EAAP Cattle Network Steering Committee

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European Milk and Dairy Market Situation and Perspectives:

by
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A look at the world situation:

1. In 2003: moderate world production increase due to unequal trends
2. A solid international demand, esp. in Russia and Far East (as well as U.S.)
3. Therefore strongly increasing prices (also effect of the weak US$)

Milk production in most important producer countries
(million tons)

	2001	2002	2003 (estim.)	2003/2002	2003/2001
World	579.9	594	599.1	+0.9%	+3.3%
EU	126.1	126.7	126.8	+0.1%	+0.6%
India (a)	82	84.6	88	+4.0%	+7.3%
USA	75	77.3	77.5	+0.3%	+3.3%
Russia	33	33.5	33.2	-0.9%	+0.6%
Pakistan	27	27.7	28.4	+2.5%	+5.2%
Brazil	22.4	22.8	23.5	+3.1%	+4.9%
Ukraina	13.4	14.1	14.3	+1.4%	+6.7%
New Zealand (b)	13.2	13.9	14.2	+2.2%	+7.6%
Poland	11.9	12	11.8	-1.7%	-0.8%
Australia (c)	10.5	11.3	10.3	-8.8%	-1.9%
Mexico	9.5	9.6	9.8	+2.1%	+3.2%
Argentina	9.6	8.2	7.7	-6.1%	-19.8%

(a) dairy year ending March of the year shown;
(b) dairy year ending May of the year shown;
(c) dairy year ending June of the year shown
Source: FAO

In Russia:

- In 2003, production –1% (bad pastures situation); expected rebound by +1% in 2004
- Increasing imports in 2003: butter +12.5%, cheese +30.8%, SMP +20%
- Increasing retail prices (Jul '03 / Jul '02): liquid milk + 10.1%, butter +12.5%, cheese +9.9%, yogurt +9,0%

World dairy prices:

- Increasing at a rate much stronger than US$ devaluation
- Butter and cheese prices still growing more than powders

Indicative world dairy export prices
(US$ per ton, f.o.b.)

	oct 02	aug 03	sep 03	oct 03	oct 03/ oct 02	oct 03/ aug 03
Skim milk powder	1,361	1,727	1,765	1,829	+34.4%	+5.9%
Whole milk powder	1,352	1,748	1,789	1,853	+37.1%	+6.0%
Casein	3,539	3,926	4,012	4,156	+17.4%	+5.9%
Cheddar	1,501	1,848	1,916	1,995	+32.9%	+8.0%
Butter	1,067	1,393	1,432	1,542	+44.5%	+10.7%

Source: mid-point of export prices reported by Farmnet (New Zealand) and USDA.

Reaction to world prices increases:

- From March to August 2003, US export subsidies for SMP –10%
- In August, cut to EU export refunds: cheese -10%, butter and milk powders - 4%

But export support remains substantial: e.g. for butter, currently US$ 1,973 per ton from US, € 1,780 per ton from EU

In the EU:

- Stagnating dairy prices
- Production dynamics “freezed” by the quota system
- Big changes:
  - the impact of new member states
  - the impact of dairy policy reform

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Dairy prices in Germany
(€ per ton)

	dec 02	oct 03	nov 03	dec 03	dec 03/ dec 02	dec 03/ oct 03
Skim milk powder	2,037	2,024	2,028	2,037	+0.0%	+0.6%
Whole milk powder	2,598	2,595	2,598	2,600	+0.1%	+0.2%
Casein	4,050	4,170	4,250	4,300	+6.2%	+3.1%
Gouda	3,170	2,860	2,830	2,830	-10.7%	-1.0%
Butter	3,220	3,170	3,180	3,180	-1.2%	+0.3%

Source: ZMP

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EU milk sector (from 15 to 25 member states)
('000 tons)

	1998	2000	2002	2003 (provis.)	2004 (forec.)	2004/ 2003
Dairy cows (Dec., '000 heads)	21,170	20,355	19,940	19,700	24,000	+21.8%
Milk production	121,191	121,197	121,831	122,200	144,000	+17.8%
Milk quota (a)	117,500	117,500	118,300	118,900	137,900	+16.0%
Deliveries to dairies	113,466	114,496	115,655	116,000	131,300	+13.2%
Liquid milk output	29,769	29,275	29,383	29,200	33,000	+13.0%
Yogurt and other fermented milk	6,170	6,500	6,790	6,900	7,700	+11.6%
Milk for processing	77,527	78,721	79,482	79,900	90,600	+13.4%

(a): dairy year starting April 1st of the year shown
Sources: European Commission, ZMP

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EU dairy products:

- Different market balances
- Different impacts of enlargement

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EU butter market balance
('000 tons)

	2002 EU 15	2003 EU 15	2004 EU 15	2004 EU 10	2004 EU 25	2004 EU 10/25
Initial stocks	220	320	360	30	390	7.7%
Production	1,880	1,890	1,860	350	2,210	15.8%
- in dairies	1,870	1,880	1,850	280	2,130	13.1%
- on farms	10	10	10	70	80	87.5%
Imports	115	120			80	
Exports	214	290			300	
Final Stocks	320	350			430	
Consumption	1,681	1,690	1,660	290	1,950	14.9%
- at market prices	1,201	1,185	1,170	270	1,440	18.8%
- special sales	480	505	490	20	510	3.9%
Per capita consumption	4.4	4.5	4.4	3.9	4.3	90.2%

(provisional/estimated figures)
Source: ZMP

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EU cheese market balance
('000 tons)

	2002 EU 15	2003 EU 15	2004 EU 15	2004 EU 10	2004 EU 25	2004 EU 10/25
Production	7,218	7,280	7,300	905	8,205	11.0%
- cow milk, in dairies	6,608	6,660	6,675	800	7,475	10.7%
- cow milk, on farms	72	74	75	100	175	57.1%
- from other milk	538	545	550	5	555	0.9%
Imports	156	180			150	
Processing addition	220	215	210	45	255	17.6%
Exports	484	500			560	
Change in stocks	0	0			0	
Consumption	7,110	7,175	7,240	810	8,050	10.1%
Per capita consumption	18.8	18.9	19.1	10.8	17.7	61.0%

(provisional/estimated figures)
Source: ZMP

EU SMP market balance
('000 tons)

	2002 EU 15	2003 EU 15	2004 EU 15	2004 EU 10	2004 EU 25	2004 EU 10/25
Initial stocks	200	300	360	20	380	5.3%
Production	1,140	1,150	1,130	200	1,330	15.0%
Imports	69	90			50	
Available	1,409	1,540			1,760	
Exports	154	320			270	
Final stocks	300	360			440	
- of which intervention	140	190			260	
Consumption	955	950	960	90	1,050	8.6%
- at market prices	520	520	520	80	600	13.3%
- subsidized	435	430	440	10	450	2.2%
Per capita consumption	2.5	2.5	2.5	1.2	2.3	52.0%

(provisional/estimated figures)
Source: ZMP

EU WMP market balance
('000 tons)

	2002 EU 15	2003 EU 15	2004 EU 15	2004 EU 10	2004 EU 25	2004 EU 10/25
Production	794	770	770	60	830	7.2%
Imports	18	10			18	
Exports	490	460			490	
Consumption	321	320	325	35	321	10.9%
Percapita consumption	0.8	0.8	0.9	0.5	0.7	66.1%

(provisional/estimated figures)
Source: ZMP

EU enlargement impact:

- Short term: worsening market imbalance
- Medium-long term (expected):
  (?) decreasing production (excess over quota)
  (?) increasing consumption (much lower than EU-15)
  - Improving market balance

EU dairy policy changes:

- Short term:
  - producers direct subsidy (€11,81 per ton from Jan 1st, 2004)
  - intervention price cuts (-7% butter, -5% SMP, from July 1st)
  - butter intervention period shortened (from March 1st to August 31st, as for SMP)
  - Increasing market uncertainty

EU dairy policy changes:

- Medium-long term:
  - producers subsidy decoupled
  - further price cuts
  - Expected shift from traditionally strongly supported productions (milk as well as meat, cereals ...), therefore easing market balance