

EU Dairy Industry at Crossroads

The EU dairy industry is in the midst of dealing with the aftermath of the most sweeping policy changes it has seen in more than three decades.

A continent that is accustomed to high taxes and large government programs is now trying to devise creative ways to help struggling EU dairy producers remain in business at the same time it is trying to contain a burdensome milk supply.



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Dairy product prices in Europe have plunged to multiple-year lows, and government stocks of dairy products are building. From Jan. 1 through Feb. 21, 44,642 metric tons of skim milk powder, or 41% of the 109,000 metric ton allotment, has piled up in Intervention stocks. Government-supported private storage stocks are also building, with 31,877 metric tons of cheese, 27,422 metric tons of butter, and 12,910 metric tons of skim milk powder having received private storage aid between Jan. 1 and Feb. 21.

Output in 2015 in the EU-28, was up 2.5% compared with 2014 production. Ireland posted the strongest year-over-year increase in 2015 of 13.3%. Luxembourg logged the next strongest gain of 8.8%, followed by Belgium, up 7.2%, and the Netherlands, up 6.8%.

A 2.5% year-over-year milk production gain in Europe, the world's largest milk-producing region, translates into more than 8 billion pounds of milk, equal to New Mexico's annual milk output. Last year's robust post-quota gain comes on top of 2014's astounding 4.8% (15 billion pounds) gain, which was driven by exceptional milk prices. European milk production gains in 2014 and 2015 equate to 23 billion pounds. That's equal to Minnesota's and New York's 2015 combined annual milk production.

Given the continent's history of government intervention, it should come as no surprise that dairy interests in several EU countries, including Austria, the Netherlands, and France, as well as Norway, which is not an EU member, are all trying to figure out how to stop the overflow of milk while supporting their dairy producers.

For example, in Austria, the protest group IG Milch

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Ken's Corner

*by Ken Meyers
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The sheer size of the EU milk shed is staggering. The EU-28 countries produce about 1.5 times the amount of milk produced in the United States. The trading bloc also produces 11 million metric tons more milk than the United States, New

Zealand, Australia, and Argentina combined.

In 2015, the EU-28 nations put an additional 3.6 million metric tons of milk on the world market at a time when world milk prices are at multi-year lows.

The current generation of EU milk producers is not used to paying attention to market signals. Since 2013, in preparation of the elimination of quota and in the first nine months post-quota, EU-28 producers added 364,000 milk cows. At more than 23.5 million milk cows, the EU milk herd is about 2.5 times the size of the U.S. herd.

With EU production only 1.5 times the size of U.S. output, the size of the EU milk cow herd illustrates that there is either lots of room for output per cow to increase in Europe or lots of inefficient herds that will likely be the first casualties of the post-quota era—that is, if European governments can stomach the unfolding crisis. **MCT**

Stocks Build but China Demand Up

U.S. January butter stocks of 196 million pounds stand second only to January 2013's stock level during the past decade. January cheese stocks topped 1.18

billion pounds, 12.8% higher than last year. On a positive note, China's whole milk powder (WMP) imports of 264.9 million pounds in January were just 10.4 million pounds

short of January 2014's record level. China's WMP and skim milk powder imports combined were up 50% from January 2015. The China/New Zealand Free Trade Agreement's allotment of 140,000 metric tons of milk powder to be filled on a first-come first-served basis was filled by Jan. 19, making it difficult to measure whether China's demand is robust or distorted by the first-come first-served trade allotment. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Feb	1.4740	1.4570	13.80	2.0840	13.45	0.2440	0.7700
Mar	1.4650	1.4350	13.75	1.9450	12.70	0.2475	0.7700
Apr	1.4500	1.4250	13.60	1.9000	12.50	0.2625	0.7900
May	1.4850	1.4650	13.85	1.9500	12.85	0.2800	0.8150
June	1.5350	1.5150	14.05	1.9750	13.30	0.2900	0.8350
July	1.5750	1.5500	14.50	2.0000	13.70	0.3025	0.8700

* CME prices.

**NASS prices.

...calls to action

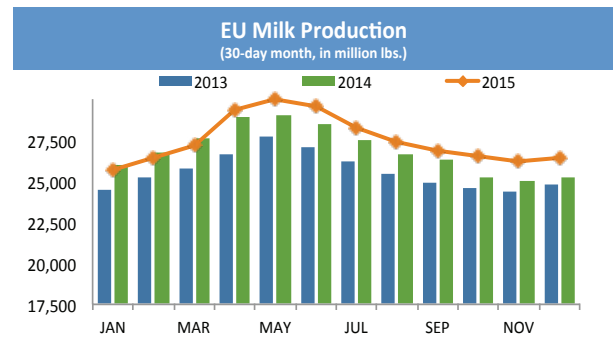
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has asked the European Commission to reintroduce milk quotas throughout the European Union. IG Milch also wants the commission to institute a minimum retail price of 0.5 euros per liter for conventional milk, which now costs only 0.31 euros, to help cover farm production costs.

France is also trying to garner support from other EU nations to ask the European Commission to intervene by taking steps similar to those taken last summer, when the EU provided €420 million in emergency support to help agricultural producers. Dairy producers received the vast majority of that aid.

Netherlands-based FrieslandCampina, one of Europe's largest dairy co-ops, opted to pay its members €14.1 million to limit milk production between Jan. 1 and Feb. 11. Over that six-week period, milk production in the Netherlands was reduced by 77.2 million pounds.

However, not all European countries can afford to dole out more subsidies. Western Europe's largest producer of crude oil, Norway, which is not an EU member, for instance, is teetering on the brink of



recession and considering lowering payments to farms as it copes with plunging oil prices.

The recent *Economic Surveys: Norway 2016* published by the Organization for Economic Cooperation and Development (OECD) notes that dairy farmers in Norway get an average of \$64,000 a year in subsidies, which translates into \$1,168 per Norwegian household. "These levels of high support are likely to become increasingly untenable over time," OECD says in the report.

The European dairy sector's economic woes are not entirely due to overbuilding milk supplies. Russia trade sanctions implemented in August 2014 cut Europe off from its largest cheese export market. If the EU and Russia make amends in the near future, presumably member states would need less government support. **MCT**



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