



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 26 March 2010

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NOTE

from:	Commission
to:	Council
Subject:	Quarterly report on the Dairy market

Delegations will find attached a document from the Commission on the abovementioned subject, with a view to the meeting of the Council (Agriculture and Fisheries) on 29 March 2010.



EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT

QUARTERLY REPORT ON THE DAIRY MARKET

Agricultural Council, 29 March 2010

1. SUMMARY

The overall situation of the dairy market has been continuously improving in the second half of 2009. EU and world prices appear to be stabilising for most commodities despite the seasonal increase in EU milk production.

The weighted EU average raw milk price increased from May (24.40 c/l) till November 2009 (28.41 c/l). In line with usual seasonal patterns, it was slightly down in December (28.32 c/l) with first estimates for January 2010 confirming that level.

The main dairy commodities are priced well above intervention levels (real or virtual).

Milk deliveries in the calendar year 2009 ended 0.6% below the 2008 level, despite the 1% quota increase for the quota year 2009/10.

For the quota year 2009/10 the provisional estimate is for an underutilisation of quota in the order of 7% for the whole of the EU. This is based on an extrapolation of the figures available for the first 10 months of the quota year.

2. SUPPLY AND DEMAND

EU

Milk deliveries in the calendar year 2009 ended 0.6% below the 2008 level, despite the 1% quota increase for the quota year 2009/10.

Partly due to very good grazing conditions in the first half of 2009 the milk production increased compared with the same period of 2008. However, the second half of 2009 saw a relative contraction in milk deliveries. Member States' milk deliveries variations – both in volumes and percentages – for the calendar year 2009 compared to 2008 are shown in the table below (NB: no data for Malta).

MS where cow's milk deliveries increased in calendar year 2009			MS where cow's milk deliveries decreased in calendar year 2009		
	in %	in 10 000 t		in %	in 10 000 t
BE	3.49%	99.51	ES	-0.39%	-22.52
DK	3.36%	154.00	IT	-0.71%	-74.26
DE	2.85%	782.50	UK	-0.88%	-117.40
LU	2.39%	6.34	EL	-0.93%	-6.45
NL	1.36%	148.62	SE	-0.98%	-29.04
FI	1.21%	27.32	PT	-1.12%	-21.18
PL	0.26%	24.09	CY	-1.28%	-1.93
AT	0.15%	4.00	SI	-1.43%	-7.52

				CZ	-3.25%	-79.00
				EE	-3.61%	-22.20
				IE	-3.96%	-202.23
				FR	-4.09%	-973.35
				HU	-5.01%	-71.34
				LV	-6.22%	-39.48
				RO	-6.60%	-69.55
				LT	-7.72%	-106.73
				SK	-9.89%	-93.53
				BG	-14.97%	-101.91

For the running quota year 2009/10, data from April to December 2009 show a drop by 0.2% in milk collection. When adding partial data available for January 2010 (reports from 22 Member States are available for the moment), the gap is increasing (-0.4%).

This is due to a combination of factors, in particular the effect of low dairy commodity prices in the first months of 2009 as well as the particularly hard winter conditions that prevailed throughout the EU.

Production versus quotas

	Quota year 2008/09	Quota year 2009/10	Difference
Milk quotas (deliveries)	143 074 146 t	144 921 617 t	1.29%
Milk collection (April-January)	109 971 243 t	109 538 815 t*	-0.39%
Rate of quota use in the first 10 months of the quota year	76.9%	75.6%	

* Milk collection figures partial for the month January 2010 (only 22 MS)

For the quota year 2009/10 the provisional estimate is for an underutilisation of quota in the order of 7% for the whole of the EU. This is based on an extrapolation of the figures available for the first 10 months of the quota year.

Third Countries

Milk production in the major exporting non-EU countries is mostly below previous year's levels. New Zealand is reported as up slightly despite uneven weather conditions (milk production in the calendar year 2009 is estimated around 16 million t). Its dairy cattle numbers hit a record high in 2009: 5.8 million dairy cattle were counted at the end of June 2009, i.e. well more than 1 animal for each of the 4.3 million citizens.

Total milk production in Australia was down by 9.1% in January 2010 at 787.7 million l. Output has fallen in every month this season, with the declines ranging from -1.4% in August to -9.6% in December. On a cumulative basis, output for the first 7 months of the season is down by 6.6% at 5 887.7 million l. On a calendar year basis, Australian milk production is estimated to have reached 9 billion litres in 2009.

Larger cow slaughtering in 2009 resulted in a lower milk production in the USA (-0.3% to around 86 million t). The trend continued in January 2010 with US milk production down by 0.6%.

In Argentina, milk deliveries dropped by 11.42% in January 2010 compared to January 2009, from 570 to 513 million l. Official figures for production in February are not yet available but dairy

companies report milk deliveries down 15% in the first 2 months of the year, cutting liquid milk processing by 40 million litres, milk powder production by 5 000 t and cheese production by 8 000 t. Drought hit dairy production last year and high temperatures in January and floods in February have hit production this year. Exports have been particularly affected.

3. PRICES

EU and world prices for the main dairy commodities increased quite substantially in the second half of 2009. However, EU and Oceania prices have been slightly weakening since December but appear now to be stabilising for butter and showing some signs of recovery for milk powder.

The table below shows the current situation regarding dairy commodity prices in the EU and in the world (March 2010). The short term evolution of EU prices is tabled in Annex 1 while the longer term development is shown in Annex 2.

€/t	Intervention price/equivalent price	Market price from previous report	Current market price ⁽¹⁾	Current price as percentage of real/virtual intervention price	World market price from previous report	Current world market price ⁽²⁾
	(a)	(December 2009)	(b)	(b/a)%	(December 2009)	
Butter	2 218	2 913	2 741	124%	2 485	2 675
SMP	1 698	2 104	2 039	120%	2 054	2 080
WMP	2 066	2 532	2 408	117%	2 352	2 330
Cheddar	2 484	2 304	2 382	96%	2 882	2 785
Edam	2 167	2 673	2 703	125%	-	-

¹⁾ Weighted average price of 7 main exporting MS ²⁾ Oceania quotations (Source: USDA Agricultural Marketing Service)

The weighted EU average raw milk price increased from May (24.40 c/l) till November 2009 (28.41 c/l). In line with usual seasonal patterns, it has been slightly decreasing in December (28.32 c/l) and the first estimates for January 2010 lead to a price around 28 cents. For the purpose of reference, the virtual intervention price for milk is approximately 21.5 cents/l.

The most recent official EU milk prices per Member States are shown in Annex 3 and the longer term evolution of EU weighted average raw milk prices compared with LTO average prices are shown in Annex 4. Member States' notifications are complete until December, while data for three Member States are estimates for January 2010. 64% of the EU milk collection takes place in 5 Member States (DE, FR, UK, NL, IT) and the weighted average milk price for December of those countries was 28,3 cents/l.

4. EXPORTS

Most products ended the year 2009 exceeding their 2008 level, with the highest increase registered for SMP (+ 28.3%), lactose (+ 27.6%), whey powder (+ 18.6%) and more modest ones for casein (+ 4.1%) and cheese (+ 3.8%). Conversely, while butter exports were above last year's level until November, they ended the year with a 0.9% decrease due to higher domestic prices and the end of refunds. Condensed milk but more importantly WMP and butteroil exports remain below last year's levels (- 6.6 % for WMP and - 7.2% for butteroil).

5. ACTIONS TAKEN SINCE LAST QUARTERLY REPORT

Following actions should be noted since the last report in December 2009:

- The Commission regulation establishing **specific market support in the dairy sector**, following the extension of art 186 of the Single CMO was published on 16 December, granting MS a total financial envelope of 300 million € to be distributed to dairy farmers that have been severely affected by the crisis. Member States are due to report to the Commission before April on the method of allocation for payments made before July.
- **Private stocks** of butter have been gradually and quietly reduced from 135 000 t in August to 21 000 t in March. It is worth noting that the extended 2009 scheme in January/February 2010 only absorbed 14 300 tonnes compared with 54 000 tonnes in the same period last year.
- **Export refunds** have been kept at zero for all dairy commodities, owing to improvements on world markets and a good balance between supply and demand on the domestic market.
- **Intervention buying-in** for butter and SMP under the extended intervention period (until the 28th of February) has not been active since early September. The new campaign that started on 1st March has not seen any offers either.
- The **High Level Expert Group on milk** has intensified its meetings and has held a Conference on "What future for milk?" on 26 March. The Group is examining longer term arrangements which can further contribute to stabilising the market and producers' incomes, reducing price volatility and enhancing market transparency. Issues such as contractual relations between milk producers and dairies, the need to strengthen the bargaining power of milk producers, the future of existing market instruments, the possibility of introducing new tools for risk management such as a futures market for dairy products, as well as issues related to quality, research and innovation, have already been discussed. A final report is scheduled for June 2010.

Annex 1: EU dairy prices

Dairy Quotations - June 2009 and March 2010

Last update : 24.03.2010

Raw Milk Price

in EUR/Tonne

	Jun 09 EUR/T	Mar 10 EUR/T	Difference	
			EUR/T	%
EU 27 Weighted Average	242	281 °	+ 39	+ 16%
NL spot prices	200	275	+ 75	+ 38%
North Ireland spot prices	223	257	+ 34	+ 15%
IT spot prices	281	327	+ 46	+ 17%
New Zealand	158	236 °	+ 78	+ 49%
U.S.A.	178	251 °	+ 73	+ 41%

° : Latest available prices (January 2010)

Commodities

in EUR/Tonne

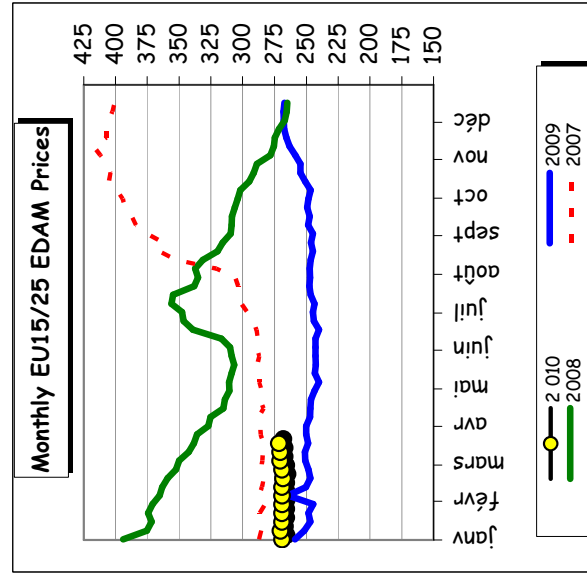
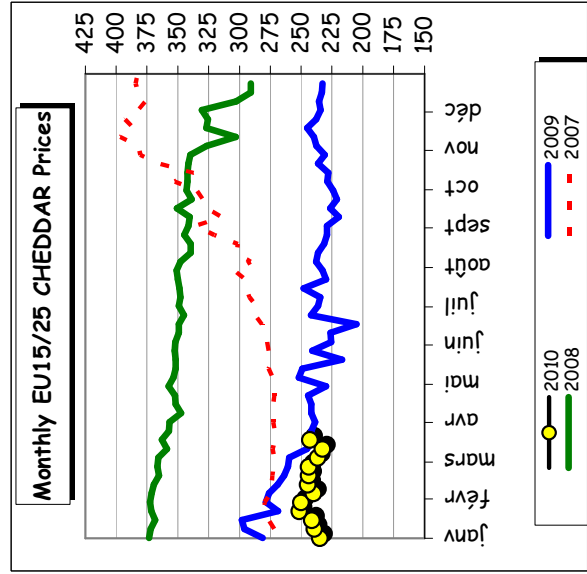
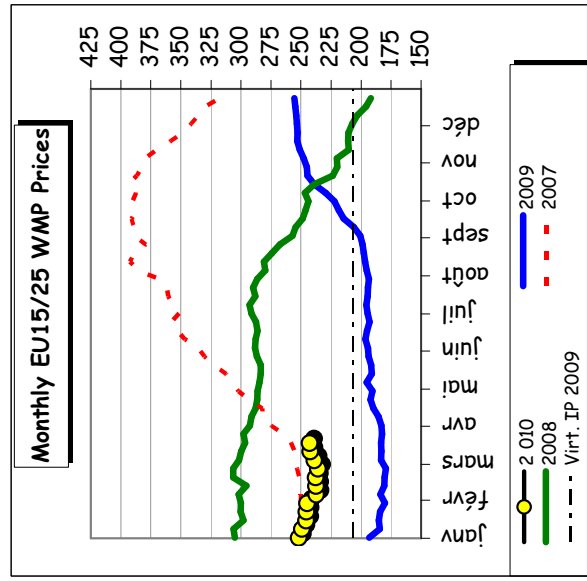
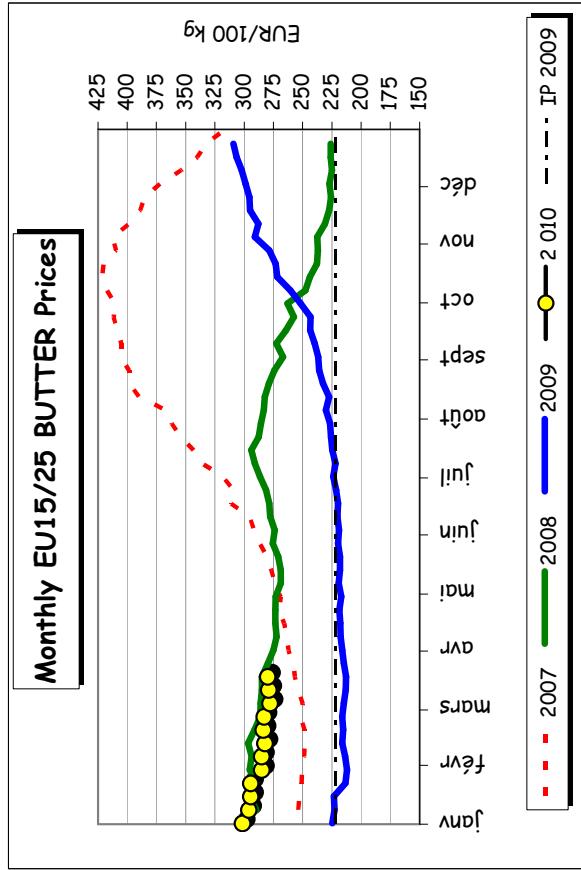
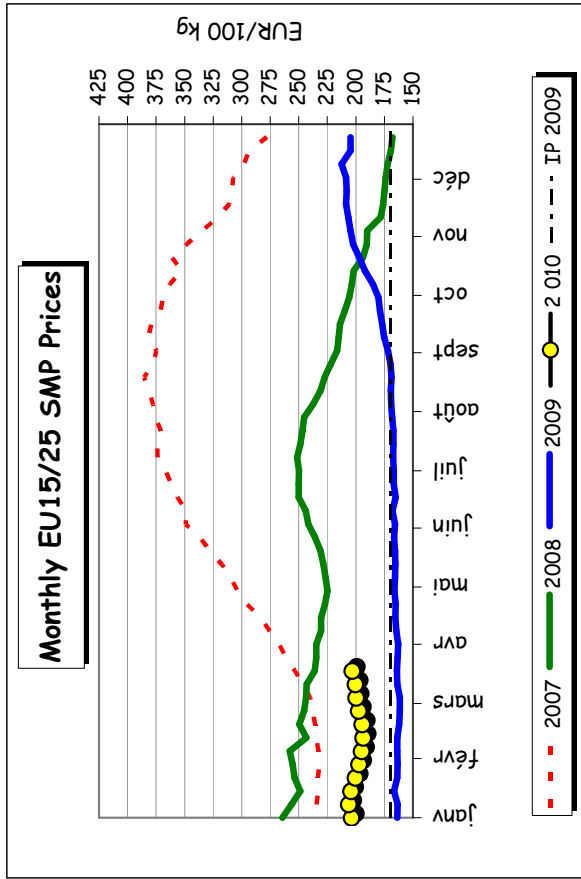
	EU 27		
	Jun 09 EUR/T	Mar 10 EUR/T	Difference EUR/T %
Butter	2 215	2 741	+ 526 + 24%
Skimmed Milk Powder	1 655	2 039	+ 384 + 23%
Whole Milk Powder	1 945	2 408	+ 463 + 24%
Cheddar Cheese	2 160	2 382	+ 222 + 10%
Gouda Cheese	2 415	2 659	+ 244 + 10%

	Oceania		
	Jun 09 EUR/T	Mar 10 EUR/T	Difference EUR/T %
Butter	1 355	2 675	+ 1 320 + 97%
Skimmed Milk Powder	1 380	2 080	+ 700 + 51%
Whole Milk Powder	1 545	2 330	+ 785 + 51%
Cheddar Cheese	1 325	2 400	+ 1 075 + 81%
Gouda Cheese	1 810	2 785	+ 975 + 54%

* : Fonterra WMP and SMP Auction (NZ + australia)

	U.S.A.		
	Jun 09 EUR/T	Mar 10 EUR/T	Difference EUR/T %
Butter	2 000	2 375	+ 375 + 19%
Skimmed Milk Powder	1 385	1 825	+ 440 + 32%
Whole Milk Powder	1 855	2 440	+ 585 + 32%
Cheddar Cheese	1 820	2 070	+ 250 + 14%

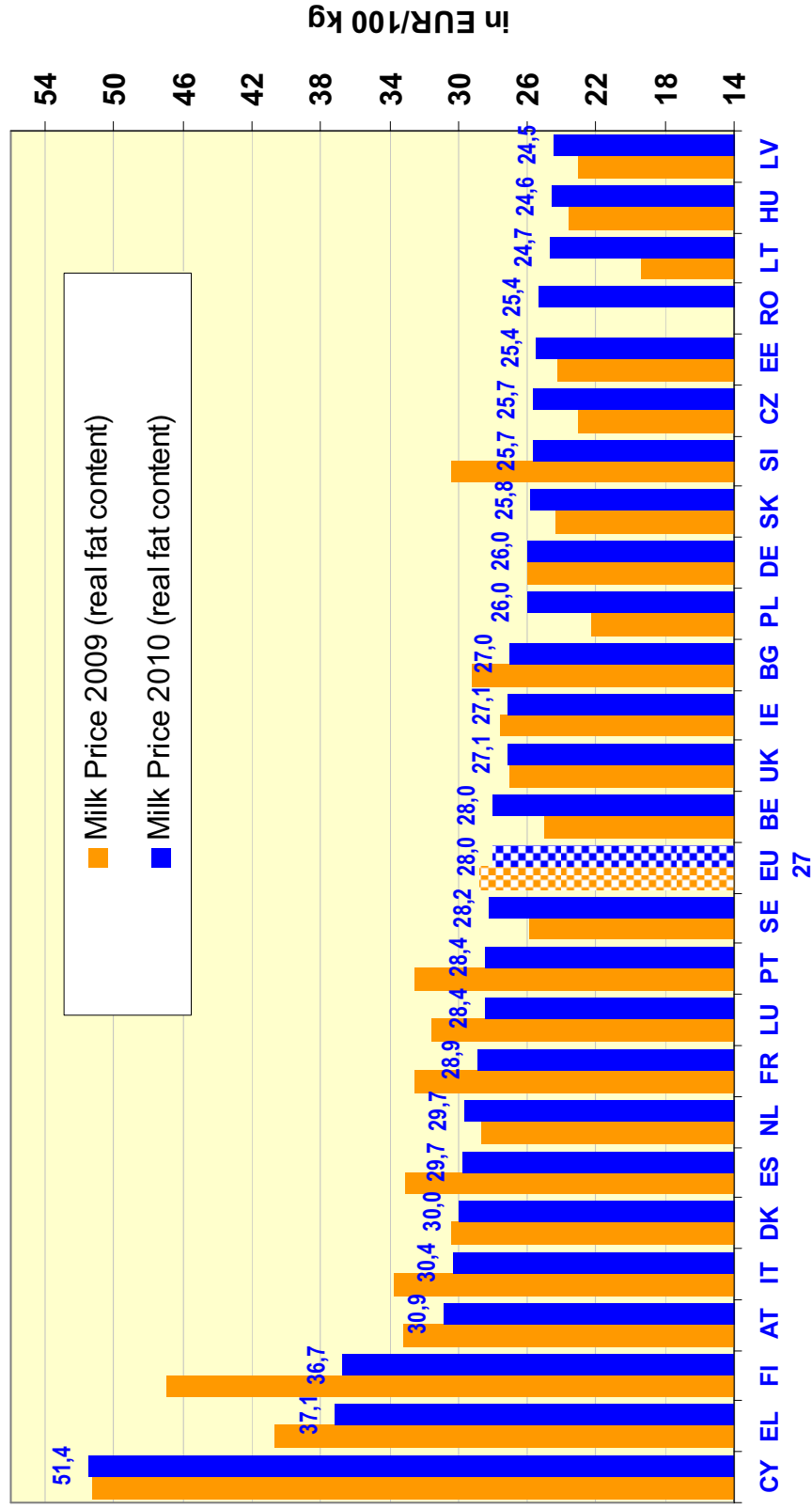
Annex 2: EU internal average prices weighted with production data



Annex 3: EU raw milk prices

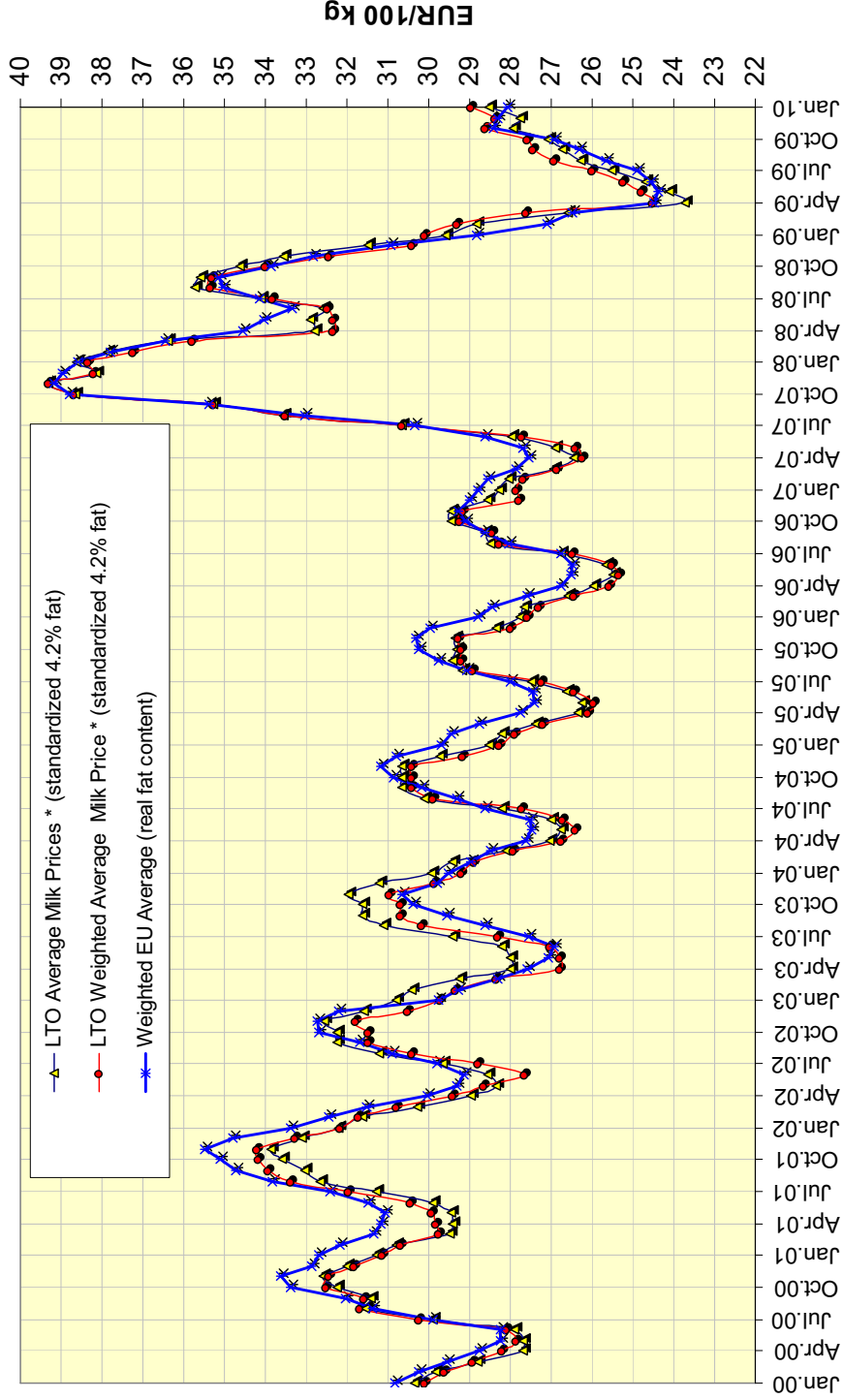
EU Milk Prices

(January 2010 compared to January 2009)



Annex 4: Evolution of EU weighted average raw milk price compared with LTO average prices

Milk Prices Evolution (up to January 2010)



LTO : Land- en Tuinbouworganisatie Nederland (<http://www.milkprices.nl/>)

* LTO prices for main dairies in : BE, DE, DK, FI, FR, GB, IE and NL