



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from: Commission
to: Council

Subject: Report on the situation of 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 16 July 2012.

**REPORT ON THE SITUATION OF THE DAIRY MARKET****Agricultural Council, 16 July 2012*****Milk production***

Cow milk collection in the EU increased by 3% in the first four months of 2012 compared to the same period in 2011. In the 2011-12 quota year (April 2011 – March 2012), milk collection was 2.2% higher than in the previous one.

Milk production also increased in the **main milk supplying regions of the world**: + 9.9% in **NZ** in the first quarter of 2012, + 5.5% in **Australia** in the first 5 months of 2012, + 4.2% in the **USA** in the first 5 months of 2012, +12% in **Argentina** in the first quarter of 2012. Overall, **world** milk production is expected to grow by 3% in 2012.

Farm gate milk prices in the EU

After a second half of 2011 where **farm gate milk prices** continuously increased, the EU average turned downwards in the period December 2011-April 2012 following the seasonal trend and pressure from increased milk supply in and outside the EU. The latest EU average farm gate milk price is estimated at 31.6 c/kg for May 2012 (which is 5% below the average price of May 2011), which is only an estimate because notifications from 3 Member States which are important milk producers are still missing at the moment of drawing up this report.

In conclusion, the important additional supply of milk has been well absorbed by the market with a price correction. Although predicting how farm gate milk prices may evolve in the short term is always difficult, market indicators such as spot milk prices and weekly prices for dairy products are increasing week after week and indicate that milk prices might increase again in the next few months after the seasonal production peak. On the longer term, the balance between supply and demand depends on a large variety of factors, ranging from economic parameters to weather conditions.

Prices of dairy products

With the exception of Cheddar cheese, prices on the EU market for **milk products** came down since January 2012 to find a bottom level around 120% of the (virtual) intervention price at the end of May. In June prices increased and are now stabilising for SMP (skimmed milk powder) at 127%, butter at 123% and WMP (whole milk powder) at 123% of the (virtual) intervention price and at around 139% for Cheddar.

On the **world market**, prices have broadly followed the same trend. At present, while US prices appear to be the most competitive for SMP and Oceania prices for butter, WMP and Cheddar, the EU enjoyed increased export performance, especially for SMP and whey powder.

Farm margins in the EU

During most of 2011, increasing operating costs were compensated by increasing milk prices. EU milk **margins** have decreased in the 1st quarter of 2012 in the wake of decreasing farm gate milk prices but remain nevertheless slightly above those of the first quarter of 2011. Estimates for the second quarter would be available in September 2012.

ANNEX 1. SUPPLY AND DEMAND

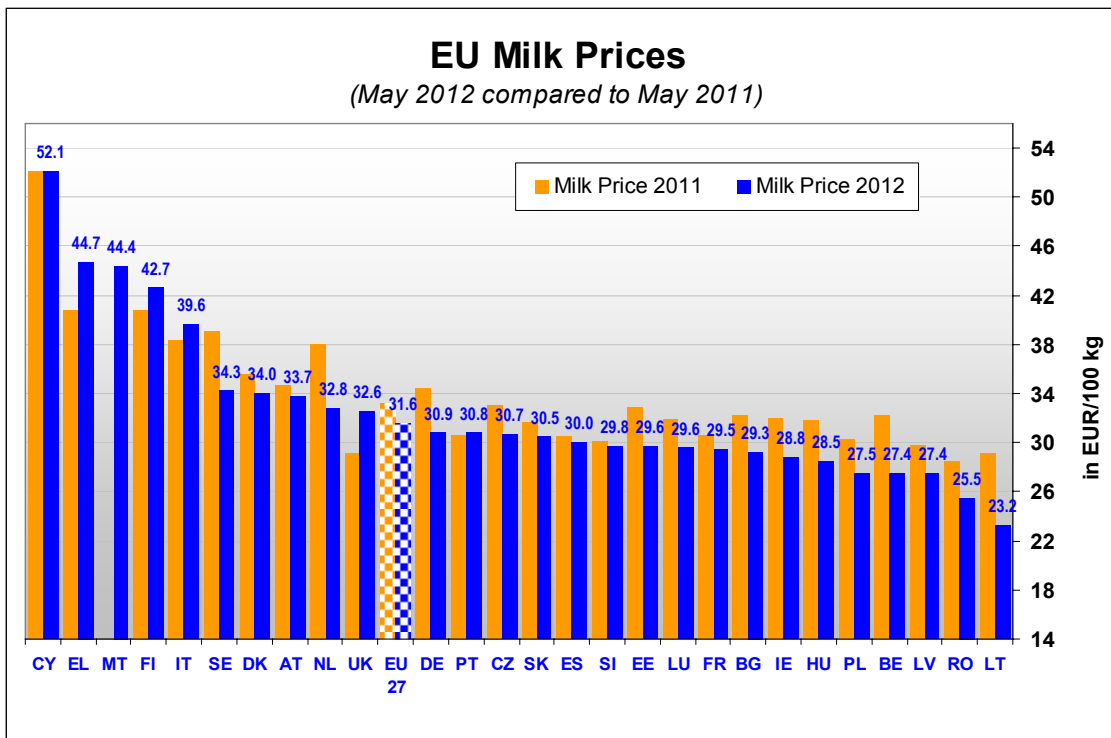
Increased milk production in the EU is resulting in more concentrated milk, SMP, butter/butter oil, cream, cheese and drinking milk. The production volume of WMP remained the same and the production of fermented milk slowed down.

While EU-27 milk collection increased by 2.2% in the 2011-12 quota year, the situation is quite contrasted from Member State to Member State, as shown in the table below.

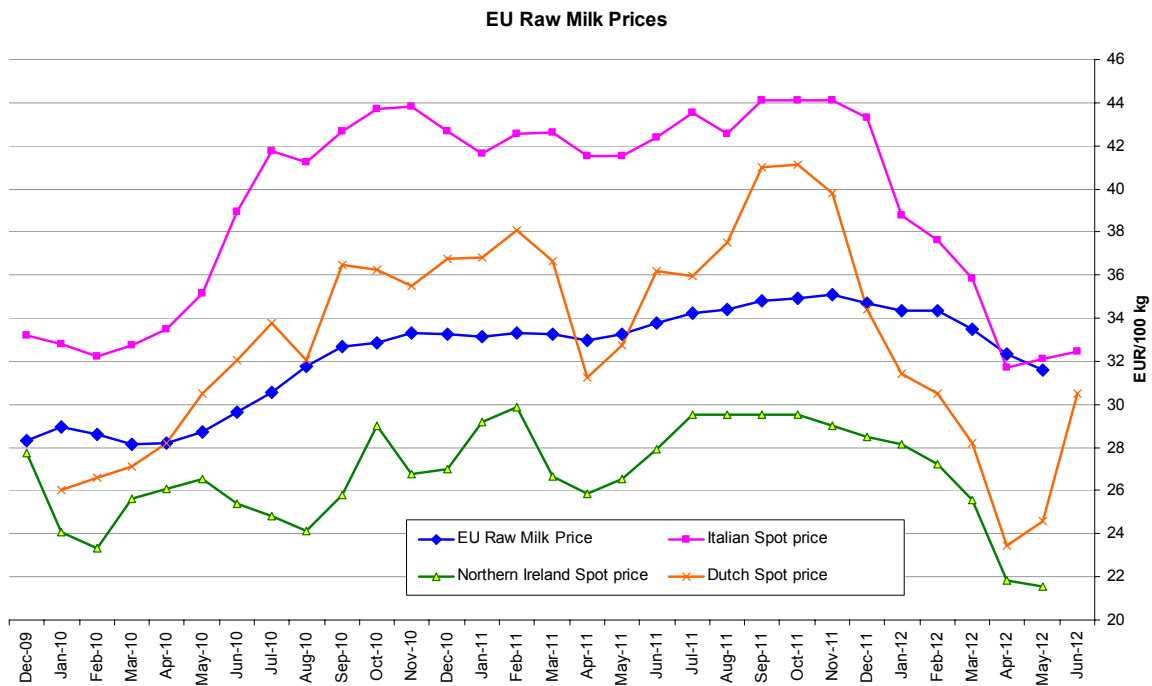
in 1 000 t	Cumulative milk deliveries Apr 2010 - Mar 2011	Cumulative milk deliveries Apr 2011 - Mar 2012	Difference in volume	Difference in %
LV	635.56	677.31	+ 41.75	+ 6.6%
PL	9 046.70	9 515.19	+ 468.49	+ 5.2%
AT	2 807.50	2 946.02	+ 138.52	+ 4.9%
SK	795.95	828.96	+ 33.01	+ 4.1%
FR	23 779.60	24 760.13	+ 980.53	+ 4.1%
CZ	2 318.87	2 408.79	+ 89.92	+ 3.9%
LT	1 295.61	1 337.77	+ 42.16	+ 3.3%
RO	880.72	908.59	+ 27.87	+ 3.2%
DE	28 856.64	29 660.78	+ 804.14	+ 2.8%
HU	1 301.59	1 334.82	+ 33.23	+ 2.6%
CY	151.03	154.29	+ 3.26	+ 2.2%
IE	5 451.88	5 567.67	+ 115.79	+ 2.1%
ES	5 870.93	5 993.51	+ 122.58	+ 2.1%
SI	521.29	530.53	+ 9.24	+ 1.8%
PT	1 826.75	1 858.51	+ 31.76	+ 1.7%
UK	13 729.20	13 894.20	+ 165.00	+ 1.2%
DK	4 797.90	4 855.30	+ 57.40	+ 1.2%
NL	11 626.00	11 717.70	+ 91.70	+ 0.8%
BE	3 090.42	3 112.62	+ 22.20	+ 0.7%
LU	281.31	283.24	+ 1.93	+ 0.7%
EE	631.20	632.90	+ 1.70	+ 0.3%
SE	2 857.90	2 862.80	+ 4.89	+ 0.2%
FI	2 288.99	2 257.78	- 31.21	- 1.4%
IT	10 356.18	10 190.76	- 165.42	- 1.6%
EL	679.27	639.05	- 40.22	- 5.9%
BG	531.24	497.77	- 33.48	- 6.3%
EU 27	136 410.22	139 426.98	+ 3016.77	+ 2.2%
NB: no milk collection data available for Malta				

ANNEX 2. FARM GATE MILK PRICES

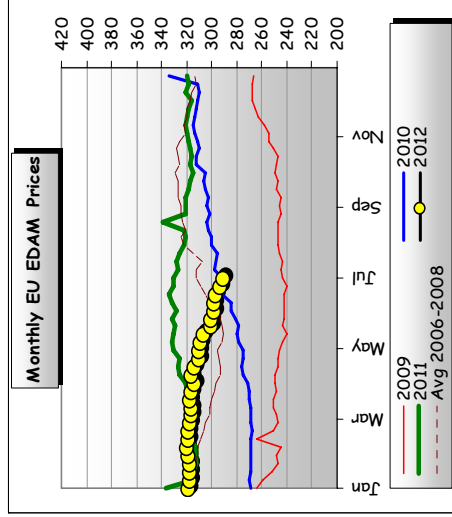
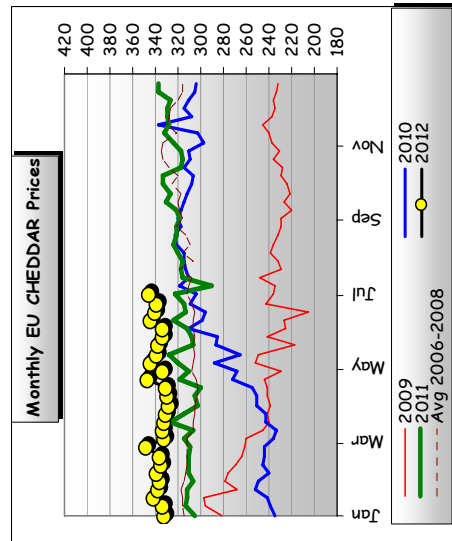
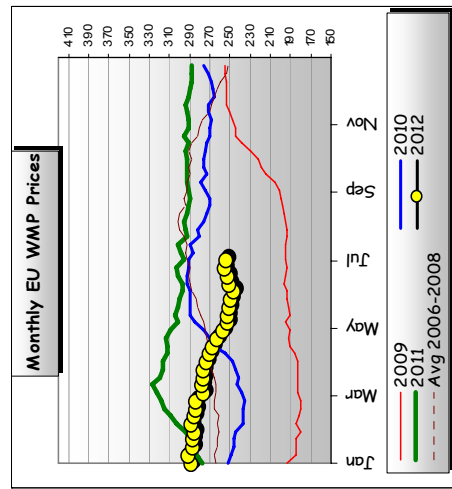
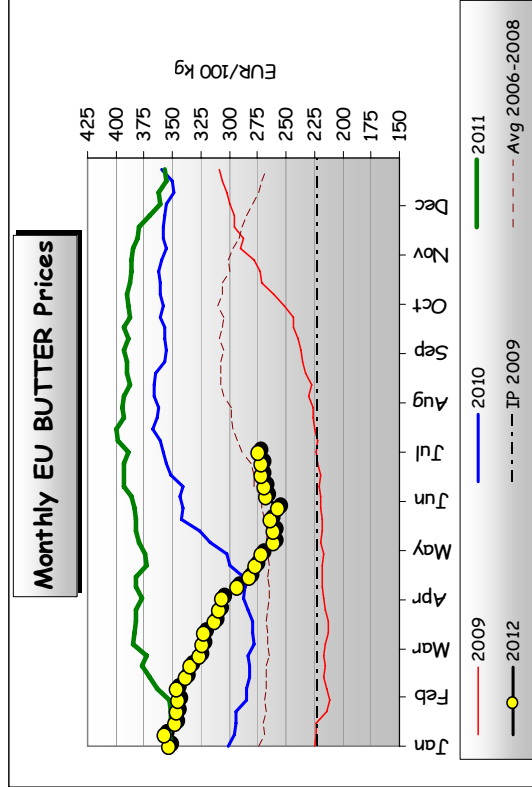
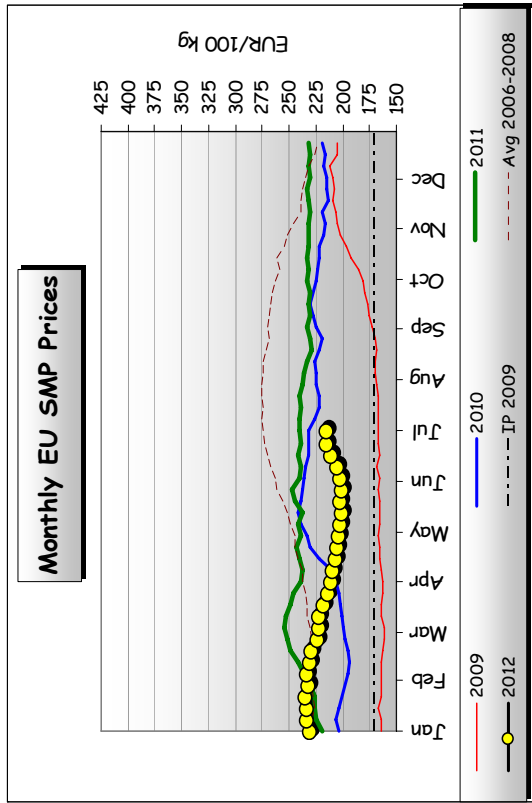
Latest estimated EU average farm gate milk price: 31.6 c/kg for May 2012 – still 30% above the lowest level achieved during the crisis in May 2009.



Latest spot prices suggest that milk prices may become firmer in the next few months



ANNEX 3. PRICES MILK PRODUCTS

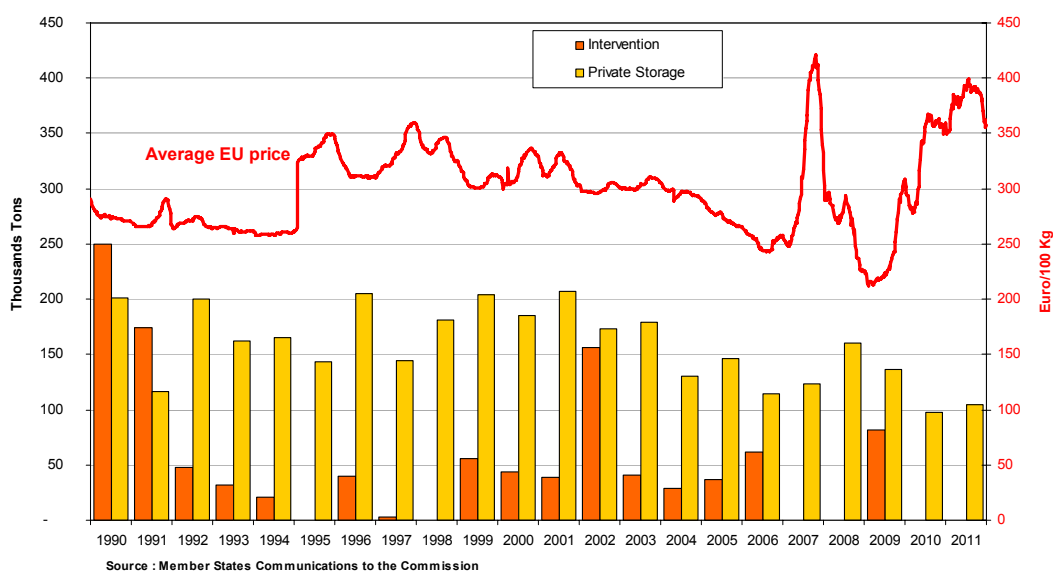


ANNEX 4. INTERVENTION AND PRIVATE STORAGE

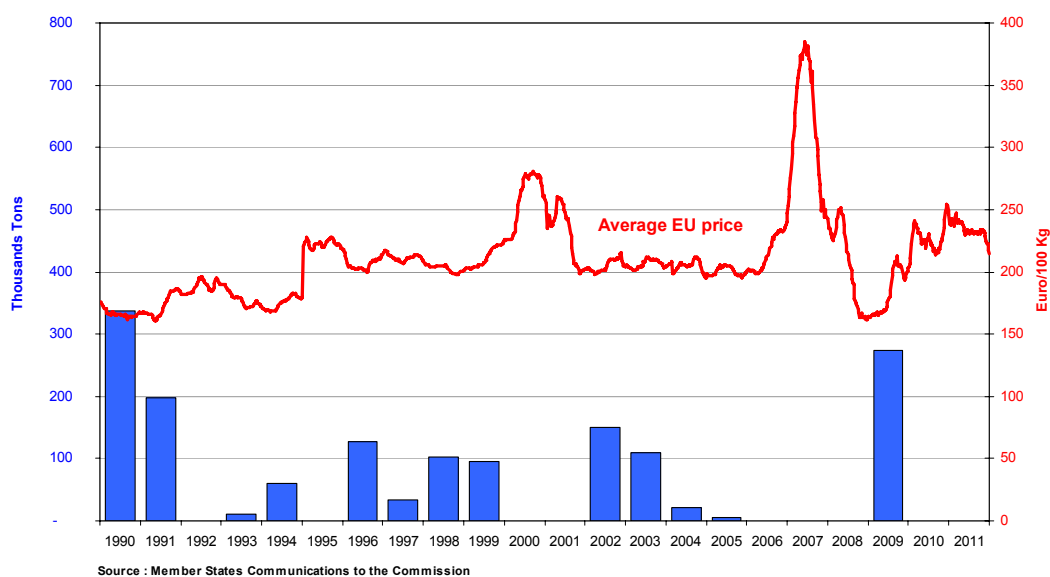
In 2012 no offers were received so far for the buying-in of SMP or butter into public stocks (intervention is possible between 1 March and 31 August).

Since the start on 1 March of the 2012 private storage aid scheme (PSA), 104 484 t have been offered in the first 18 weeks, 35% more than in 2011 at the same period. Compared to the situation at the beginning of May (77% more than in 2011 at the same period), the gap between the cumulated offered quantities in 2012 and in 2011 becomes smaller. The quantities are mainly stored in NL, DE, FR and IE.

Entry of Butter into Intervention and into Private Storage



Entry of SMP into Intervention



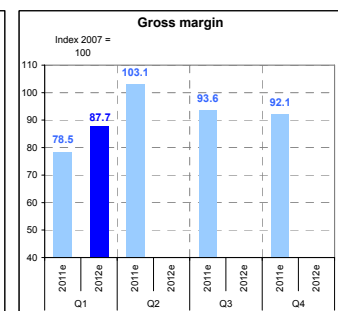
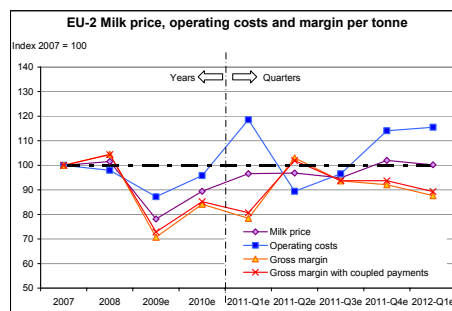
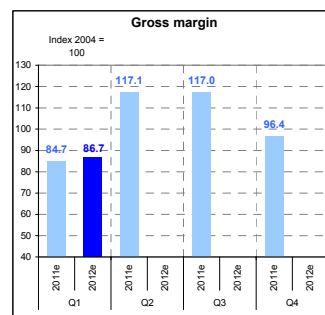
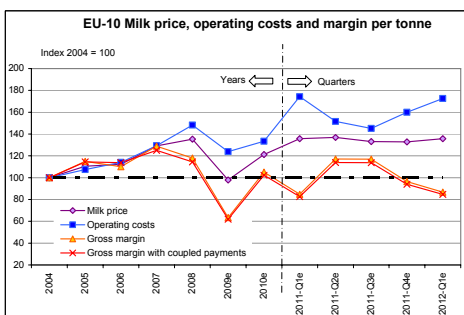
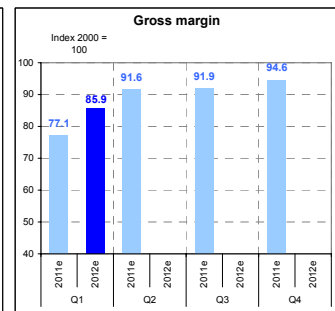
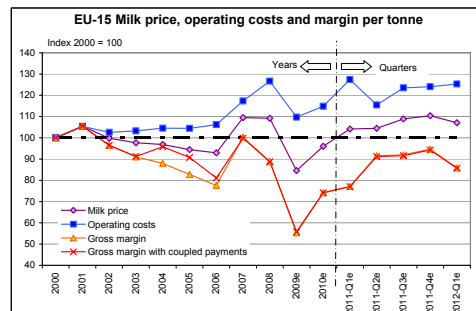
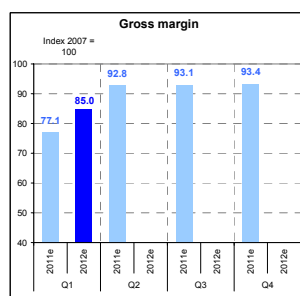
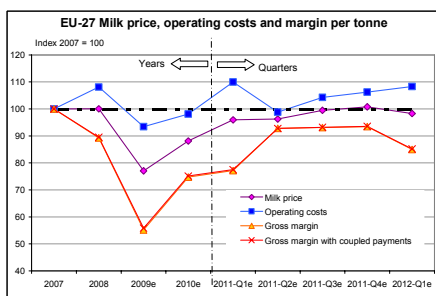
ANNEX 5. FARM MARGINS

From 2007 to 2009, EU milk **margins** dropped by 45% due to falling farm gate milk prices. Lower operating costs in 2009 did not compensate for the sharp milk price drop.

Since then, EU milk margins have recovered to near 2007 levels: in the last 3 quarters of 2011, EU milk margins were only 7% below their exceptional 2007 value. During most of 2011, increasing operating costs were compensated by increasing milk prices.

EU milk margins are estimated to have decreased in the 1st quarter of 2012 in the wake of decreasing farm gate milk prices linked to an increase in milk production, while operating costs continued a constant progression. It is however worth noting that the gross margin in the 1st quarter of 2012 is still higher than its level in the 1st quarter of 2011. The charts below display the evolution of margins for the EU as a whole and well as per group of MS (EU-15, EU-10 and EU-2).

The margins estimate for the second quarter will be available as from September 2012.



ANNEX 6. EU-EXPORTS AND WORLD MARKET PRICES

EU exports in the first four months of 2012 outpaced last year's level for cheese, SMP, whey powder and condensed milk, while a weaker trend was registered for WMP, butter and butter oil.

in 1 000 t	Jan-Apr 11	Jan-Apr 12	EU-27 % change
Condensed milk	76.4	83.0	8.6%
SMP	160.9	196.2	21.9%
WMP	149.2	127.6	-14.5%
Butter	37.7	30.0	-20.4%
Butteroil	10.7	5.3	-50.0%
Cheese	223.7	232.7	4.0%
Whey powder	137.4	169.6	23.4%

On the world market, prices are showing signs of recovery.

In US\$/t	01/07/2012			10/06/2012			% change in 1 month		
	EU	Oceania	USA	EU	Oceania	USA	EU	Oceania	USA
Butter	3 446	2 850	3 350	3 353	2 950	3 220	2.8%	-3.4%	4.0%
SMP	2 708	2 875	2 630	2 564	2 800	2 520	5.6%	2.7%	4.4%
WMP	3 188	2 950	3 160	3 132	2 750	3 190	1.8%	7.3%	-0.9%
Cheddar	4 341	3 600	3 640	4 290	3 600	3 630	1.2%	0.0%	0.3%

ANNEX 7. THIRD COUNTRIES

Milk production in the southern hemisphere is seasonally at a low level.

NZ milk deliveries in the first quarter of 2012 are 9.9% above the same period in 2011, after a 10.5% increase of the cumulative milk production in the 2011 calendar year. In the first 10 months of the season (June-March) NZ milk production is 9.7% above last year at the same period. On average payout to farmers for this season is expected to be around 30 €/100 kg milk (depending on the exchange rate used).

In **Australia** milk production was up by 3.9% in May, bringing cumulative milk production for the first 11 months of the season (July-May) 4.3% above last season's level. Milk prices paid to producers are quoted in the range of 4.5 and 4.9 AUD/kg milk solids, which is between 28 and 30 €/100 kg (depending on the exchange rate used).

In the **USA** milk production increased by 4.2% in the first 5 months of 2012 compared to the same period in 2011. Farm milk production is stepping down seasonally. Forecast milk production in 2012 is raised to +3% (after a 1.8% increase in 2011). The all milk price forecast for 2012 is lowered to 16.85\$-17.25\$ per CWT, which is between 29.6 and 30.3 €/100 kg (depending on the exchange rate used). Since the start of 2012, Cooperatives Working Together (CWT), the dairy farmer-funded self-help program managed by the National Milk Producers Federation (NMPF), helped members export 30 073 t cheese and 20 502 t butter/butteroil. In 2011, only cheese exports were subsidised by the programme.

Argentine milk deliveries in the first quarter of 2012 are estimated 12% above the same period in 2011, after a 16.7% increase of the cumulative milk production in the 2011 calendar year. For January 2012 the farm gate milk price amounts 1.504 ARG pesos/liter, which is 26 €/100 kg (depending on the exchange rate used).