



# IDF Country Reports

IDF Factsheet – December 2014

*Members of the IDF Standing Committee on Dairy Policies and Economics (SC DPE) from 16 countries submitted country reports covering the six months leading up to November 2014. This fact sheet highlights the main findings from the review of the country reports as presented to the Committee by Peter Dawson (UK) at the SC DPE meeting held in Paris, France, on December 2, 2014.*

## Milk Production

Recent milk production has generally been strongly positive in all major milk producing regions that have significant exposure to the world market.

All regions benefited from high milk prices and low feed input costs with no reports of unfavourable weather conditions. The largest percentage increases were recorded in France (+6.3%), United Kingdom (5.8%), Ireland (+4.4%) and New Zealand (+6.8%), with probably the largest absolute volume increase coming from the USA with +3.5%. The only countries recording declines were Norway (-1.7%), Japan (-1.6%) and Canada (-0.5%).

## Farm Gate

Farm gate price trends in Europe were mixed with small positive trends in Finland (+2.0%), France (+4.6%) and Norway (+3.0%) and negative trends for remaining countries ranging between -2.0% in Denmark to -9.0% in Belgium.

The latest reported trend in the USA was still strongly upward with an increase of +32.1%.

Farm gate prices are expected to fall following the trend in wholesale markets. Denmark, Germany, Ireland and the Netherlands face the prospect of superlevies to curtail milk production, but, whilst it is unlikely that the European Union will reduce the penalty for over-production, it is not expected that the threat of superlevy will act as a major disincentive to output. Low feed prices and farmer investments in capacity on the expectation of quota abolition are expected to further offset the effect of price cuts on production.

<sup>1</sup>Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Poland, United Kingdom and United States.

In New Zealand milk production has been progressing well for the 2014/15 season but revenue from exports are expected to fall by 10% with a consequential impact on farm gate prices.

## Wholesale and Retail Milk Prices

Wholesale prices were under pressure around the world.

In the EU markets were being particularly affected by the Russian import ban, with the Netherlands, Finland, France, Germany reporting market difficulties. European Union market support measures were generally seen as ineffective in mitigating the impact of the ban. However, the time lag in wholesale contract renegotiation in Germany and the use of formulas in France was slowing the impact on farm gate prices in these countries.

The divergence between the US internal market and world prices was finally beginning to pull down American wholesale prices.

Despite weakening prices many countries reported strong growth in export volumes including Italy, the Netherlands and the USA.

Retail price inflation for all food remains weak in the European Union with few countries exceeding +1%. Retail prices for dairy were reported to be under pressure in Germany and France.

Several countries reported positive growth trends for cheese (France, Finland and UK) but a mixed performance for other products. In the USA consumption trends for liquid milk were negative (-2.1%) but positive for cheese (+1.1%). Japan recorded a continuation of the decline in liquid milk consumption (-2.3%).

### *Industry developments*

The restructuring of the dairy industry continues, with considerable mergers and acquisition activity in Europe and investment in new plant. New capacity in Europe includes demineralized whey, microfiltration and cheese packaging plants. It also includes a €20M investment in La Laiterie Saint-Père, a liquid processing plant owned by the French retail group Intermarché, to raise capacity by 50ml. Poland reported on the consolidation of co-ops in preparation for quota abolition.

Investment in capacity in New Zealand continues. Fonterra has been given approval to build 4.4M lbs drier at Lichfield. Fonterra will also build three plants in Edendale, South Island, consisting of milk protein concentrate plant, reverse osmosis plant and an anhydrous milk fat plant. Tatua will be building NZ\$65.5M plant for specialised powders and Open Country has begun construction of new drier at Wanagnui.

### *Policy developments*

Some progress has been made in the reform of the dairy sector in Norway. The government has appointed a committee to analyse the market regulation system to explore alternatives, including removing all market regulation. The goal is to increase competition and achieve better exploitation of resources. Some parties are advocating the end of export subsidies.

In the Netherlands a law on dairy cattle is being finalized for 1st January 2015 which will effectively set the boundaries and conditions for further growth of the dairy industry.

Important requirements in Danish animal welfare legislation came into force in June 2014. The legislation specifies among other things that each cow must have a bed and feeding space.

European Commission proposals for revising the EU regulations for organic farming were causing considerable concern to the sector because they could render organic milk production economically unviable.

In the USA, the Margin Protection Programme is being implemented since September 1, 2014. Price curves from the futures market implied that the programme would not be triggered in 2015.

Bilateral and regional trade agreements were being progressed but there was no movement in the WTO negotiations.

### *Summary*

The world market was undergoing a cyclical downturn caused by high milk production induced by low feed prices, good weather and high farm gate prices exacerbated by the Russian import ban and the reduction in Chinese imports due to stock build up. There is uncertainty over the magnitude and duration of the market correction. Any producer response to declining prices will depend on the speed and severity of the price signal, the impact of superlevy in the EU, the level of feed prices, weather effects and any policy interventions by governments. However, significant investment in new processing capacity continues on the expectation of continued long term growth in milk production.

