



Executive Summary of IDF Country Reports – October 2013

IDF Standing Committee on Dairy Policies and Economics (SC DPE)

IDF Factsheet – October 2013

Members of the IDF Standing Committee on Dairy Policies and Economics (SC DPE) from 18 countries submitted country reports covering the six months leading up to October 2013. This fact sheet highlights the main findings from the review of the country reports as presented to the Committee by Jim Begg (UK) at the SC DPE meeting held in Yokohama, Japan on October 27, 2013 and summarized by Gilles Froment (CA).

Milk Production

Recent milk production has generally been positive except for the southern hemisphere. European Union milk production was affected by favorable weather conditions. The largest increases were recorded in the Netherlands (6.9%), Ireland (5.7%), United Kingdom (4.6%) and Germany (3.3%). Milk production in India also increased over the same period (3.5%). The most significant decreases in milk production were observed in Oceania due to high feed prices and drought conditions. New Zealand saw its milk production reduced by 13% and Australia by 4%. Other countries experiencing declines included Japan (-3.5%), Italy (-3%) and France (-2.6%). The remaining reporting countries noted dairy production increases mostly below 2%.

Farm Gate, Wholesale and Retail Milk Prices

Farm gate price signals were strong in almost all reporting countries with notable increases in Germany (+30%), Ireland (29%), the Netherlands (25%), Australia (24%), United Kingdom (19%), Sweden (13%), the US (6.5%), Norway (5%), Finland (4.1%) and India (4%). New Zealand (-3.4%) and France (-8%) saw relatively important reductions in farm gate prices. Canada, Israel, Italy and Japan continued to experience a relatively stable period with farm gates price changes below 3%. The prospects for farm milk prices remain quite positive for the European Union and the United States as feed costs are declining due to good crops. With

commodity prices recovering and a return to more normal weather conditions, milk prices in New Zealand also have a positive outlook.

In general, wholesale prices in the European Union markets appear to be strengthening with ex-factory prices for liquid milk, butter and cheeses increasing in France and the UK. Against this trend Italy saw a wholesale price reduction in the first half of 2013.

Retail prices continued to increase moderately in the 1-4% range in all reporting countries except for Germany and Israel with recorded increases of 10.5% and 6.4%, respectively. During the same period, New Zealand retail prices reduced by 1%. The consumption trend for dairy products appears to be positive almost everywhere especially for cheeses and yogurt. While fluid milk consumption showed increases of 8% in Denmark and in Australia mostly due to the spreading of the coffee culture, it continues to decline slightly in Canada and Japan. The strong increase in the Norwegian butter consumption observed in the recent years seems to have eased.

Industry developments

The prospects are positive for the European Union with relatively high milk prices expected to continue well into 2014 and very positive for Oceania with prices expected to finish the 2013-14 year about 20-25% higher than last year.

The restructuring of the dairy industry continues, with considerable consolidation at both the



producer and processor level. In Denmark, the number of producers declined by almost 7% in the last year compared to 1.7% in the previous year. 16% of Danish dairy farms were insolvent at the end of 2012. Germany also witnessed a decline of farm numbers (4.7%). In Israel, about 10% of their farms will cease operations in 2013 bringing the total to 940. In the US, it is reported that the lower cost of feed combined with more stable prices driven by record exports is contributing to improved producer margins.

On the processing side, in France the first (Sodiaal) and third (3A) largest dairy cooperatives announced their merger last June, while another cooperative has started a partnership with a Chinese group to increase their infant formula production. In the Netherlands, the Dutch Dairy Board is being restructured and Friesland Campina announced investments in infant food formula (€135M) and evaporated milk (€110M). Arla also announced that they will become co-owners of Amba in the UK as of January 1, 2014. Fonterra commissioned their new Darfield processing plant in the last year which includes the world's largest milk powder dryer. Other companies are also investing in new plants.

Canada experienced considerable restructuring at the retail level with Sobeys acquiring Canada Safeway and the introduction of the second largest US retailer Target with the expectation of opening more than 100 large retail surface stores by 2014.

Policy developments

In Norway, the new government has recently committed to making agriculture less dependent on state transfer payments and aims to reduce costs and provide farmers with new and better

income possibilities. This could eventually bring a tariff reduction.

In France, a mediator was appointed to help with the tense relationship between farmers and retailers and with the objective of achieving increased producer prices in line with the cost of production.

In India, the government approved the National Livestock Policy in April 2013 focusing on increased livestock productivity and production sustainability, protecting the environment, and improving biosecurity and farmers livelihoods.

In Finland, the Nordic Nutrition recommendations were published in the last month which includes low fat alternatives to dairy and meat as part of a healthy diet and recommends keeping trans-fatty acids as low as possible.

On the environment front, the 2011 New Zealand National Policy Statement for Freshwater Management requires that limits be set by 2014. The new Australian government has cancelled the carbon tax policy. In the UK, pilot badger culls are being undertaken in two regions.

With respect to trade policy, WTO discussions remain on the back burner while bilateral negotiations are multiplying (e.g. Canada-EU (CETA), US-EU (T-TIP), NZ-Taiwan and TPP).

In summary, there is continued optimism as to the future of the global dairy industry, with strong production incentives such as the easing of feed prices, high milk prices and good weather. The consumption trend is also positive. The question is when will the market turn around?