



IDF Country Reports

IDF Factsheet – May 2014

Members of the IDF Standing Committee on Dairy Policies and Economics (SC DPE) from 16 countries submitted their respective country reports covering the six months leading up to March-April 2014. This fact sheet highlights the main findings from the review of the country reports as presented at the SC DPE meeting held in Milwaukee, USA, on April 29, 2014.

Milk Production

Recent milk production increased almost in every region of the World except for Oceania. The strongest production growth was observed in the European Union benefiting from slightly lower fuel, feed and fertilizer costs with the United Kingdom (12%), Germany (4.5%), the Netherlands (4.4%), Denmark (3.9%) and France (3.5%). France noted that their spring 2014 milk production is running at a rate of about 10% above last year. During the same period, milk production in India and Israel also increased by 5.5% and 7.1%, respectively. The most significant decreases in milk production were observed in Japan (-3.7%) and in Oceania (-2.1%). In North America, the US increased its milk production by 1% while Canada witnessed a decrease of 1%. Production is expected to be stable or increasing in most areas of the World. However, a longer than usual monsoon in India could affect milk production negatively in the coming months.

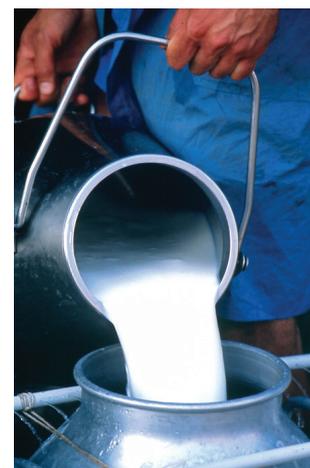
Farm Gate, Wholesale and Retail Milk Prices

Farm gate price signals were very strong globally with the most important prices recorded in the US (26%), in Australia (22.5%), in Denmark (22%), in France (19.6%), in Ireland (19%), in Germany (18.5%), in the United Kingdom (12.9%), in the Netherlands (11.5%), in Italy (9.1%) and in India (8.4%). These prices are outweighing the input price increases for most regions of the globe. The current farm prices and profitability in the US are record high for many regions.

Only Israel and New Zealand reported lower farm gate prices than a year ago with reductions of 4.7% and 3.4%, respectively. Several countries expect farm milk prices to ease a little over the coming months.

In general, wholesale prices have been relatively high over the last year but have softened since the beginning of 2014. Several countries noted continued decreased of fluid milk processing while butter and cheese productions are on the rise except for the UK where the butter market decreased 20% since September 2013. France also saw a 3% decrease in butter production. Japan reported reduced inventories of butter and SMP compared to last year. Several countries witnessed increase in exports: US with more than half of their production increases going to export trade as well as the UK and Italy recording increases in export activity by 15% and 7%, respectively.

Retail prices of major dairy products continued to increase modestly (less than 2%) in all reporting countries except for Germany retail prices increased by almost 3%. During the same period, Ireland retail prices reduced by 2%. Both Finland and Denmark reported strong drinking milk price increases during the review period in the 15-20% range. The higher fluid milk prices in the US are



reflecting the increased farm and wholesale value of milk but the increase sales of other beverages, almond beverage in particular, are starting to affect fluid milk sales.

The consumption trend for dairy products appears to be positive almost everywhere especially for butter, cheeses and yogurt. Canada noted that Greek style yogurt gained popularity amongst consumers and now accounts for 17% of its total yogurt market.

Industry developments

The European Union appears to be gearing up to exploit world market opportunities with the phasing out of the quota system for April 1, 2015. In particular, Denmark recently reached a political agreement on a series of growth initiatives for their agricultural and food sector covering environmental, export, research, innovation and investment initiatives. UK has set the goal of eliminating its dairy trade deficit on a value basis by the end of 2014.

The restructuring of the industry continued in the last six months with considerable investments and consolidation especially at the dairy processing level. Several investments were noted in France; a €50 m investment for the Chinese group Biostime in infant formula, a €55 m investment for Co-op L'Ermitage for additional cheese and whey production, a €60 m investment for Euroserum (a Sodiaal subsidiary) in demineralized whey for infant powder and a €12 m investment for pizza mozzarella cheese production by Eural.

In addition, France noted the merger of Sodiaal, 3A Co-op and Lacopab. Another merger involved Breton Co-op, Eural and Senegréal. Ireland reported a €3.5 m investment by Mondelez for chocolate crumb production as well as a €5 m for a dryer by North Cork Co-op.

In Australia, Harvey Fresh was acquired by Parmalat. In the Netherlands, two investments were noted: €9.7 m by Arla and €4.6 m by the German Hochwald. Fonterra completed its \$120 m UHT milk processing investment in Waitoa and the construction of several new dryers. In Canada, Saputo recently acquired 88% of Australian Warrnambool. There was also consolidation of the Maritime dairy processing which is now mostly controlled by Agropur and Saputo. Gay Lea Coop from Ontario also acquired Salerno Dairy.

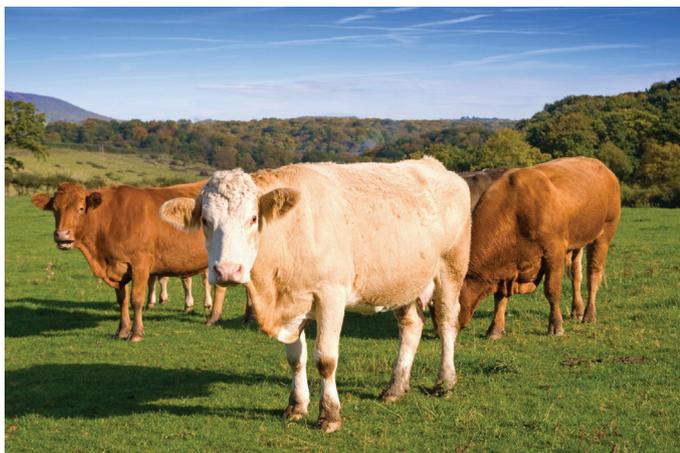
Policy developments

In the United States, the Agricultural Act 2014 was passed. Under this new Farm Bill, dairy producers can now be insured against income over feed costs based on national benchmark while the Milk Income Loss Contract (MILC) and countercyclical payments will be phased out in the fall 2014. The new policy also includes a Dairy Product Donation Program for worst margin scenario. The Federal Milk Marketing Order system will continue.



In Norway, the new government has recently appointed a Committee to analyze the market regulation system. The negotiation between the government and farmers are scheduled to start May 1 with the goal of looking at possible system alternative that would bring increased cost efficiency.

On the trade front, while there was no mention of WTO negotiations in the various country reports, several countries or regions completed the negotiation of bilateral agreements: Australia-Korea, Australia-Japan, NZ-Taiwan, NZ-China and Hong Kong, NZ-Russia and ASEAN as well as Canada-EU. The Trans-Pacific Partnership (TPP) negotiations are underway and the US and EU have also initiated discussions on a possible free-trade agreement (T-TIP).



In Australia, the voluntary front of pack labeling health star system is now endorsed by their government.

A New Zealand report on the first stage of the

Contamination Incident Government Inquiry into the whey protein concentrate (WPC) was released in December 2013 and found that the country's food safety regulatory model is consistent with international principles and is considered one of the best in the World. Meanwhile, the New Zealand Government has committed to allocate \$8-12m per year for re-enforcing its capability in emerging key export markets such as China.

In Ireland, the Minister for Agriculture, Food and the Marine launched a national sustainability and quality assurance scheme called the "Sustainable Dairy Assurance Scheme". Twenty measures will be monitored including animal health and welfare, quality and the environment.

In summary, the current and medium term world dairy situation outlook is quite positive as there are strong production incentives globally with high farm gate milk prices, easing feed costs and relatively good weather. Overall dairy product demand continues to be strong and retail price increases have been in line or even lower than inflation. The main uncertainties reside in the magnitude of the market correction that started in the last few months and whether that the new policy environments in the EU and the US will stimulate to milk production in the coming years.

