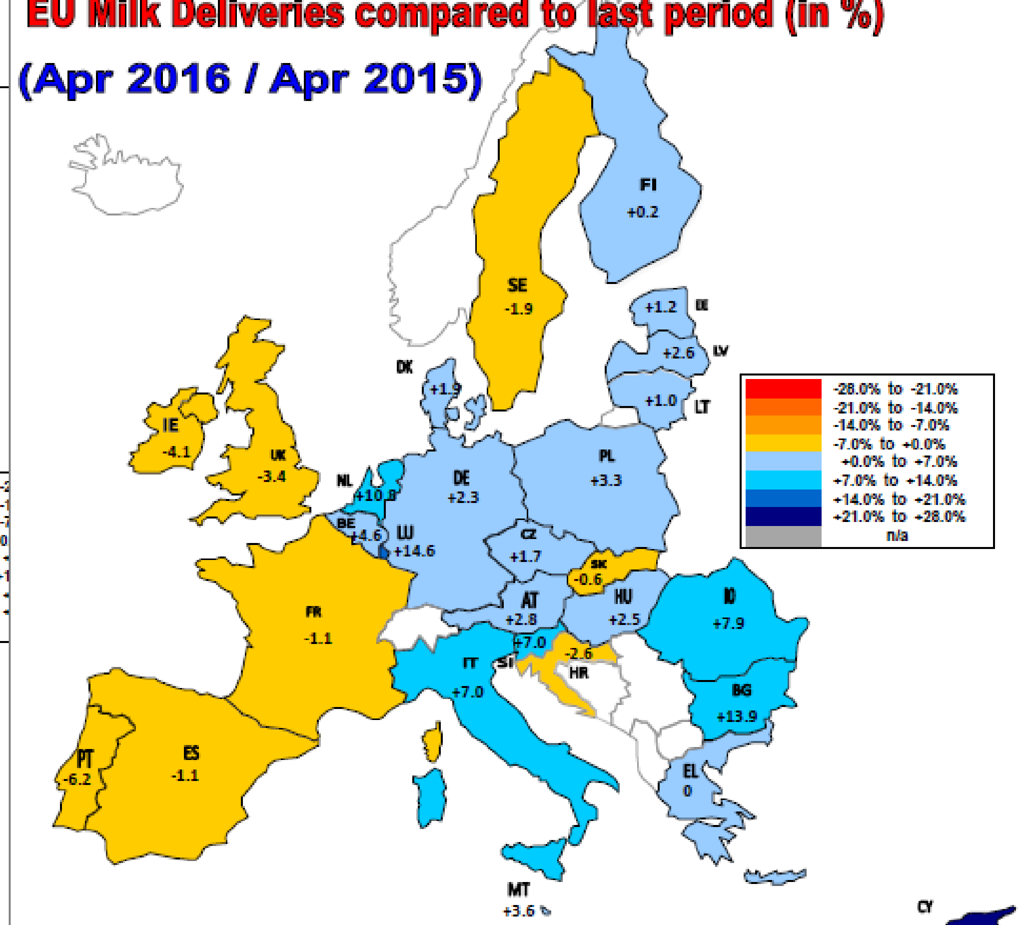
(Jan - Apr 2016 / Jan - Apr 2015)



Source : MS' Communications to Eurostat, FEGA, AGEA, Reg.479/2010.1(a)1

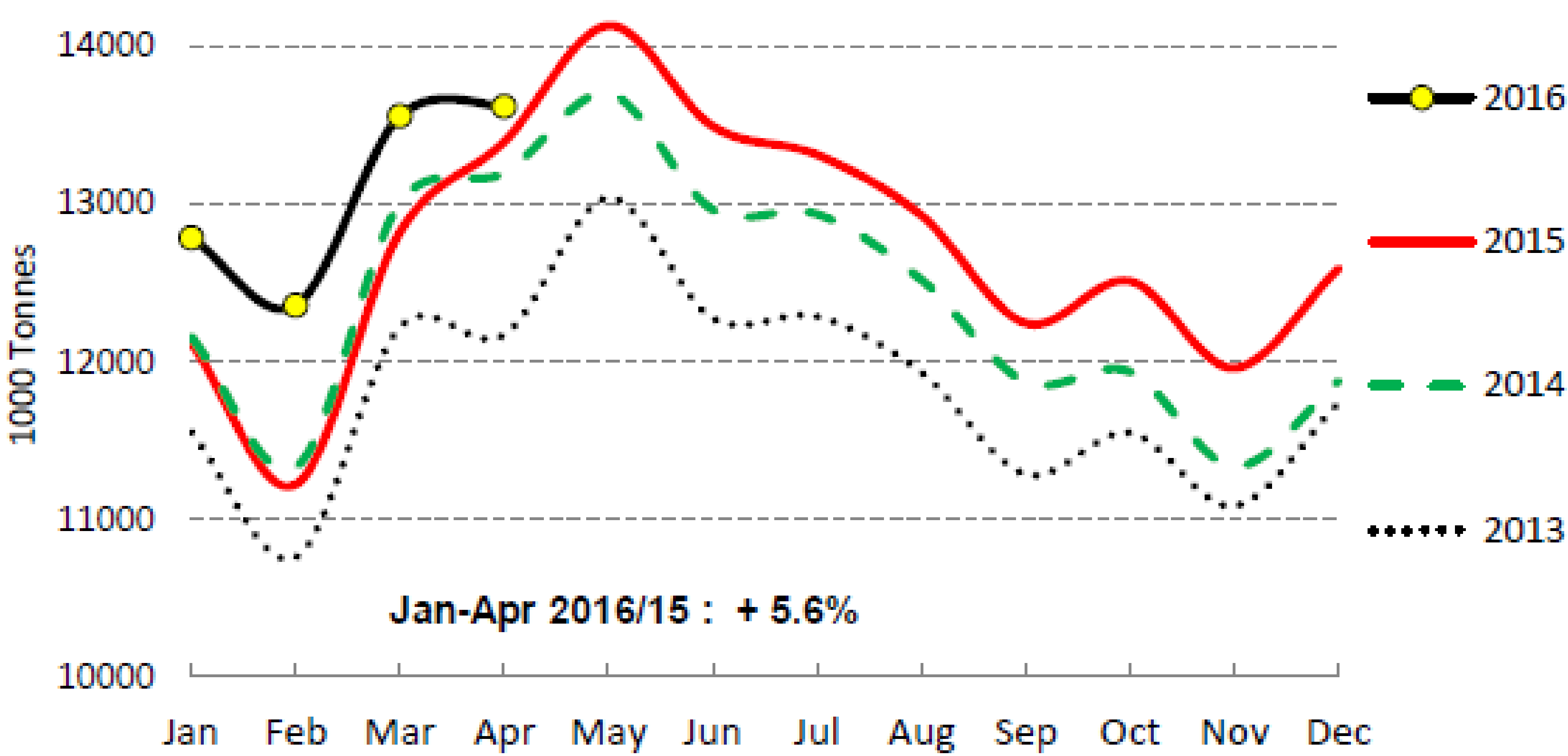
EU Milk Deliveries compared to last period (in %)

(Apr 2016 / Apr 2015)



Source : MS' Communications to Eurostat, FEGA, AGEA, Reg.479/2010.1(a)1

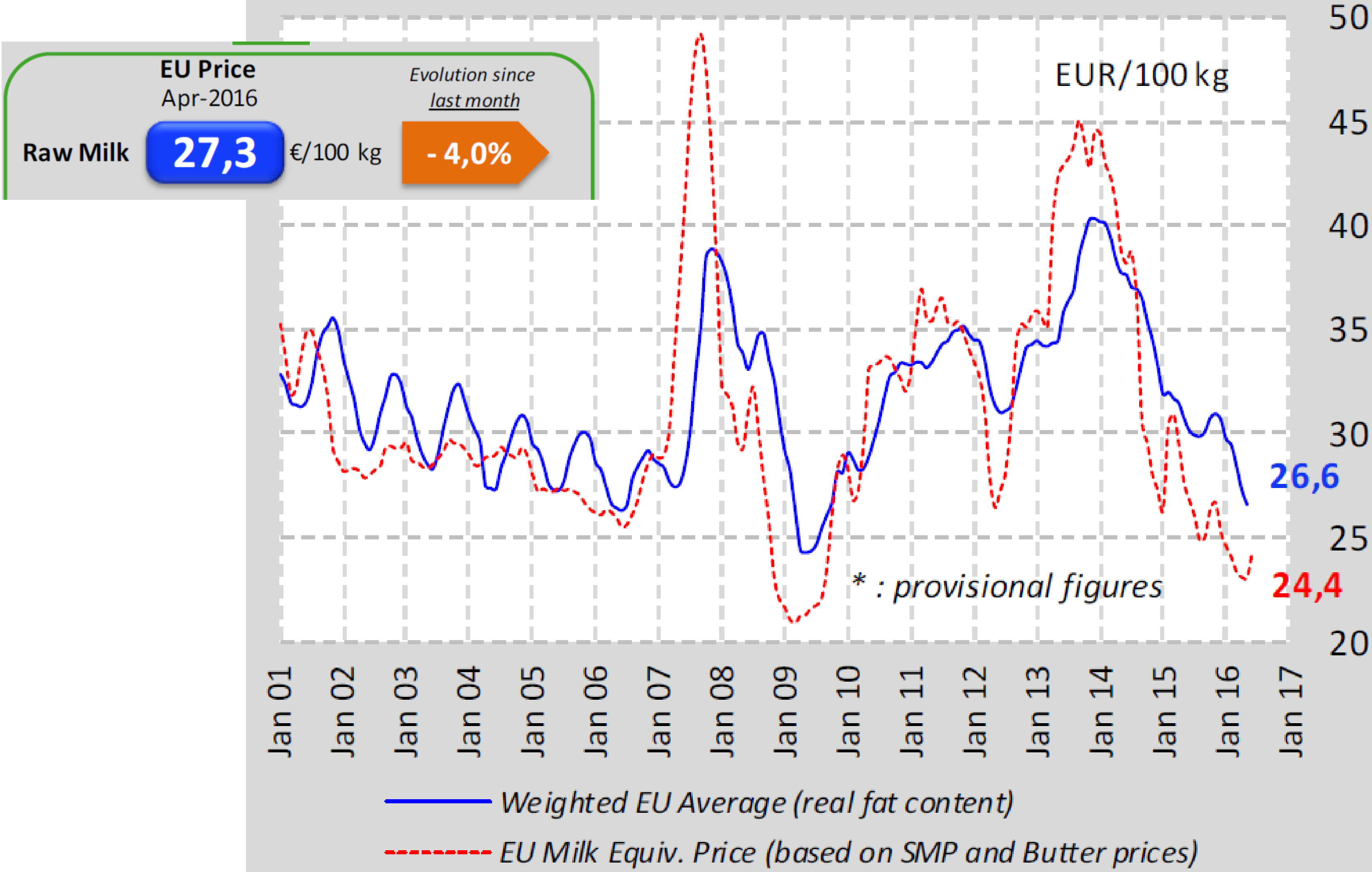
EU - Cows' milk collected



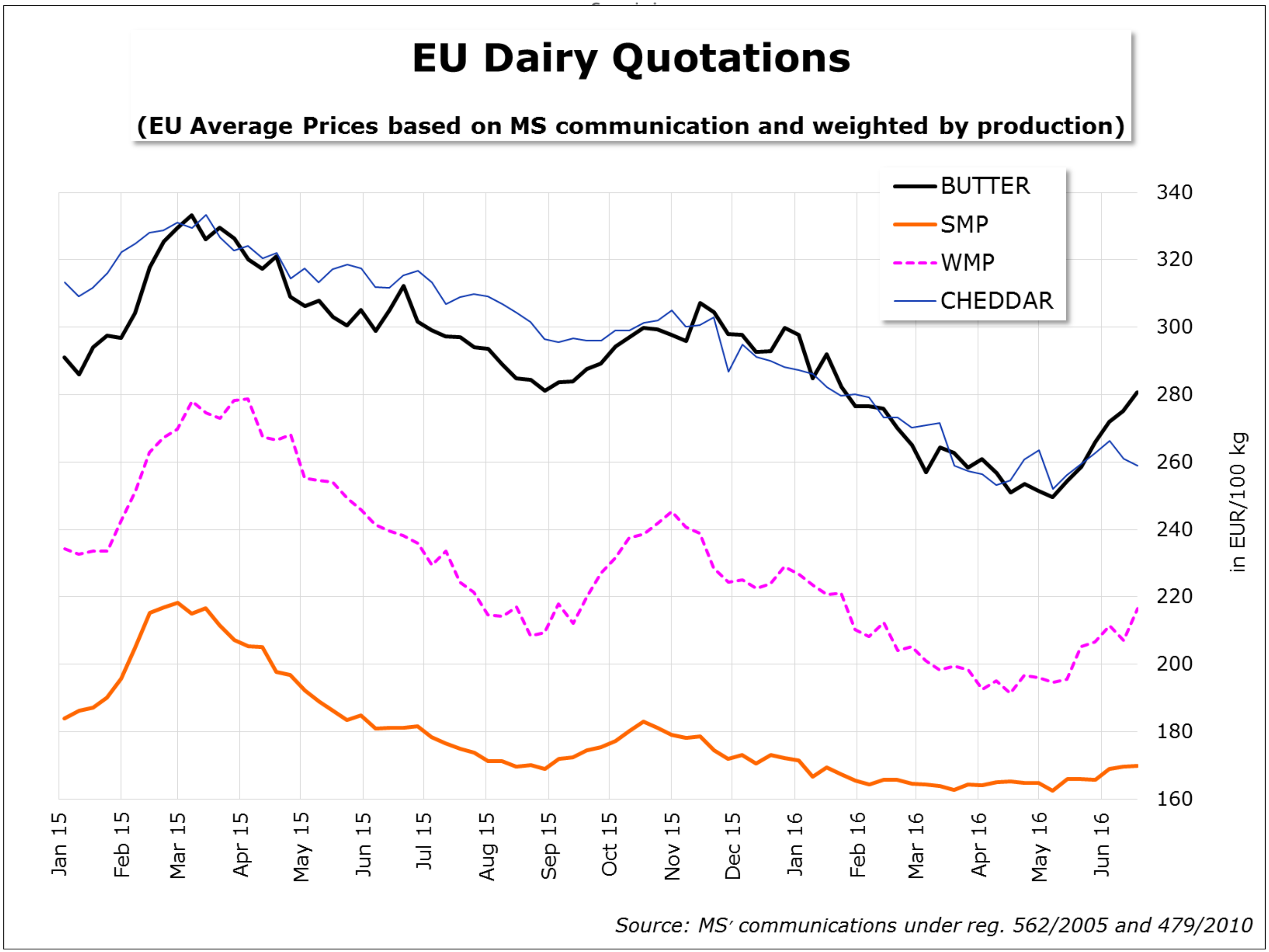
Source : Estat - Newcronos

Last update : Jan-Apr

EU Raw Milk Prices Evolution (up to May 2016*)

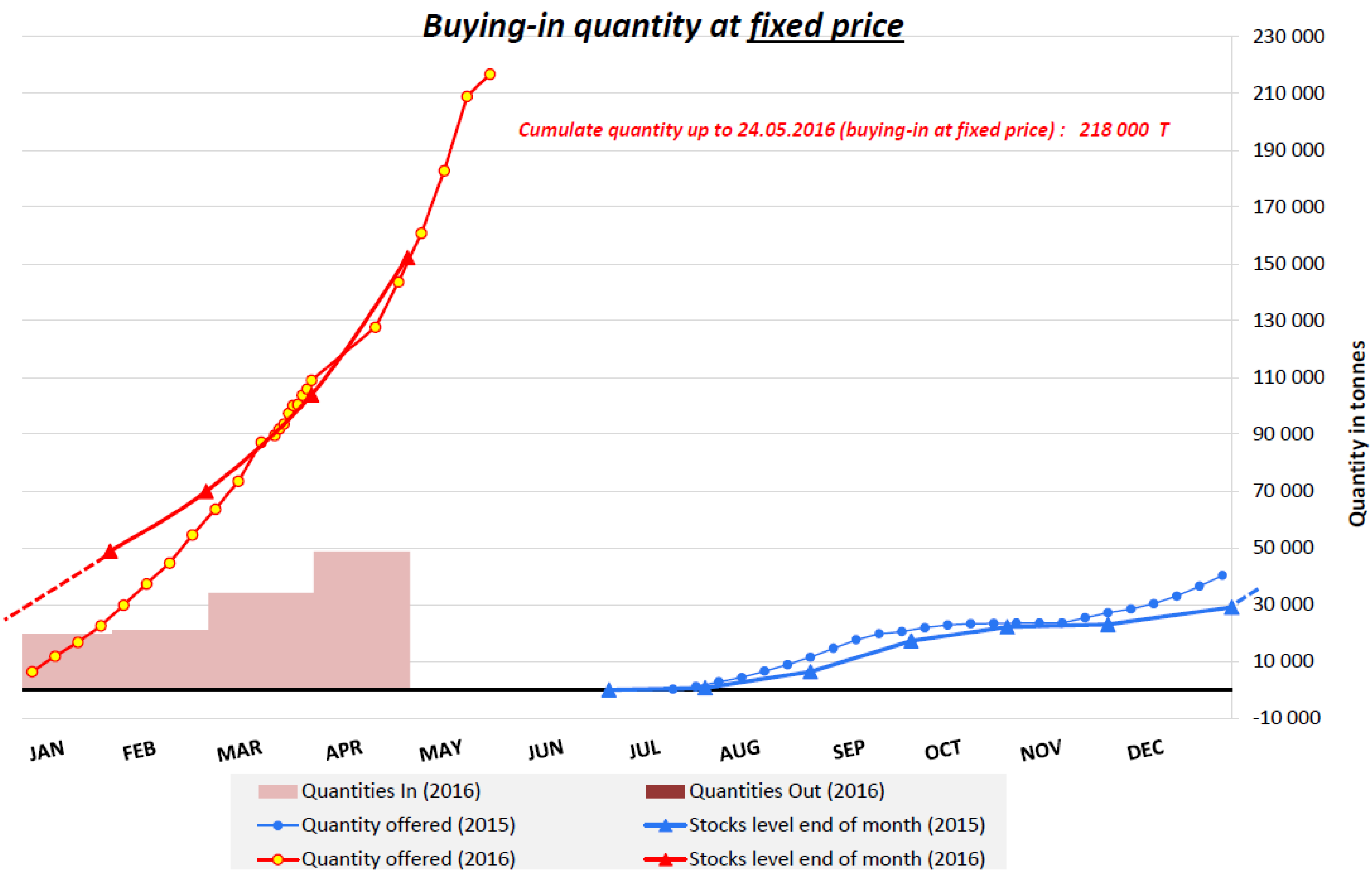


Source : DG AGRI – Reg. 479/2010 Art. 2

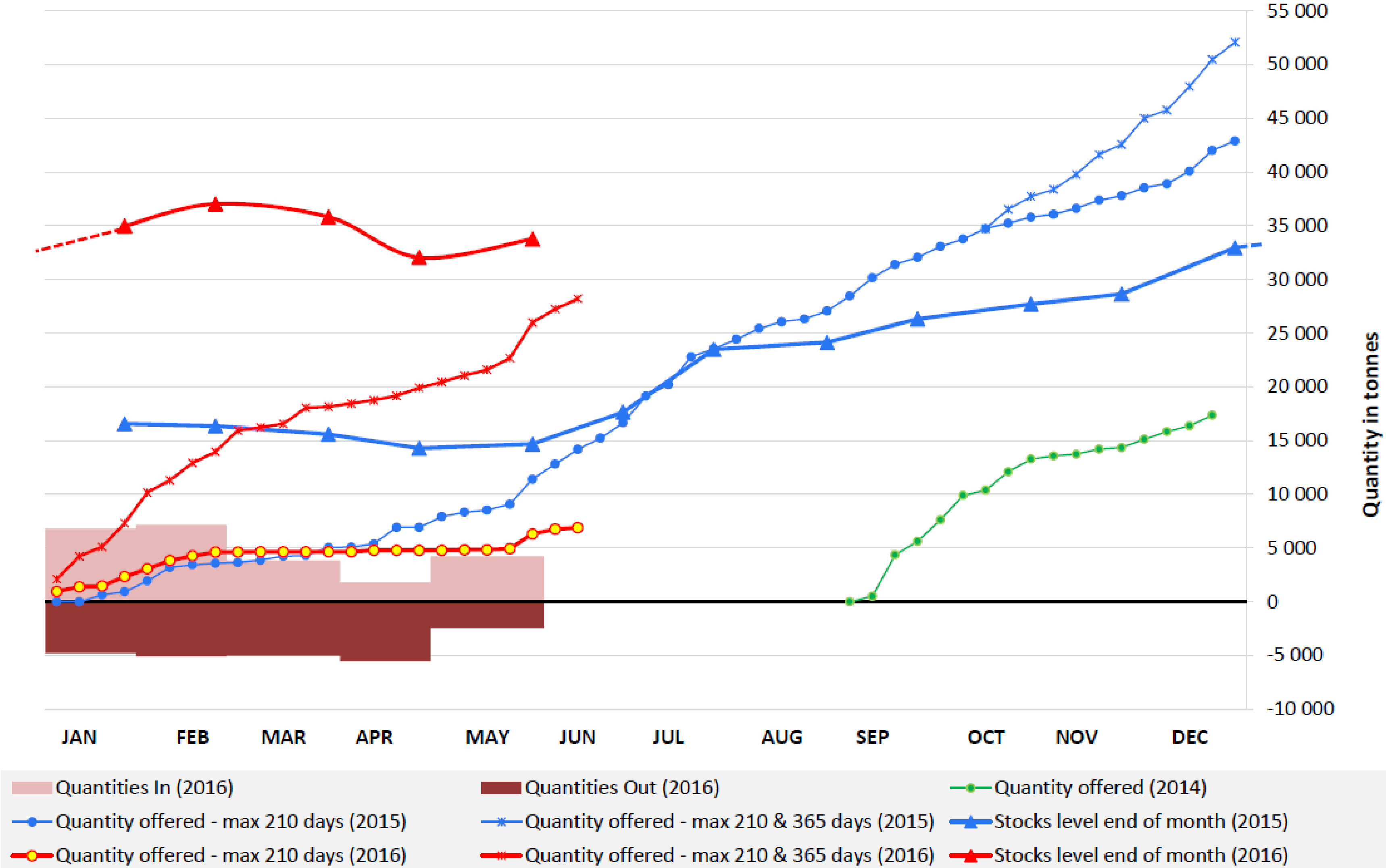


Source: MS' communications under Regs. 562/2005 and 479/2010

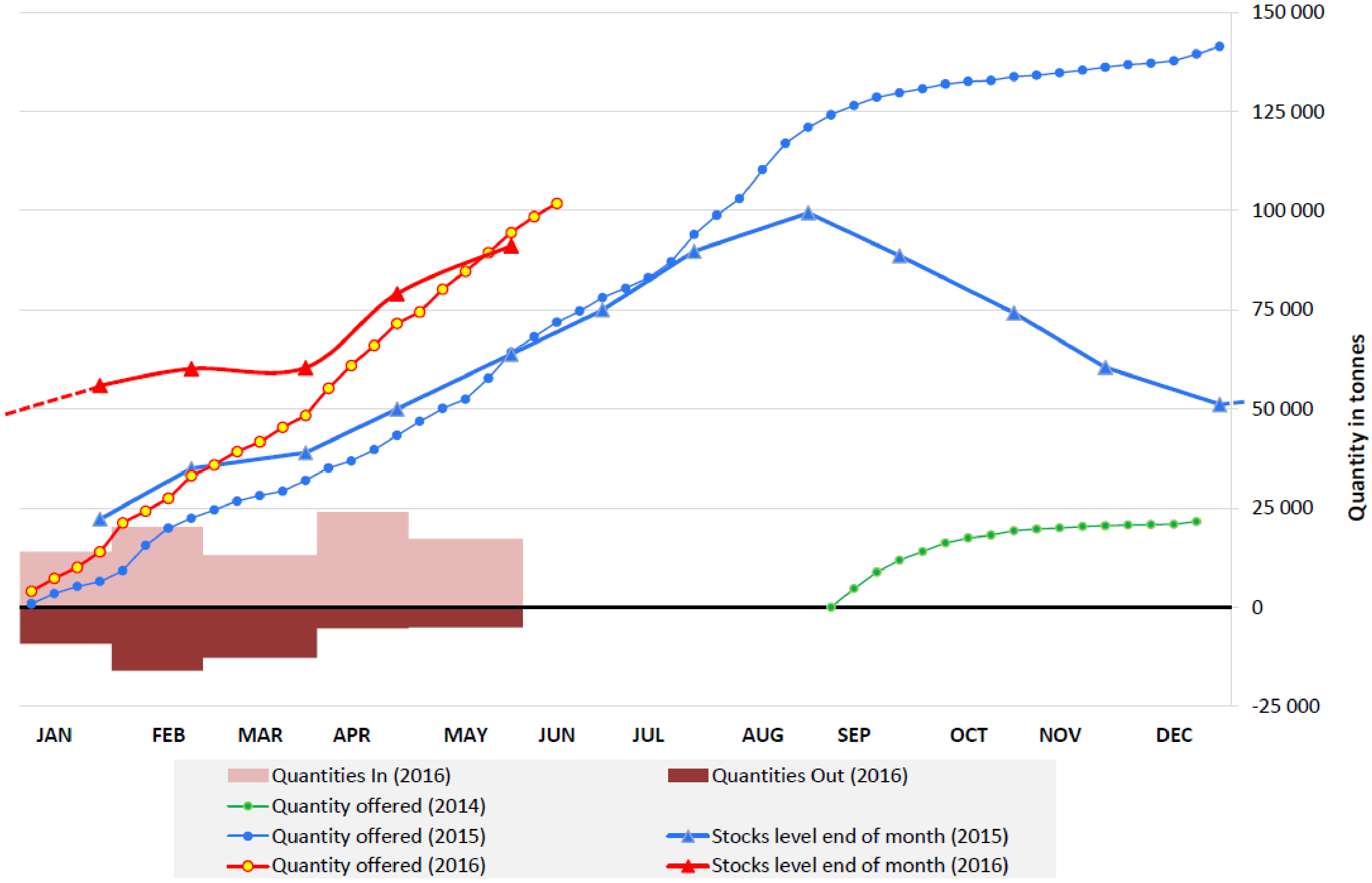
Public SMP Intervention scheme (2015-2016)



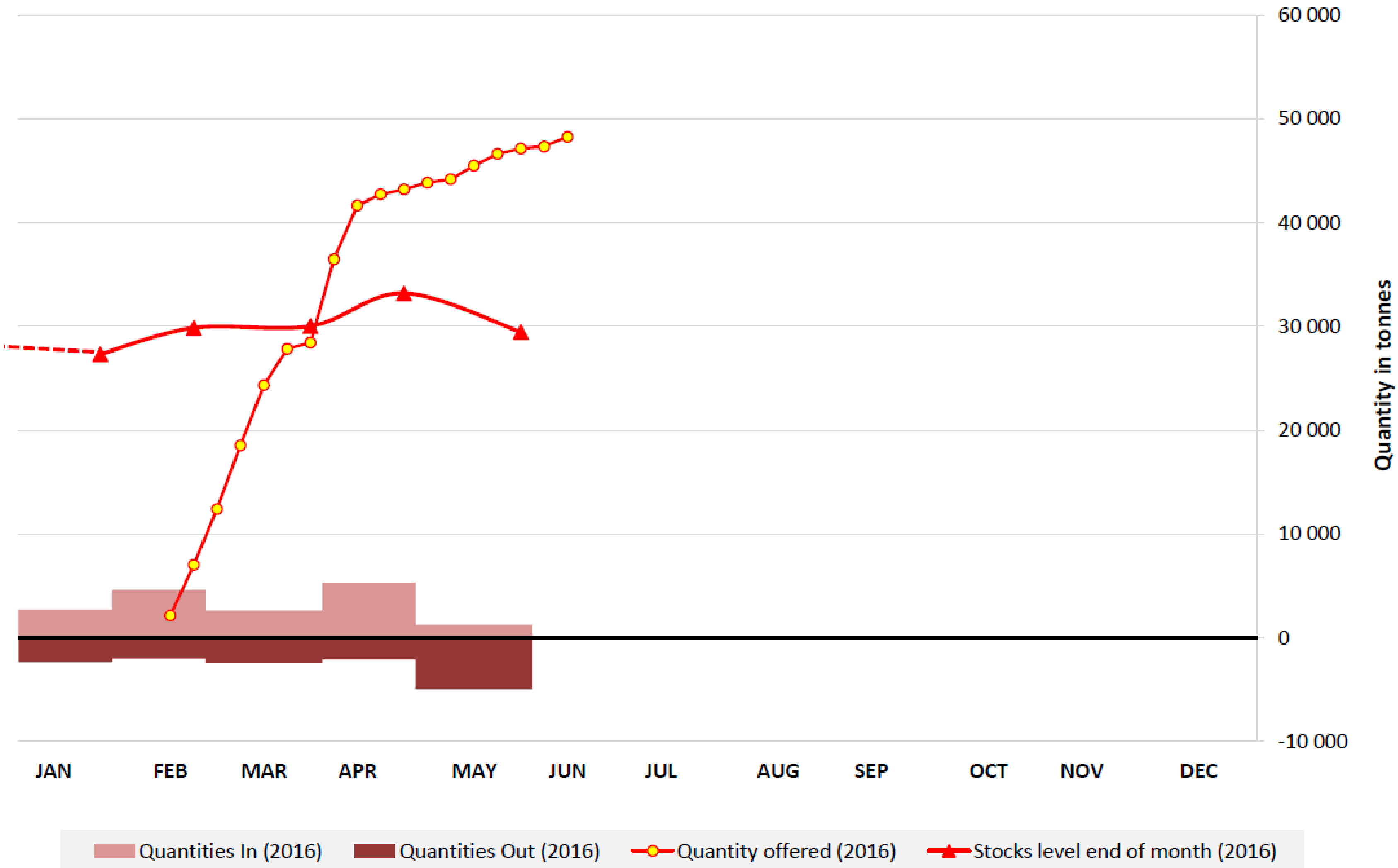
Private Storage Aid Scheme (2014-2016) - S.M.P.



Private Storage Aid Scheme (2014-2016) - BUTTER



Private Storage Aid Scheme (2016) - CHEESE



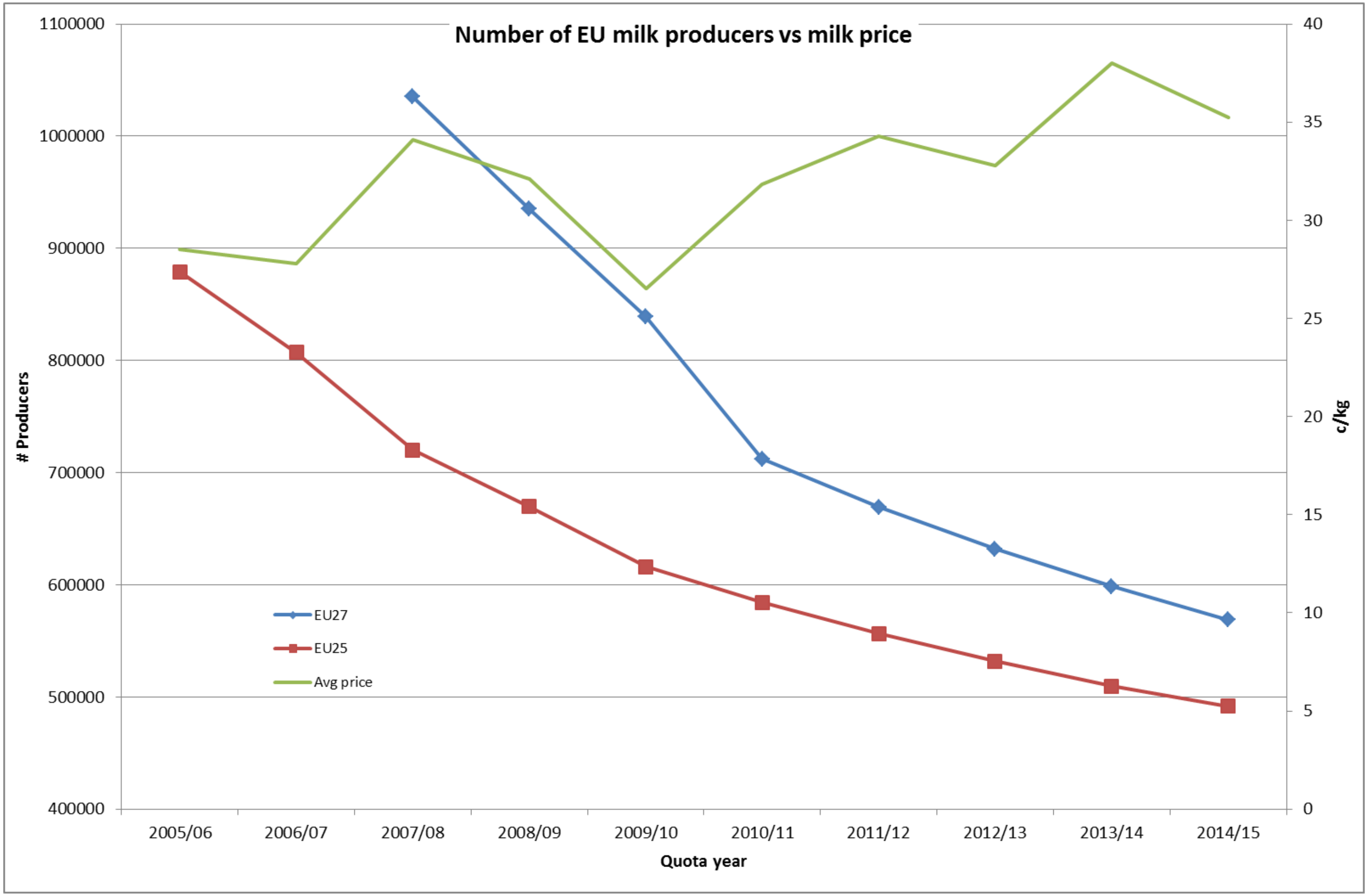
23/06/2016

European Commission

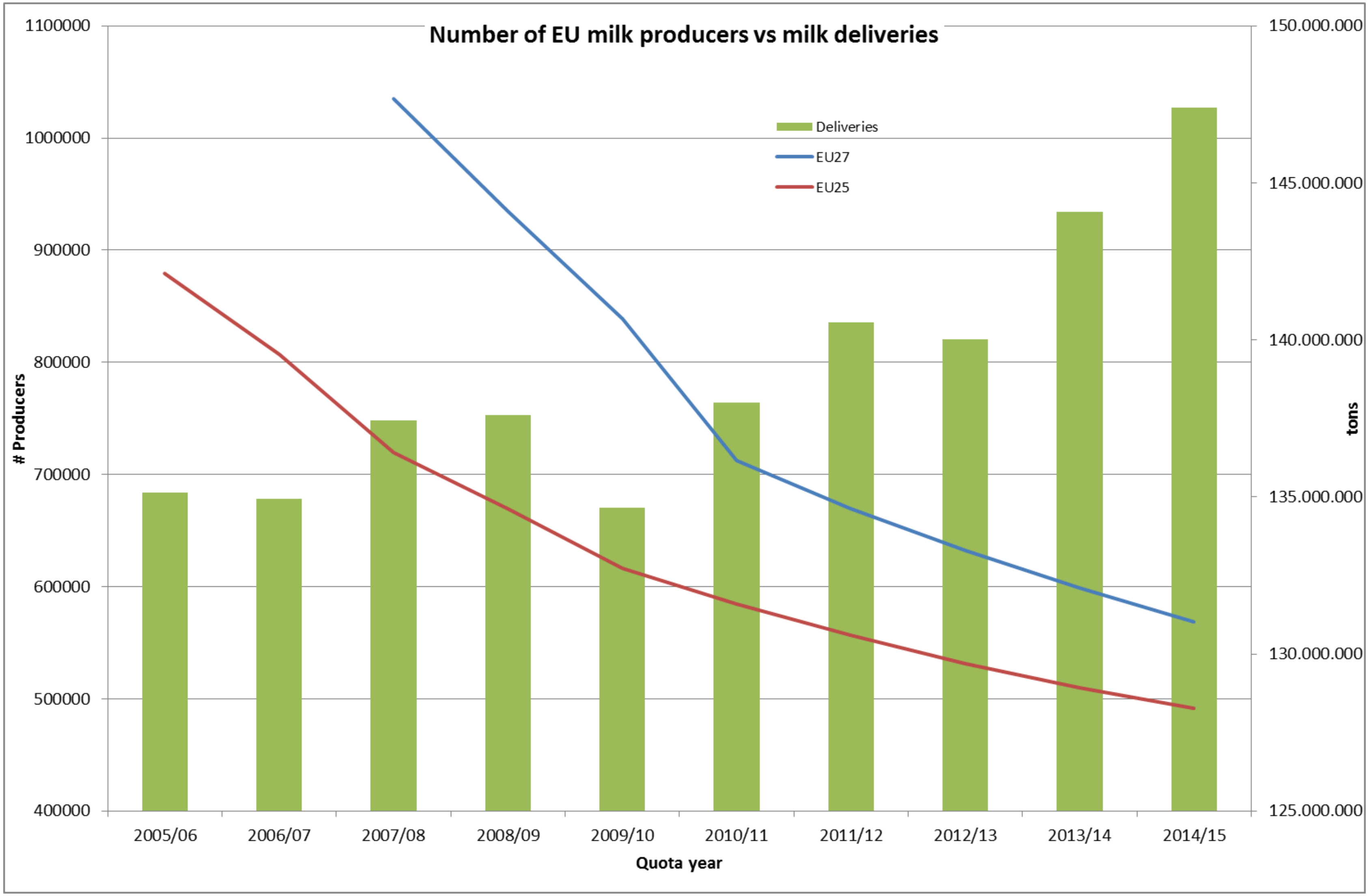
Latest World Quotations of Dairy Products

In US$/t	Latest Quotations 26/06/2016			Week - 2 12/06/2016			% change (previous quotation)			Year - 1 June 2015			% change (1 year)		
	EU	Oceania	USA	EU	Oceania	USA	EU	Oceania	USA	EU	Oceania	USA	EU	Oceania	USA
Butter	3 158	2 775	5 199	3 083	2 725	4 794	+ 2.4%	+ 1.8%	+ 8.4%	3 529	2 975	4 206	- 11%	- 7%	+ 24%
SMP	1 912	1 850	1 962	1 884	1 850	1 764	+ 1.5%	-	+ 11.3%	2 047	2 050	1 845	- 7%	- 10%	+ 6%
WMP	2 435	2 100	2 811	2 359	2 138	2 734	+ 3.2%	- 1.8%	+ 2.8%	2 690	2 325	2 745	- 9%	- 10%	+ 2%
Cheddar	2 914	2 850	3 336	2 970	2 800	3 231	- 1.9%	+ 1.8%	+ 3.2%	3 563	3 375	3 673	- 18%	- 16%	- 9%

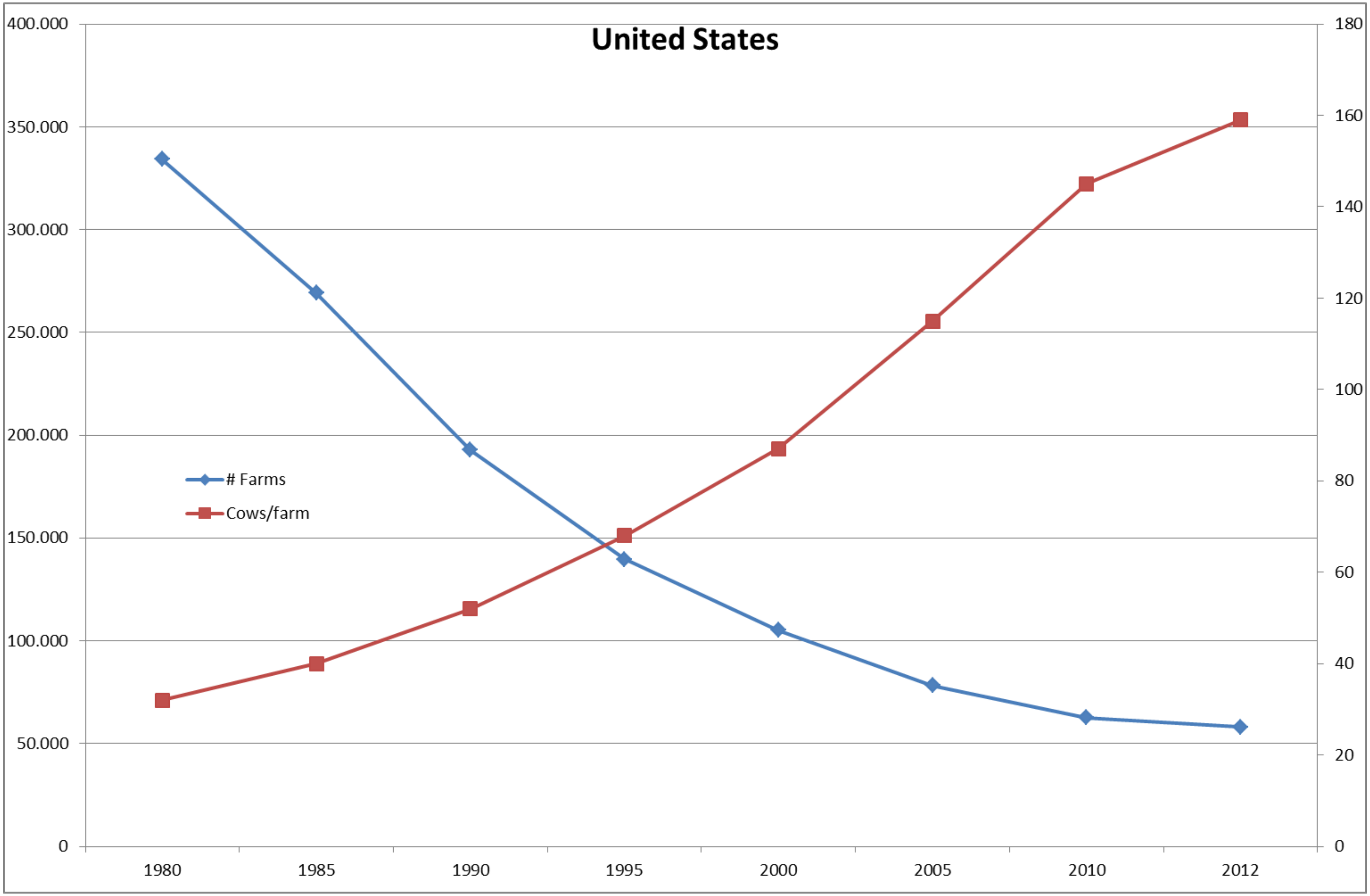
Source : Member States Notifications, USDA



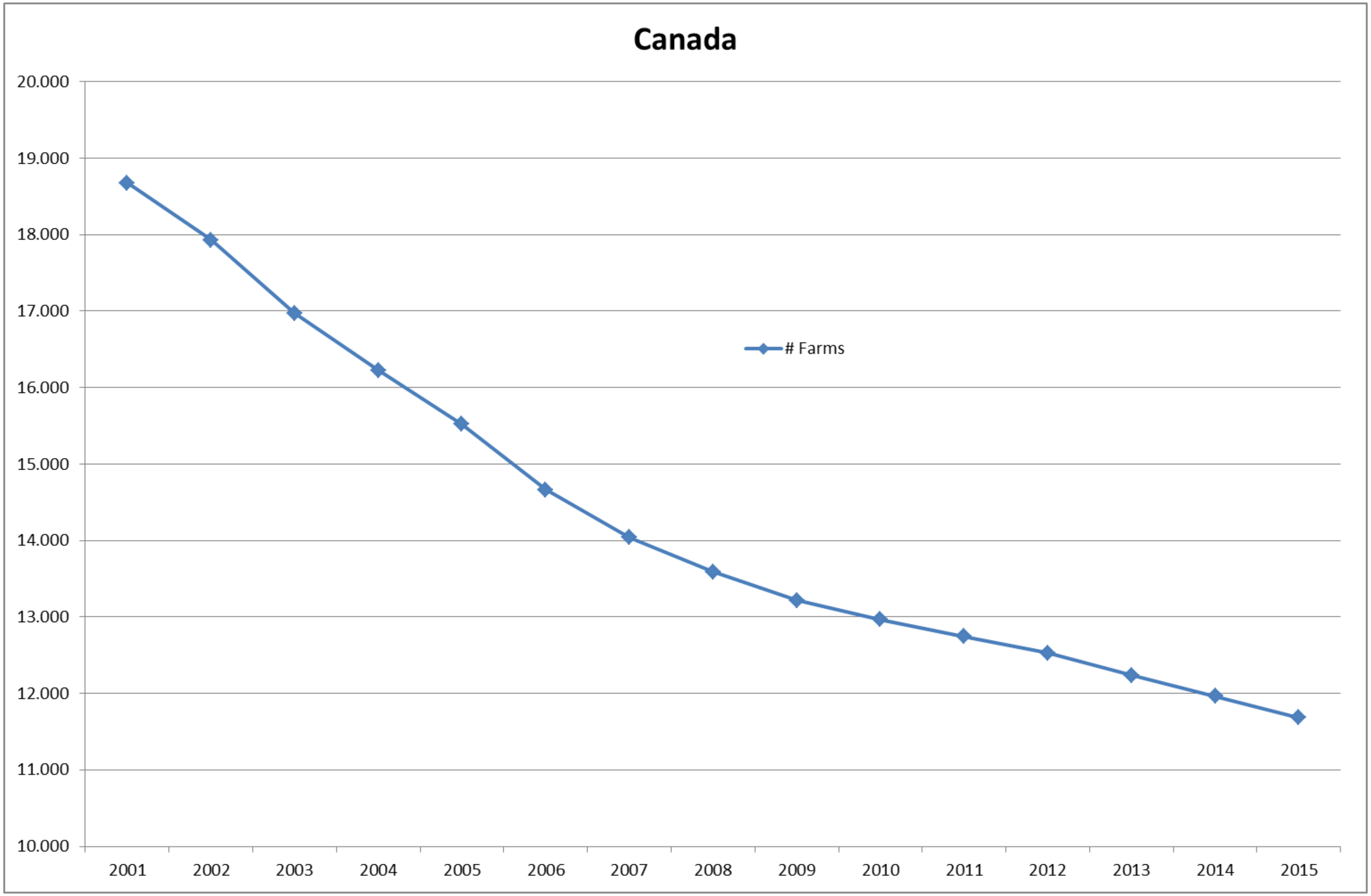
Number of EU milk producers vs milk price
Producers
c/kg
Quota year
1100000
1000000
900000
800000
700000
600000
500000
400000
40
35
30
25
20
15
10
5
0
2005/06
2006/07
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
EU27
EU25
Avg price



Number of EU milk producers vs milk deliveries
Deliveries
EU27
EU25
Producers
1100000
1000000
900000
800000
700000
600000
500000
400000
tons
150.000.000
145.000.000
140.000.000
135.000.000
130.000.000
125.000.000
2005/06
2006/07
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
Quota year



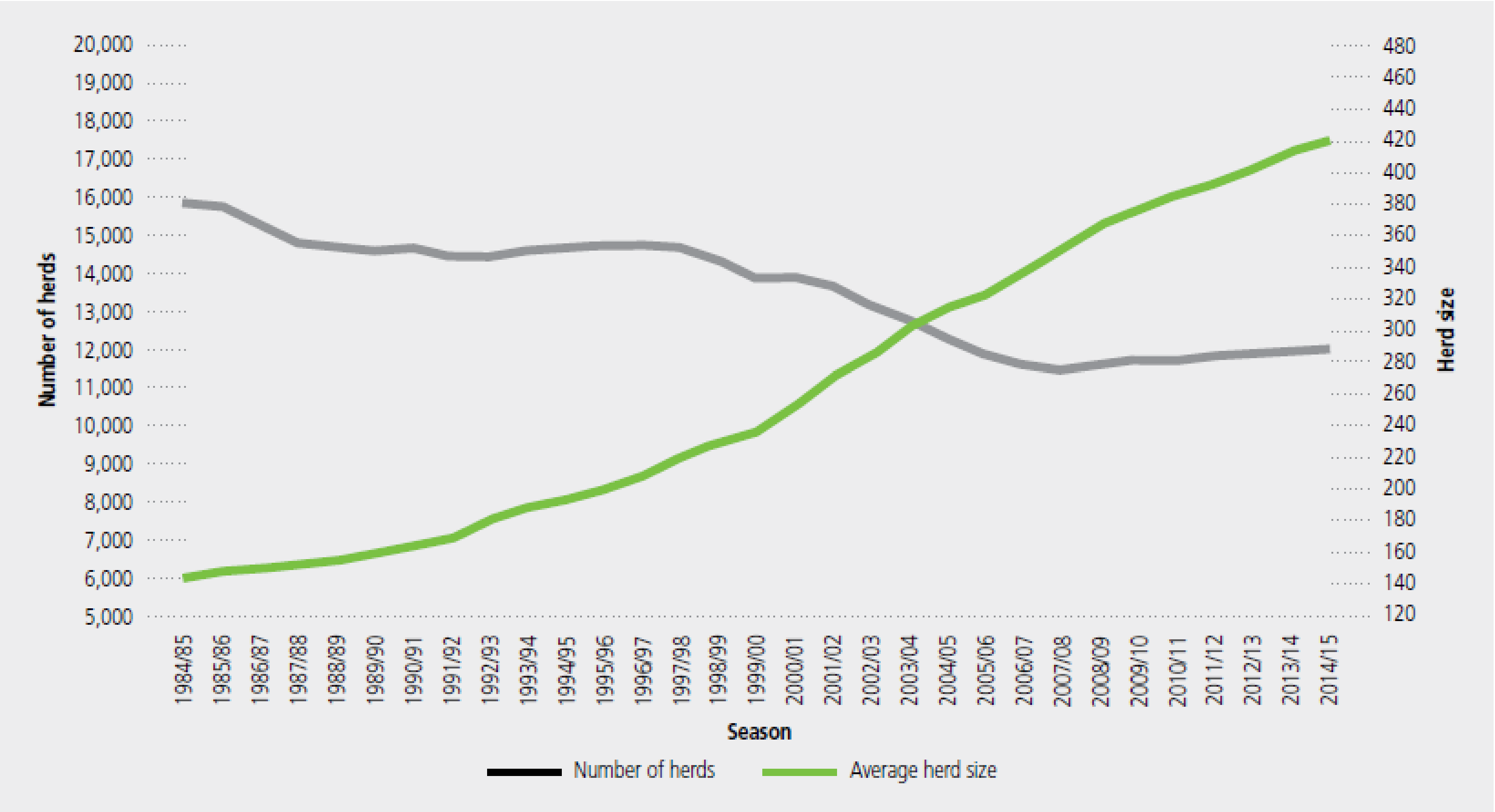
United States
400.000
350.000
300.000
250.000
200.000
150.000
100.000
50.000
0
180
160
140
120
100
80
60
40
20
0
1980
1985
1990
1995
2000
2005
2010
2012
Farms
Cows/farm


Canada
20.000
19.000
18.000
17.000
16.000
15.000
14.000
13.000
12.000
11.000
10.000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Farms

New Zealand Dairy Statistics 2014-15

European Commission

Graph 2.1: Trend in the number of herds and average herd size for the last 30 seasons



ANNEX 2

EU dairy products monthly stock estimations at the end of April 2016

EDA

EU dairy products monthly stock estimations at the end of April 2016

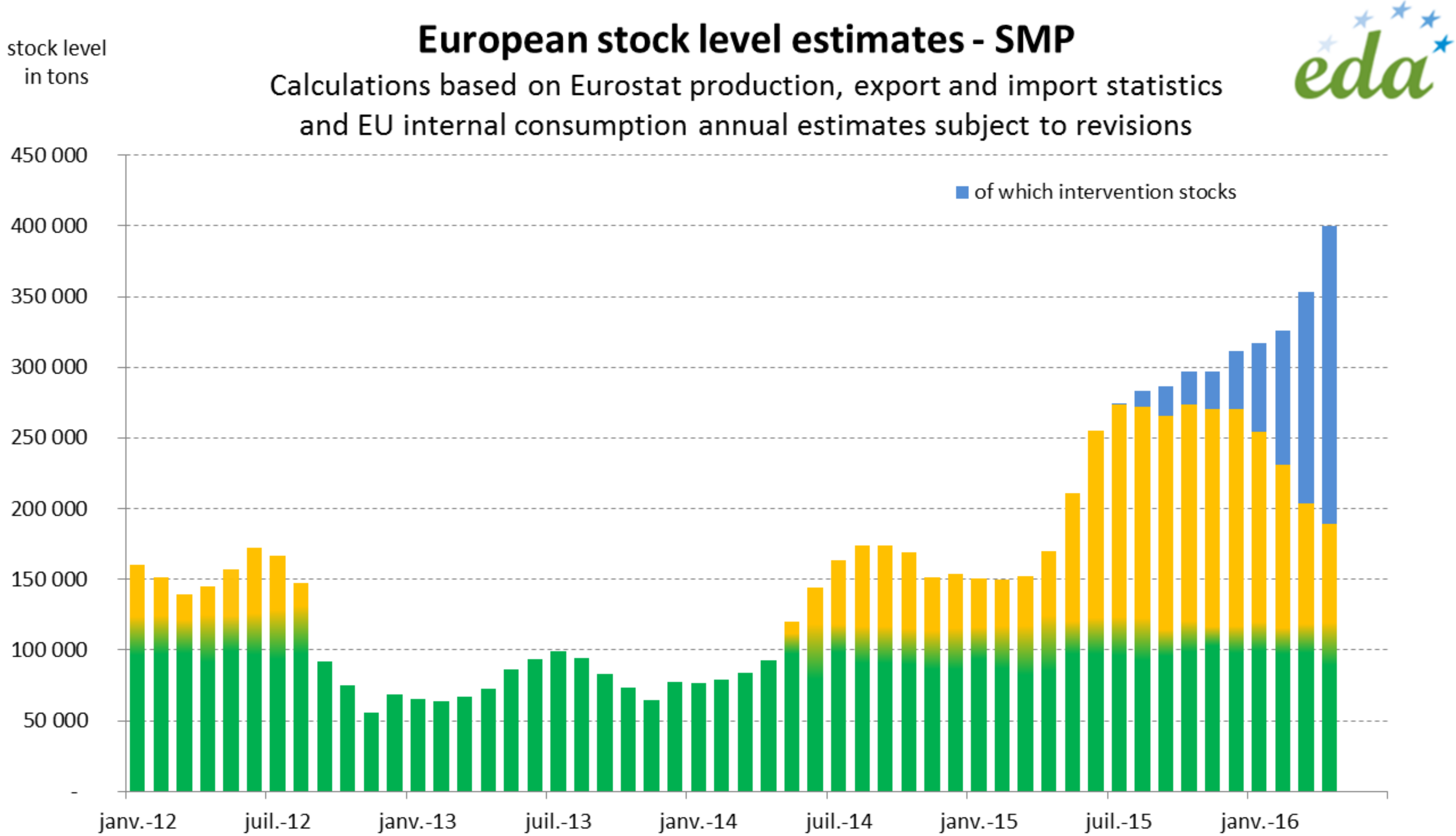
Milk Market Observatory

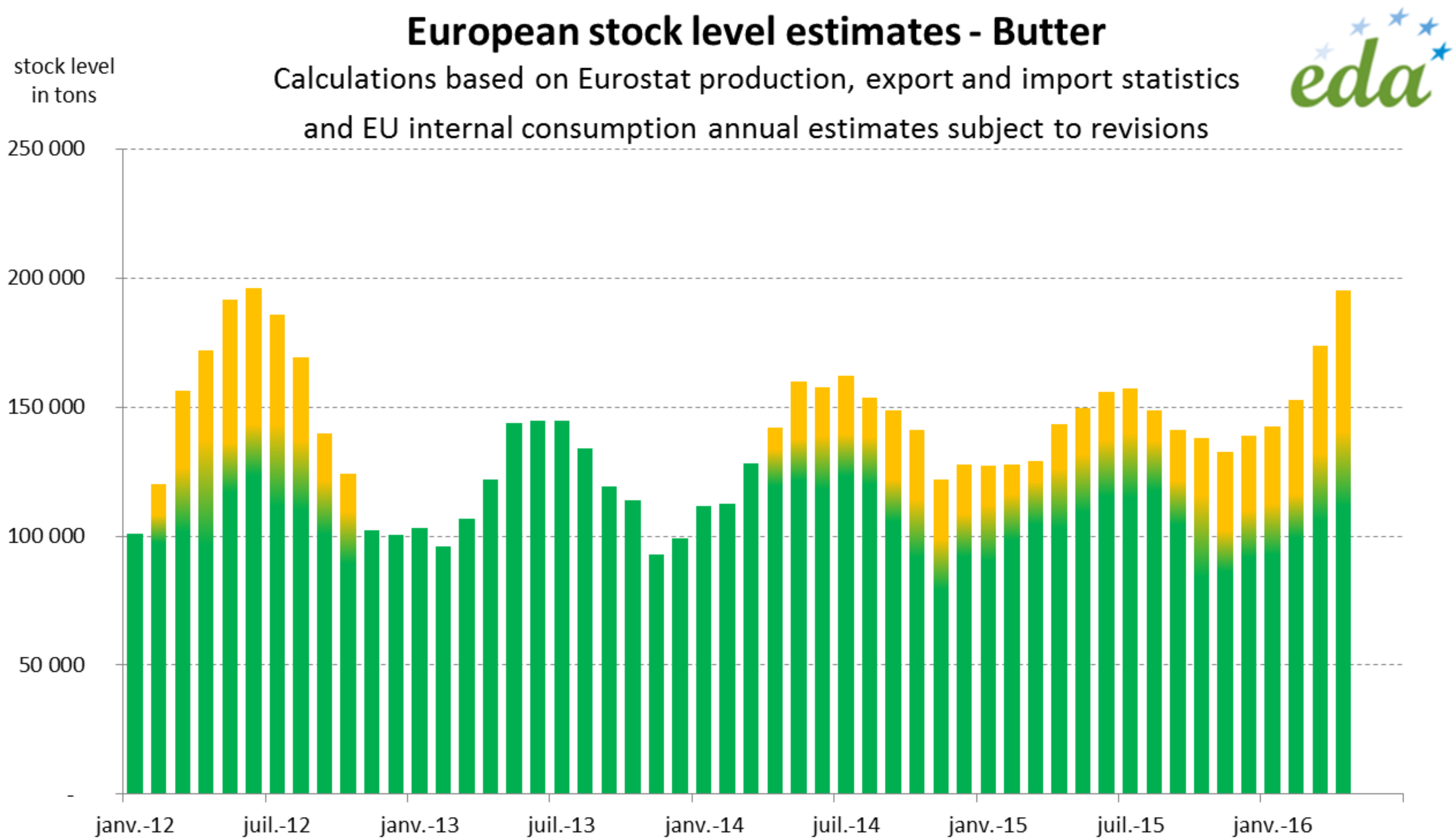
Economic Board

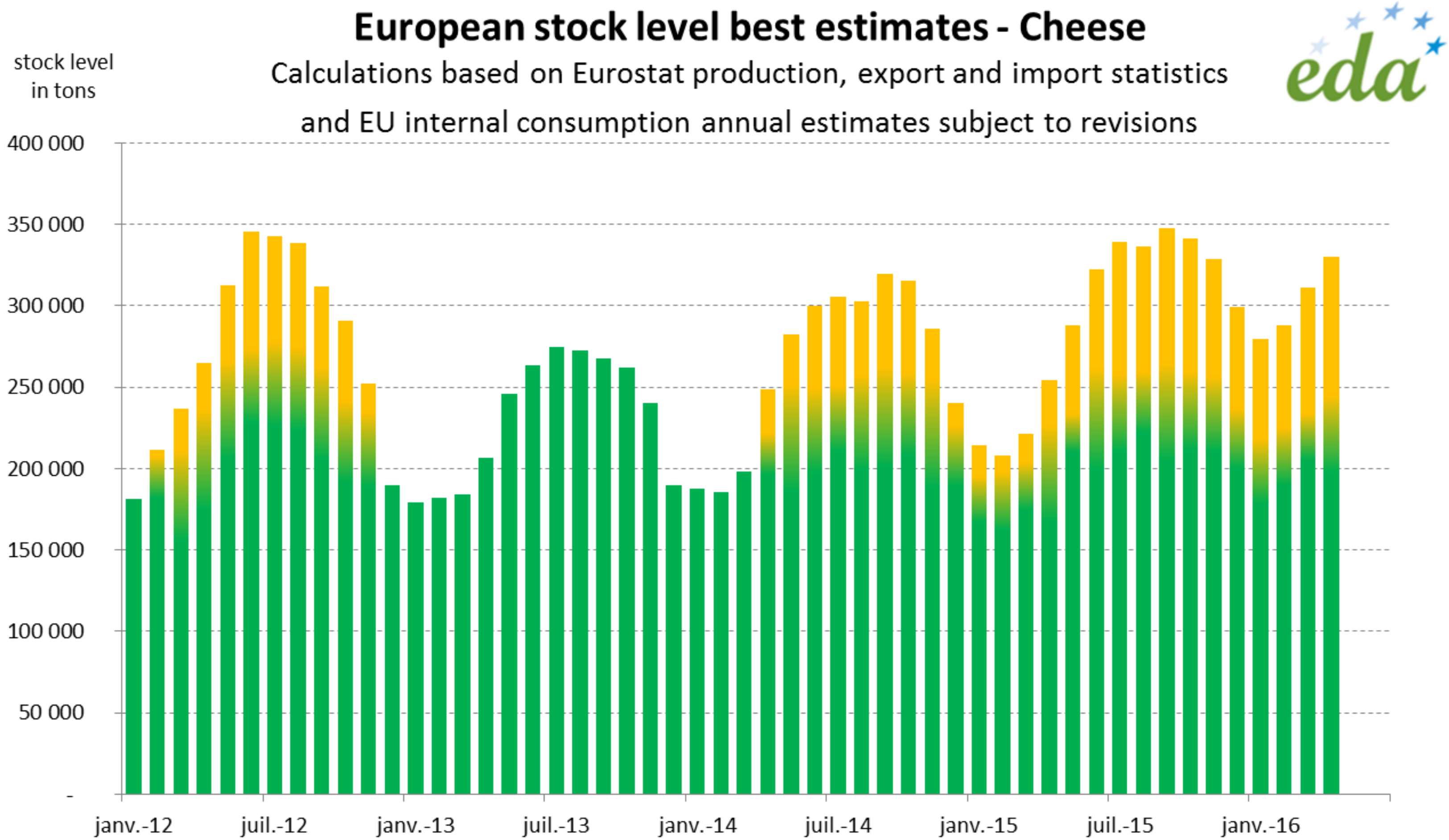
June 28th, 2016

Methodology

- For each dairy product and each month, the stock estimates are based on the equation:
  - **Stock variation** = EU production + EU import – EU internal consumption – EU exports
- ZMB balance sheets and forecasts have been used as references for :
  - End of year stocks levels in 2012 and 2013
  - Yearly consumption levels in 2012, 2013, 2014 and forecast for 2015
- Monthly production statistics are based on ZMB Dairy World publications.
- Exports and imports figures are based on MMO website figures.
- The initial stocks entered in the model at the beginning of 2012 are :
  - SMP: 152 000 t
  - Butter: 80 000 t
  - Cheese: 200 000 t (arbitrary basis)
- The green parts in each graph mean that this stock level can be considered as normal for the month.
- The orange part means that this stock level can be considered as too high for the month
- These qualifications are based on the EDA analysts’ personal views and past market observation.


European stock level estimates - SMP
Calculations based on Eurostat production, export and import statistics
and EU internal consumption annual estimates subject to revisions
stock level
in tons
eda
of which intervention stocks
450 000
400 000
350 000
300 000
250 000
200 000
150 000
100 000
50 000
-
janv.-12
juil.-12
janv.-13
juil.-13
janv.-14
juil.-14
janv.-15
juil.-15
janv.-16


European stock level estimates - Butter
Calculations based on Eurostat production, export and import statistics
and EU internal consumption annual estimates subject to revisions
stock level
in tons
250 000
200 000
150 000
100 000
50 000
-
janv.-12
juil.-12
janv.-13
juil.-13
janv.-14
juil.-14
janv.-15
juil.-15
janv.-16
eda


European stock level best estimates - Cheese
Calculations based on Eurostat production, export and import statistics
and EU internal consumption annual estimates subject to revisions
stock level
in tons
eda
400 000
350 000
300 000
250 000
200 000
150 000
100 000
50 000
-
janv.-12
juil.-12
janv.-13
juil.-13
janv.-14
juil.-14
janv.-15
juil.-15
janv.-16

ANNEX 3

Perspectives from the Dairy Trade

Eucolait

Perspectives from the Dairy Trade

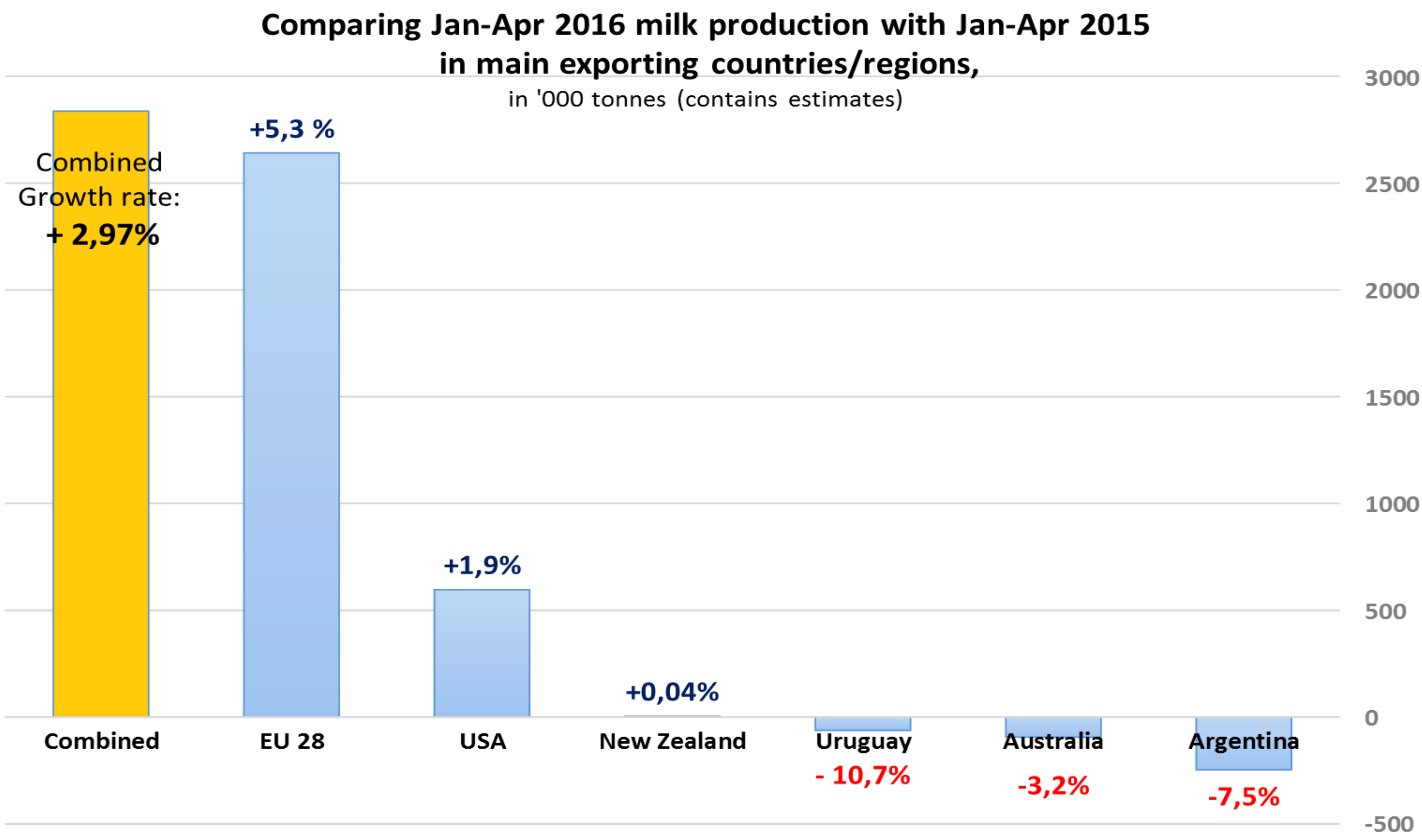
MMO Economic Board

28 June 2016

Outline

- Global Supply
- Global Exports
- Global Demand
- Conclusions

Milk production in key export regions



Production outlook

- **EU** milk production growth is slowing down and is now below 2015 levels in several Member States; decreases in April due to bad and cold weather, year-on-year EU cow slaughterings 2016 up 3,7% in April. Production expected to slow down further during reminder of the year

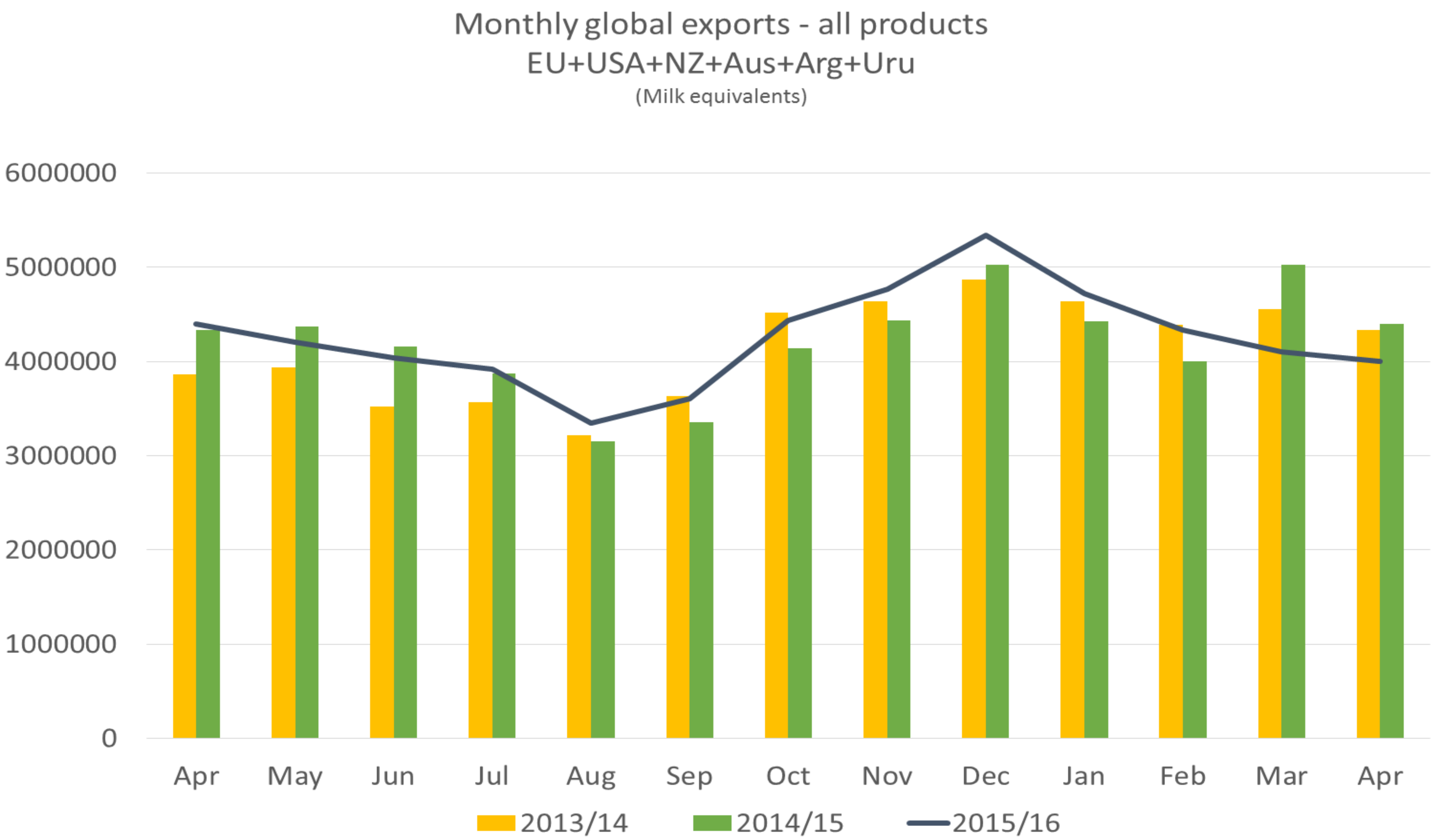
- **NZ** collections in May collections down 1,6% season to date, favourable end season weather has limited expected production decline. Further decline of 2-3% expected for 2016/17 season

- **Australia** milk production down by -2,7% in April 2016 in comparison to April 2015 (-1,2% decrease for Jul-Apr period); forecast for 2015/16 season remains at -2%, with a further 2% - 5% decrease expected in 2016/17

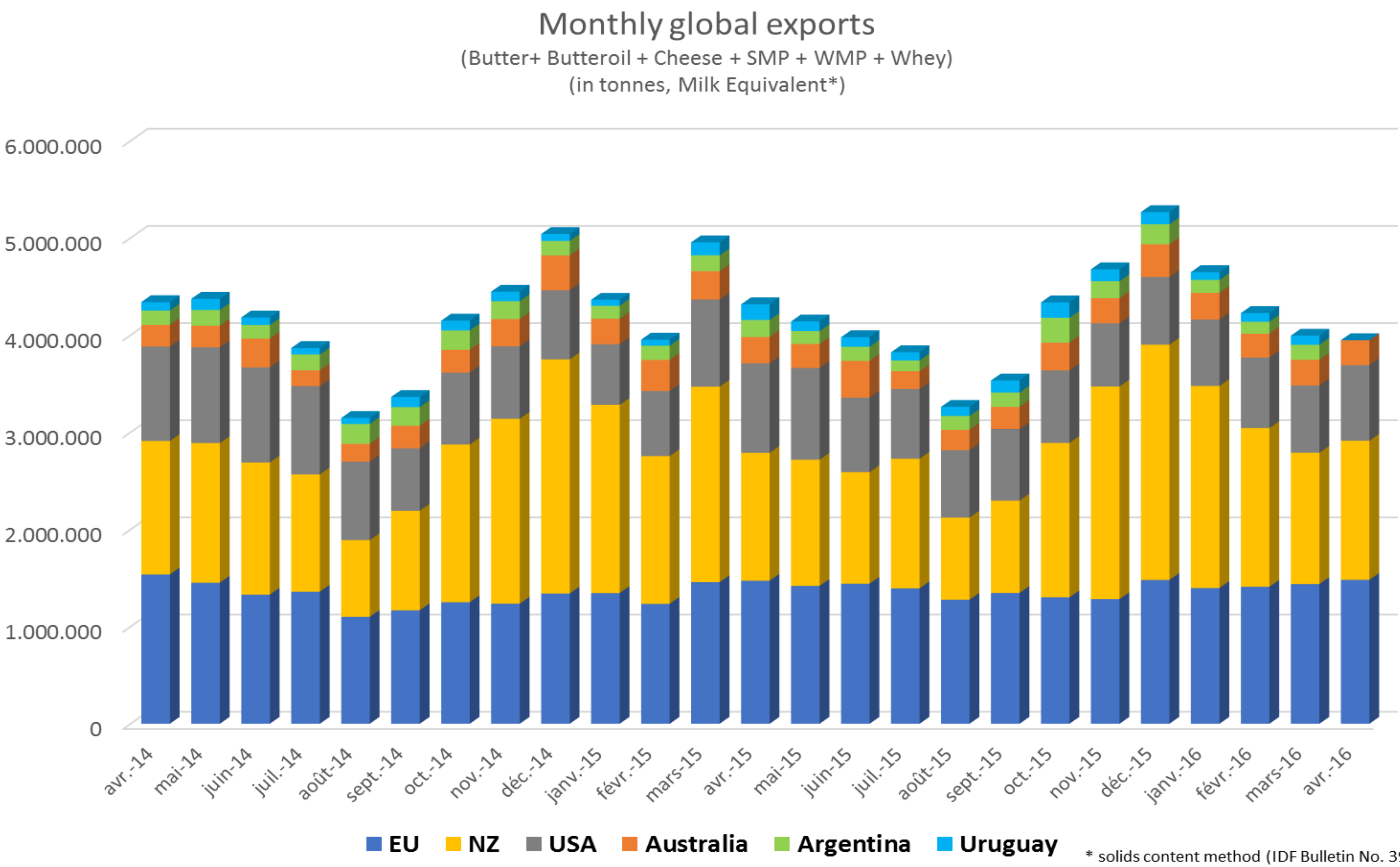
- **US** production growth continued in May 2016 with 1,2% yoy driven by improved production per cow and expanded milk herd; Forecast for 2016 revised upwards to +1,9%

- **World milk production outlook:** +1,6% to 816 m tonnes in 2016 (UN FAO)

Dairy exports of main market players in ME



Dairy exports of main market players in ME



* solids content method (IDF Bulletin No. 390)

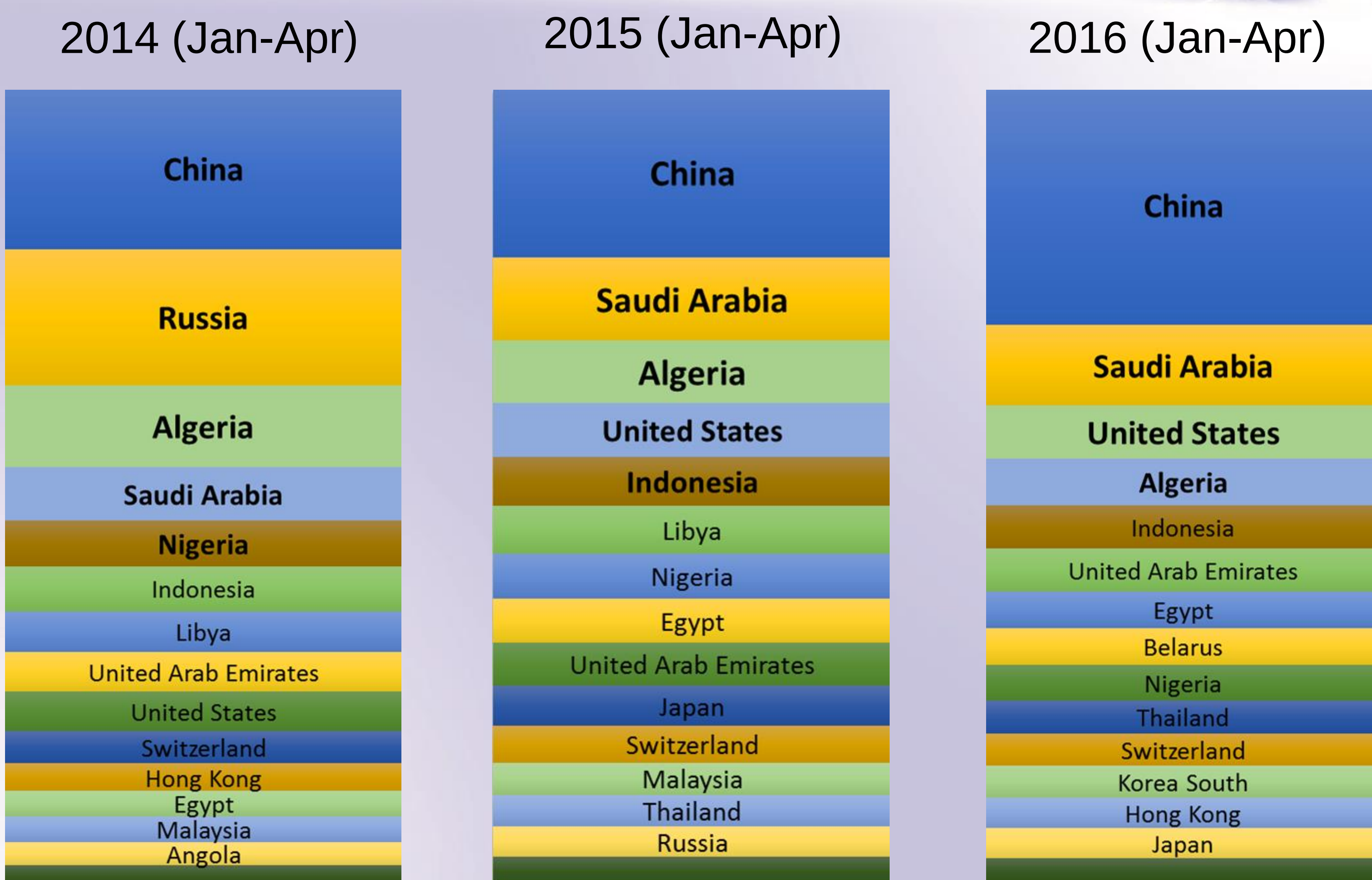
Main EU export markets for all dairy products **(in value - €)**

2014 (Jan-Apr)

2015 (Jan-Apr)

2016 (Jan-Apr)

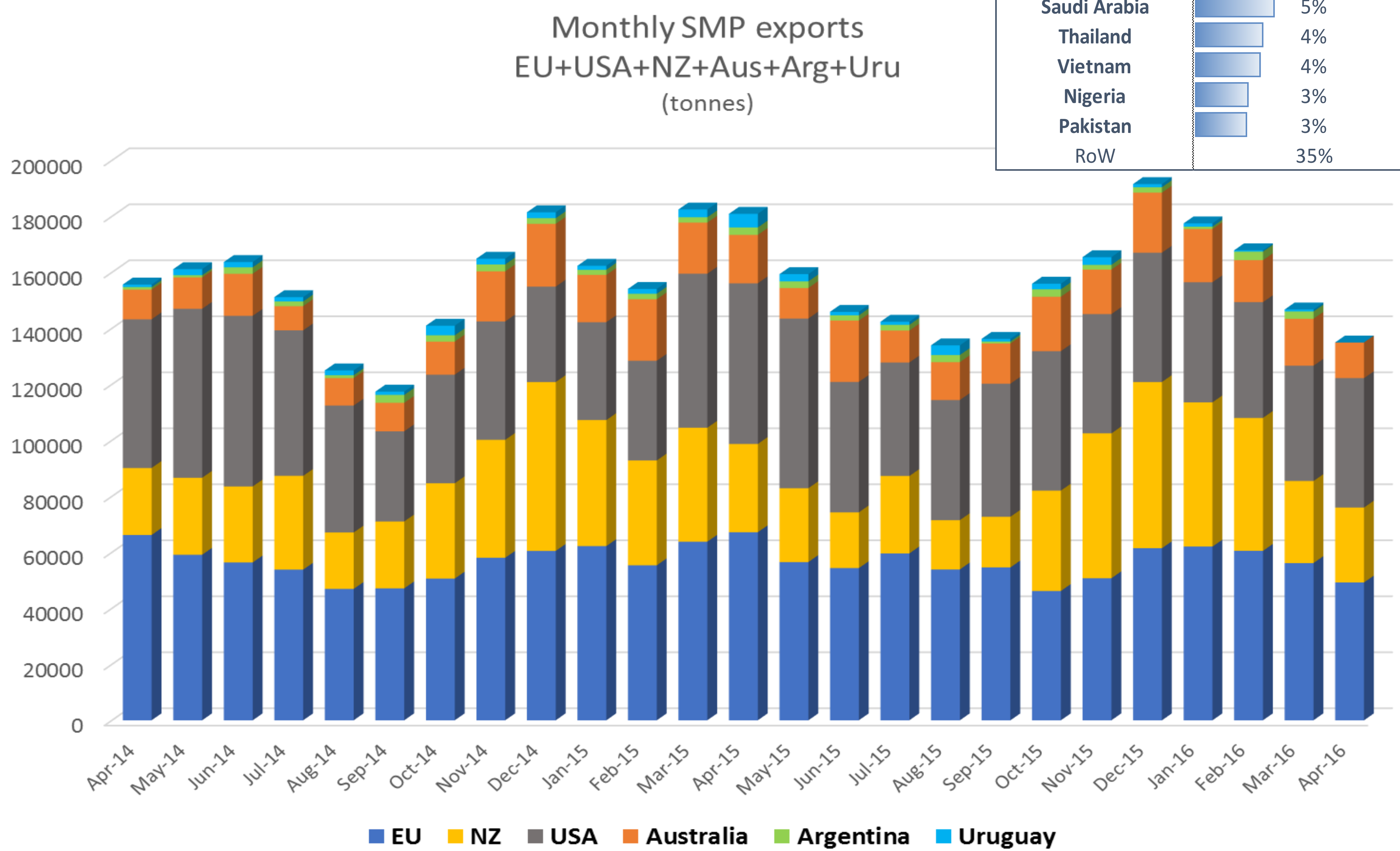
Main EU export markets for all dairy products **(in quantities - t)**



SMP exports of main market players

EU SMP EXPORTS JAN-APR 2016

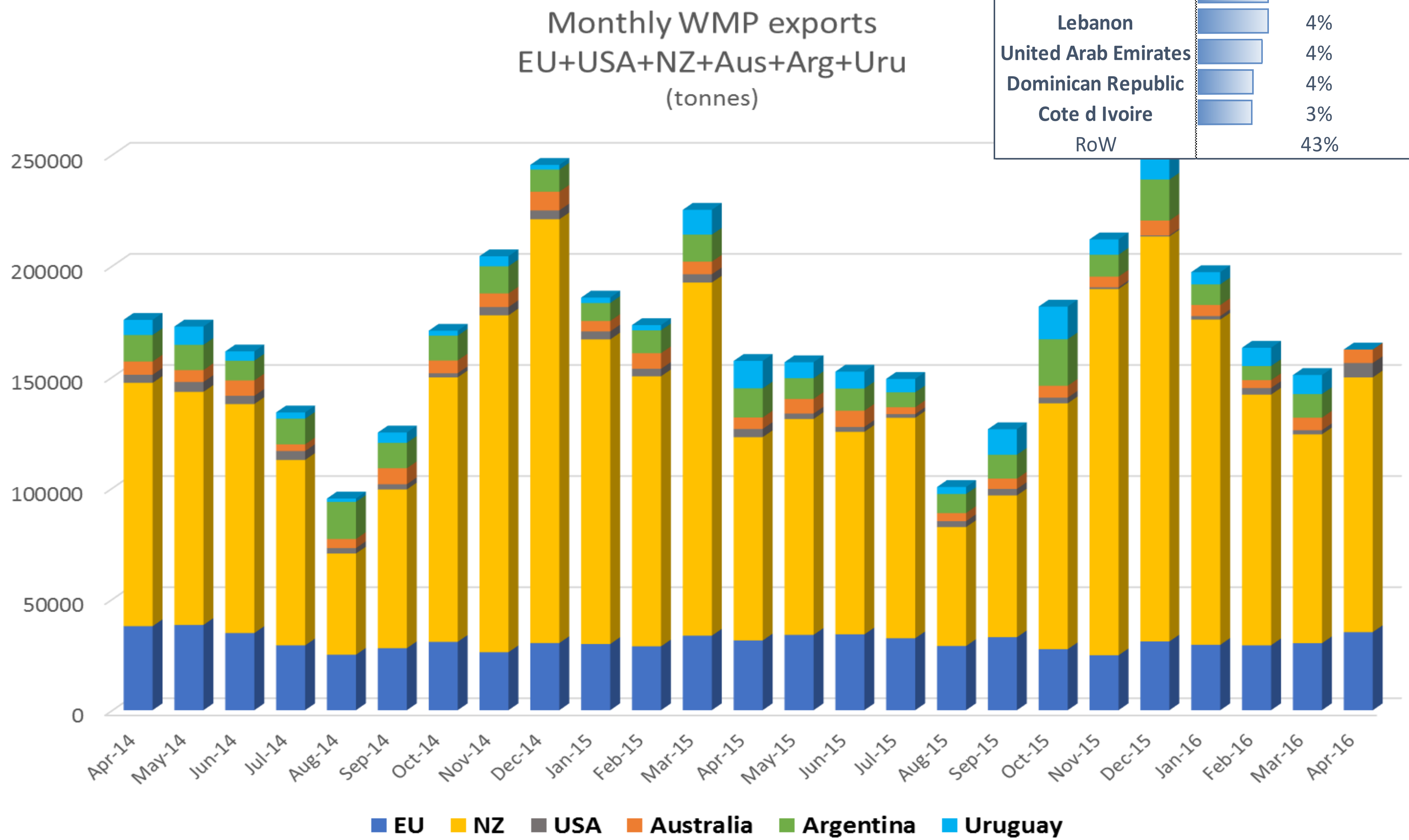
Main destinations	% of total
Algeria	14%
China	9%
Indonesia	8%
Egypt	8%
Philippines	7%
Saudi Arabia	5%
Thailand	4%
Vietnam	4%
Nigeria	3%
Pakistan	3%
RoW	35%



WMP exports of main market players

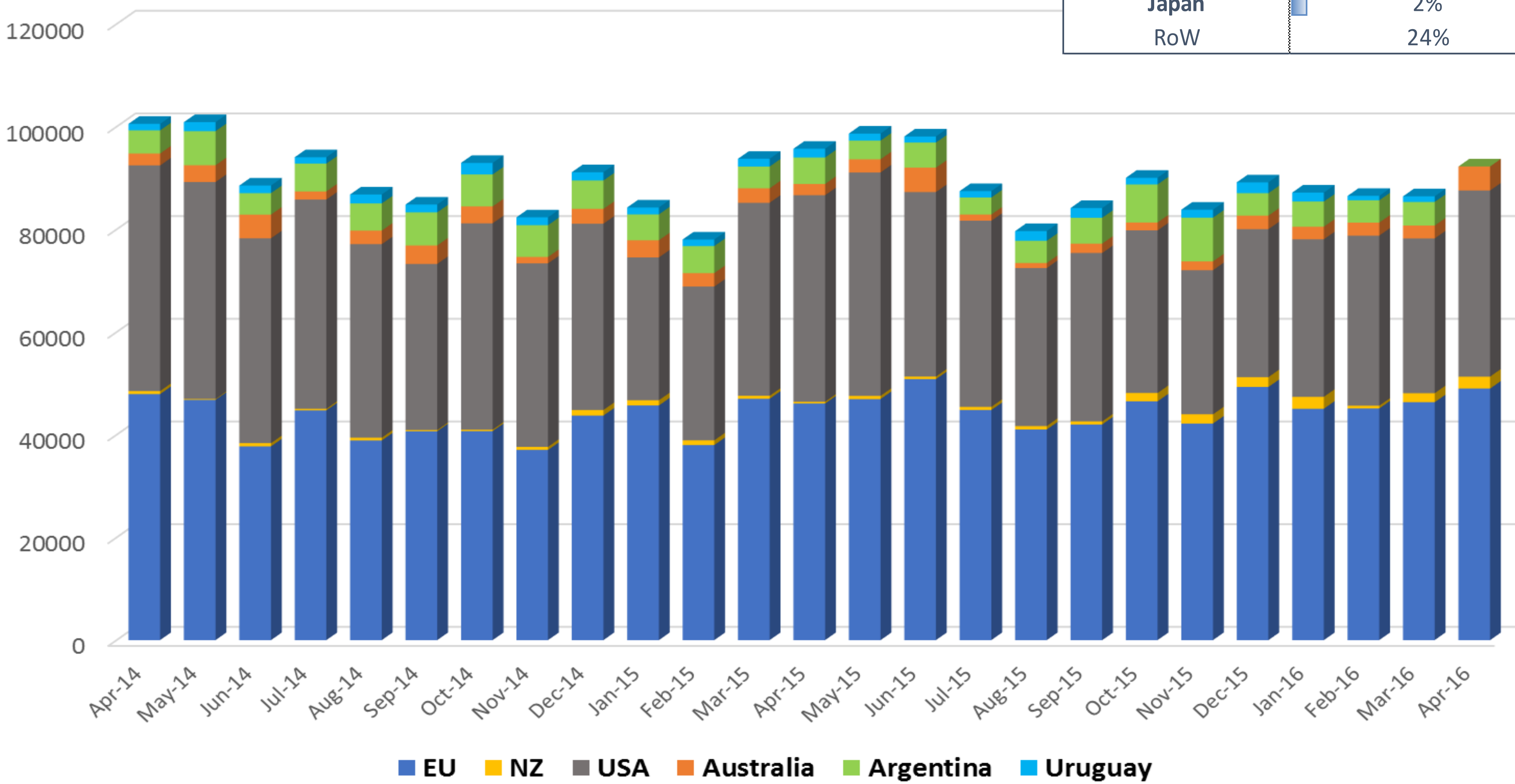
EU WMP EXPORTS JAN-APR 2016

Main destinations	% of total
Oman	15%
Algeria	6%
Nigeria	5%
Kuwait	5%
Cuba	5%
Saudi Arabia	4%
Lebanon	4%
United Arab Emirates	4%
Dominican Republic	4%
Cote d Ivoire	3%
RoW	43%



Whey exports of main market players

Monthly Whey exports
EU+USA+NZ+Aus+Arg+Uru
(tonnes)



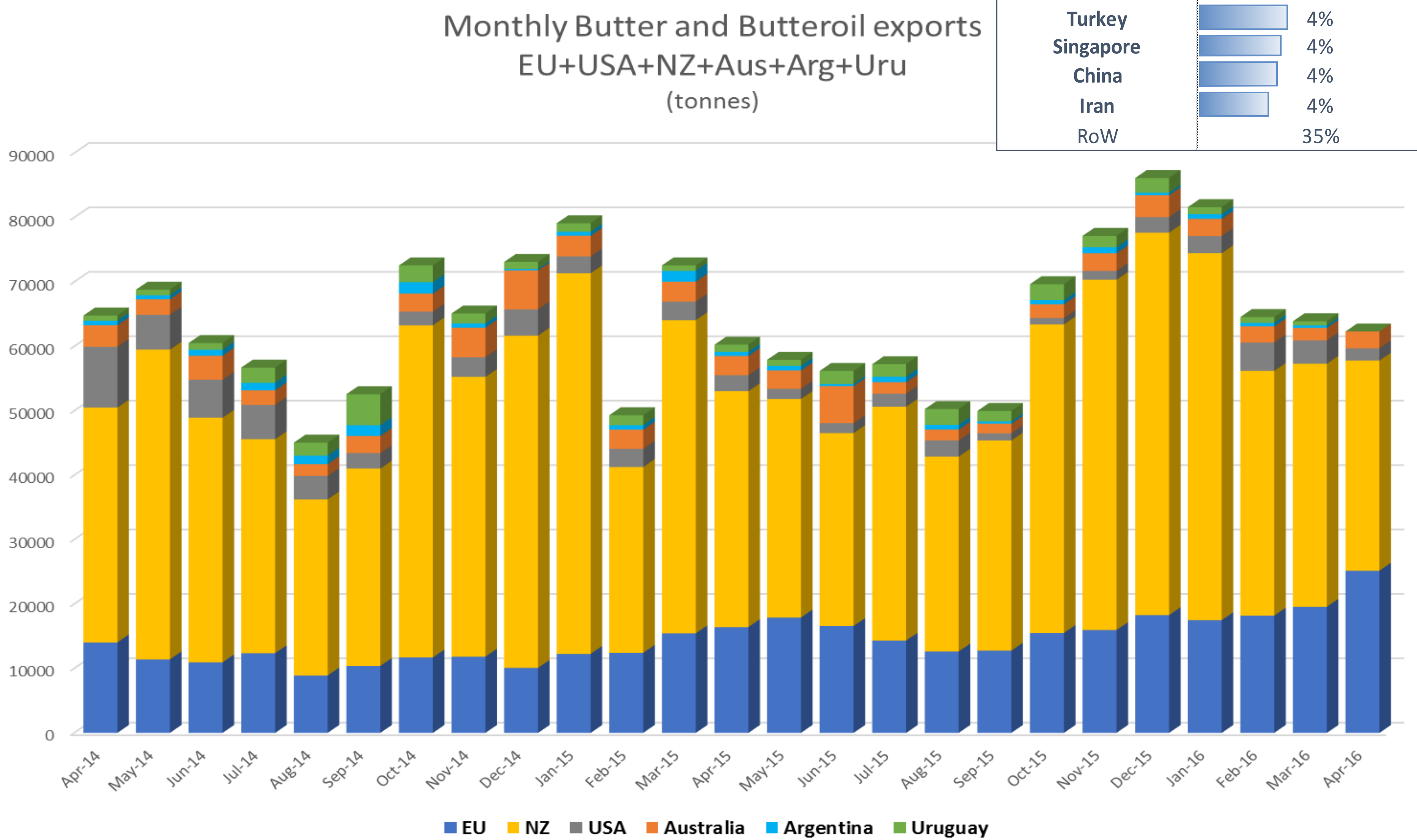
EU WHEY EXPORTS JAN-APR 2016

Main destinations	% of total
China	28%
Indonesia	16%
Malaysia	9%
Thailand	7%
Vietnam	5%
New Zealand	3%
Pakistan	2%
Philippines	2%
Australia	2%
Japan	2%
RoW	24%

Butterfat exports of main market players

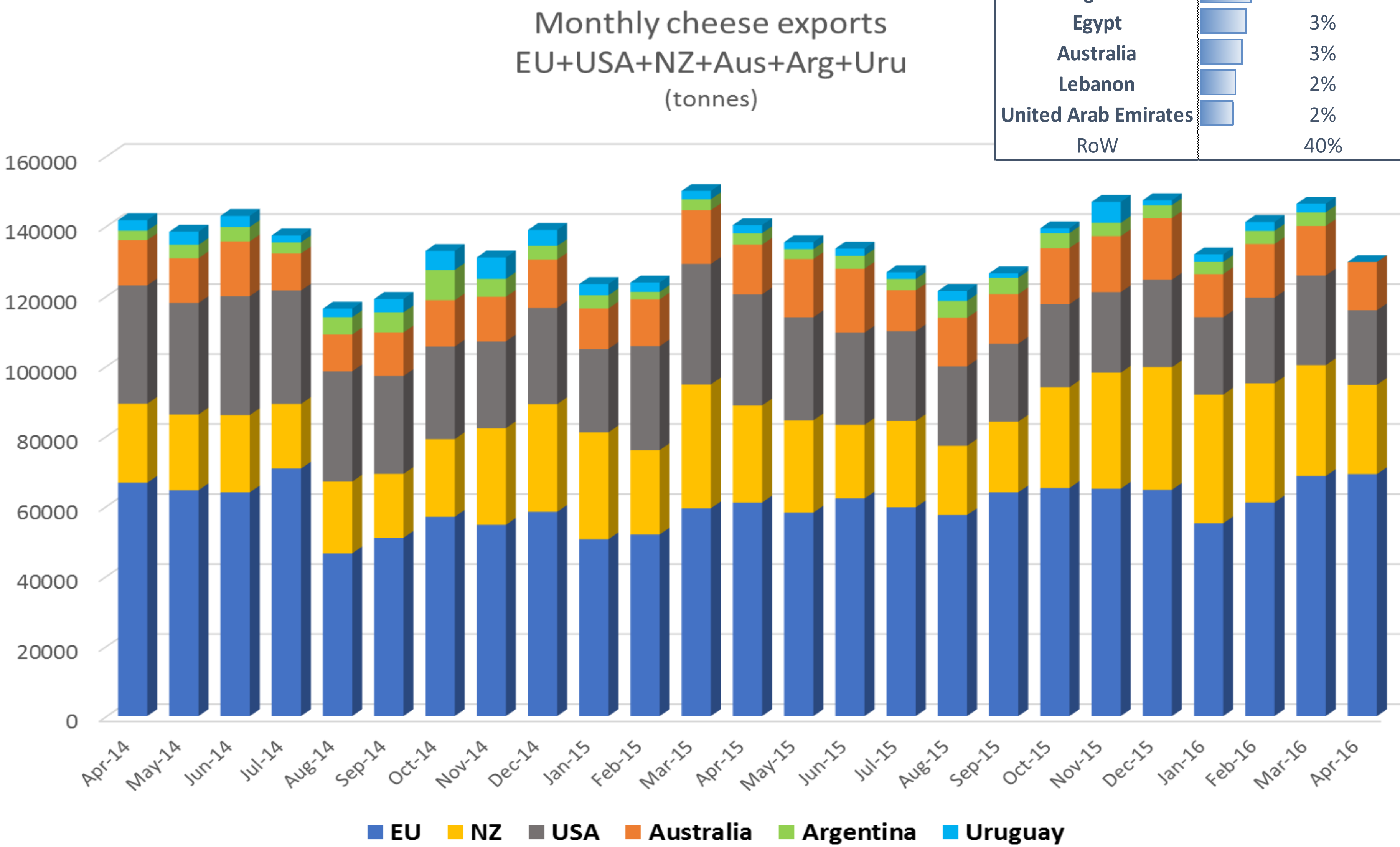
EU BUTTER EXPORTS JAN-APR 2016

Main destinations	% of total
Saudi Arabia	12%
Egypt	12%
United States	8%
Morocco	6%
Japan	5%
Canada	5%
Turkey	4%
Singapore	4%
China	4%
Iran	4%
RoW	35%

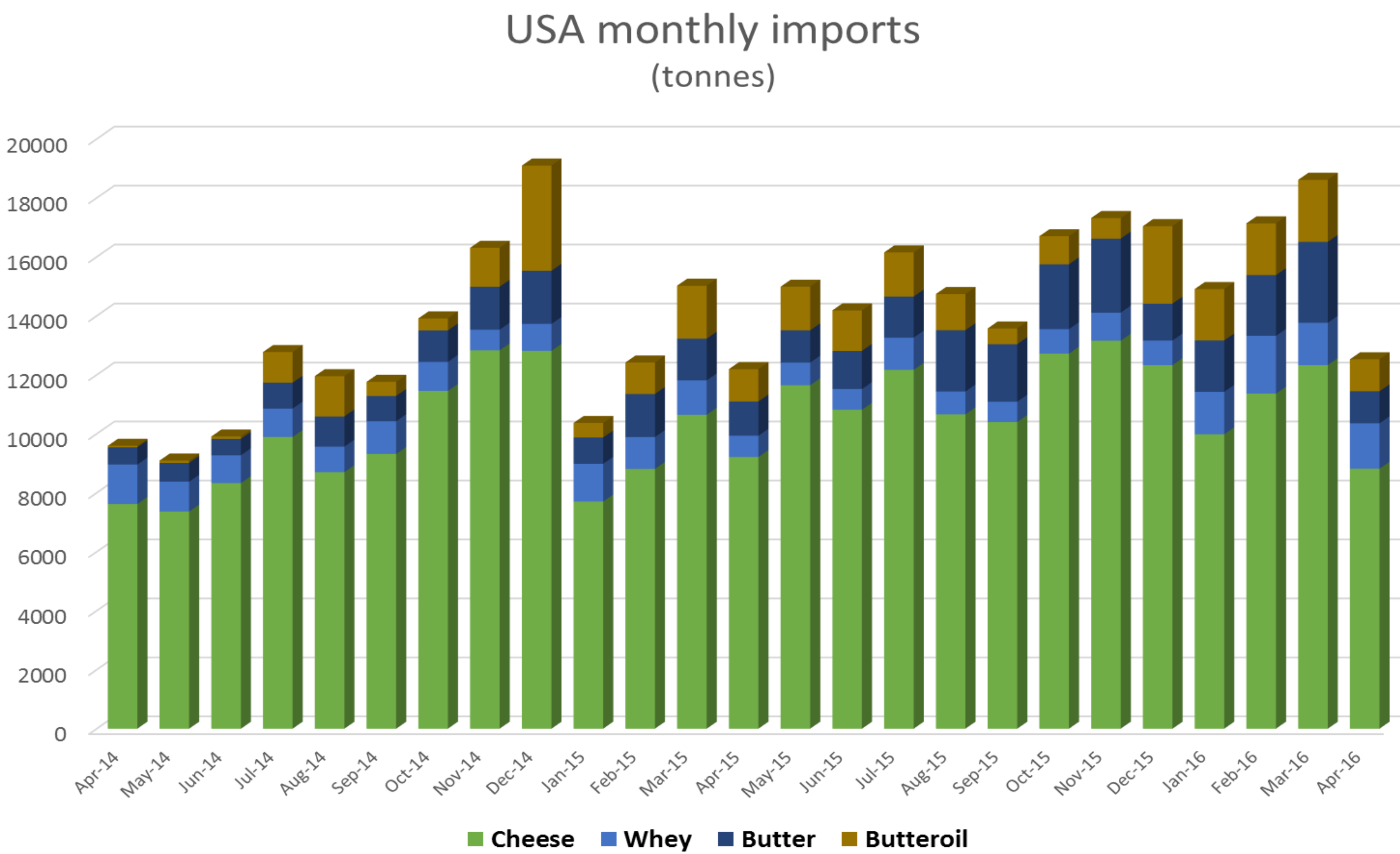


Cheese exports of main market players

EU CHEESE EXPORTS JAN - APR 2016	
Main destinations	**% of total**
United States	17%
Japan	9%
Switzerland	7%
Saudi Arabia	7%
Korea South	6%
Algeria	4%
Egypt	3%
Australia	3%
Lebanon	2%
United Arab Emirates	2%
RoW	40%

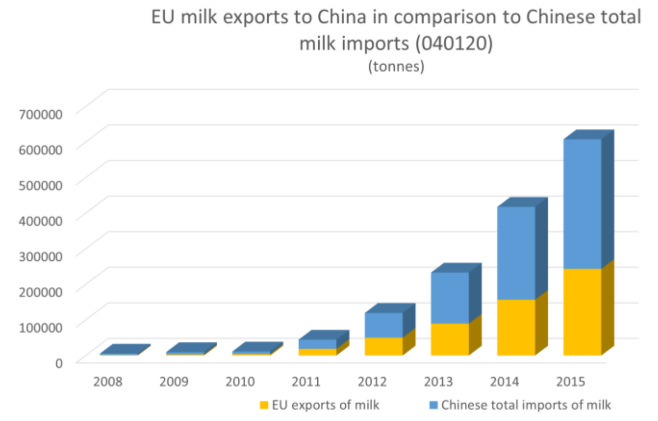


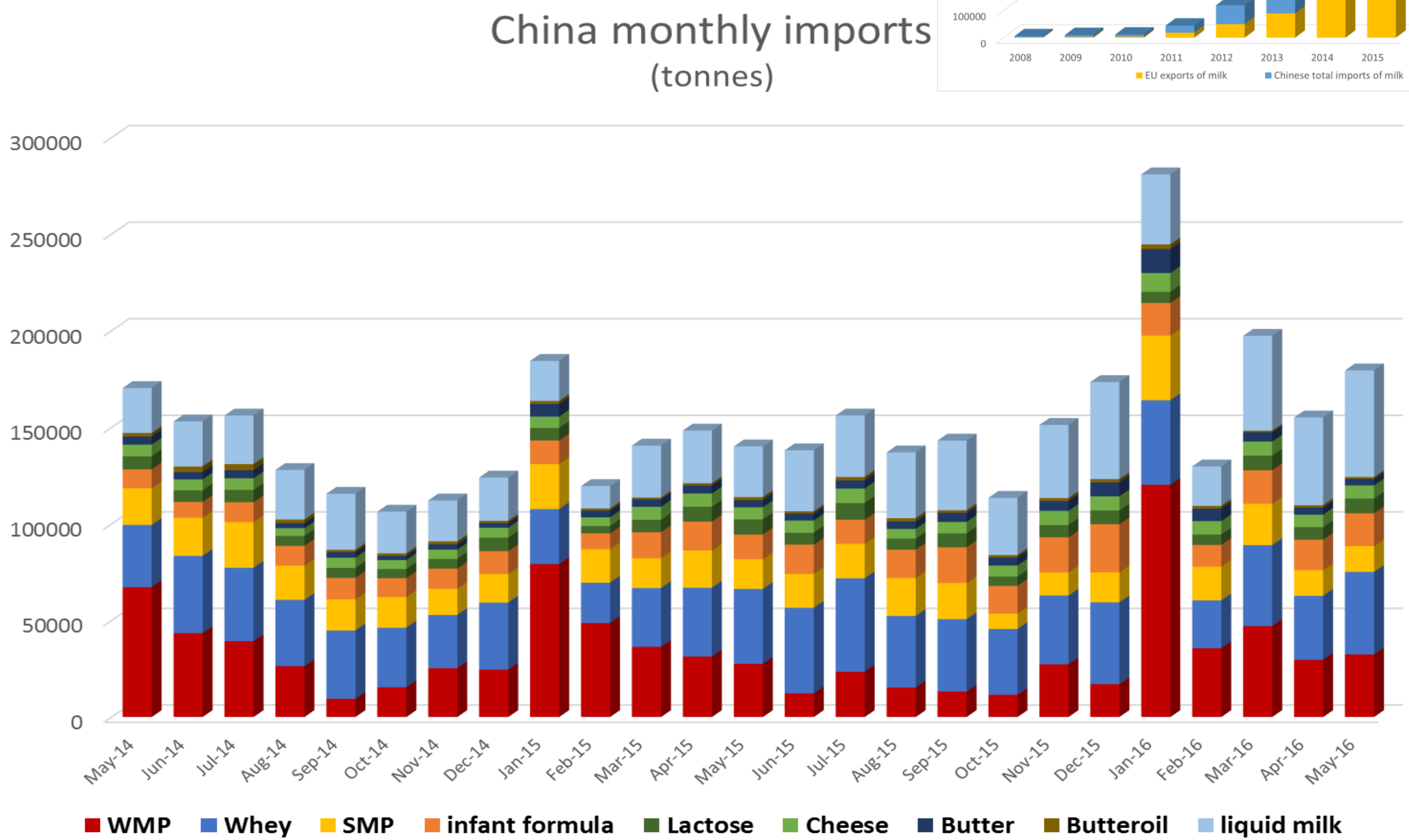
USA Imports



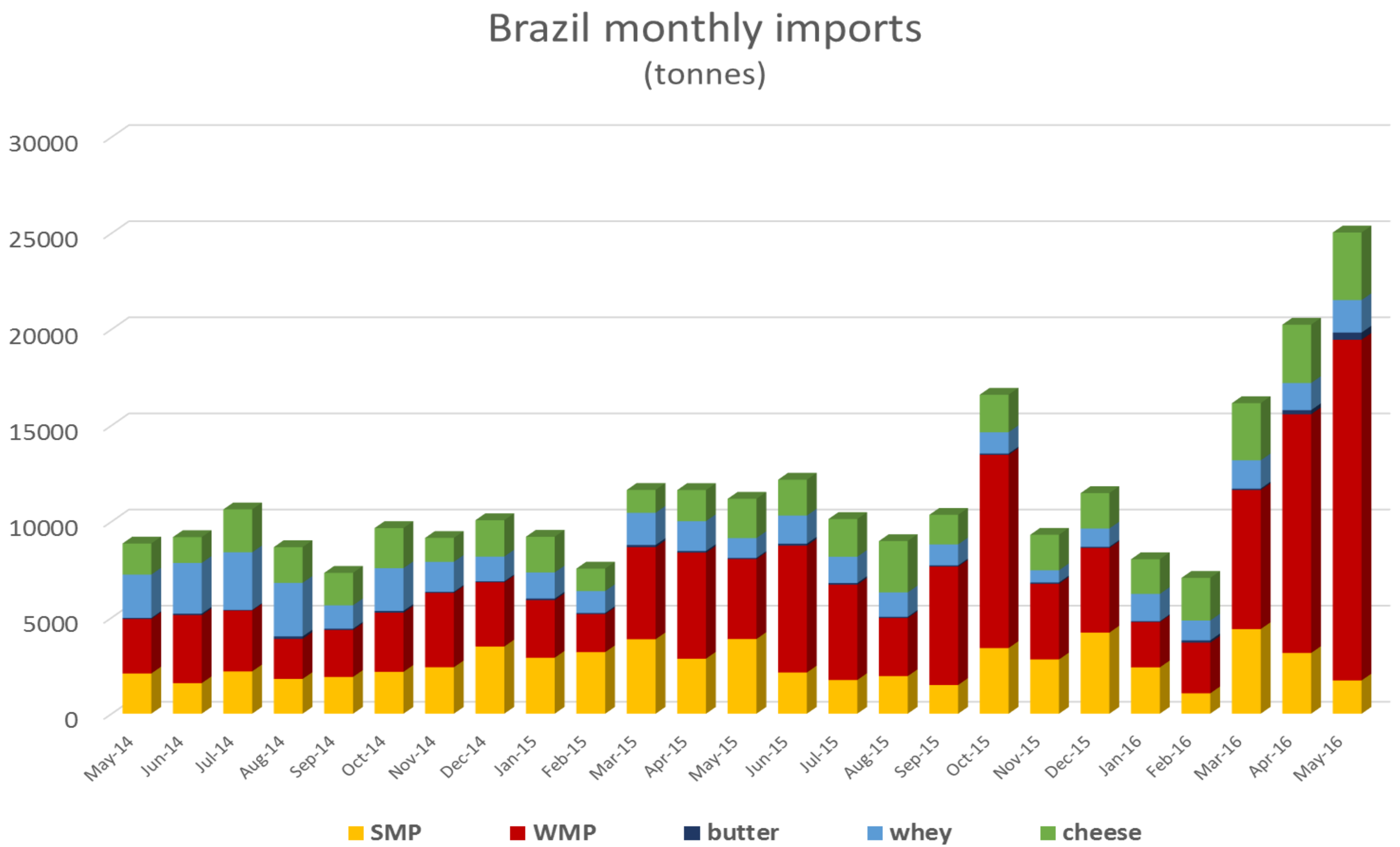
USA monthly imports
(tonnes)
20000
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
Apr-14
May-14
Jun-14
Jul-14
Aug-14
Sep-14
Oct-14
Nov-14
Dec-14
Jan-15
Feb-15
Mar-15
Apr-15
May-15
Jun-15
Jul-15
Aug-15
Sep-15
Oct-15
Nov-15
Dec-15
Jan-16
Feb-16
Mar-16
Apr-16
Cheese
Whey
Butter
Butteroil

China Imports

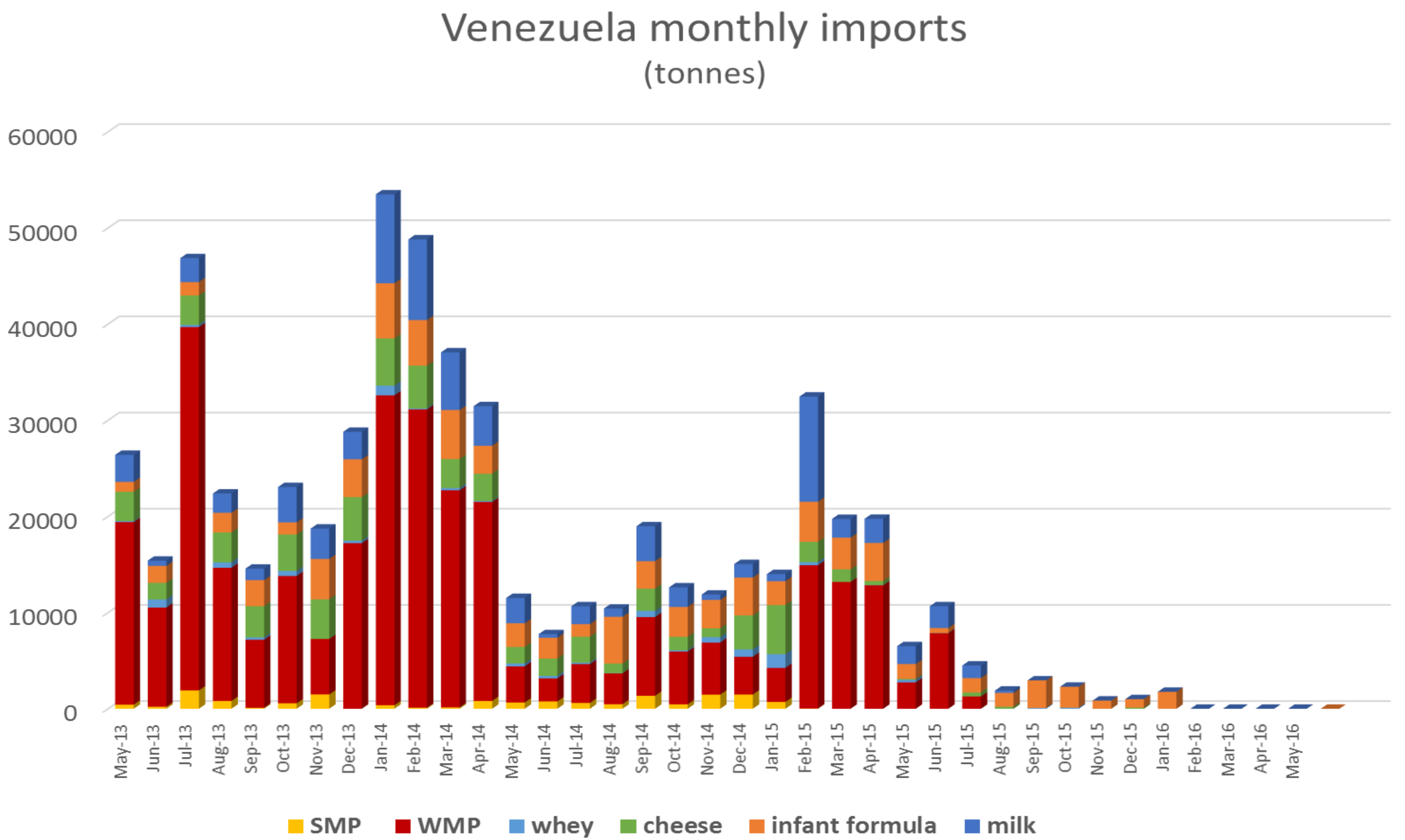




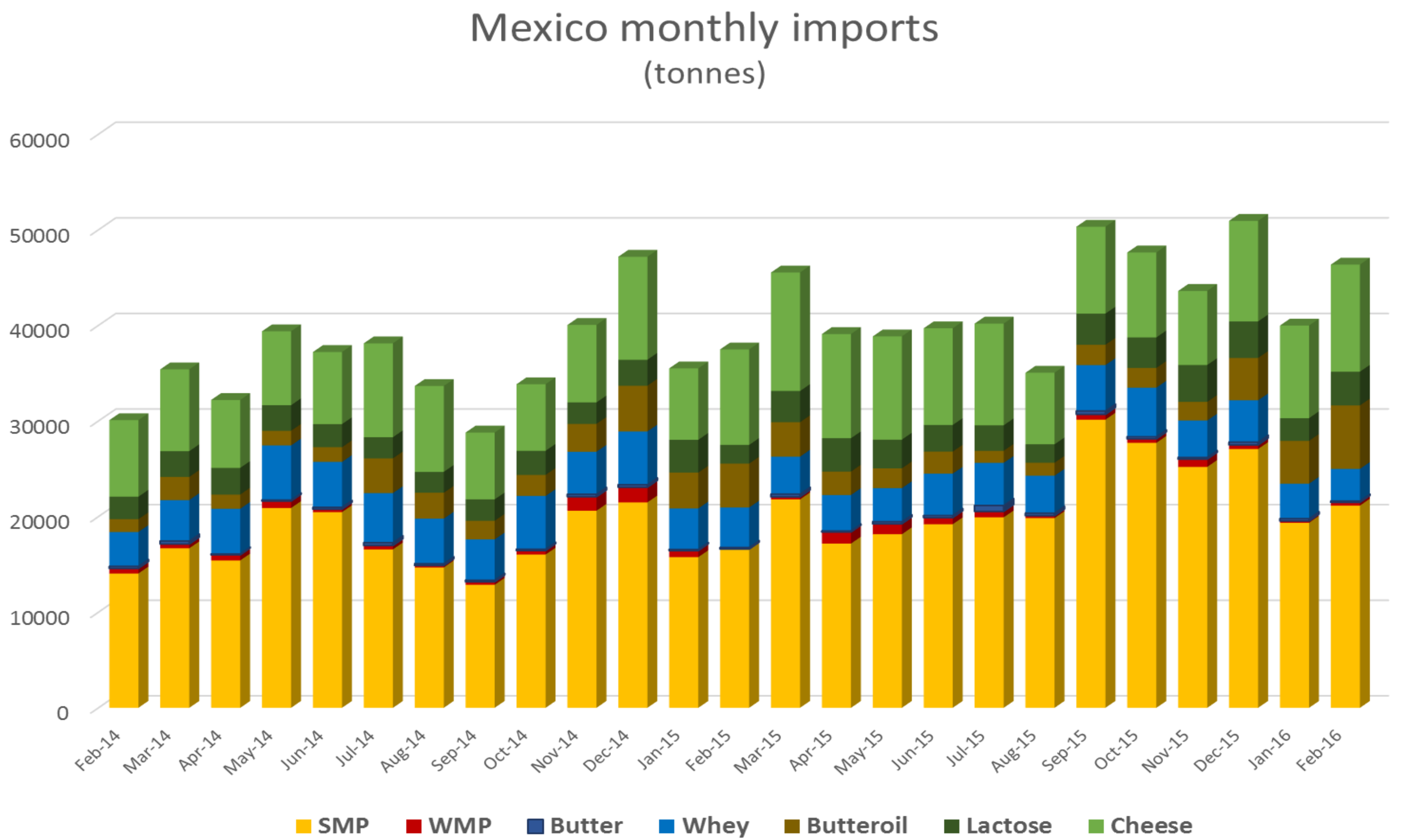
Brazil imports



Venezuela imports



Mexico imports



Conclusions

- **Recovery seems to be coming closer** but market turnaround will take time. A firming of prices can be observed (including on GDT, +12% in Q2 compared to Q1) but whether this is sustainable will depend largely on supply developments
- **Decreasing milk supply in the Southern Hemisphere** (Oceania & South America) still **outpaced by growth in the Northern Hemisphere** (EU & US) where output remains high despite lower growth rates.
- **Global demand remains relatively healthy** (expect for some oil producing countries) and **EU exports have performed well** (except for SMP), still helped by low prices
- **Record global stocks** weigh on the market
- **Market situation is slowly improving but further supply side correction remains necessary.**

Thank You

Sources used in presentation: Global Trade Atlas, Eurostat, USDA, Dairy Australia, DCANZ, CLAL, Inale, IFCN

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info@eucolait.eu

ANNEX 4

Trends in sales of Milk & Dairy products– a retail perspective

EUROCOMMERCE

TRENDS IN SALES OF MILK & DAIRY PRODUCTS – A RETAIL PERSPECTIVE

Milk Market Observatory

28 June 2016

EuroCommerce

THE RETAIL, WHOLESALE AND INTERNATIONAL TRADE REPRESENTATION TO THE EU

Belgium

Period: year-to-date (15 May 2016)

+1.8%
evolution
in price

Dairy sector represents **13.7%** of the turnover in FMCG

-0.9%
decrease
in volume

+0.9%
increase
in value

% value = evolution of generated turnover
% price = evolution of the price the products are being sold at

Source: COMEOS

France

Period: P5 2015 vs. P5 2016 (15 May 2016)

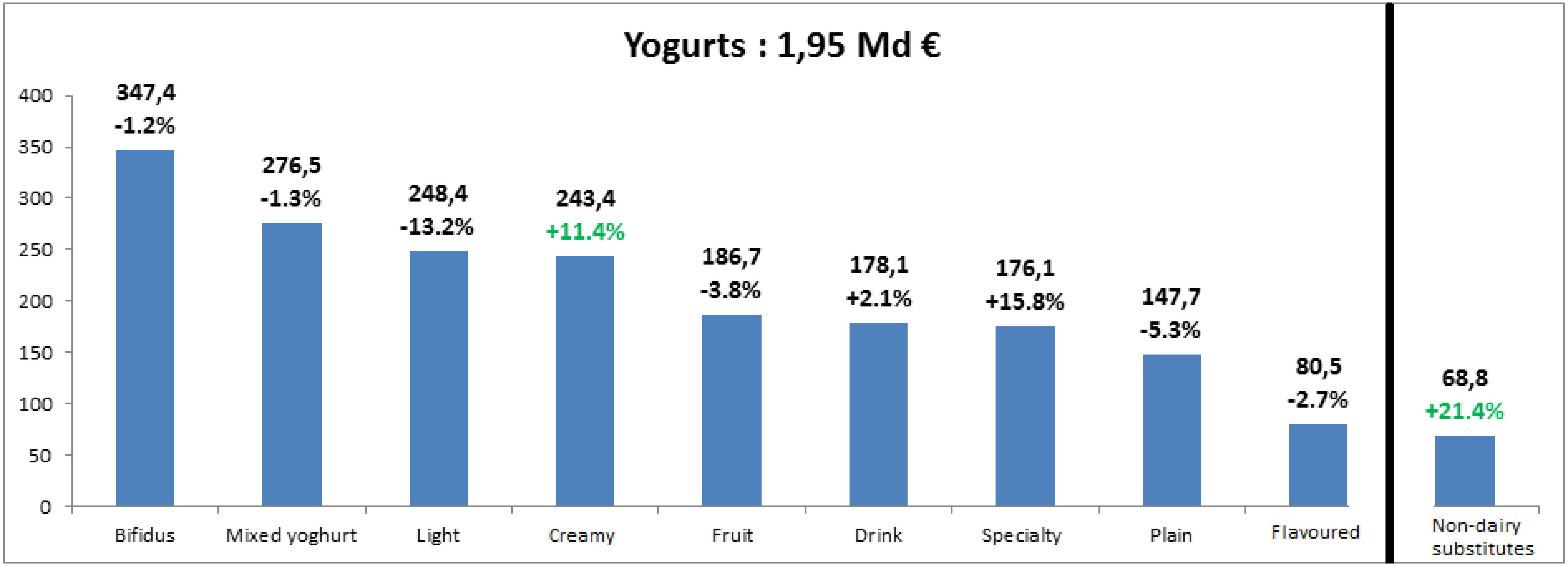
Product category	volumes (% change) 4 weeks period (P5 '15/P5 '16)	volumes (% change) Year on year (P5 '14-P5 '15 / P5 '15 –P5 '16)	Price (% change) 4 week period (P5 '15/P5 '16)	Price (% change) Year on year (P5 '14-P5 '15 / P5 '15 –P5 '16)
Total liquid milk	-1,4%	-3,6%	+2,8%	+3,0%
Of which UHT semi-skimmed milk	-5,3%	-4,8%	+3,5%	+3,3%
Yoghurt & fresh cheese	+0,7%	-1,2%	-1,5%	0,0%
Butter	-0,5%	-0,6%	+3,2%	+3,3%
Cream	-0,2%	-0,3%	+1,6%	+0,6%
Cheese	+4,8%	+1,5%	-0,5%	-0,4%

Source: Kantar World Panel via FranceAgriMer (Min. de l'Agriculture)

France

Organic market is very dynamic, with double digit volume growth in many dairy products:

- Yoghurt: +14.1%
- Butter: +12.5%
- Cream: +15%
- Milk: +7.7%



Source : IRI, M€ and % (year-on-year (P2 '14-P2'15 / P2 '15 –P2 '16))

EuroCommerce

Portugal

Period: year-to-date (15 May 2016)

Product category	volumes (% change)	volumes (% change year on year)	value (% change)	Value (% change year on year)
Fresh milk	-8,8%	-10,1 %	-8,9 %	-8,2 %
UHT milk	-7,6 %	-7,0 %	-19,6 %	-20,0 %
Yoghurt	-0,7 %	-2,4 %	-0,9 %	-4,3 %
Fresh cheese	+3,5 %	+ 1,6 %	+0,9 %	-0,8 %
Butter	-1,5 %	-1,5 %	-6,8 %	-6,2 %
UHT Cream	+0,3 %	-1,4 %	-1,8 %	-3,2 %
Fresh dessert	+12,4 %	+ 13,5 %	+4,4 %	+10,1 %
Cheese	+7,8 %	+ 5,8 %	+1,5 %	+ 0,0 %

Source: Nielsen, W20 2016

Spain

Period: year-to-date (February 2016)

Product category	Volume '000 kg/l	Evolution (%)	Value '000 €	Evolution (%)	Consumption per capita
Total liquid milk	**3.248.109,24**	**-1,4%**	**2.304.639,19**	**-2,7%**	**72,80**
Sterilised milk	3.146.457,50	-1,2%	2.224.933,60	-2,2%	70,52
Pasteurised milk	79.588,19	-4,0%	65.638,61	-9,0%	1,78
Raw milk	22.063,55	-20,3%	14.066,98	-34,0%	0,49
Dairy products	**1.747.768,71**	**0,8%**	**5.811.130,40**	**1,0%**	**39,17**
Yoghurt	437.229,93	-0,7%	787.248,58	-0,6%	9,80
Bifidus + Fermented	244.137,38	-0,4%	776.512,19	1,0%	5,47
Cheese	348.407,23	0,6%	2.605.750,10	1,0%	7,81
Other dairy products	717.994,16	2,3%	1.641.619,54	1,9%	16,09

Source: http://www.magrama.gob.es/es/alimentacion/temas/consumo-y-comercializacion-y-distribucion-alimentaria/informemesamesalimentacionfebrero2016_tcm7-423844.pdf

EuroCommerce

Sweden

Period: year-to-date (12 June 2016)

Product category	volumes (% change in the last 4 weeks)	volumes (% change year on year)	value (% change in the last 4 weeks)	Value (% change year on year)
Milk	-1,9%	-1,3%	+1,5%	+0,9%
Hard cheese	+0,1%	+2,8%	-4,2%	-2,3%
Cream	+0,9%	+1,4%	-0,1%	+1,4%
Yoghurt	+0,2%	-1,8%	0,7%	-2,0%
Cottage cheese/curd	+1,1%	+13,3%	-1,2%	+7,1%
Cold desserts	+1,9%	+4,9%	+15,6%	+11,6%
Butter	+17,4%	+7,5%	+13,7%	+8,3%

Source: Nielsen ScanTrack

United Kingdom

UK Dairy Product Retail Price Indices

In May 2016, the RPI increased by 0.27% compared with April and is also 1.39% higher than the same month last year. The fresh milk price index decreased 0.45% on the month and decreased on the year by 4.24%. The butter index increased on the month by 1.16% and decreased on the year by 7.37%. Cheese saw an increase on the month of 3.07% and a fall of 0.45% on the year.

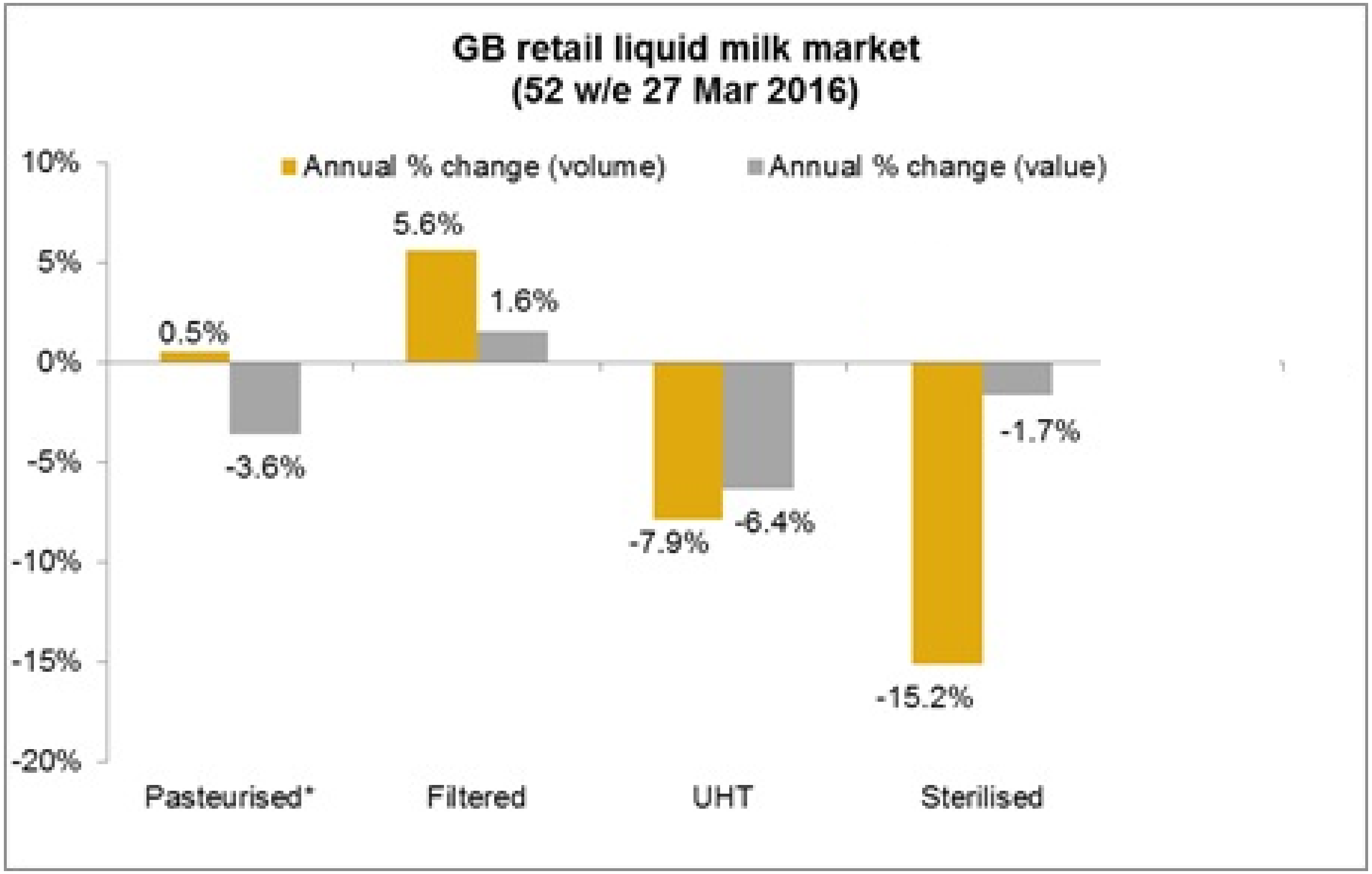
PRODUCT PRICE INDICES			
		compared with	
	May-16	1 month before	12 months before
RPI price index	262.1	0.27%	1.39%
Fresh Milk	221.3	-0.45%	-4.24%
Butter	306.7	-1.16%	-7.37%
Cheese	241.9	3.07%	-0.45%

Source: Office for National Statistics (ONS)

Please note: the reference base is January 1987.

Source: http://dairy.ahdb.org.uk/market-information/dairy-sales-consumption/gb-retail-prices /

United Kingdom



United Kingdom : contract league table

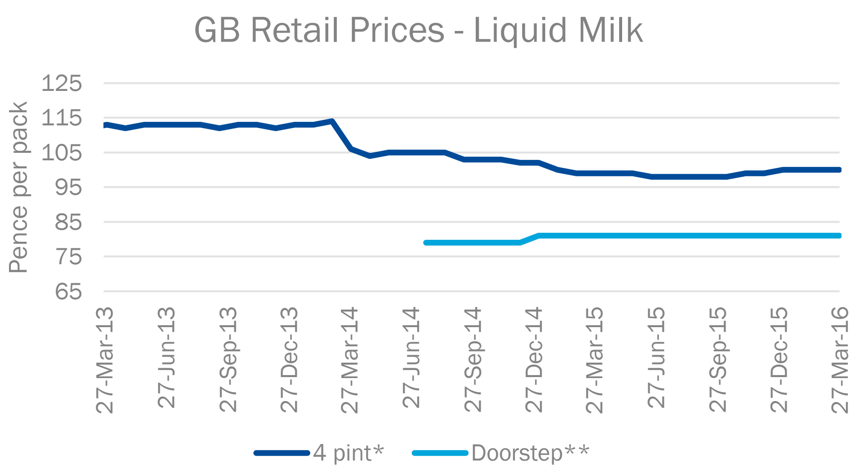
MILK PRICES - AHDB Dairy League table for April 2016

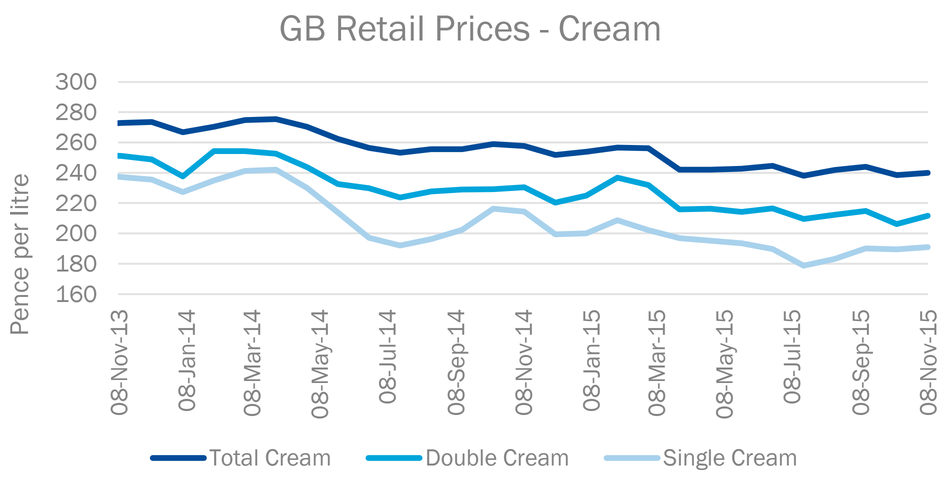
League Table	Monthly Price	April Annual Price
Aligned Liquid Milk		
Müller Milk Group Booths	30.02	31.92
Müller Direct Milk Waitrose - Profile	31.59	31.67
Müller Direct Milk Waitrose - Seasonal	29.34	31.59
Müller Direct Milk M&S - Profile 5	30.99	31.07
Müller Direct Milk M&S - Seasonal 5	28.74	30.99
Müller Milk Group Tesco 2	31.02	30.90
Müller Milk Group M&S	30.13	29.99
Müller Direct Milk Sainsbury - Profile 5	29.88	29.96
Müller Direct Milk Sainsbury - Seasonal 5	27.63	29.88
Müller Milk Group Sainsbury	30.00	29.85
Arla Sainsburys 4	29.30	29.61
Müller Milk Group Co-op	27.45	27.30
Standard Liquid Milk		
Müller Direct Milk Liquid - Core Formula - Profile	24.70	24.78
Müller Direct Milk Liquid - Core Formula - Seasonal	22.45	24.71
Crediton Dairy	22.48	23.16
Müller Milk Group Formula	20.76	22.66
Müller Milk Group Milk Part.	22.47	22.32
Müller Direct Milk Liquid - Profile	21.75	21.83
Müller Direct Milk Liquid - Seasonal	19.50	21.75
Pensworth	19.94	19.96
UK Arla Farmers Liquid 3	19.13	19.59

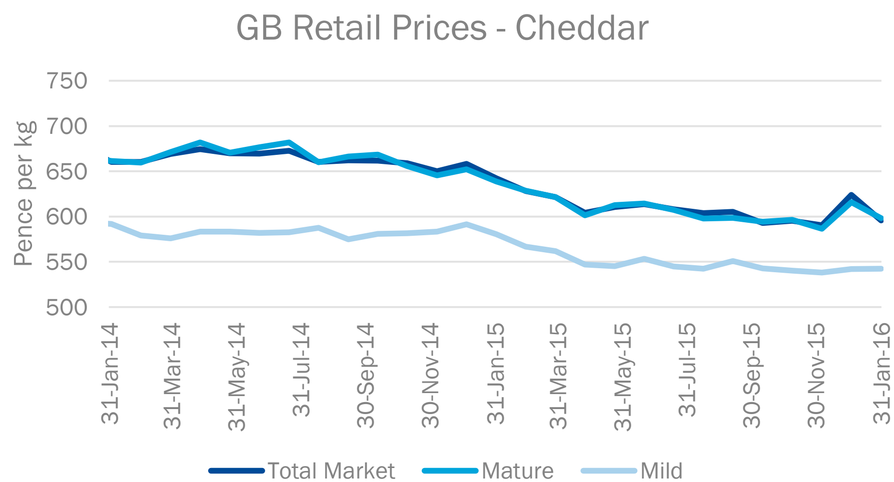
http://dairy.ahdb.org.uk/resources-library/market-information/milk-prices-contracts/league-table-new-profile/#.VzReA4R94dU

EuroCommerce

United Kingdom







http://dairy.ahdb.org.uk/resources-library/market-information/dairy-sales-consumption/gb-retail-prices/#.Vx4OiPI94dU

United Kingdom

unit price (p)		22-May-16	24-Apr-16	Month Diff.	24-May-15	Annual Diff.
Liquid milk†	Retail (4 pints)*	100	100	n/c	99	+1
	Doorstep (1 pint)**	81	81	n/c	81	n/c

ppl		22-May-16	24-Apr-16	Month Diff.	24-May-15	Annual Diff.
Cream††	Total Cream	240	238	+2	243	-3
	Double Cream	212	210	+2	214	-2
	Single Cream	199	193	+6	194	+5

p/kg		22-May-16	24-Apr-16	Month Diff	24-May-15	Annual Diff.
Cheddar††	Total market	591	592	-1	610	-19
	Mature	594	597	-4	613	-20
	Mild	534	532	+2	545	-11

*† updated monthly ; †† updated quarterly ; *pasteurised (private label)*
***milkandmore monthly spot price - semi-skimmed glass bottle*
Source: Kantar Worldpanel Online

EuroCommerce

<u>ANNEX 5</u>

Dairy production short-term forecast

European Commission

Dairy production short-term forecast

Publication: 8 July

MMO 28 June 2016

Sophie Hélaine

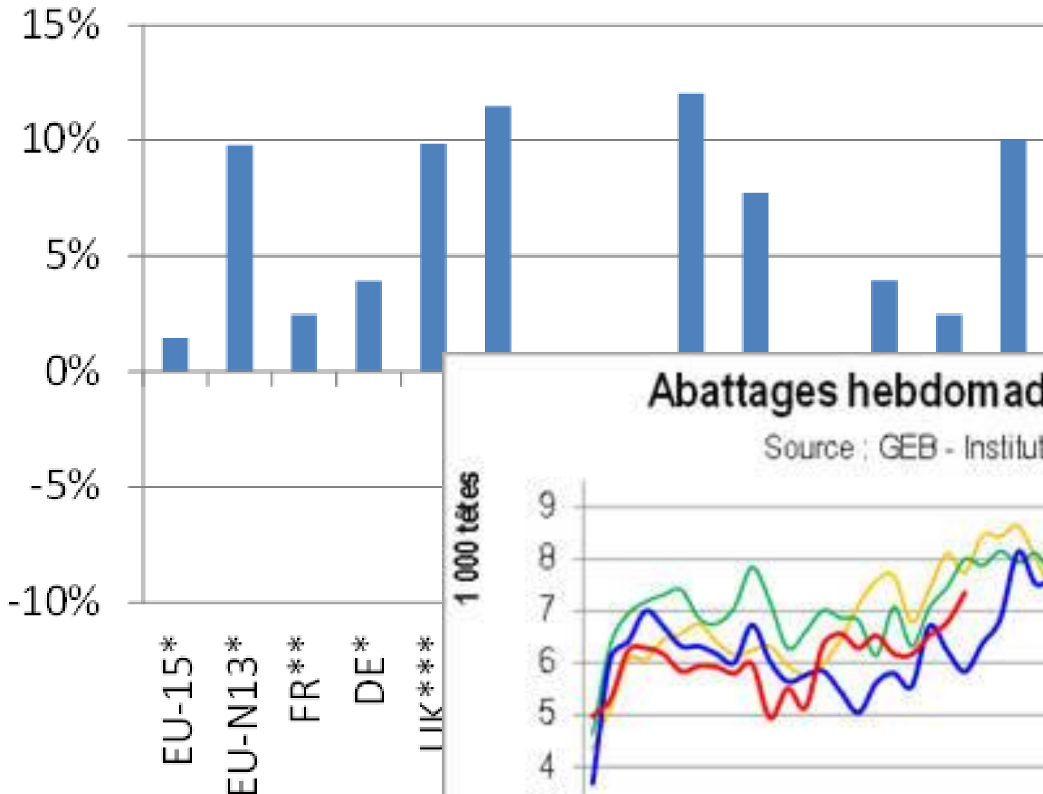
DG Agriculture and Rural Development
European Commission

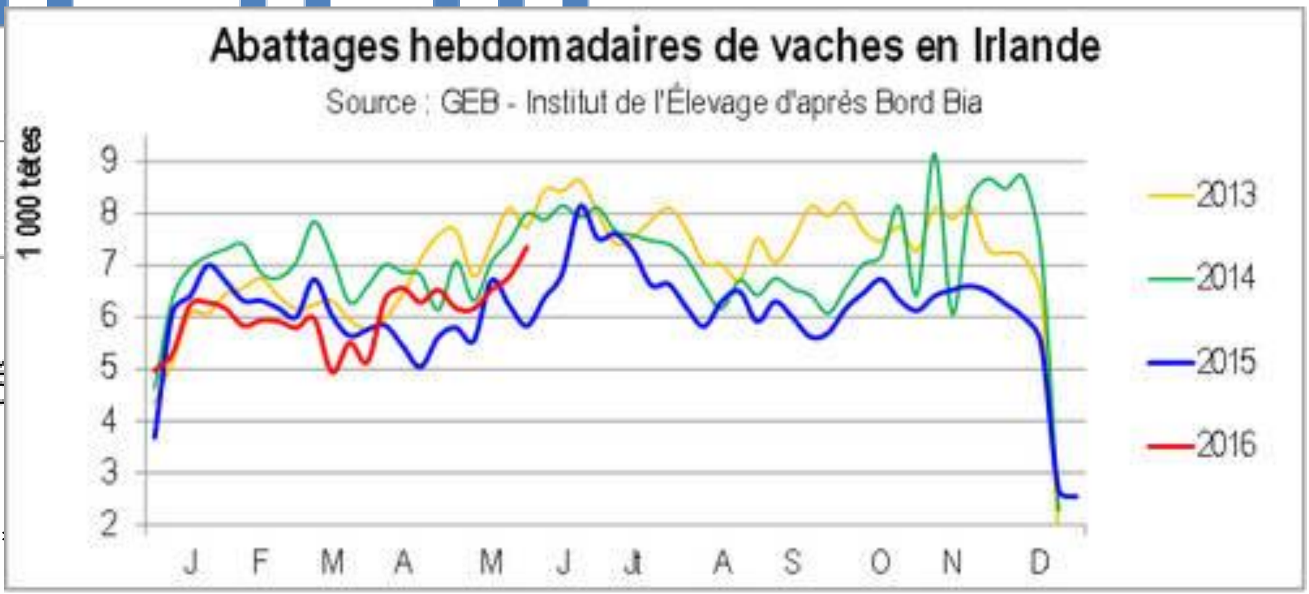
Agriculture and Rural Development

Outline

- Slaughterings
- Pasture conditions and crop prices development
- Milk production forecasts

Increase in cow slaughterings

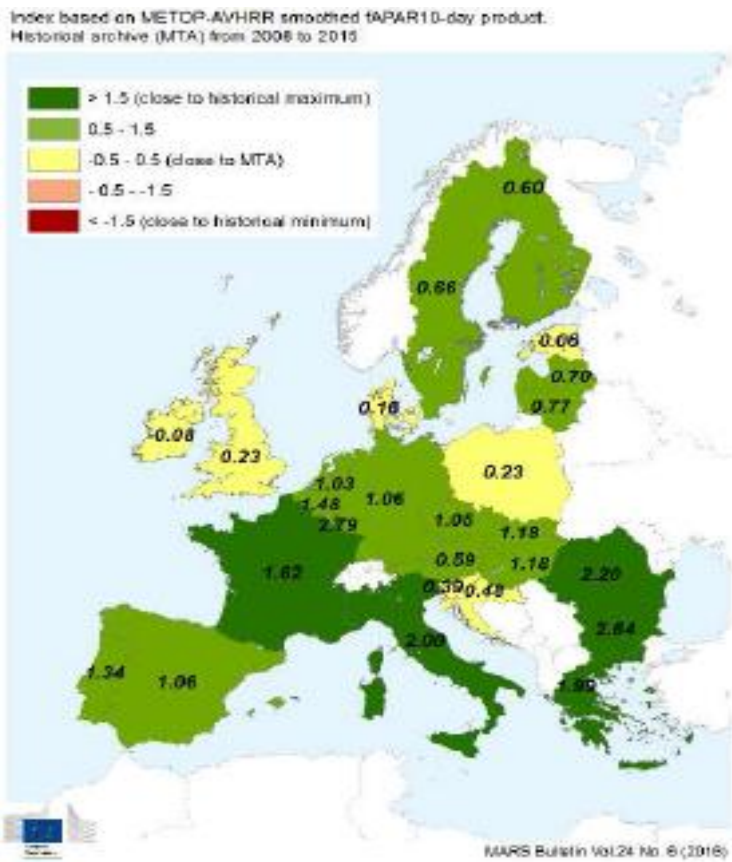




Note: Dairy and beef cows
* Jan-March; ** Jan-April; **
Feb. corrected
Source: Eurostat

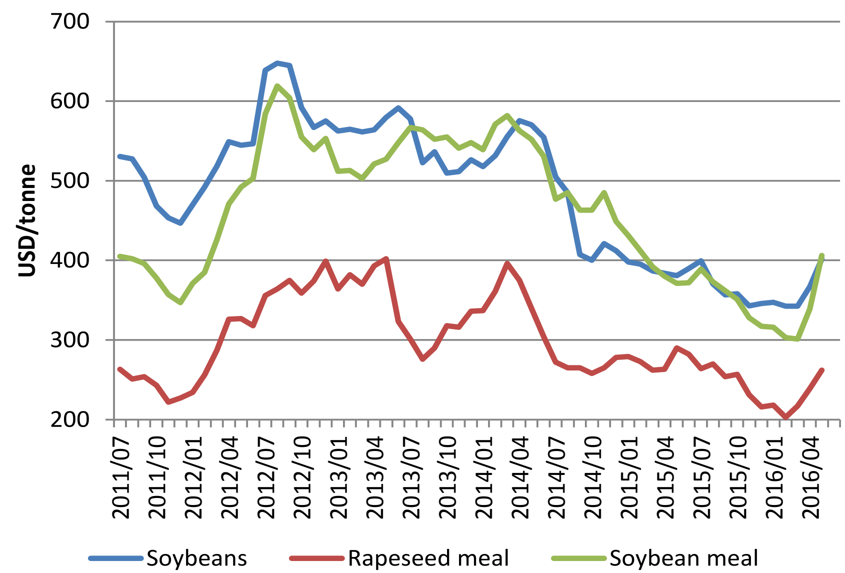
Delays in pasture development in northern EU
Cereal prices to remain low and soy prices to stabilise

1 March – 30 May 2016



Source: JRC – MARS bulletin

Monthly soybean seeds and meals, rape meals price (USD/t)

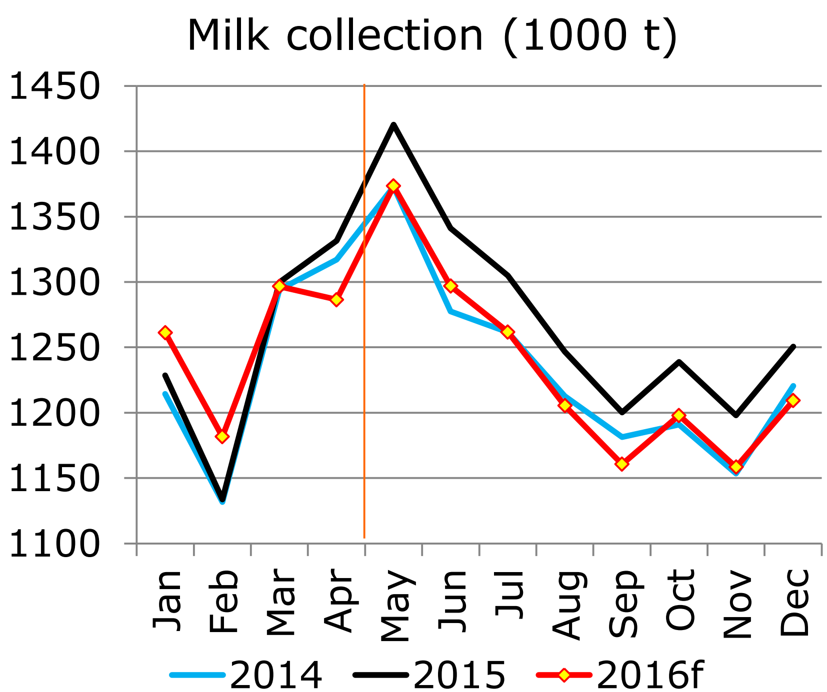


Source: FAO Food Price Monitoring and Analysis Tool

UK: adaptation is taking place
IE: more uncertainty

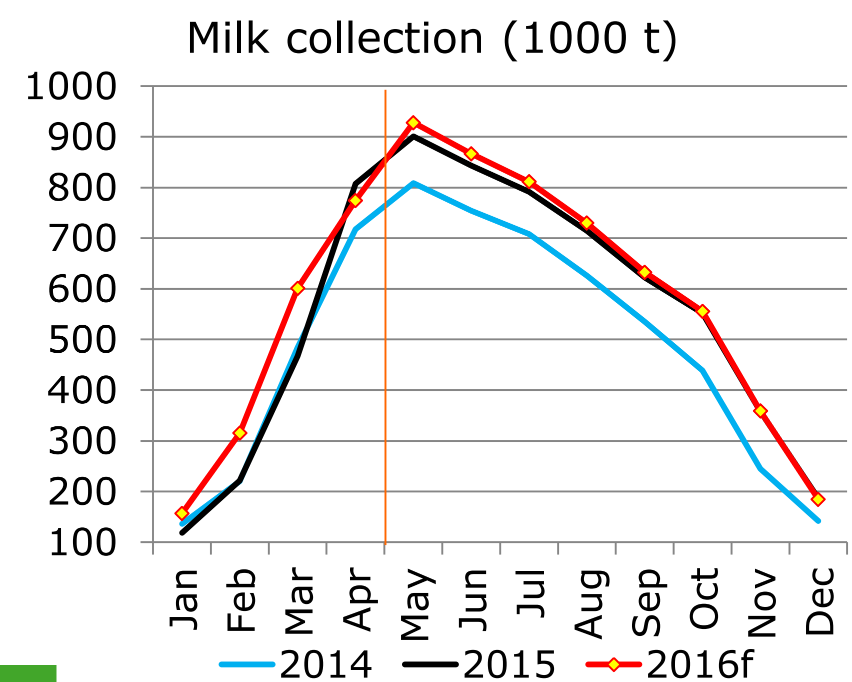
UK

- Poor pasture conditions
- Increase in cow slaughterings (+10% to May)
- 2016/2015 *f*: -2%
  (Jan/April:+0.7% May/Dec*f*: -3%)



IE

- Poor pasture conditions
- Increase in cow slaughterings lately
- Squeeze in margins
- 2016/2015 *f*: +5%
  (Jan/April:+14% May/Dec*f*: +2%)

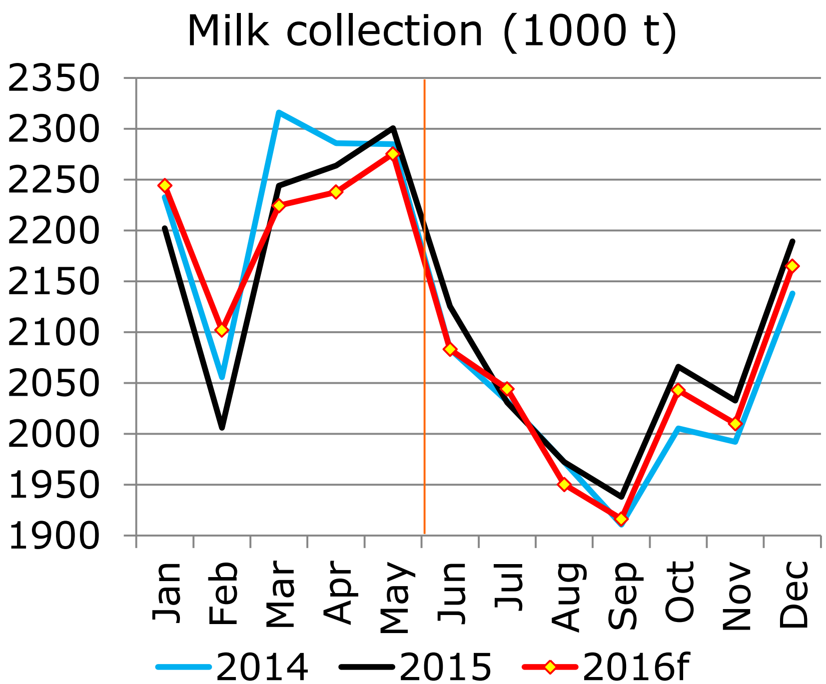


Source: DG AGRI, draft forecast

FR, ES, PT, SK, DK: milk collection below last year

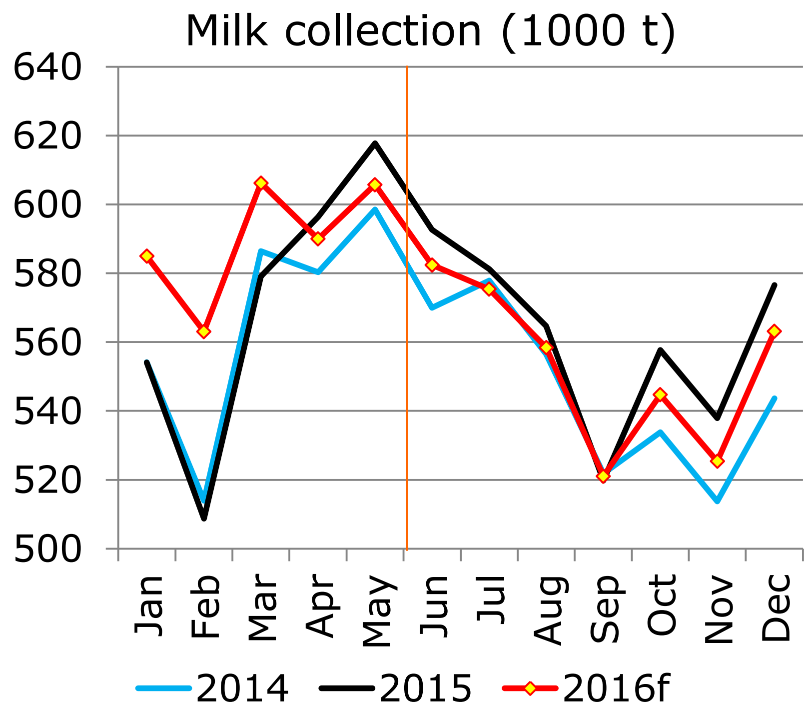
FR

- Supply management by operators
- Limited rise in cow slaughterings (+2% to Apr)
- 2016/2015 *f*: -0%
  (Jan/Maye:+0.6%   June/Dec*f*: -1%)



ES

- Good pasture conditions, higher meals prices
- Increase in cow slaughterings (+12% to March)
- 2016/2015 *f*: +0.5%
  (Jan/Maye:+3%   June/Decf: -2%)

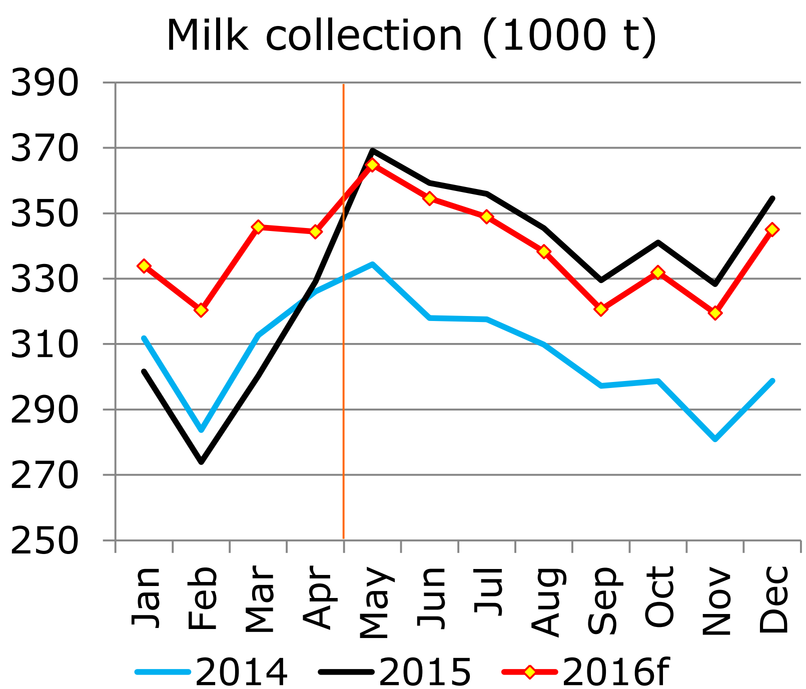


Source: DG AGRI, draft forecast

AT, CZ, BE, DE : milk collection soon below last year

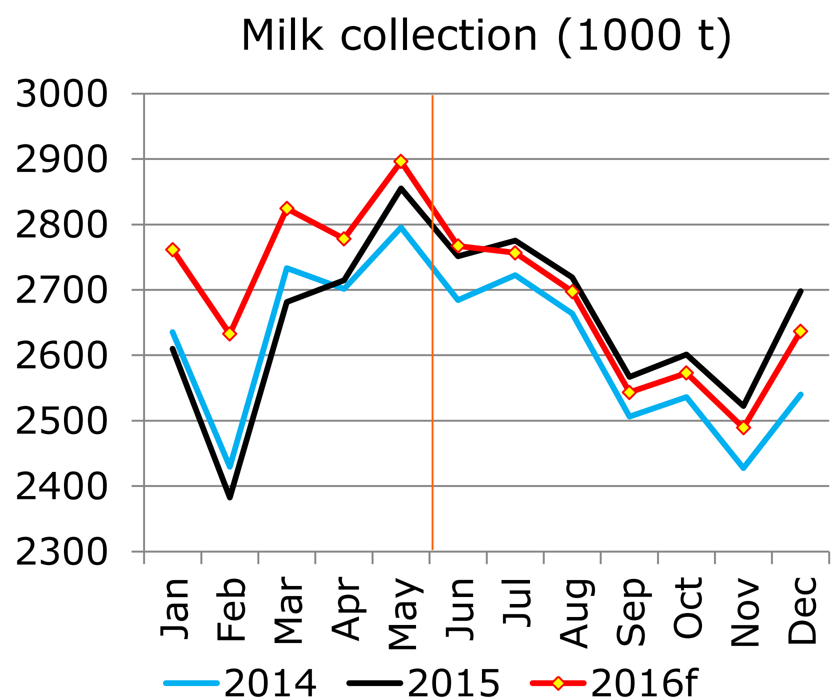
BE

- Rise in cow slaughterings (+8% to Apr)
- Very low prices
- 2016/2015 *f*: +2%
  (Jan/April:+12% April/Dec*f*: -1%)



DE

- Limited rise in cow slaughterings yet (+2% to March)
- 2016/2015 *f*: +1.5%
  (Jan/Maye:+5% June/Dec*f*: -1%)

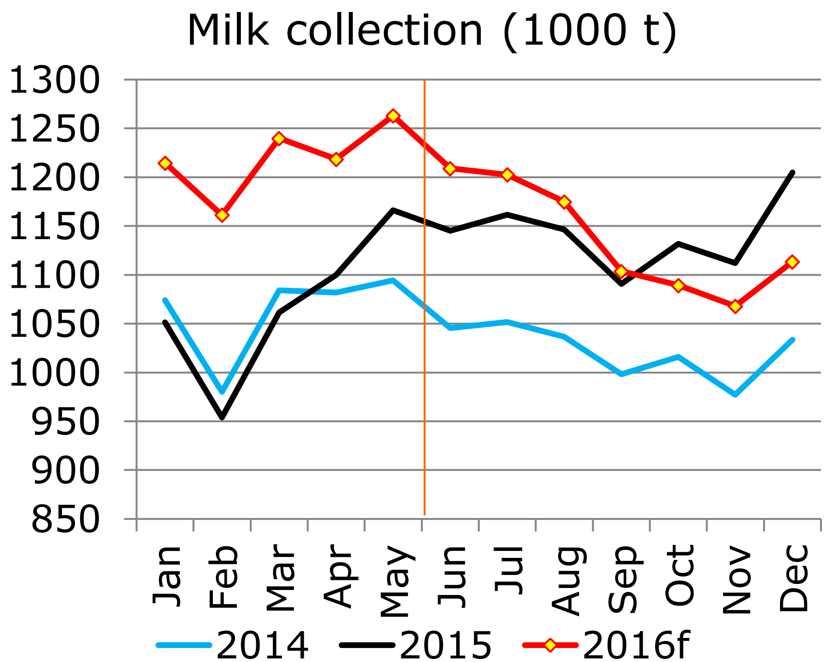


Source: DG AGRI, draft forecast

NL, PL, IT: milk collection still strongly above 2015

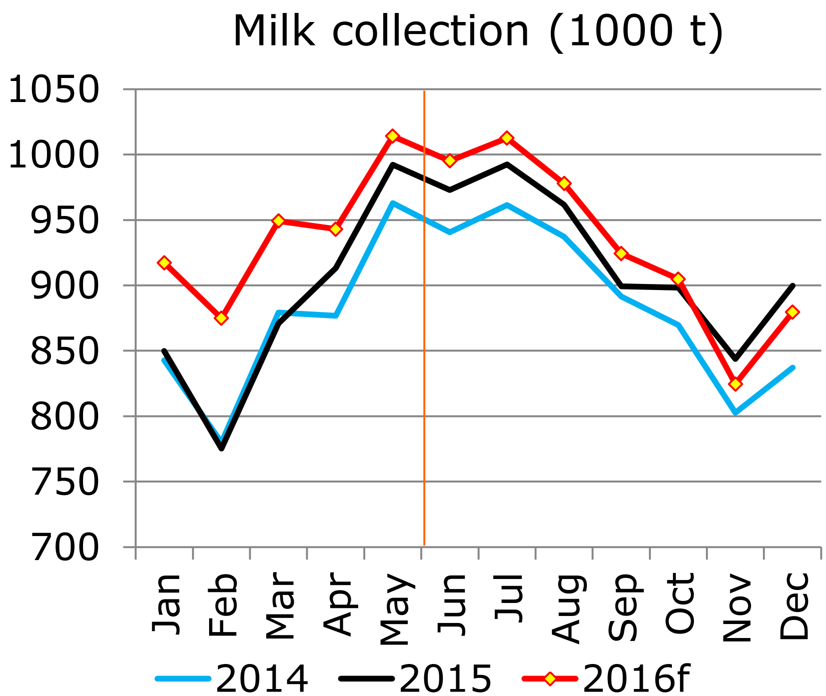
NL

- Slaughterings below last year
- Phosphates legislation: need to slaughter maybe up to 100 000 cows by Dec.
- 2016/2015 *f*: +5.5%
  (Jan/May:+14%   June/Dec*f*: 1%)



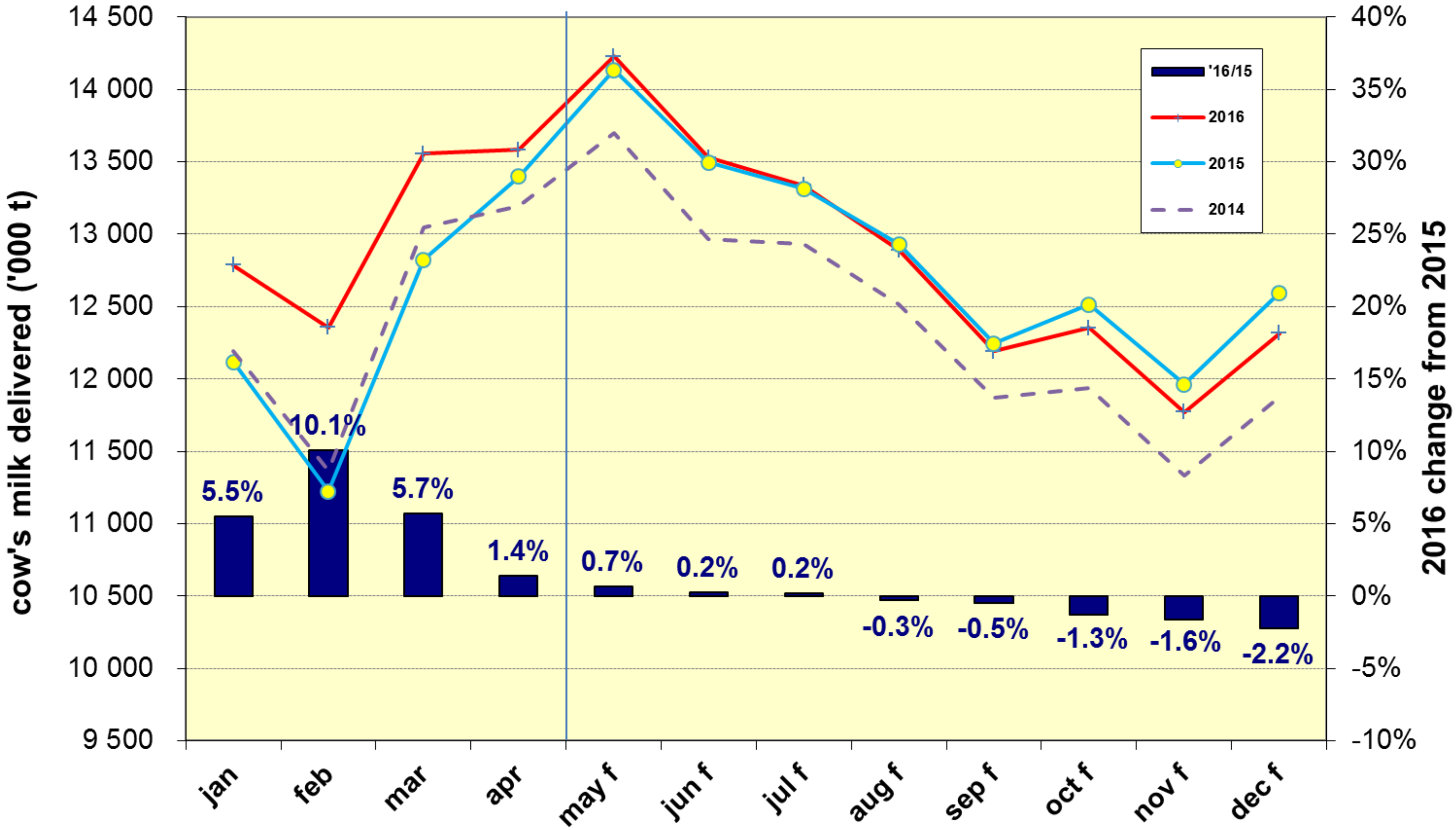
PL

- Strong cow slaughterings (+11% to April)
- Productivity gains, lower pasture productivity
- 2016/2015 *f*: +3%
  (Jan/Maye:+7%   June/Dec*f*: +1%)



Source: DG AGRI, draft forecast

2016 milk deliveries +1.4% in the EU / 2015
2017: +0.5%

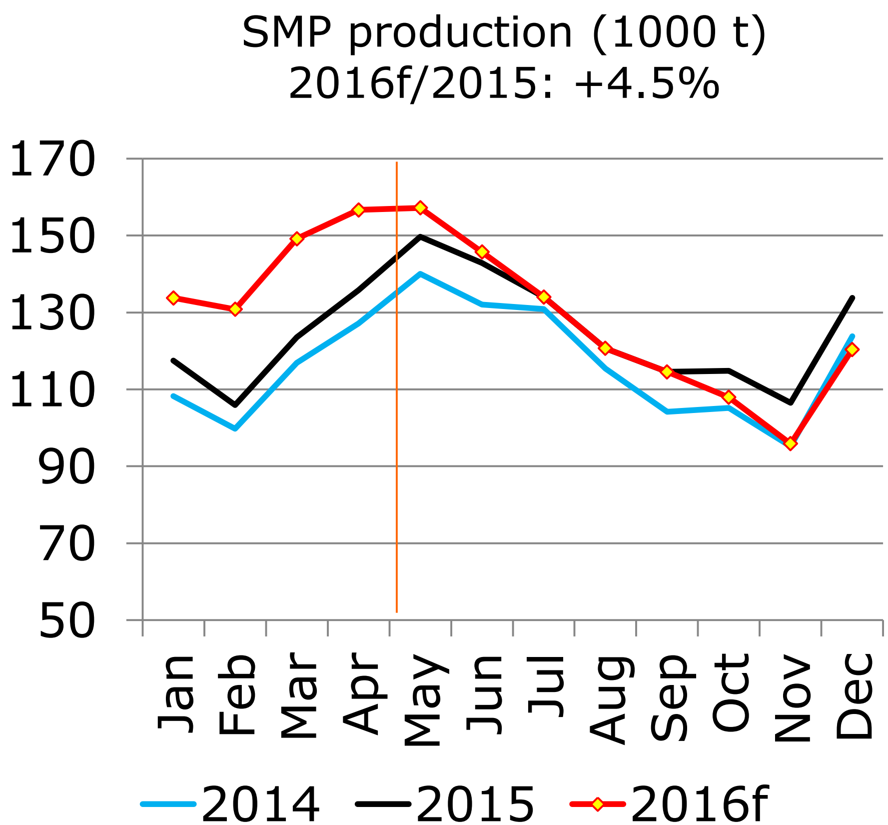


Source: DG AGRI, draft forecast

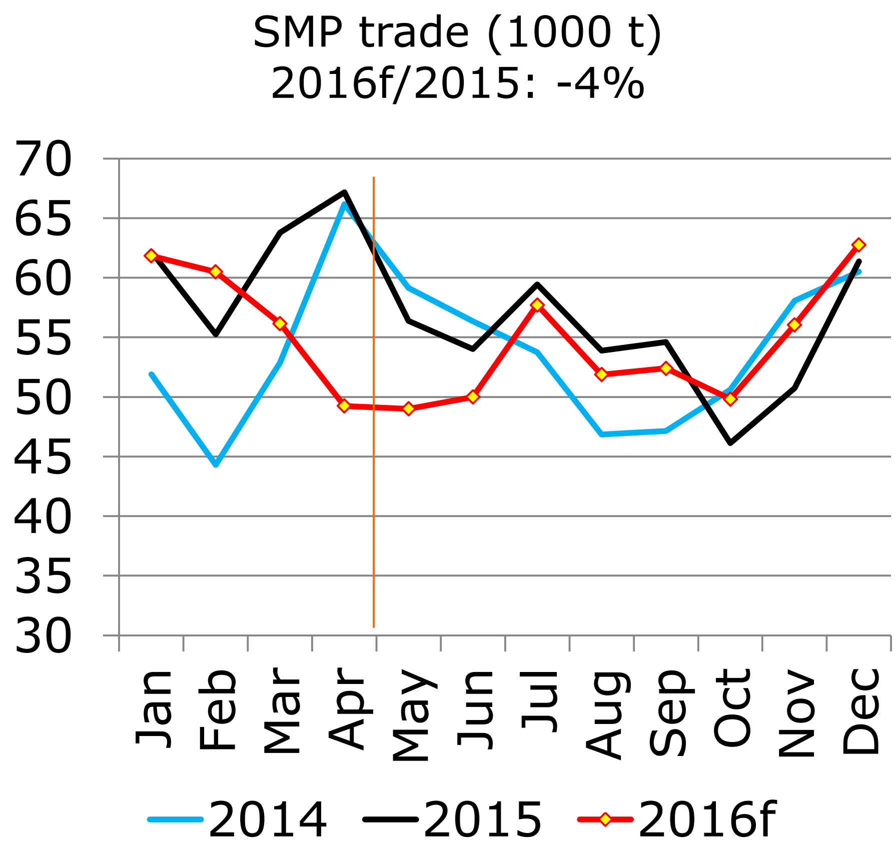
Forecast use of the milk, 2016 and 2017 % change

	Production			Exports		
	2016/15		2017/16	2016/15		2017/16
	Jan-April	Year	Year		Year	Year
Milk del.	5.5	1.4	0.5		5	7
	Jan-March	Year	Year	Jan-April	Year	Year
FDP	0.4	-0.1	0.2	53	30	15
Cheese	4	1.6	1.2	14	9	2
Butter	12	3.2	1.7	49	28	5
SMP	18	4.5	-7.6	-8	-4	15
WMP	13	2.9	1.1	3	1	0
Whey p.		1.5	1.1	6	4	4

SMP



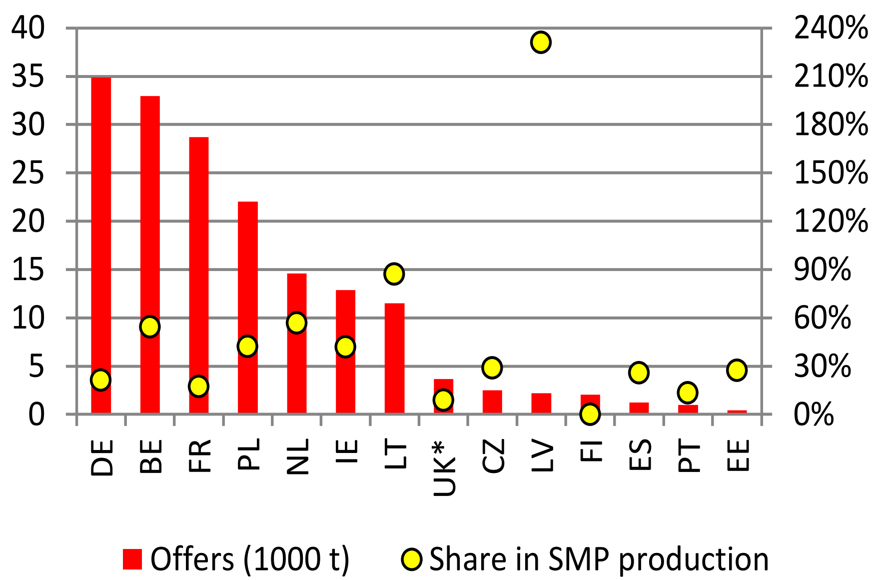
SMP production (1000 t)
2016f/2015: +4.5%
170
150
130
110
90
70
50
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2014
2015
2016f



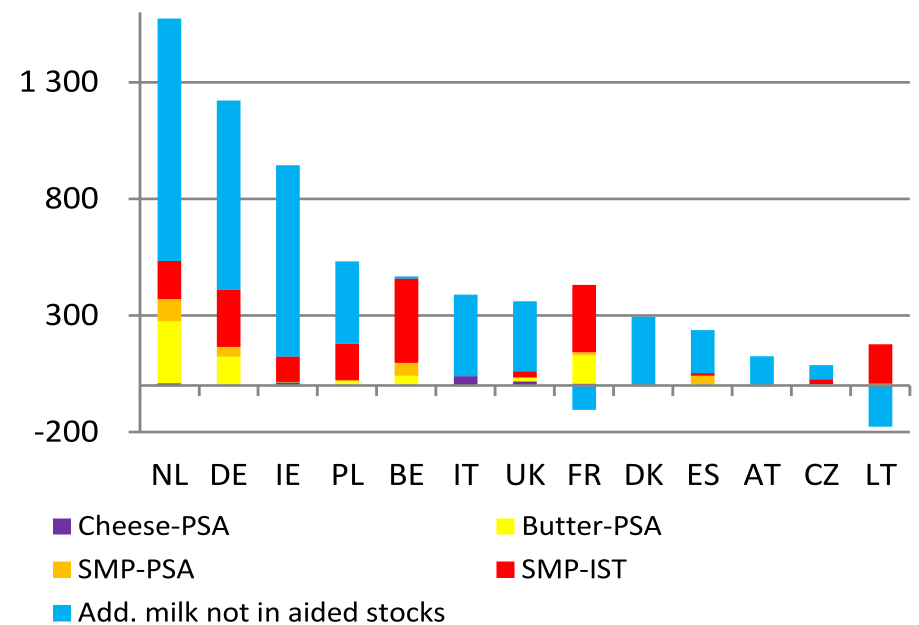
SMP trade (1000 t)
2016f/2015: -4%
70
65
60
55
50
45
40
35
30
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2014
2015
2016f

Aided stocks

Share of SMP production offered to public intervention – Jan-April 2014



Share of additional milk produced in the last 12 months in aided stocks (1000 t)



Forecast
Ending stock SMP = 550 000 t
Of which 430 000 t in intervention

EU prospects report and data available in December at:
http://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook/index_en.htm

OECD-FAO Outlook at:
http://www.agri-outlook.org/

Short term outlook at:
http://ec.europa.eu/agriculture/markets-and-prices/short-term-outlook/index_en.htm

Thanks

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ANNEX 6

EU dairy farms report based on 2013 FADN data

European Commission

EU dairy farms report based on 2013 FADN data

AGRI. E3. Economic analysis of EU Agriculture

Brussels, June 2016

European Commission

Agriculture and Rural Development

Structure of the report

- *Methodology: what are we talking about?*
- *Analysis of Milk Margins (2004-2013 + 2014e)*
- *Income of the milk specialised farms (2004-2013)*
- *Conclusions*

Structure of the report

- *Methodology: what are we talking about?*
- *Analysis of Milk Margins (2004-2013 + 2014e)*
- *Income of the milk specialised farms (2004-2013)*
- *Conclusions*

1. Methodology

- *Margins and income indicators*
  - **3 types of Margins – milk production activity exclusively**
  - **3 types of Income – all the enterprises of the farm**
- *Farm Accountancy Data Network*
  - **Annual sample survey,**
  - **ca 80000 holdings --> 5 million farms**
  - **Time lag: 2013 data available, estimates for 2014**
  - **Records overall costs and receipts**
- *Model of allocation of costs for milk*
  - **Estimates**
  - **Requires specialized farms**

Milk specialized farms

- *A subset of farms in types:*
  - **45: specialist dairying**
  - **47: cattle – dairying, rearing and fattening combined**
  - **73: mixed livestock, mainly grazing livestock**
  - **83: field crops – grazing livestock combined**

- excluding semi-subsistence farms -

- *based on the structural specialisation*
  - **Milk pole > 40% of economic size class**

i.e. in theory, <u>milk production should represent more than 40% </u>of the production potential of the farm

- *coupled with a 'security' based on real output*
  - **Milk output > 35% of total output**

i.e. in practice, <u>milk remains the main production</u> of the holding

Structure of the report

- *Methodology: what are we talking about?*
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2. Margins of milk production

a) Gross margin over operating costs
b) Net margin
c) Net economic margin

2a. Gross margin over operating costs

= Revenues from milk

- **Milk price**
- **Coupled subsidies, incl. art. 68**

- Operating costs

- **Specific costs: feed, herd renewal, milk levy…**
- **Non-specific costs: machinery upkeep, energy, contract work…**

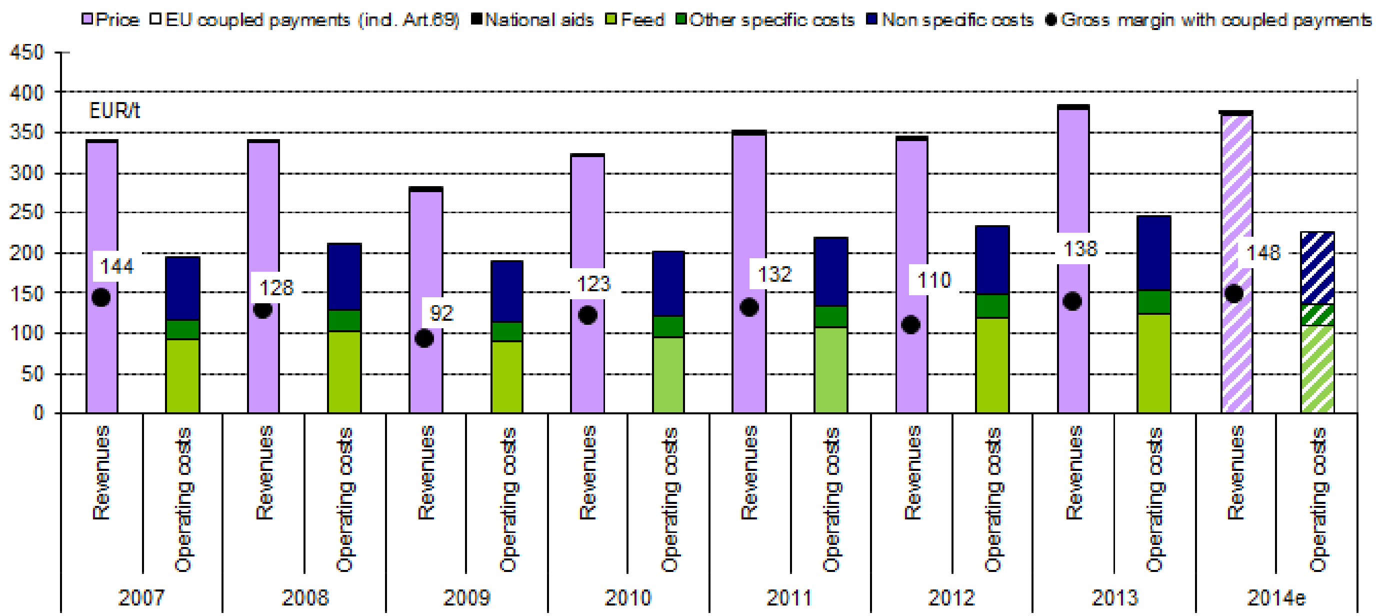
Average results, expressed in EUR/t of milk

EU-28:

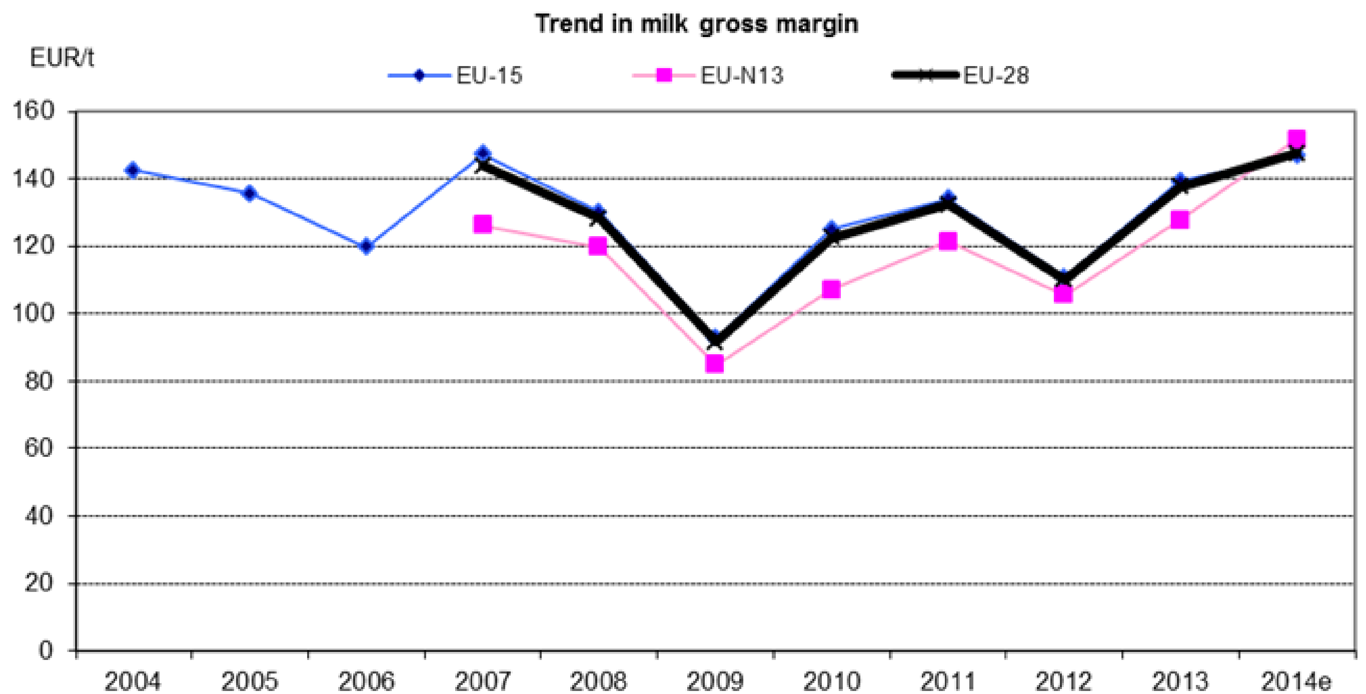
With the highest **milk price (↑P)** in seven years, **2013** has been quite a good year in terms of gross margin despite the simultaneous rise in production costs. **Milk prices** then **fell (↓P)** and **operating costs decreased** at a proportionally higher level, therefore, a slight increase in gross margin was expected in **2014** compared to 2013.

However, the **prospects for the upcoming years** are expected to break this trend.

Milk specialised farms - gross margin

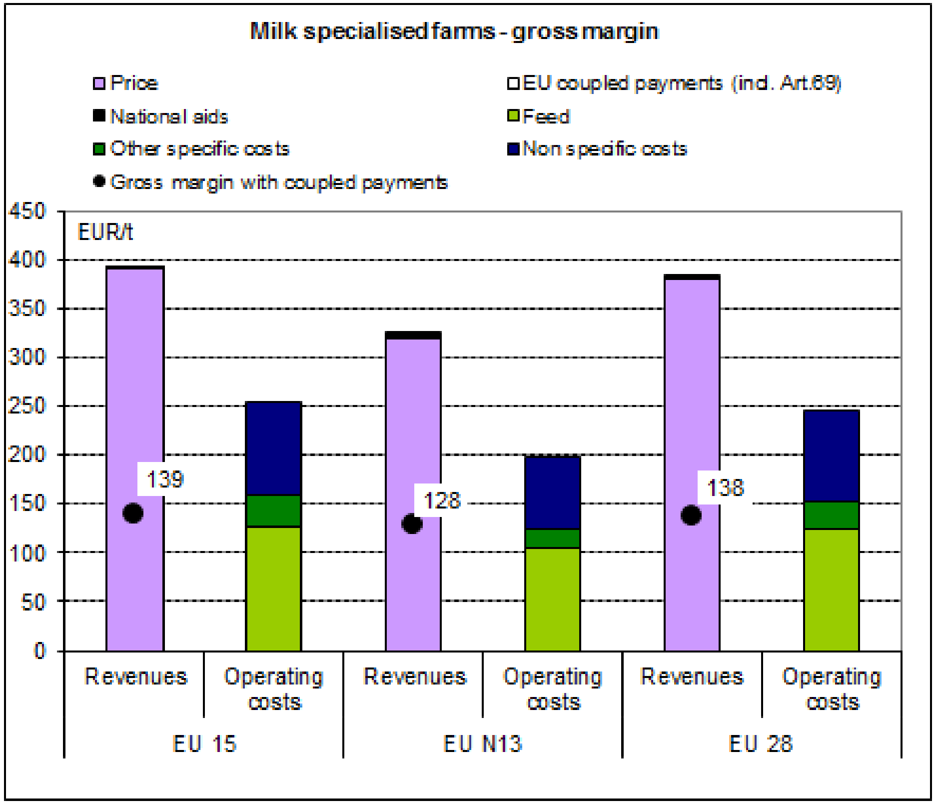


All **EU-groups** have globally been following the **same trend** since 2007, although they show different levels of gross margin.
It is worth noting that the **gap between EU-15 and EU-N13** seems to be gradually **closing**, as both the **price** of milk and **operating costs** appear to be converging over time.



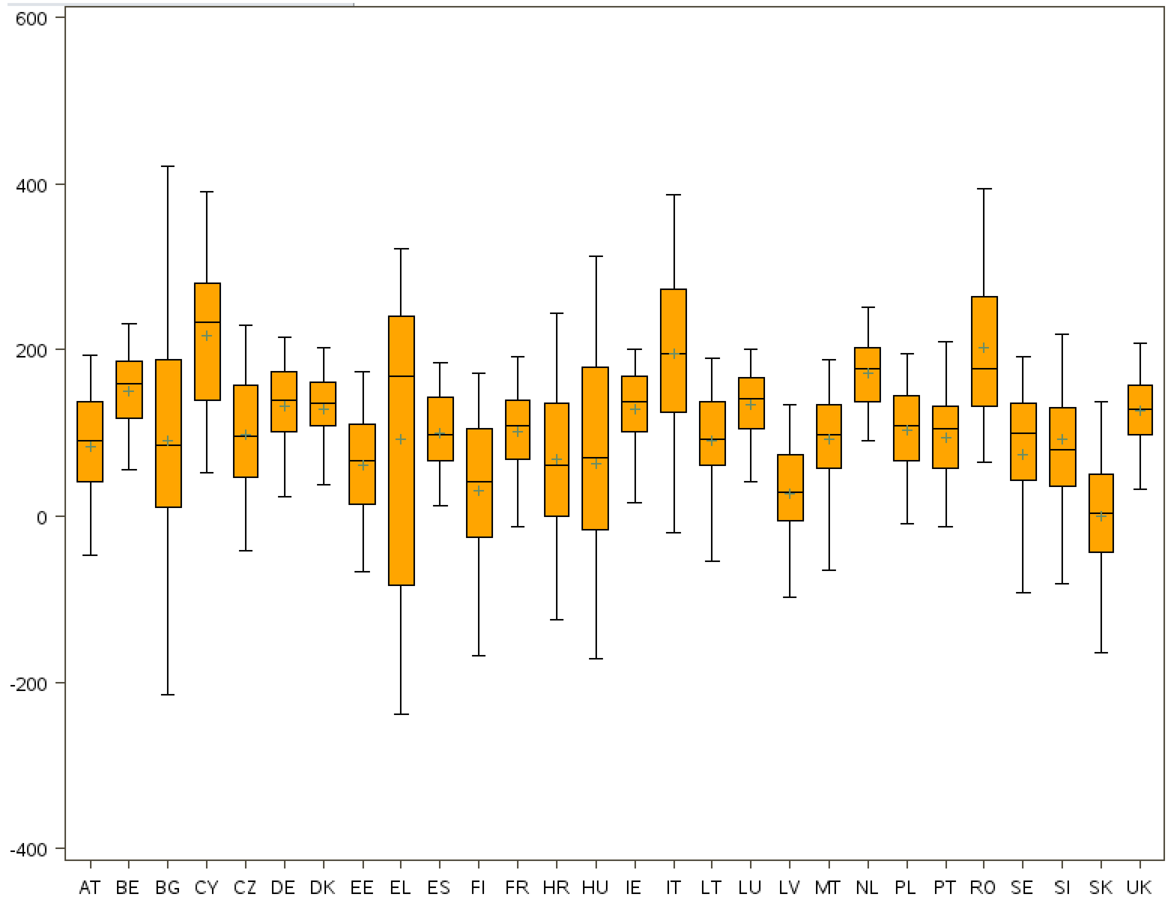
Source: EU FADN — DG AGRI, Model of the allocation of milk costs

However, both milk prices and operating costs still differ significantly between the EU-groups.



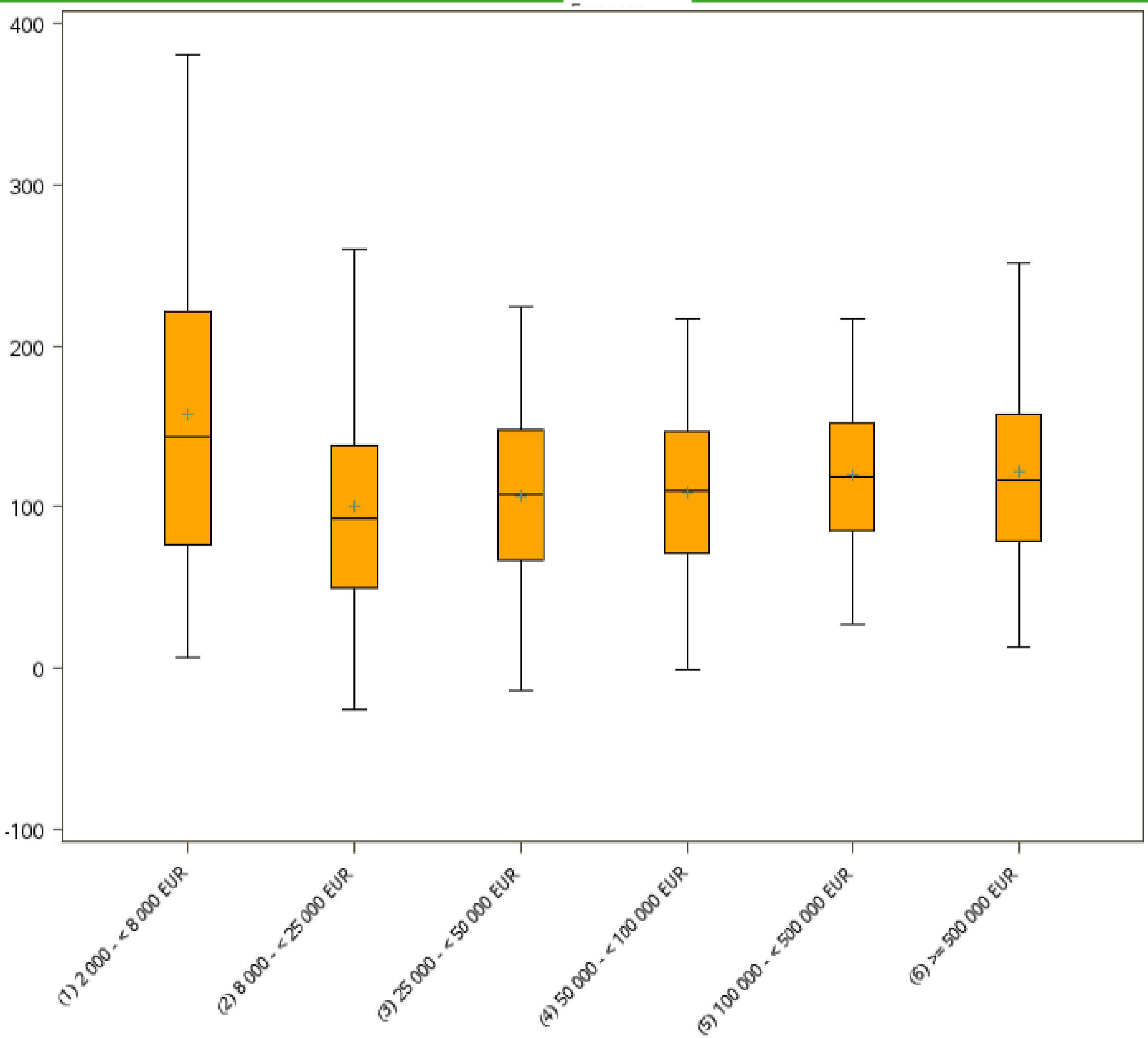
Source: EU FADN — DG AGRI, Model of the allocation of milk costs

Weighted **boxplot of gross margin** with coupled payments by MS – 2013. These results are averages. They conceal **different situations** between & within **MS.**



Source: EU FADN — DG AGRI, Model of the allocation of milk costs. Whiskers represent percentiles 5 and 95. Box represents percentiles 25 and 75._represents median.+ represents average. Outliers excluded.

Weighted **boxplot of gross margin** with coupled payments per **ESC (Economic Size Class)-**2013.



Source: EU FADN — DG AGRI, Model of the allocation of milk costs. Whiskers represent percentiles 5 and 95. Box represents percentiles 25 and 75._represents median.+ represents average. Outliers excluded.

European Commission

2b. Net margin

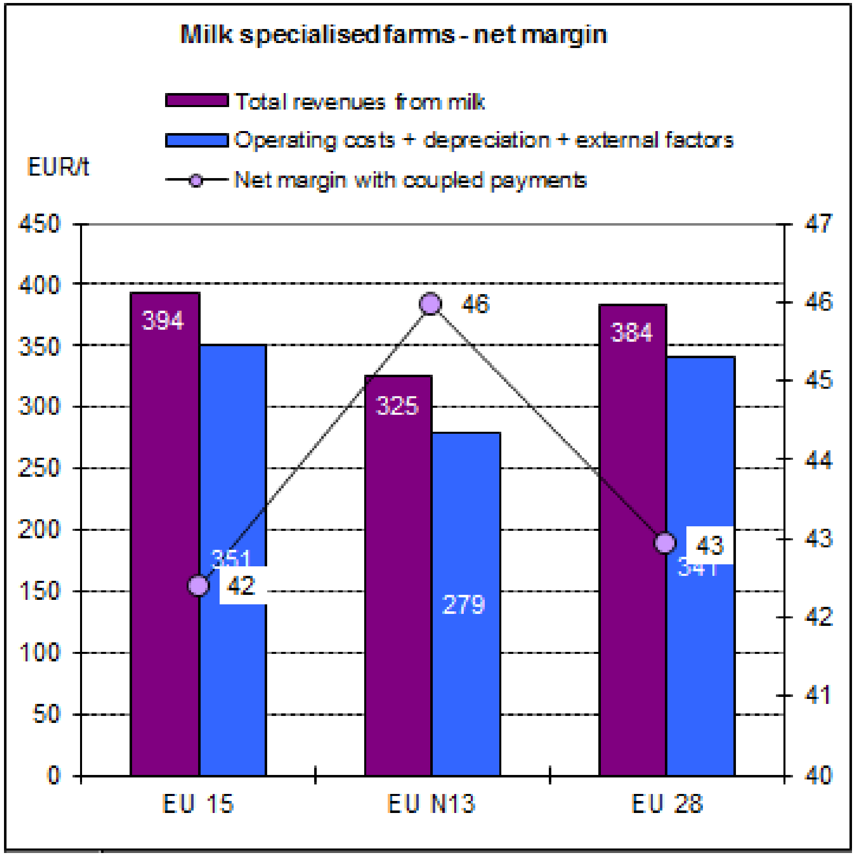
= Gross margin over operating costs

– depreciation)linked to investmts, milk

– external factors (wages, rent, interest)) production

Average results, expressed in EUR/t of milk

As **depreciation** and **external factors** are **higher in the EU-15** than in EU-N13, the gap between net margin in these two groups is less than for gross margins.



Source: EU FADN — DG AGRI, Model of the allocation of milk costs

Structure of the report

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3. Income of specialized dairy farms

a) *Farm net value added*
b) *Farm net income*
c) *Remuneration of family labour*

3a. Farm net value added

= *total output (total production value, all enterprises)*

+ *direct payments*

- *intermediate consumptions*

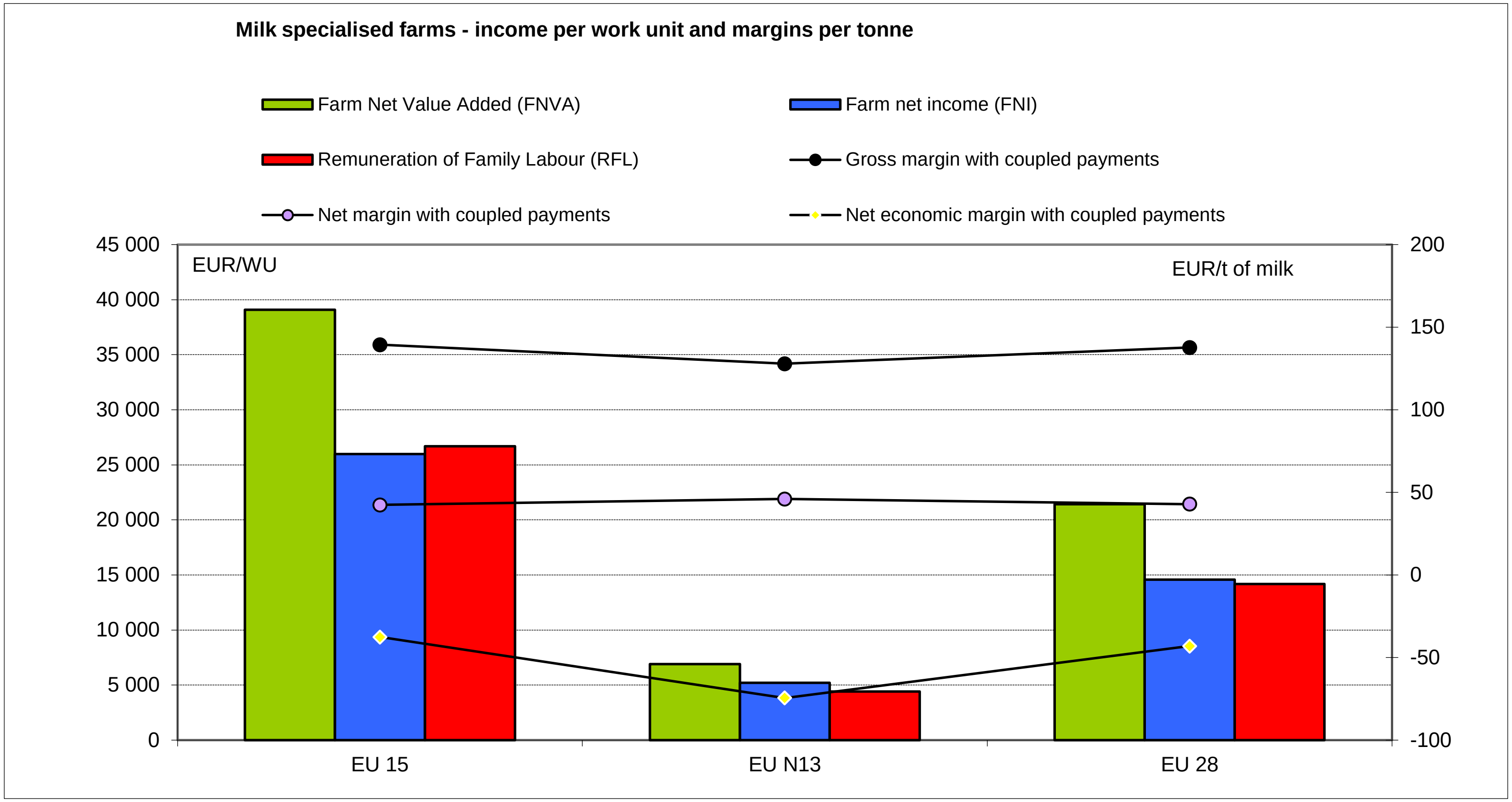
- *depreciation*

= *the amount available to remunerate all fixed production factors*

Average results, expressed in EUR/AWU

In both EU groups, following the drop observed in 2009, the **years 2010-2013 have been characterised by a recovery in income**, even if in 2012 it dropped slightly (but not at the 2009 level).

FNVA/AWU in the EU-15 is around four times higher than in the EU-N13.
In addition to the huge gap in macro variables (income levels, wage rates, other costs and prices), huge differences in farm size explain this result.



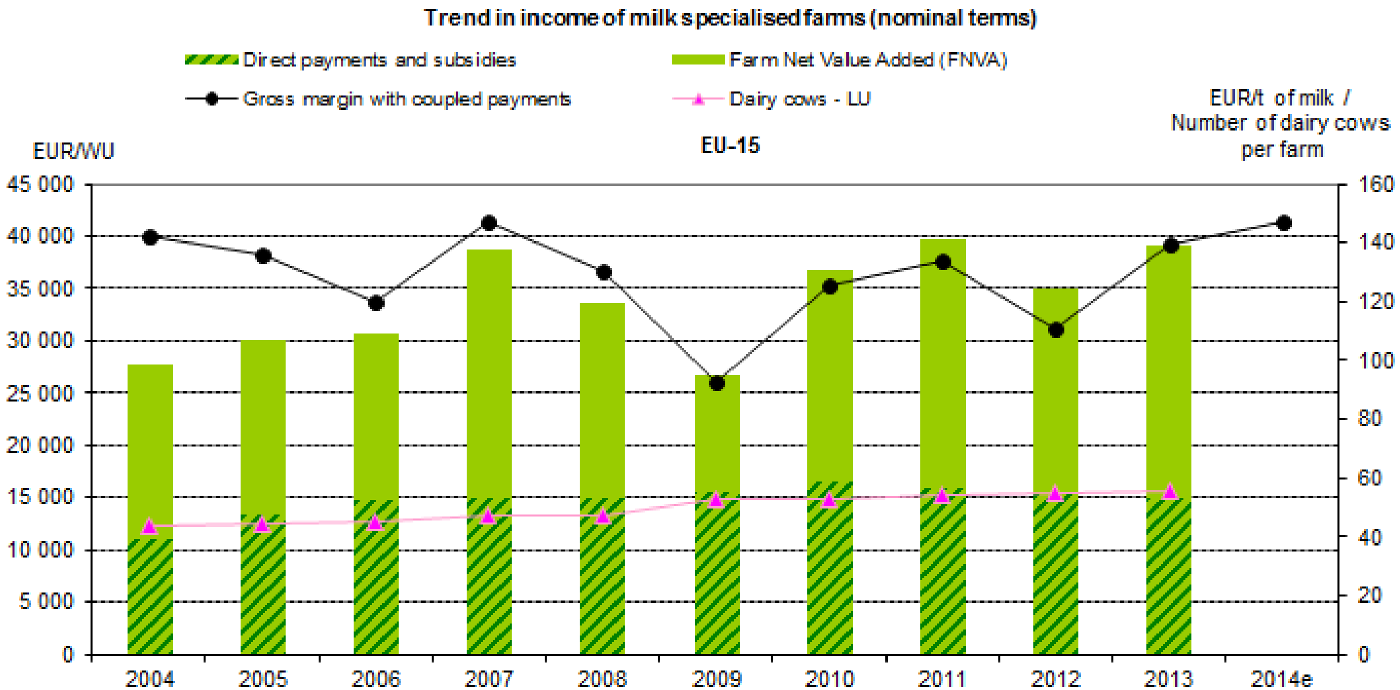
Source: EU FADN — DG AGRI

↓Income in 2012: ↑ Feed costs

↑Income in 2013: ↓ Feed costs

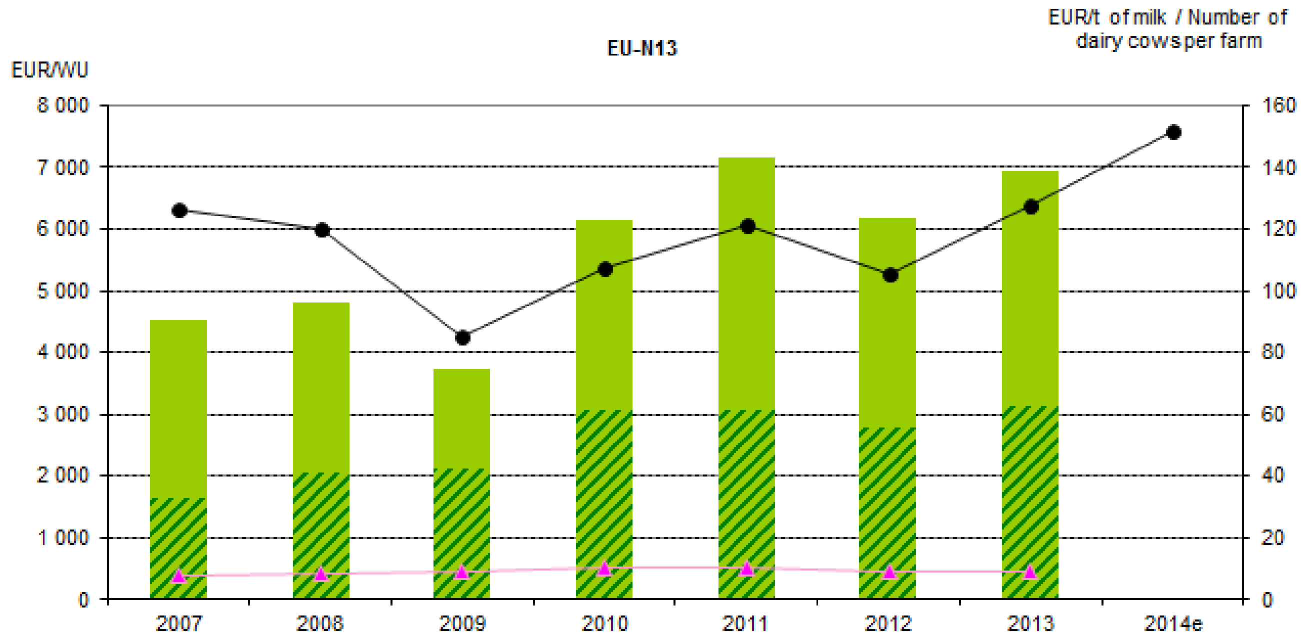
European Commission

Good margins, but also an increase in average **milk production** (+26% in EU-15, +25 %, in EU-N13) are the reasons behind these good results.



Source: EU FADN — DG AGRI , Model of the allocation of milk costs

In **EU-N13,** the **phasing-in of direct payments** also plays a key role in the development of income.

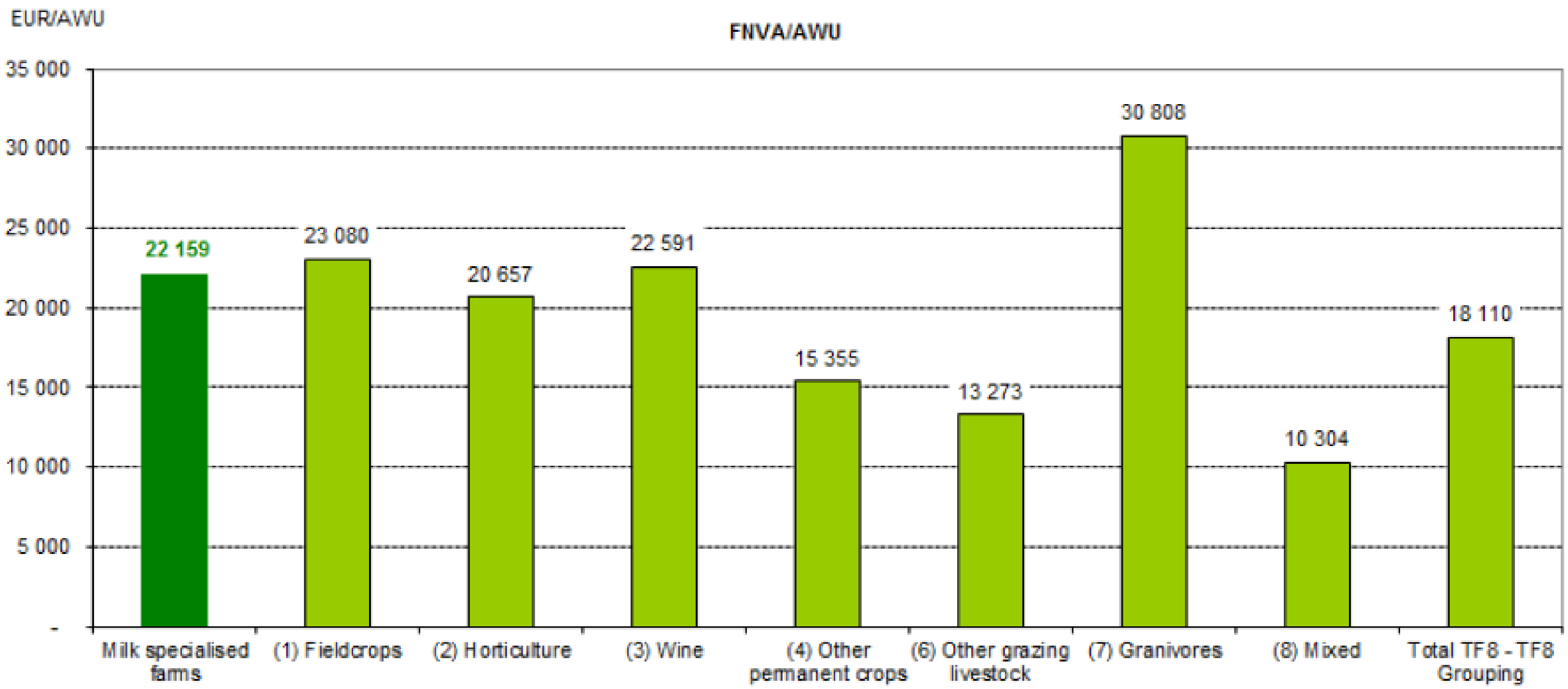


Source: EU FADN — DG AGRI, Model of the allocation of milk costs. Note: BU, RO & HR still phasing-in.

Comparison of the income of milk farms with other farms, EU-28, 2013

European Commission

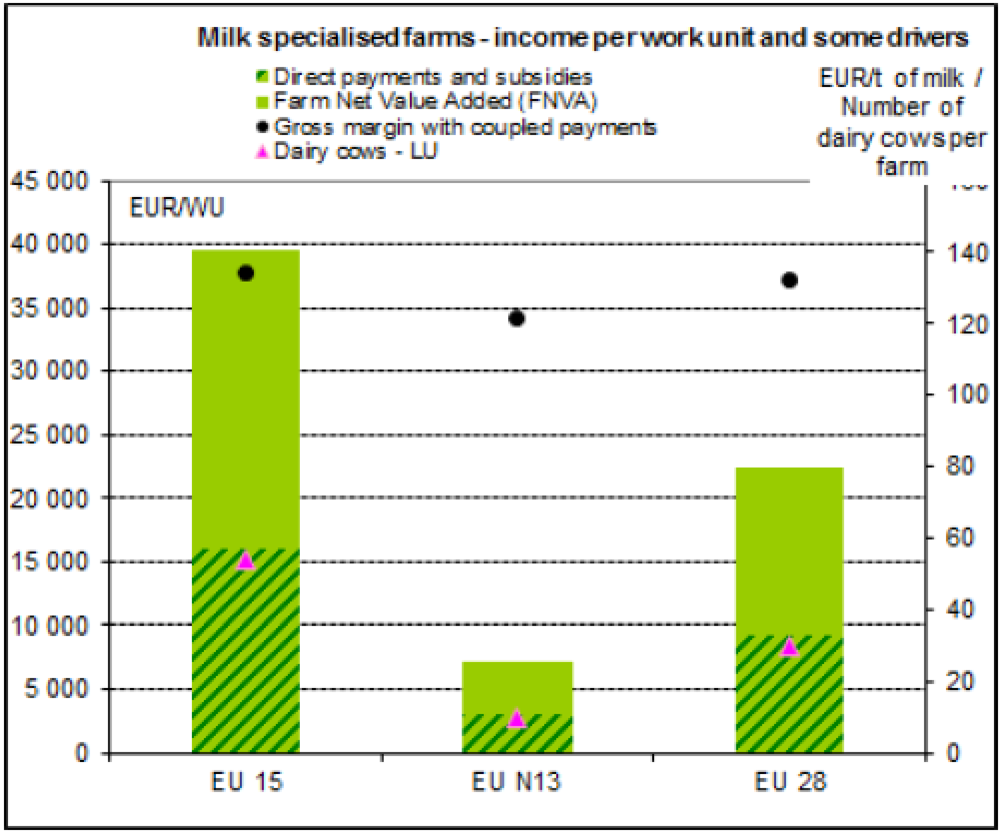
Despite these good performances, milk income does **not** rank anymore (since 2009) in the **top-three** types of farming in terms of FNVA/AWU.
But it **ranks above the average**.



Source: EU FADN — DG AGRI

Substantial gaps remain between the respective EU-groups.

Differences in **farm size** are the main driver, impacting both the apparent **labour productivity** but also the average amount of **subsidies** per AWU (also phasing-in).



Source: EU FADN — DG AGRI, Model of the allocation of milk costs

Structure of the report

- *Methodology: what are we talking about?*
- *Analysis of Milk Margins (2004-2013 + 2014e)*
- *Income of the milk specialised farms (2004-2013)*
- *Conclusions*

Conclusions

- **2013** was an **exceptionally good year** for the dairy sector, with **high dairy prices and margins**.
- In **2014**, **prices decreased** but operating costs decreased at a proportionally higher level, so **slight increase in gross margin.**
- However, the **prospects for the upcoming years** are expected to **break this trend**.

Thank you for your attention! AGRI-E3@ec.europa.eu

European Commission

EU dairy farms report based on 2013 FADN data available on the FADN website (pdf + excel files)
http://ec.europa.eu/agriculture/rica/publications_en.cfm

Agriculture and Rural Development