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Short term Outlook & 2024 Prospects for EU Dairy Markets

Civil dialogue group
11 May 2015

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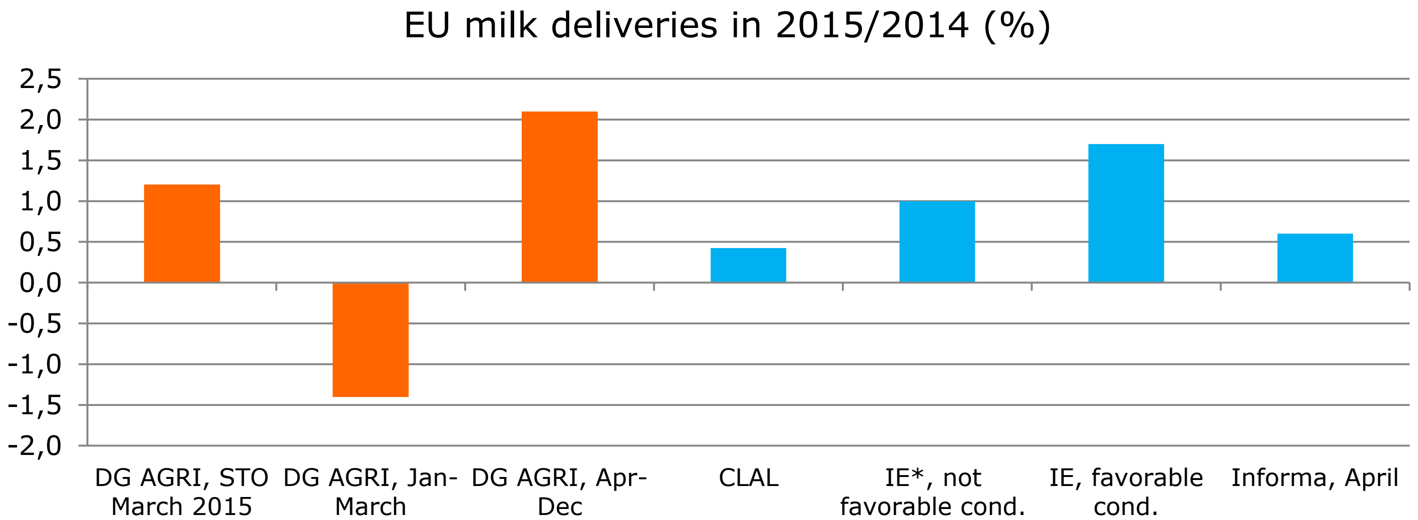
DG Agriculture and Rural Development
European Commission

Agriculture and Rural Development

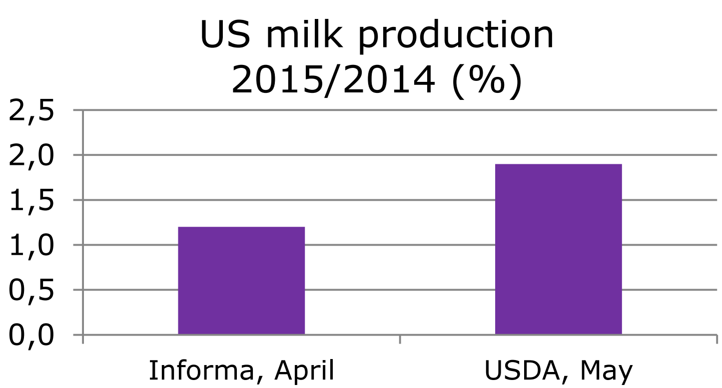
Outline

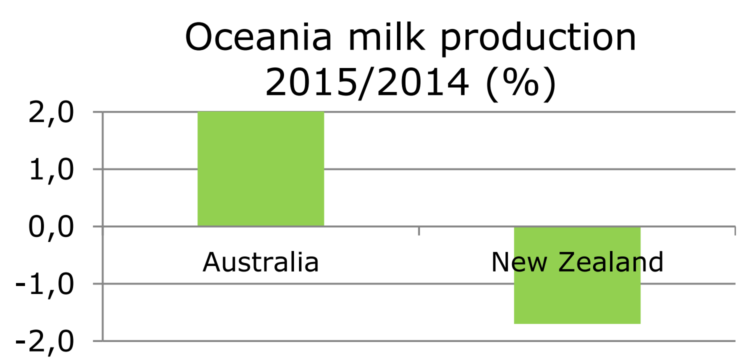
- **Short-term outlook**
- **Medium-term outlook**
  - **Favourable factors**
  - **EU prospects**
  - **Milk production localisation**

2015 milk production forecasts



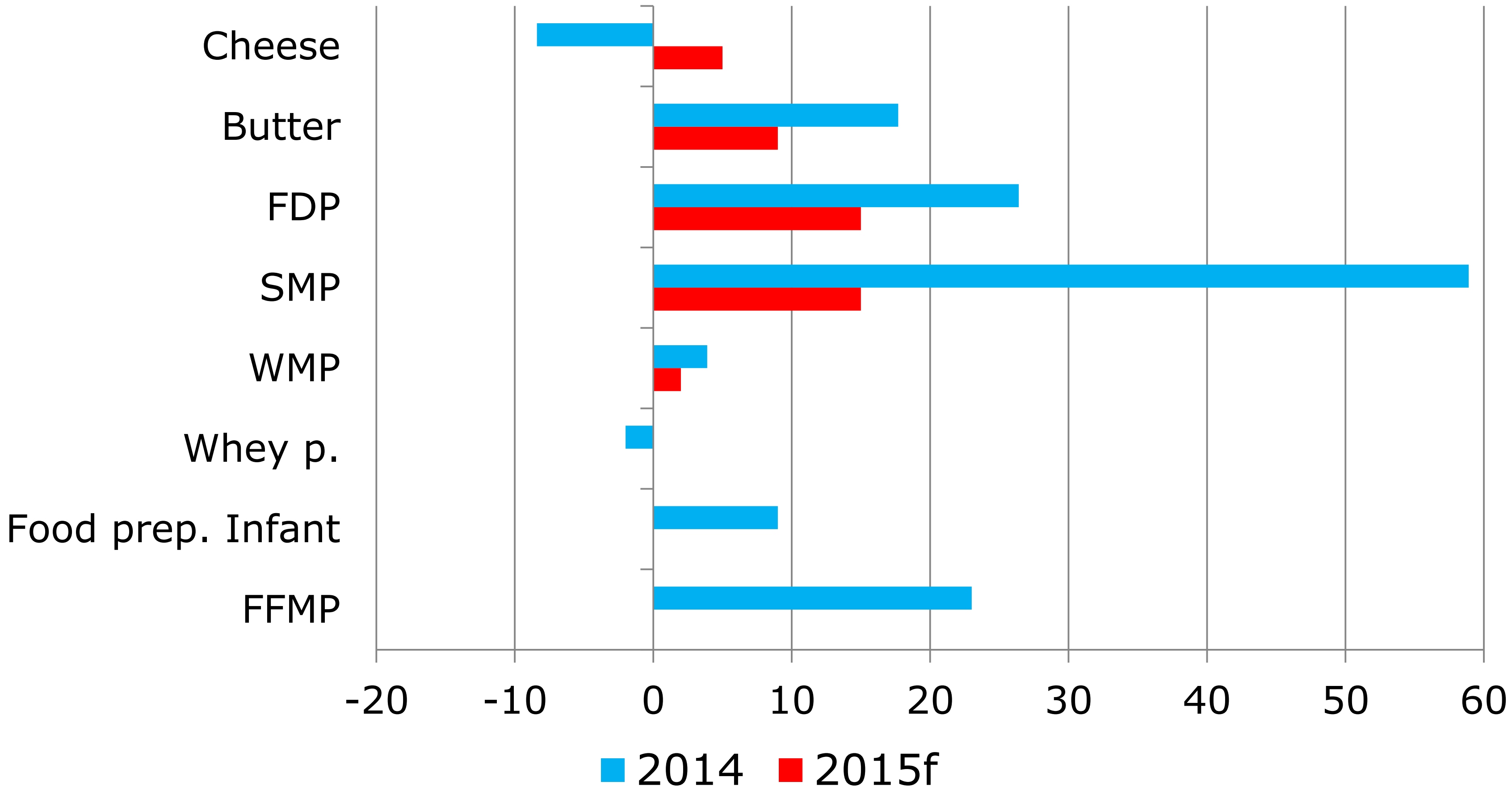
* Institut de l'Elevage, Dossier Economie de l'Elevage n°454, Feb. 2015





Source: Informa, April 2015

Change in exports (%)



2024 Prospects for EU Dairy Markets

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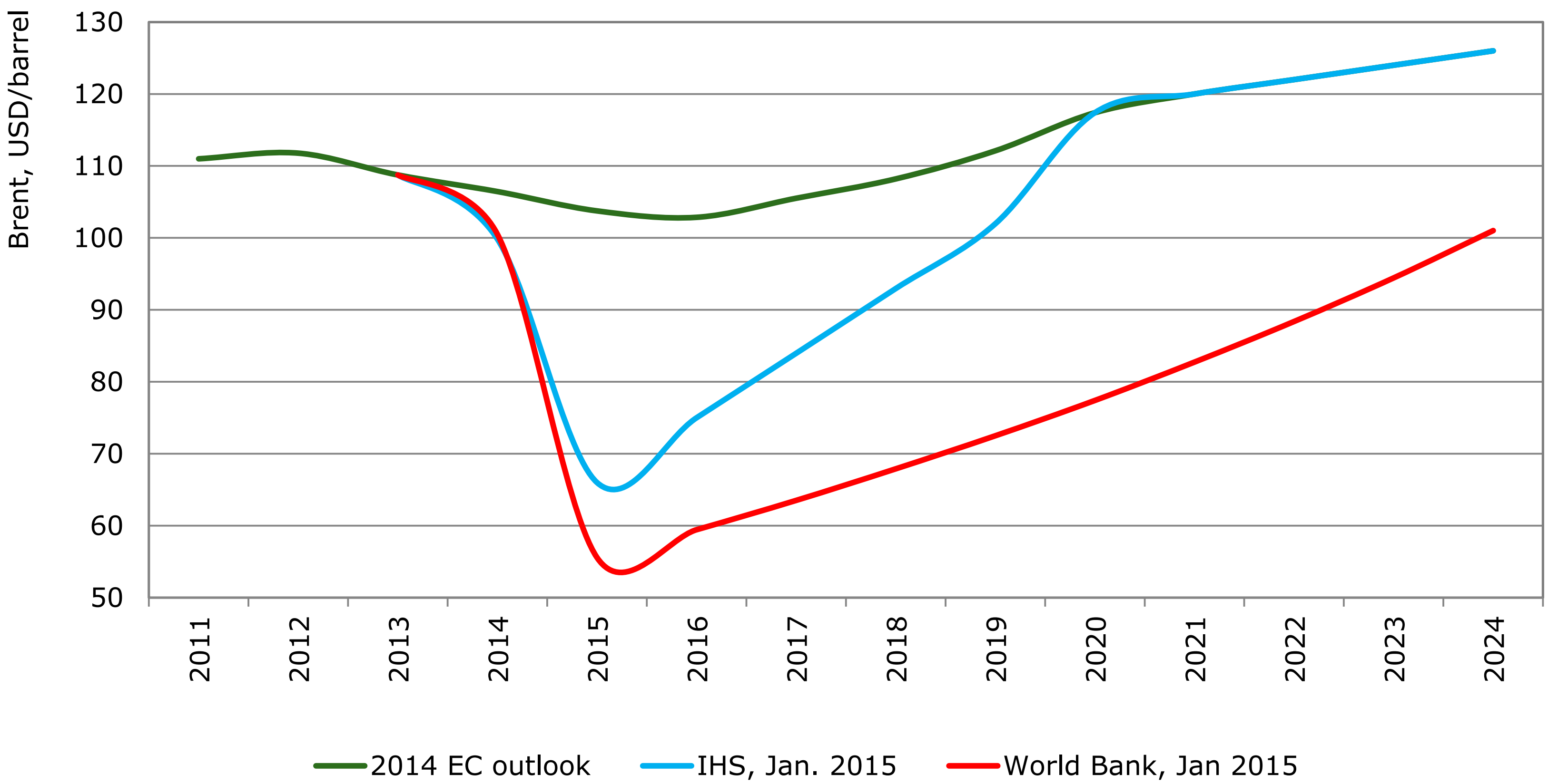
Prospects for milk and dairy products

- **Milk remains the white gold for the next decade**
  - *despite the difficult current market situation,*
  - *because world demand is steadily growing,*
  - *EU gathers perfect conditions for milk production.*
- **EU deliveries to increase by 12 Mt in 10 years**
  - *Further concentration of milk production in northern regions of the EU*
  - *EU production expansion limited by increasing competition on the world market and by the small potential for higher EU consumption*
  - *Environmental constraints to play a major role.*
- **More milk channelled into cheese and powders**
  - *Cheese domestic use to continue growing and more exports*
  - *More SMP for the export market thanks to additional drying capacities*
  - *Whey powder exports getting always higher*

Oil price a very uncertain assumption



Source: elaboration by DG Agriculture and Rural Development

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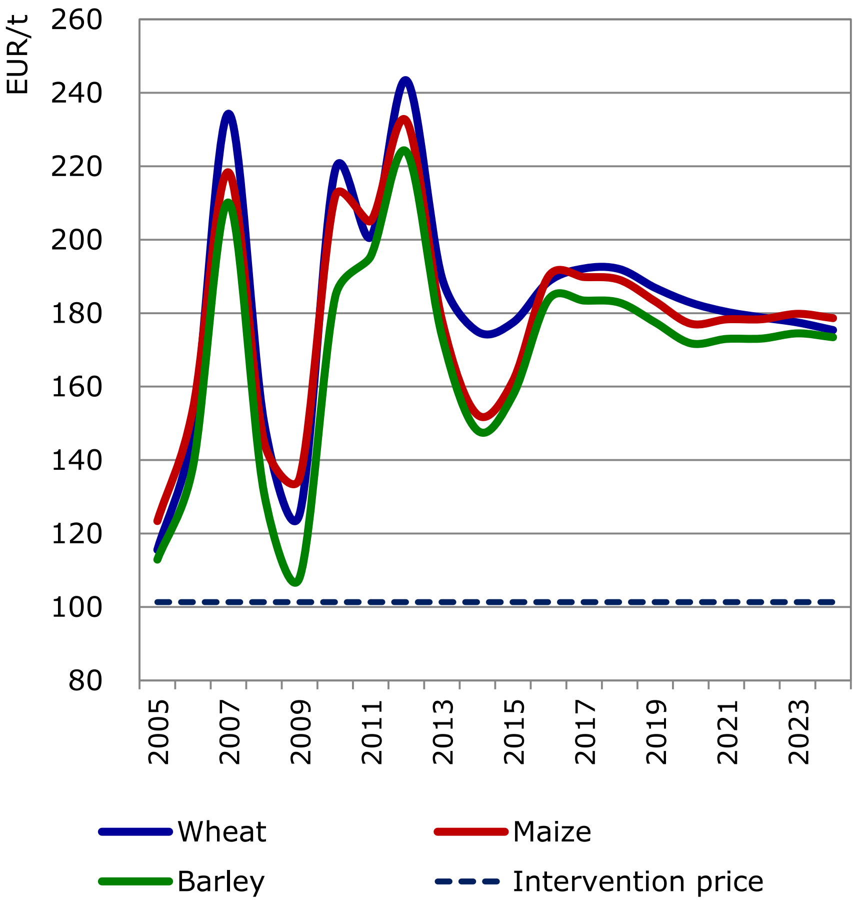
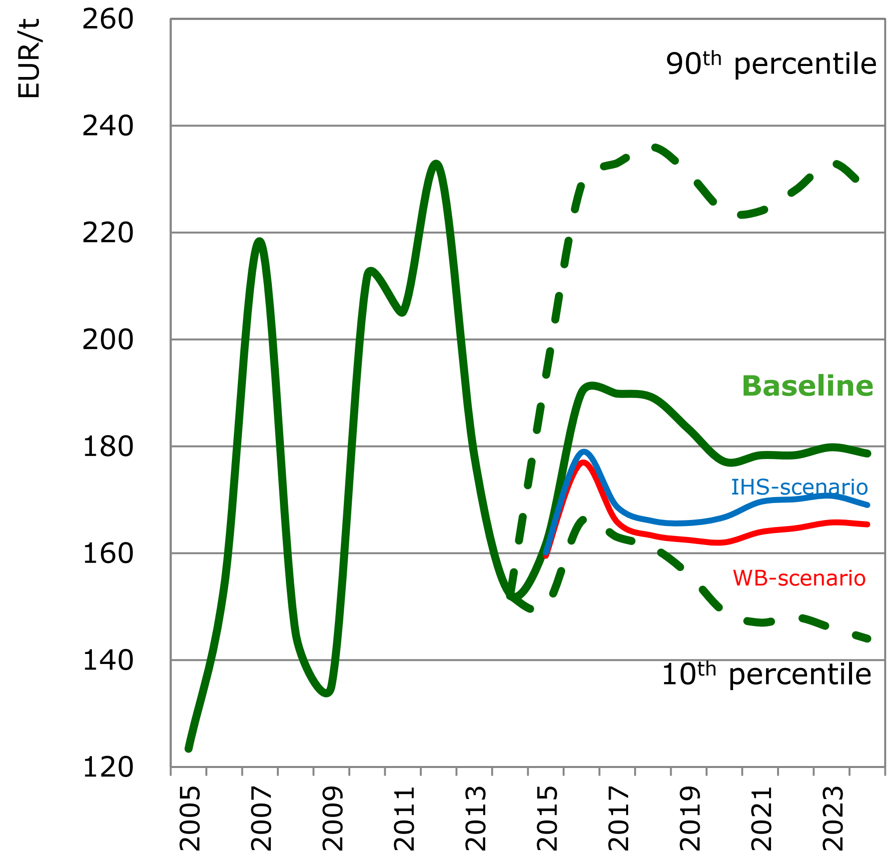
EU cereal producer prices above historical averages over the medium term



Source: DG Agriculture and Rural Development

Uncertainties surrounding EU maize price developments



Note: Uncertainty analysis prepared by JRC-IPTS, based on partial stochastic analysis

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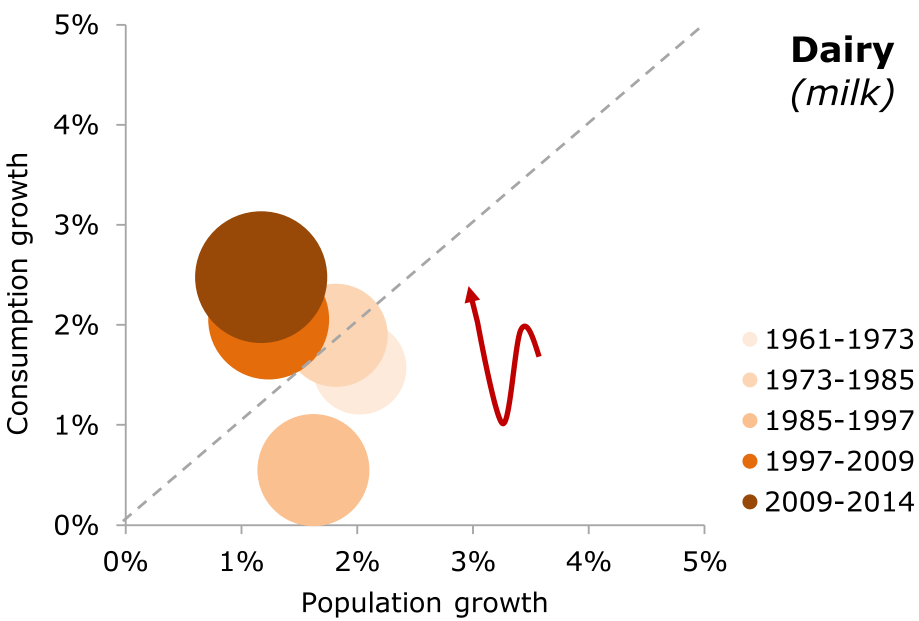
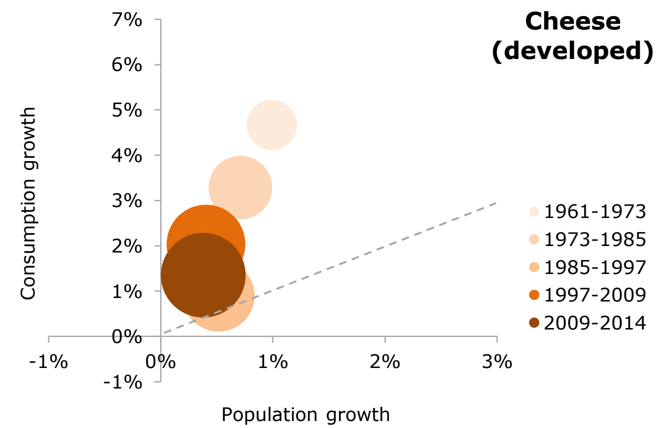
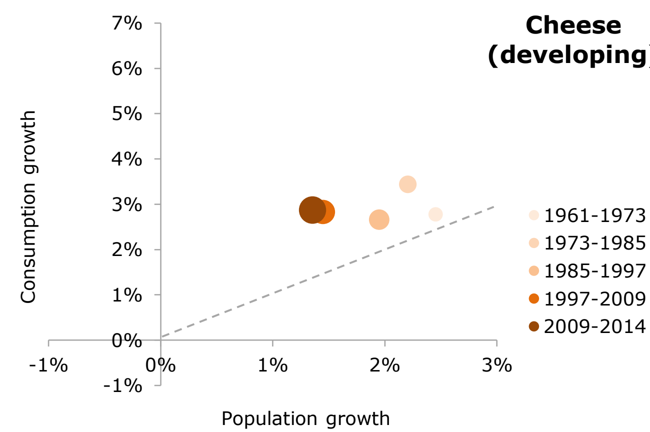
Change in consumption patterns towards more dairy protein intake

World domestic use versus population annual growth





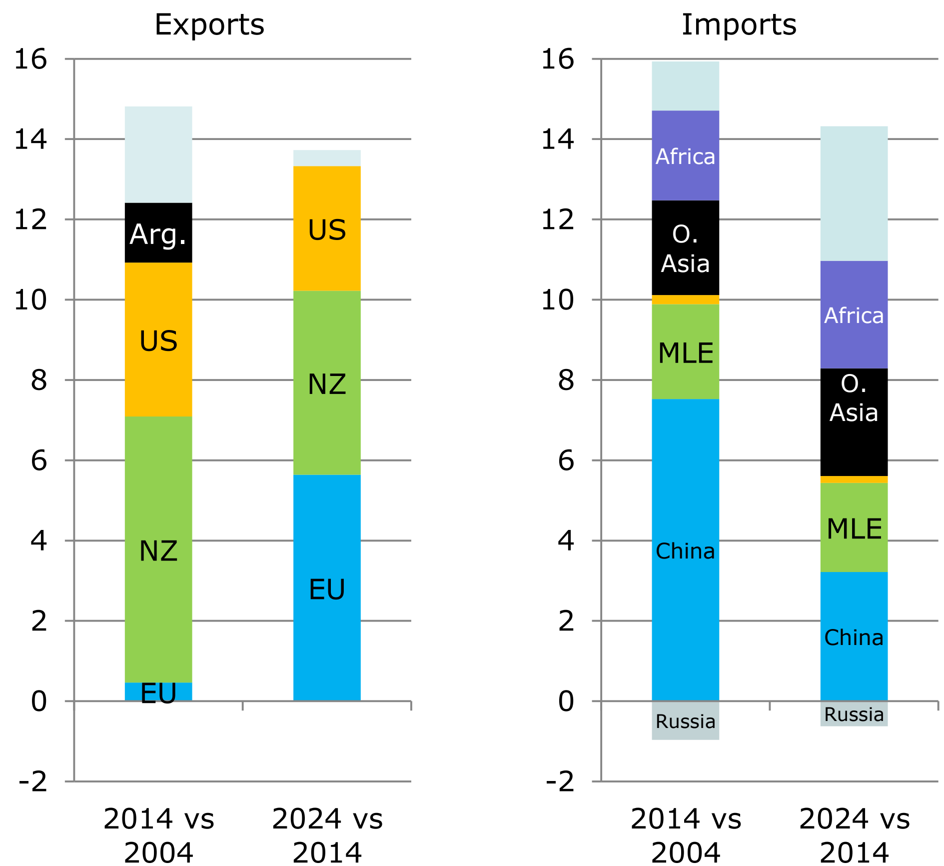


Note: The low dairy consumption in 1985-1997 is due to a drop-back in the USSR after its reform, as well as poor data quality. The lighter the colour of the bubble, the longer ago the period. The size of the bubble indicates the average quantity consumed in a period relative to the last period.
Source: DG Agriculture and Rural Development based on data from FAO (Faostat), OECD-FAO (OECD.Stat) and USDA (PSD online).

Steady growth in world consumption

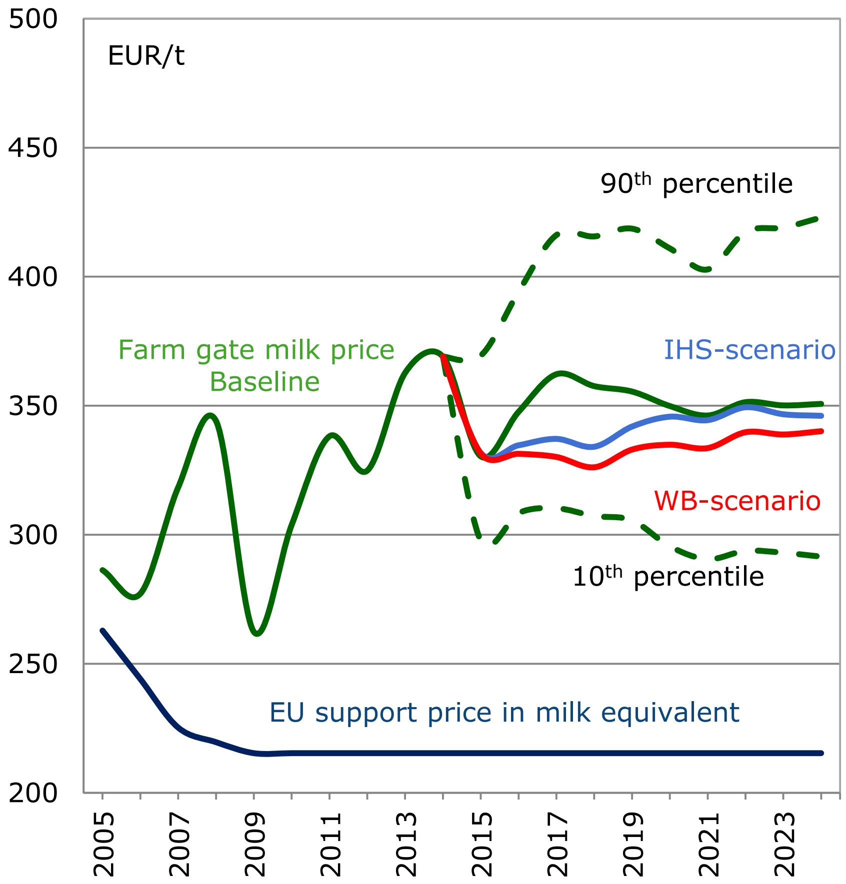
- +2.1% per year in world imports
- A slightly lower increase in traded volumes compared to the last decade
- But most of the extra demand to be supplied by the EU
  - NZ production and exports limited by natural constraints
  - US dom. consumption to grow faster
- China to contribute less to the extra demand
  - Africa and other Asian countries to absorb more dairy products

Cumulative change in world trade of dairy products
million tonnes of milk equivalent

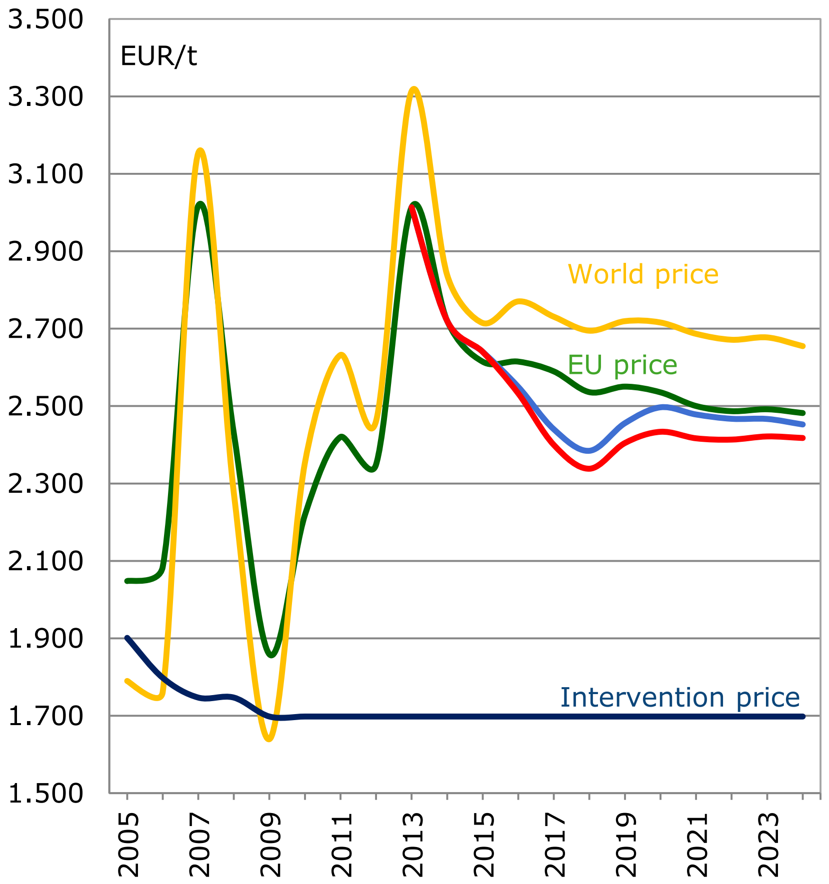


Source: DG Agriculture and Rural Development

Firm EU milk producer price



The EU is competitive in SMP

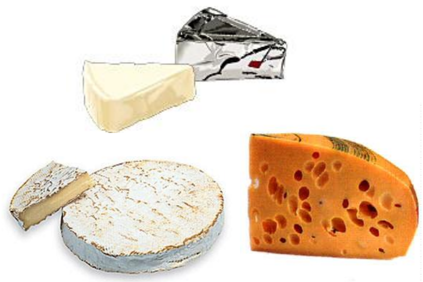


* Farm gate milk price in real fat content, weighted EU average

Source: DG Agriculture and Rural Development

Announced or realised investments Between 2012 and June 2014 (million EUR)

Powders 2 680 M€



Cheese 1 020 M€

Milk and beverages 650 M€

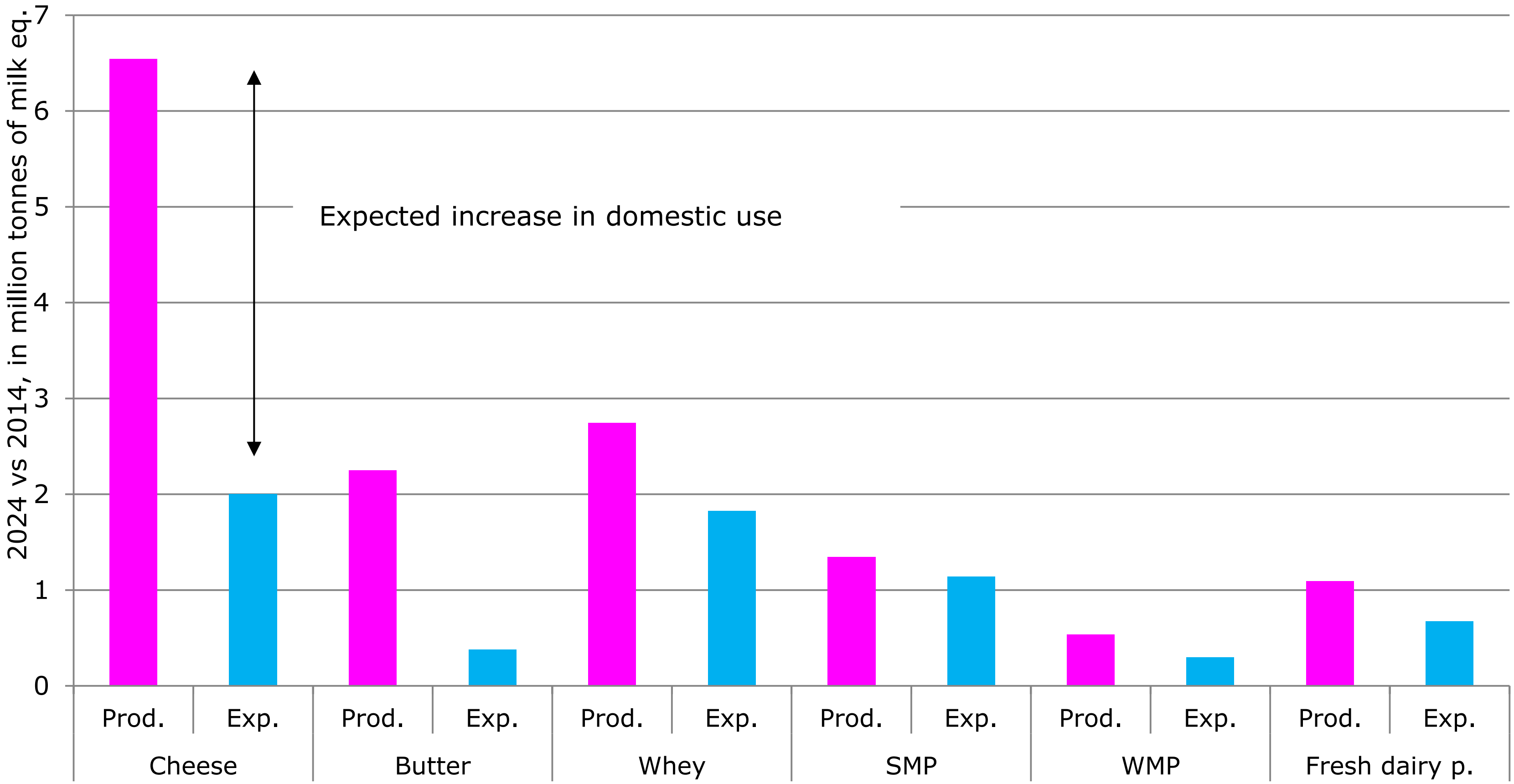
Yogurt, fresh products 330 M€

Butter 100 M€

NB : 750 M€ other products (not allocated)

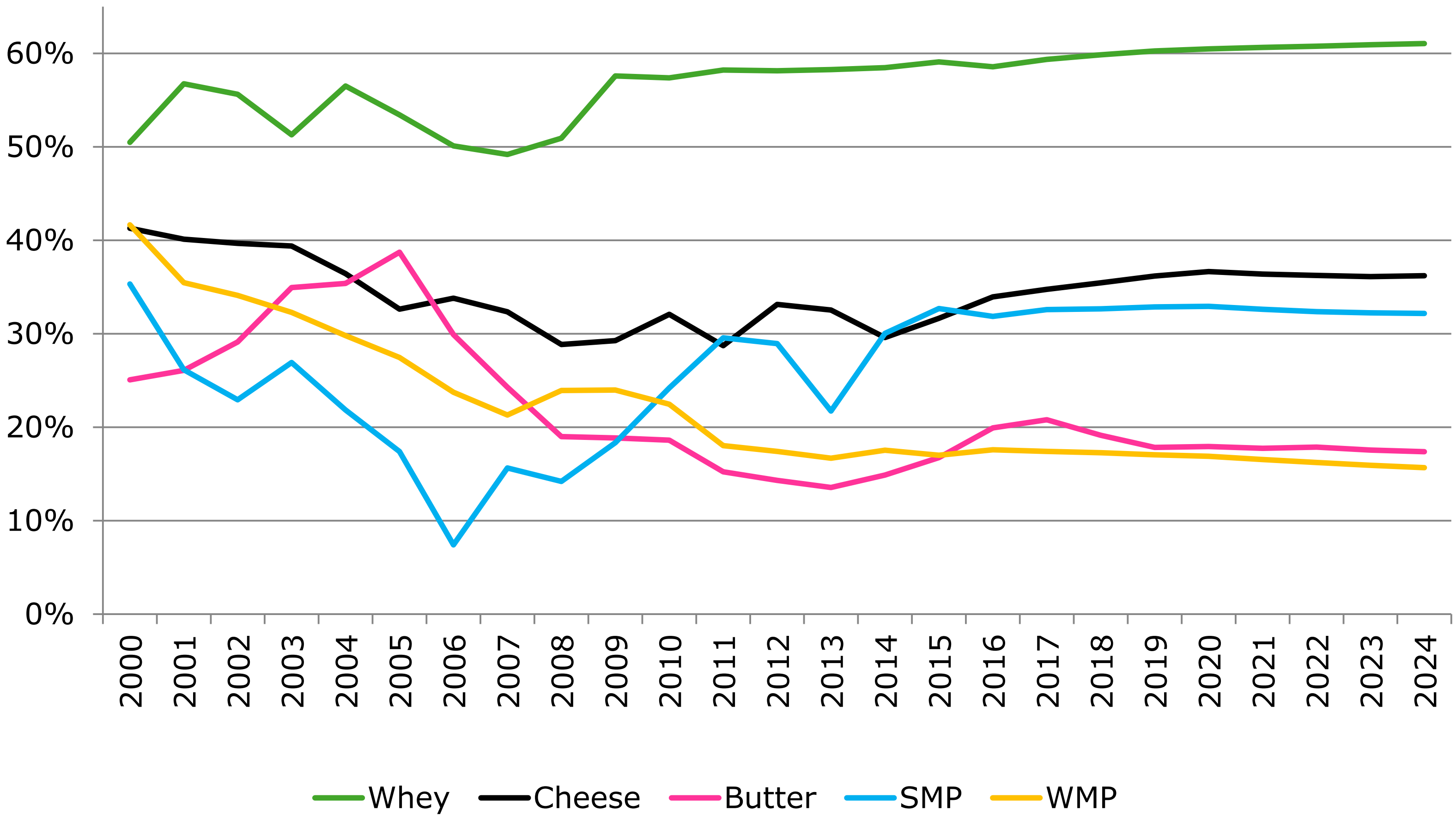
Source: CNIEL / International press

Most of the extra milk channelled into cheese



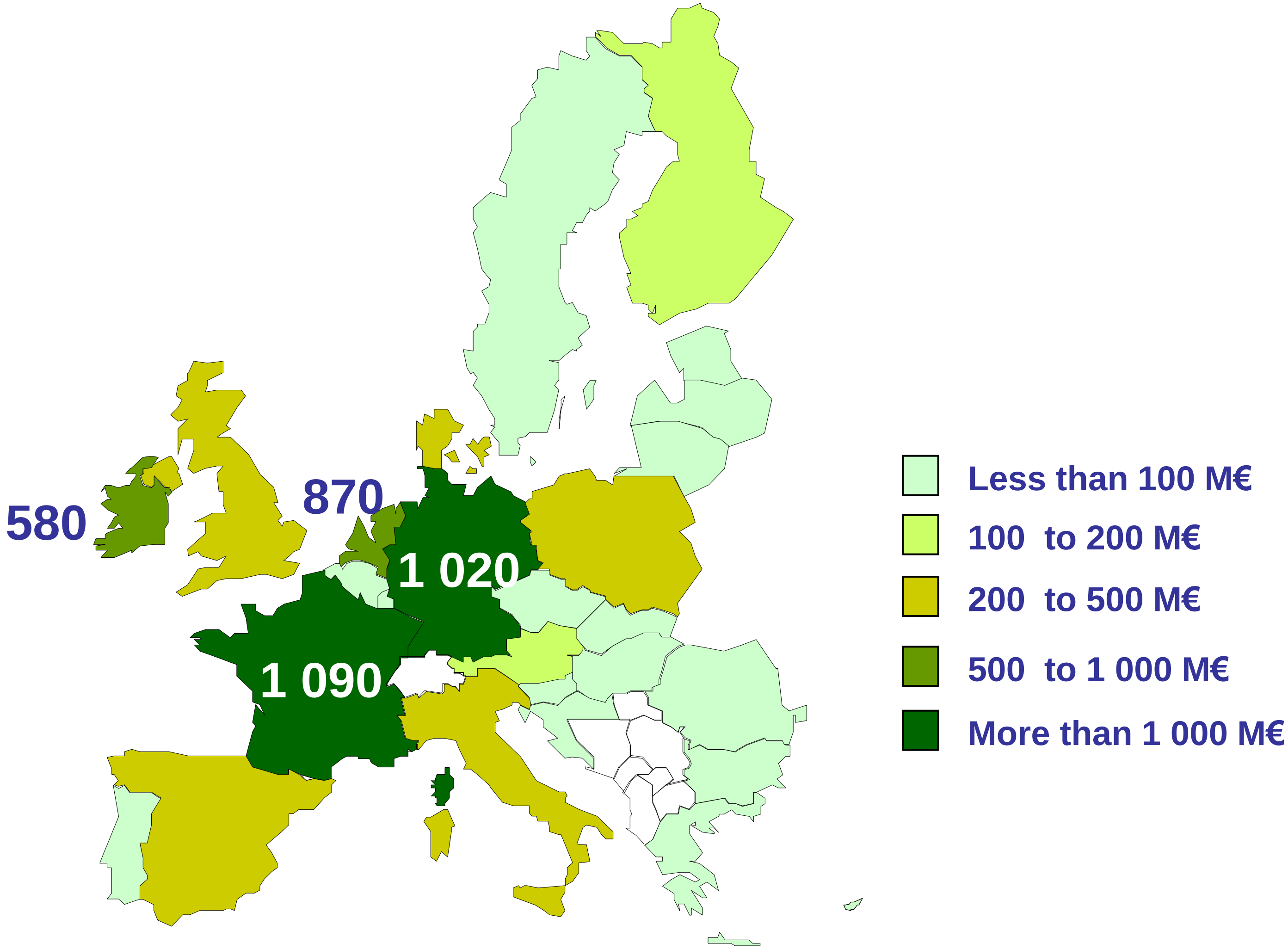
Source: DG Agriculture and Rural Development

High EU share in world exports



Source: DG Agriculture and Rural Development

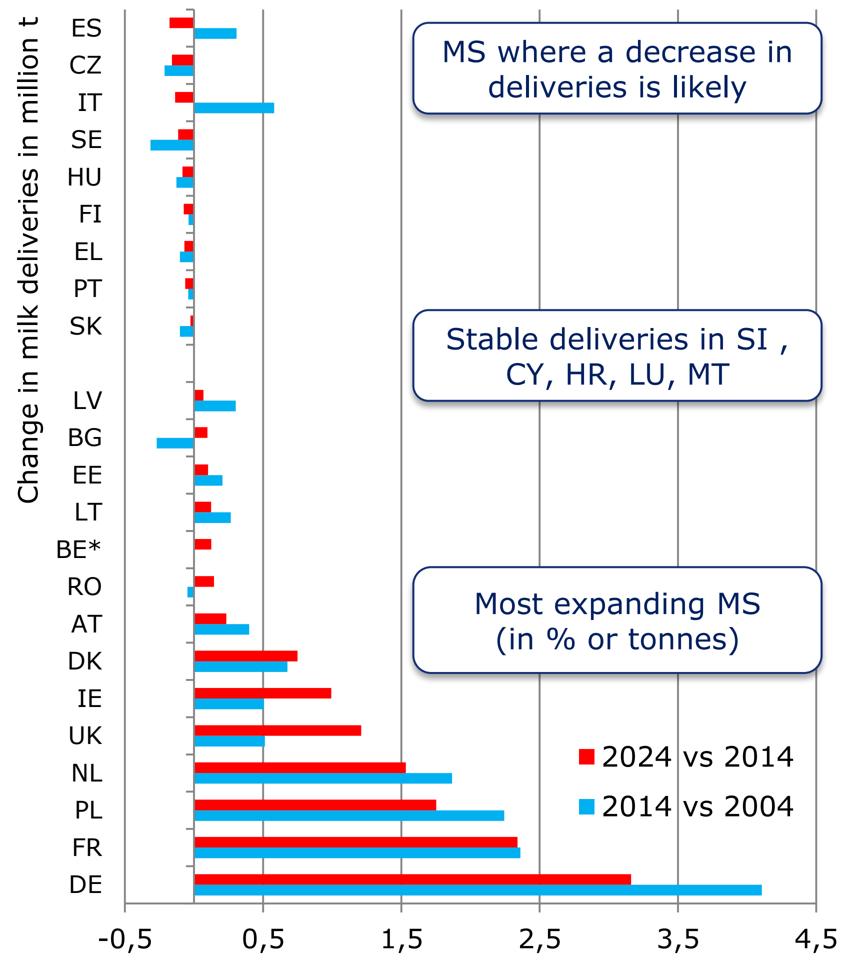
Announced or realised investments Between 2012 and June 2014 (million EUR)



Source: CNIEL / International press

Concentration of milk production in the Northern part of the EU

- Highest increase in milk deliveries to be expected in:
  - DE, FR, PL, NL, UK, IE, DK, where
  - farmers and the processing industry have invested most
- A moderate increase expected compared to other projections because:
  - world demand expansion is not infinite and potential for higher EU cons. is limited
  - milk price will be lower than in 2013-14,
  - not all farmers are willing to expand,
  - environmental constraints,
  - competition with other sectors.
- A decrease expected in particular where:
  - production (feed and labour) costs are higher
  - competition from neighbour countries is strong



Source: DG Agriculture and Rural Development

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Medium-term outlook report and data available at:

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

Short term outlook at:

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

MMO at:

http://ec.europa.eu/agriculture/milk-market-observatory/index_en.htm

DISCLAIMER: While all efforts are made to reach robust market and income prospects, uncertainties remain. This publication does not necessarily reflect the official opinion of the European Commission.

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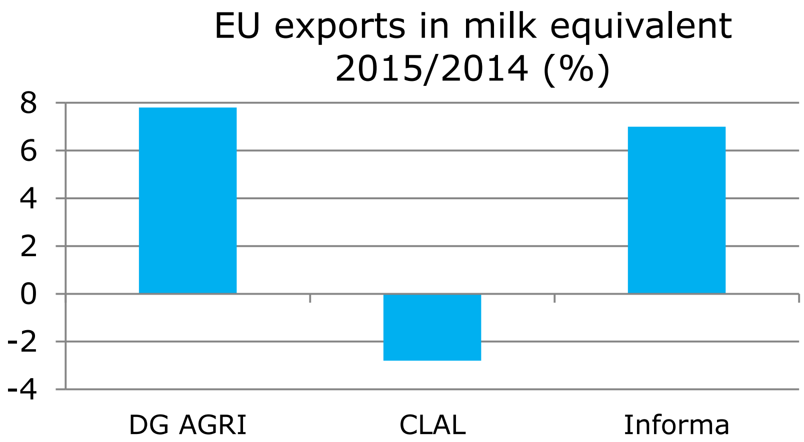
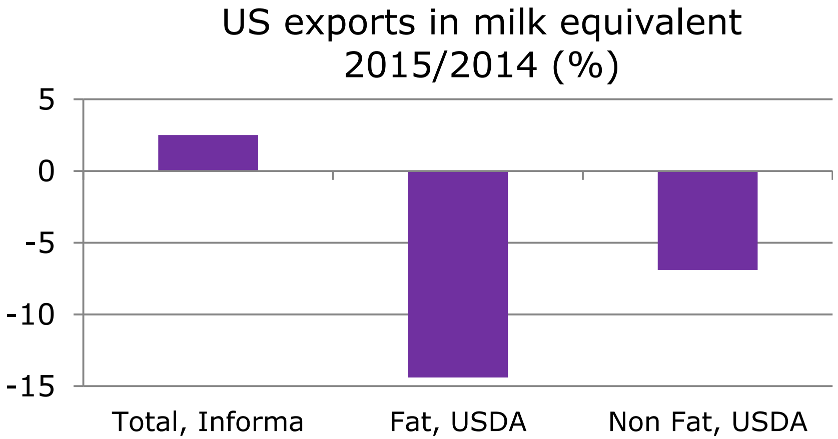
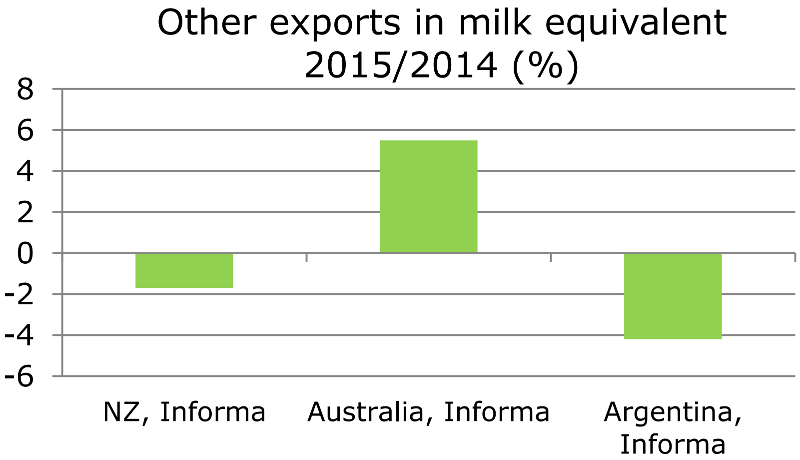
2015 trade forecasts







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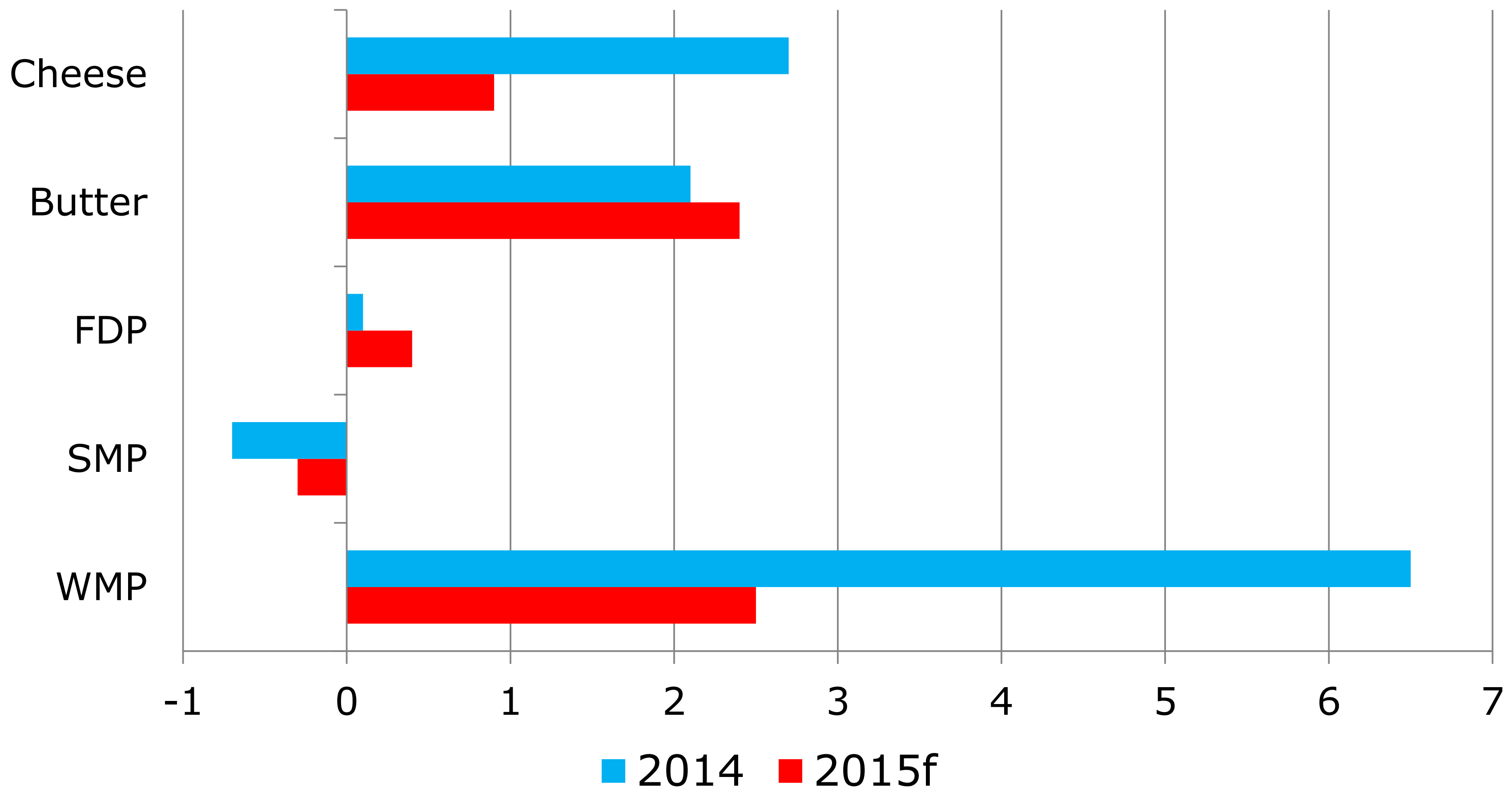
Change in consumption (%)



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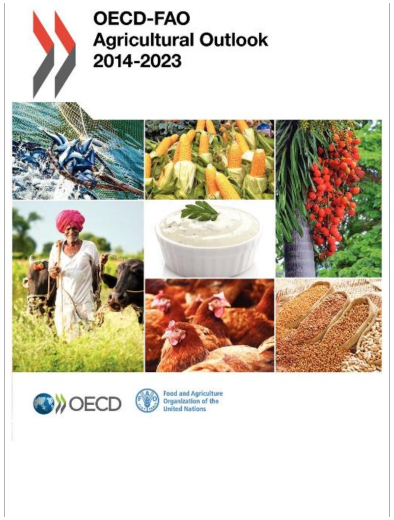
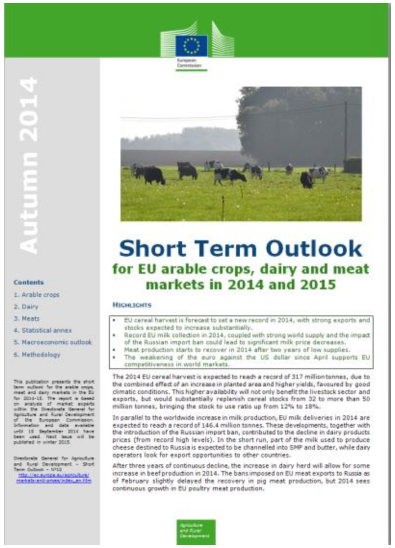
Sources and process

- OECD/FAO Agricultural Outlook 2014-2023
  - Agricultural commodity markets for the rest of the world
- EU Short Term Outlook
  - Recent years and orientation for near future
  - Version of Autumn 2014
- Macro-economic forecast
  - For the EU: AMECO November 2014 (DG ECFIN)
  - Consistent source for main countries and up to 2024 (IHS Global Insight)
- Expert opinion
  - In-house expertise and senior staff
  - Workshop on EU commodity markets, October, Brussels
- Modelling work and validation (with JRC-IPTS)
  - AGLINK-COSIMO (EU-version) & uncertainty analysis



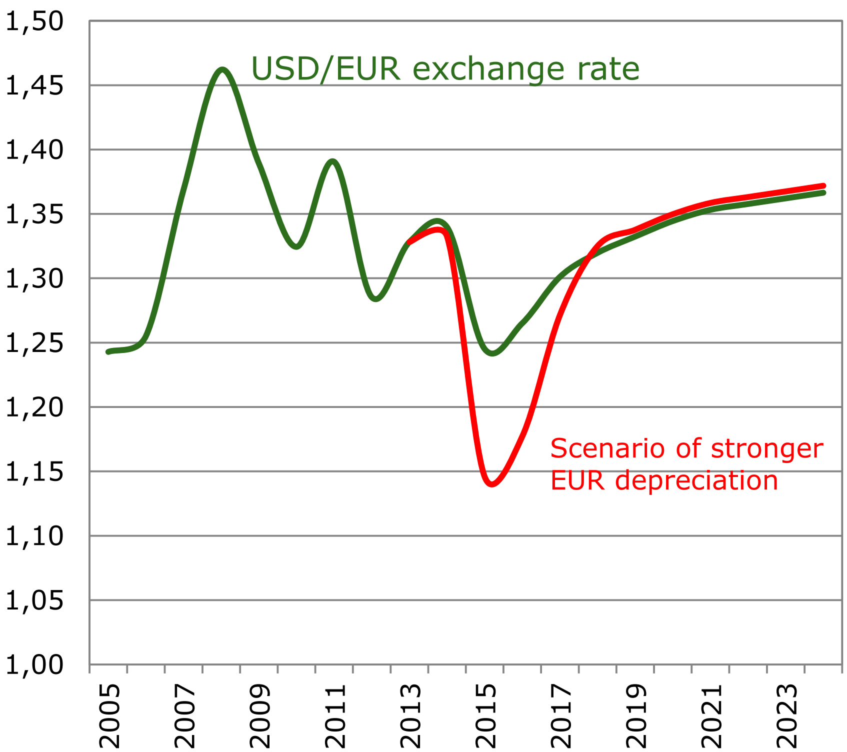


Policy assumptions

- CAP 2013 as far as possible
  - Voluntary coupled support
  - Greening:
    - Permanent pasture kept constant,
    - Limited effect of ecological focus area (EFA) & crop diversification at EU aggregated level
- Trade agreements only if ratified:
  - Concessions to UKRAINE included
  - FTA with CANADA not included
- Russian import ban assumed to remain 1 year

Macroeconomic assumptions

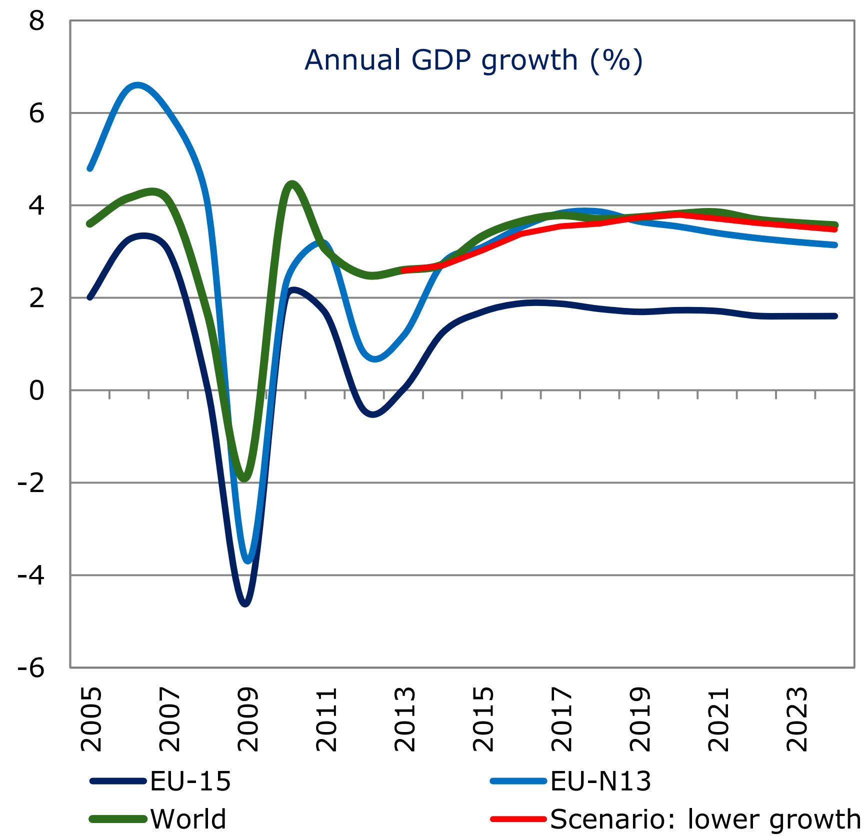
The euro in the long-term



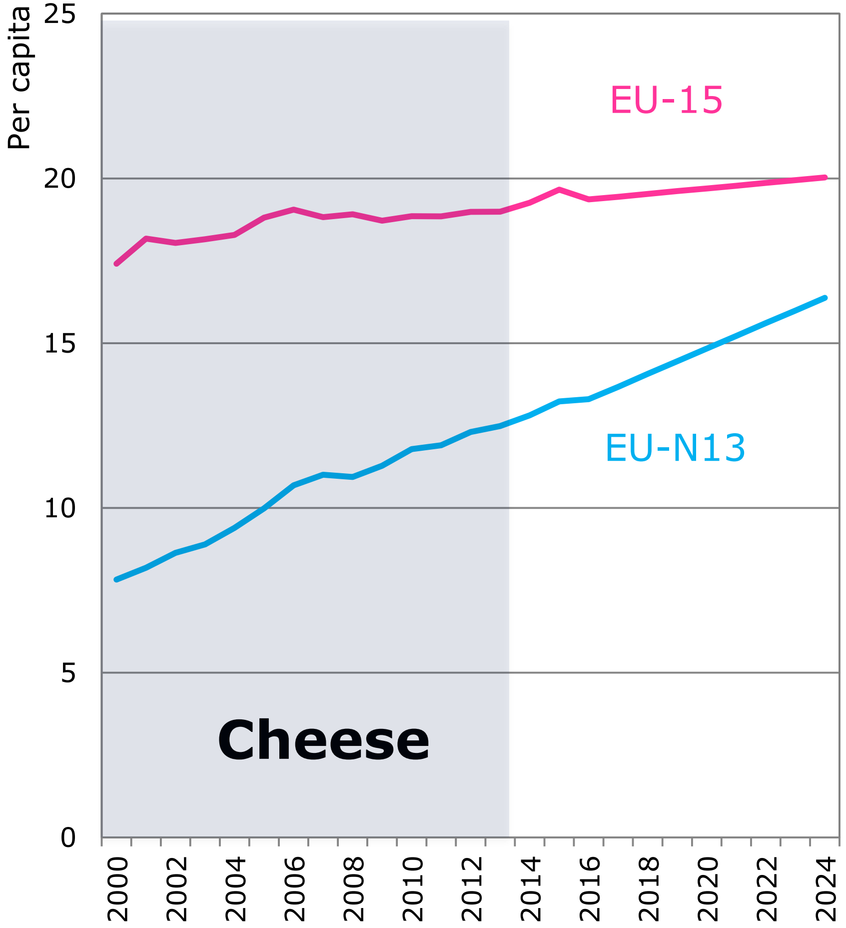
1 EUR = …USD

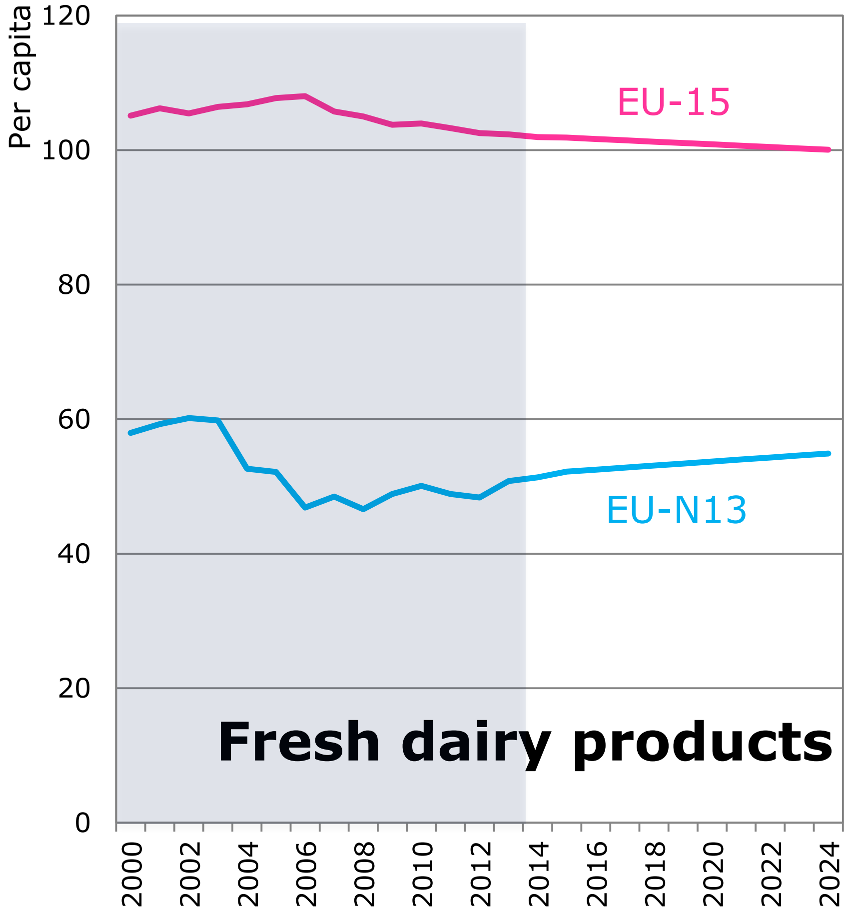
Source: elaboration by DG Agriculture and Rural Development

The economic growth path



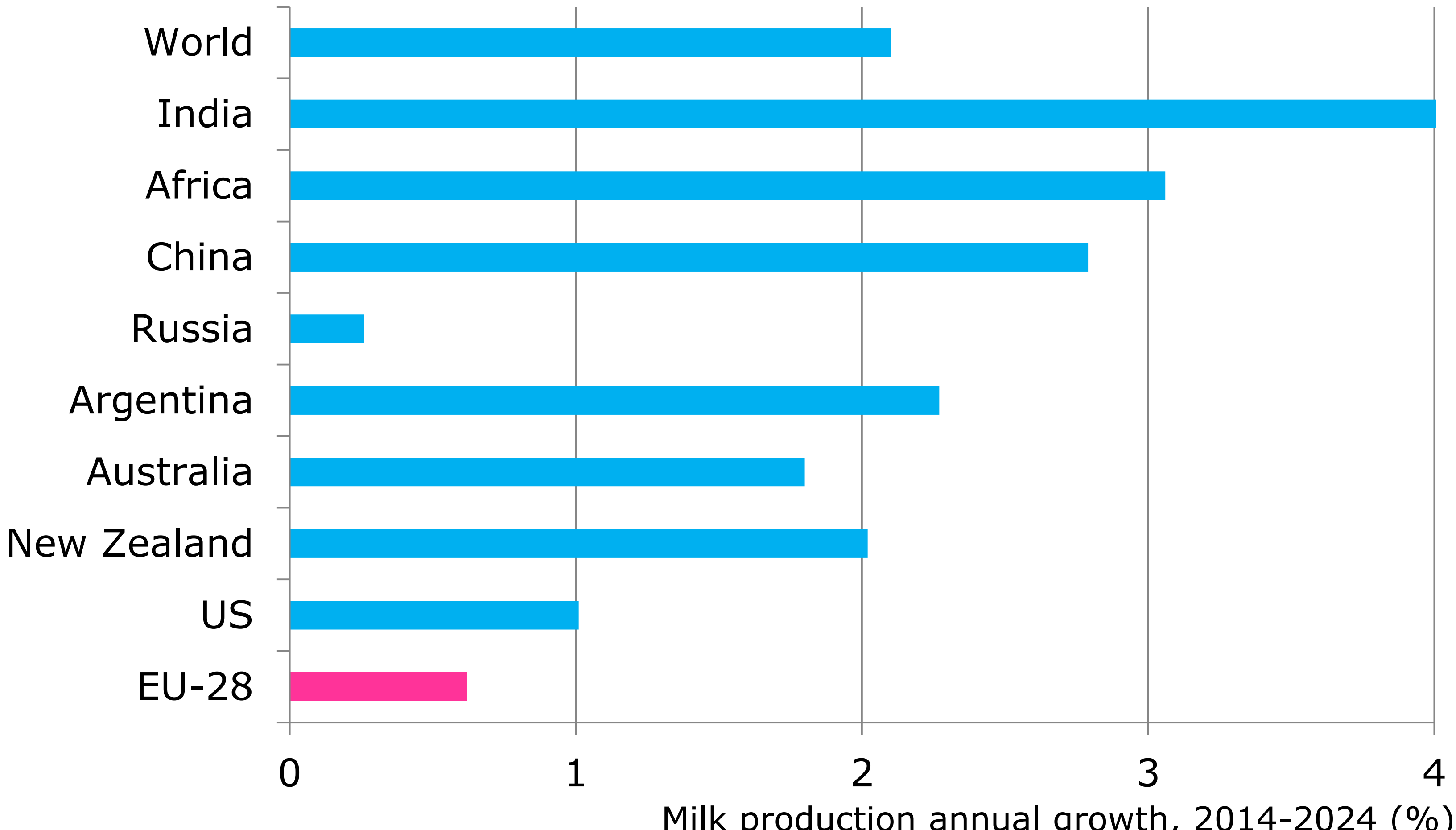
EU domestic consumption





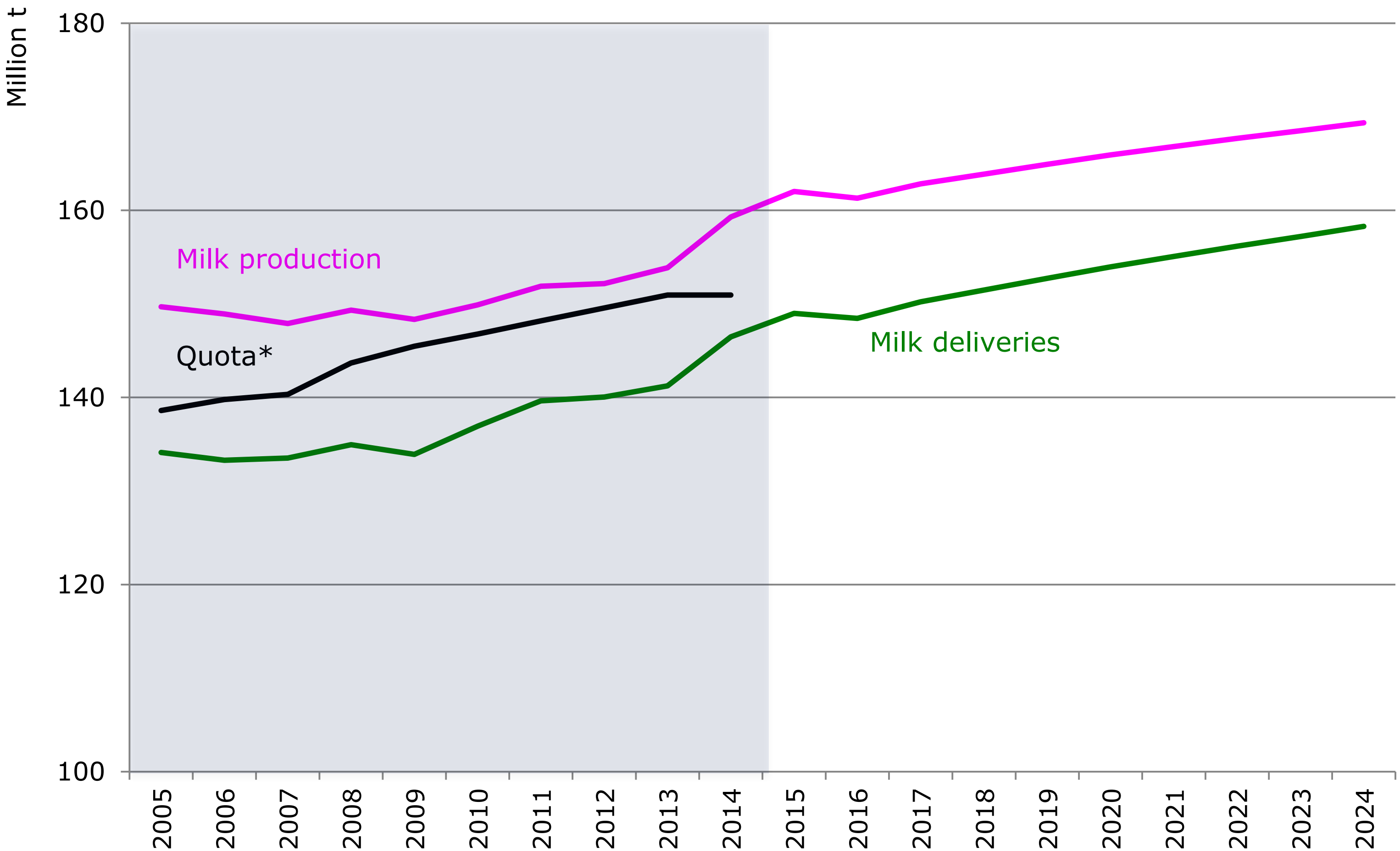
Source: DG Agriculture and Rural Development

A lower growth in the EU compared to other regions



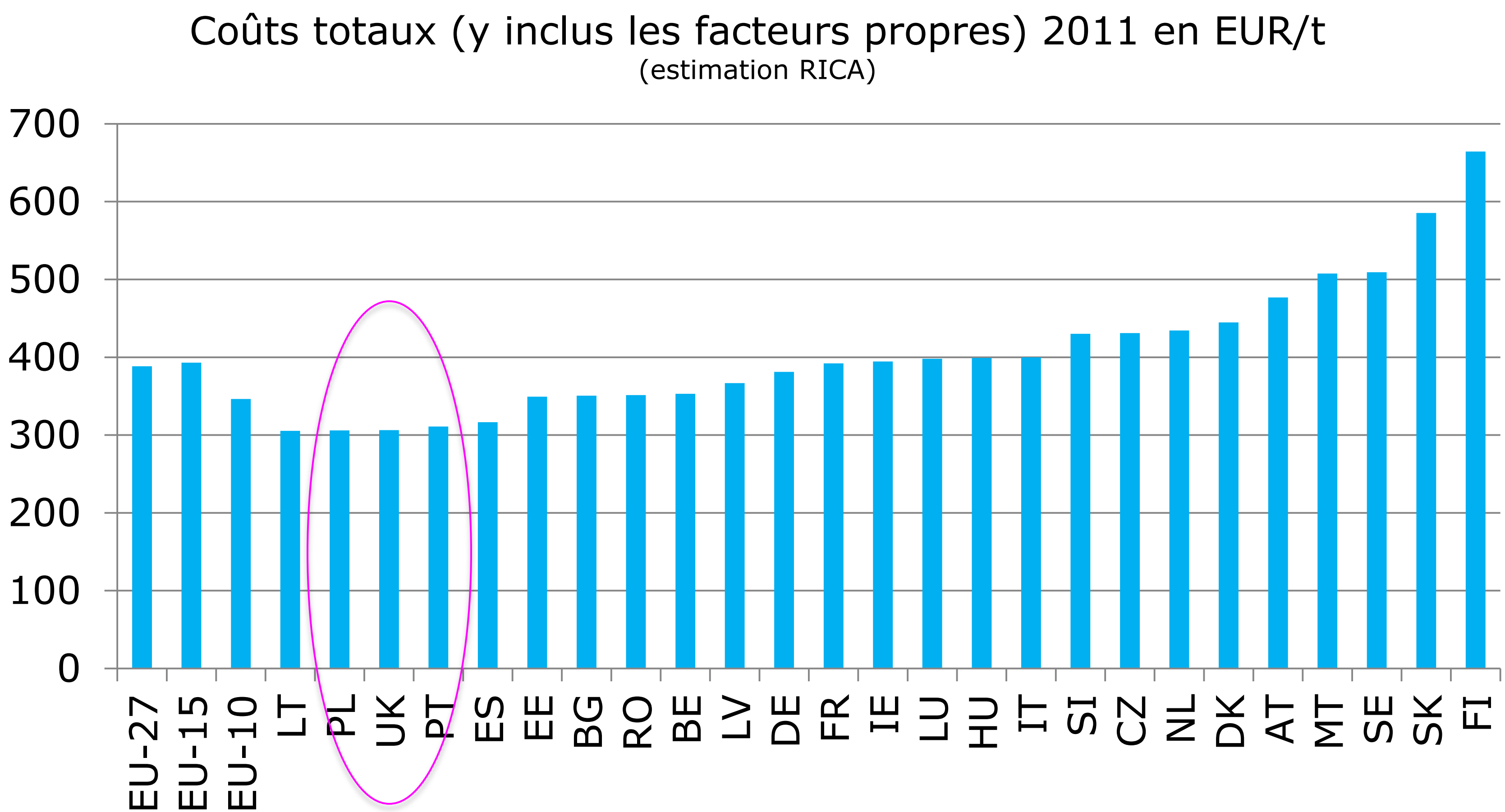
Source: DG Agriculture and Rural Development and OECD-FAO

Higher milk collection in the EU



Source: DG Agriculture and Rural Development

Les coûts de production en Europe



Source: DG Agriculture and Rural Development