Short- and medium-term outlook for EU dairy markets

Pierluigi Londero
Directorate-General for Agriculture and Rural Development
European Commission

USDA Outlook Forum, 23 February 2018
Outline

The EU Agricultural Outlook

• A tool for market anticipation and evidence-based policy making
• Going beyond the "million tonnes"

Dairy Outlook

• Short-term turbulence
• Medium-term drivers
Introducing the EU Agricultural Outlook 2017-2030

What is the Agricultural Outlook?

• Medium/long-term projections of agricultural markets and income, with focus on the EU

• Not as a forecast of what the future will be, but a description of what may happen under a specific set of assumptions

• Most commodities covered: grains, meats, dairy, biofuels, sugar as well as olive oil, wine and selected fruit and vegetables

• Results in terms of supply balance sheets (production, consumption, imports, exports, stocks) and prices

• Joint effort of DG Agriculture and Rural Development and the EU Joint Research Centre
Introducing the Agricultural Outlook 2017-2030

Why doing an EU Agricultural Outlook?

• To better understand markets and their dynamics

• To identify key issues for market and policy developments

• To have a benchmark for assessing the medium-term impact of future market and policy issues
Anticipating production trends starts by understanding consumers' demands

More consumers want food that:

- is produced in a sustainable way
- is healthy
- protects the environment
- helps fighting climate change
- respects the animals
- is fair to farmers
- is produced locally…

Can EU agriculture respond to this challenge?

How can the EU turn this challenge into an opportunity?
Who eats EU agricultural products?

EU remains the main market for EU agricultural products

- Around 90% consumed by the more than half billion European consumers
- But only small growth in population and per-capita food consumption

Around the world

- Growing demand for food, mostly due to population growth (although growth rates faltering) and income growth
- Often this demand growth not met by increase in their domestic production
- The EU is well placed to grasp these market opportunities
Big uncertainties for the future

**Will the Russian import ban continue?**
Assumed to continue until end 2018
Only gradual and partial recovery of EU exports to Russia

**What will be the impact of Brexit?**
As outcome of negotiation not known
Outlook for EU28 includes the United Kingdom

**What will be the impact of future trade agreements?**
The outlook does not include future agreements
Nor those recently concluded but not yet ratified

**Will prices be more or less volatile?**
The outlook assumes average weather and stable macroeconomic environment
However JRC assess the impact of past yield and macroeconomic variability

And many more: the outlook is used to assess the impact of different assumptions
Short-Term Outlook

• supply balance sheets for current and next year
• covering crops, meats, milk and dairy products, selected fruit and vegetables, wine and olive oil
• published 3 times/year
• expert-based exercise
Short-term Outlook: EU milk production without quotas

Lifting production quotas

2018 EU milk collection +1.4% / 2017 - draft

EU milk collection higher in the first half of 2018

... supported by:

- Good milk prices
- Low feed prices
- Good forage
2018 draft forecasts for dairy products

EU dairy products production %

Sustained EU exports in 2017
Performance maintained in 2018?

- WMP
- SMP
- Yogurt
- Liquid milk
- Cream
- Butter
- Cheese

EU milk going mainly into cheese production

- Total
- WMP
- SMP
- FDP
- Butter
- Cheese

2017/2016 vs 2018/2017

Performance maintained in 2018?
Focus on SMP

2 scenarios for 2018

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prod.</td>
<td>1 521</td>
<td>1 551</td>
<td>1 580</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Exports</td>
<td>805</td>
<td>805</td>
<td>750</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0%</td>
<td>-7%</td>
</tr>
<tr>
<td>Use</td>
<td>794</td>
<td>819</td>
<td>800</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Stocks</td>
<td>416</td>
<td>310</td>
<td>456</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-25%</td>
<td>10%</td>
</tr>
<tr>
<td>Intervention</td>
<td>376</td>
<td>276</td>
<td>376</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-27%</td>
<td>0%</td>
</tr>
<tr>
<td>Private</td>
<td>50</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td></td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>Change in stocks</td>
<td>-75</td>
<td>-70</td>
<td>30</td>
</tr>
<tr>
<td>out of which Intervention</td>
<td>25</td>
<td>-100</td>
<td>0</td>
</tr>
</tbody>
</table>
Medium-Term Outlook

• After difficult years, growing world and EU demand to support dairy markets

• Volatility remains present. Actors to develop strategies to address this.

• Higher value added products more resilient to price variability

• EU milk sector facing environmental climate change pressures
What we hear...

GREENHOUSE GAS EMISSIONS
GLOBALLY BY LIVESTOCK SPECIES

Lactose free
100% vegan
100% Guaranteed GMO FREE

Water footprint
Green water
Blue water
Grey water
Rain water used
Water used from surface and groundwater
Freshwater used to dilute pollution

Animal welfare

European Commission Agriculture and Rural Development
... and what we observe and expect for the future

An increase of dairy products consumption
- Less drinking milk
- But more butter, cream, cheese…

More processed products

More products of higher value added
Changing consumption habits

Production of prepared meals and retail sales and use in catering of pizzas (2010=100)

Share of individuals skipping at least 1 breakfast per week in

Outlook for liquid milk consumption (kg/capita)

→ EU liquid milk consumption to continue decreasing by 0.5 kg/capita per year

Source: DG Agriculture and Rural Development, based on Eurostat and Euromonitor

Source: CREDOC, 2013 CCAF surveys

Source: DG Agriculture and Rural Development
The EU domestic market
Main drivers of EU production growth

Average yearly change in milk domestic use
(million t milk equivalent)

- Moderate increase in milk production:
  → 182 Mt in 2030, +18 Mt in 13 years
- Domestic use also to process products → export
Milk price increase
Driven by demand
Continuous growth in world import demand

Though lower than in the past decade

- +1.7% per year in world consumption and production, i.e. +16 Mt/year
- +1.7% per year in world imports of SMP, WMP, cheese and butter, i.e. less than 1 Mt/year
- China remains the first world importer, with imports up by 3.7%/year
- Main importers: China, East Asia and Africa
- Towards more:
  → Value added products
  → Technical products

Global dairy trade annual increase (Mt of milk eq.)

Note: Based on trade of SMP, WMP, cheese and butter in milk equivalent (total solids). Source: DG Agriculture and Rural Development
Global dairy market

Global imports of dairy products (Mt of milk eq.)

Share of EU exports in global trade

- EU exports to expand by more than 400 000 t/year (in milk equivalent)
- More than 1/3 of world trade growth for cheese, SMP, WMP and butter

Note: * Africa without South Africa
Source: DG Agriculture and Rural Development
Towards changes in production systems

Driven by consumer expectations and to create value

The example of milk production:

→ Towards 10% of organic milk (assumption)

→ Yield gap <= lower decrease in cow numbers

Number of dairy cows (million heads)

- 30
- 25
- 20
- 15
- 10
- 5
- 0


*Cows *Yield

Million heads – ‘000 kg/cow/year
Towards changes in production systems

Driven by sustainability requirements and COP 21

Main issues in livestock production

- Water and air quality (Ammonia)
- GHG emissions

Potentially limiting supply development

Leading to changes in production systems

- production location and competition between farming activities
- nutrient management plan, biogas plants, better management
Thank you

Agricultural Outlook

Markets briefs

Market observatories
https://ec.europa.eu/agriculture/market-observatory_en

CAP reform
https://ec.europa.eu/agriculture/future-cap_en