



IDF Country Reports

IDF Factsheet – October 2016

Members of the IDF Standing Committee on Dairy Policies and Economics (SC DPE) from 15 countries¹ submitted country reports covering the six months leading up to October 2016.

This fact sheet highlights the main findings from the review of the country reports as prepared by Peter Dawson (UK) and presented to the Committee at the SC DPE meeting held in Rotterdam on 15th October 2016.

Milk Production

Latest production trends in reporting EU countries were weak or negative with the exception of strong growth reported for the Netherlands of +7.9% and Ireland of +10.0%. For the largest EU milk producing nations production trends were -1.8% for Germany, -1.7% for France and -7.4% for the UK.

In Oceania production in New Zealand production was down -1.7% and Australian farmers faced the challenge of depressed global markets, very dry conditions and high water prices.

In contrast milk production in north America was increasing with Canadian output up +4.0% and milk production up +1.7% in USA.

Farm Gate Prices

Generally all countries with a significant exposure to the world market showed negative annualized trends in farm gate prices. EU countries recorded declines between -8.1% in France to -18.0% in Ireland with Finland the outlier with -2.0%. In USA prices were down -4.7% and in New Zealand they were down by -7.5% with the 2015/16 price being the lowest in nine years.

The countries showing an increase were Norway +1.9%, South Africa +8.5%, Japan +1.0% and Canada at +0.2%. However, it was reported that in some EU countries milk prices had started to rise.

Wholesale and Retail Milk Prices

Wholesale commodity prices were beginning to recover in the EU and on the world market. However there was significant stock overhang in the EU with and in excess of 300KT of SMP held

by the European Commission. In the UK price movements had been amplified by a devaluation of sterling. In Canada strong demand for butterfat was outpacing demand for solids which was resulting in SMP stocks reaching historically high levels.

Retail price inflation for all food remains weak in the EU, ranging from -2.3% for the UK to +1.4% in the Netherlands. The highest rate of inflation was reported by South African at 11.5%.

In the USA demand for liquid milk in domestic markets increased by +2.4%.

Industry Restructuring

The restructuring of the dairy industry continues, with considerable mergers and acquisitions across the EU and Oceania.

Dairy Policy

In response to the market situation the European Commission has provided €150m to incentivize dairy farmers to reduce production. To be eligible for aid farmers would have to commit to reduce production compared to a base period starting in the quarter October to December 2015. Whilst this voluntary programme was over-subscribed it is not expected to have a significant impact on EU milk production levels as farmers had already cut production.

In addition the EU was also making available a further €350m principally to the dairy sector to



¹Australia, Canada, Denmark, Finland, France, Germany, Ireland, Japan, Netherlands, New Zealand, Norway, Poland, South Africa, United Kingdom and the USA.

provide exceptional adjustment aid to farmers.

In the USA for the second year the Margin Protection Program took in more money than was paid out to farmers. Futures markets indicated that the program would not make payments for 2017.

Environment

In the Netherlands Friesland Campina was providing an incentive to farmers to reduce production to help secure a continued derogation for the Netherlands from the EU Nitrates Directive. There was growing concern that regulations on emissions from agriculture would set a ceiling on growth in areas of the EU.

Other

The UK government had brought forward proposals for a tax on sugary drinks.

Summary

As a result of declining milk production, wholesale markets had begun to recover, particularly for cheese and butterfat. The protein market was subject to the overhang of EU stocks. These rises were beginning to percolate through to farm gate prices. The speed with which production would respond would depend on the indebtedness of farmers following the prolonged downturn in farm gate prices.

