European Commission

Short- and medium-term outlook for EU dairy markets

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European Commission

USDA Outlook Forum, 23 February 2018

Agriculture and Rural Development

Outline

The EU Agricultural Outlook

- A tool for market anticipation and evidence-based policy making
- Going beyond the "million tonnes"

Dairy Outlook

- Short-term turbulence
- Medium-term drivers

Introducing the EU Agricultural Outlook 2017-2030

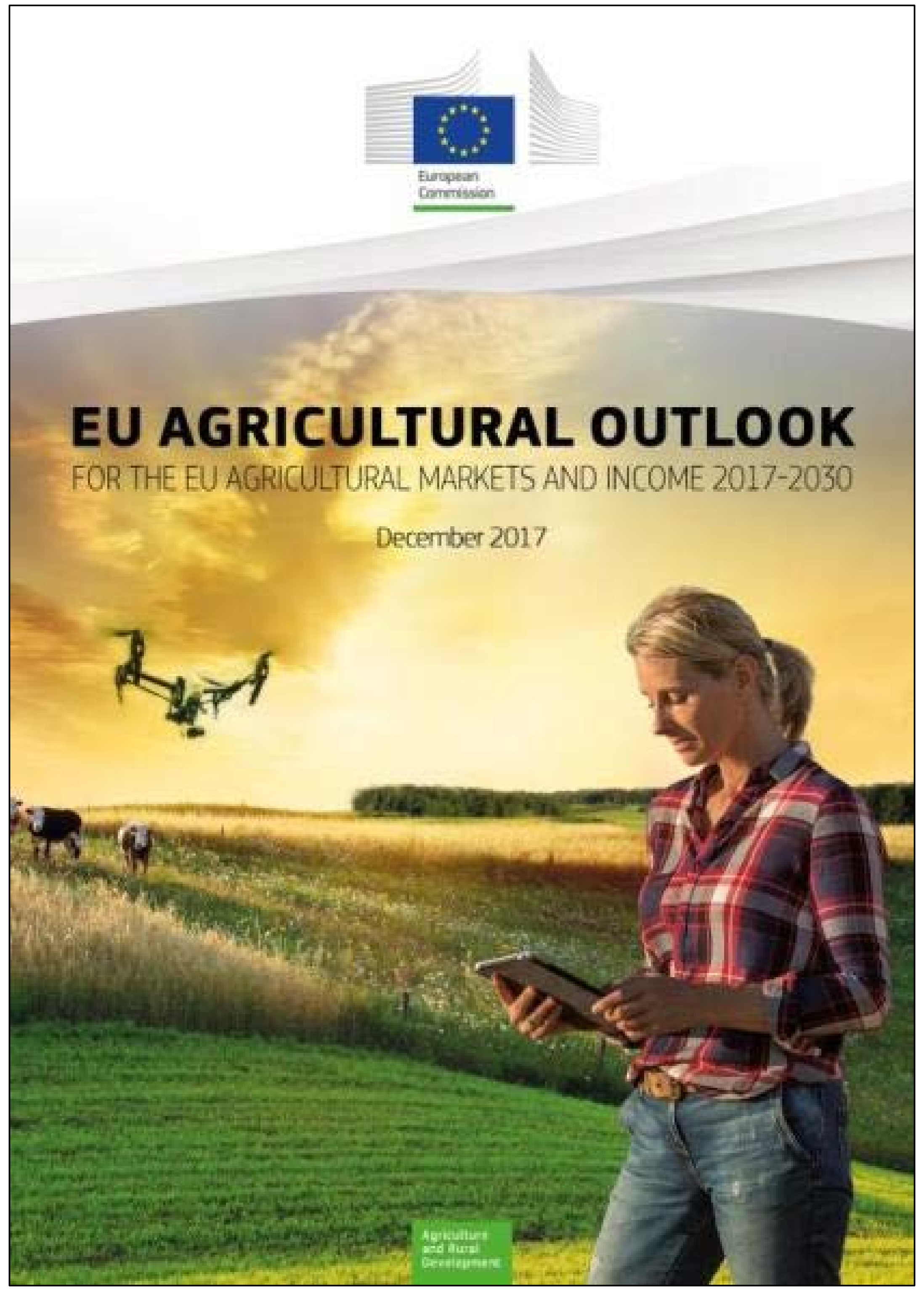
What is the Agricultural Outlook?

- Medium/long-term projections of agricultural markets and income, with focus on the EU
- Not as a forecast of what the future will be, but a description of what may happen under a specific set of assumptions
- Most commodities covered: grains, meats, dairy, biofuels, sugar as well as olive oil, wine and selected fruit and vegetables
- Results in terms of supply balance sheets (production, consumption, imports, exports, stocks) and prices
- Joint effort of DG Agriculture and Rural Development and the EU Joint Research Centre

Introducing the Agricultural Outlook 2017-2030

Why doing an EU Agricultural Outlook?

- To better understand markets and their dynamics
- To identify key issues for market and policy developments
- To have a benchmark for assessing the medium-term impact of future market and policy issues



Anticipating production trends starts by understanding consumers' demands

More consumers want food that:

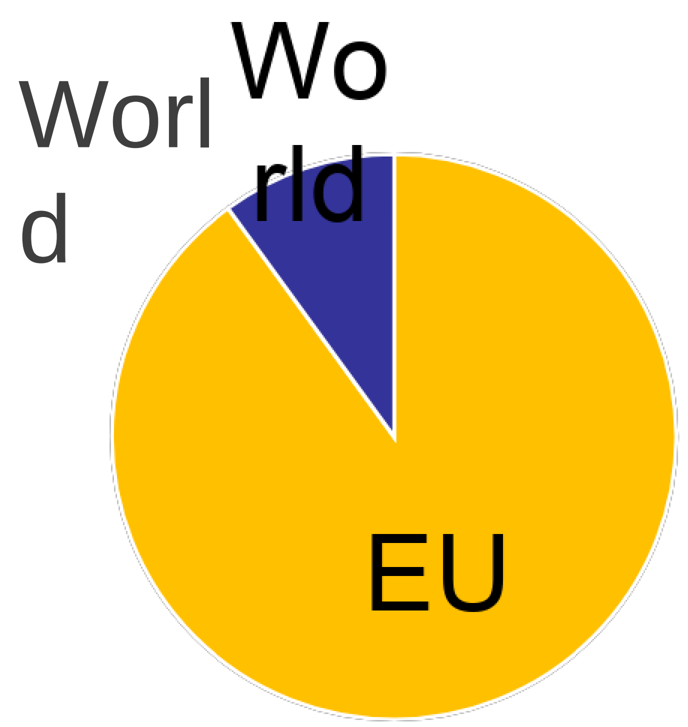
- is produced in a sustainable way
- is healthy
- protects the environment
- helps fighting climate change
- respects the animals
- is fair to famers
- is produced locally…

➡ Can EU agriculture respond to this challenge?

➡

➡ How can the EU turn this challenge into an opportunity?

Who eats EU agricultural products?



EU remains the main market for EU agricultural products

- Around 90% consumed by the more than half billion European consumers
- But only small growth in population and per-capita food consumption

Around the world

- Growing demand for food, mostly due to population growth (although growth rates faltering) and income growth
- Often this demand growth not met by increase in their domestic production
- The EU is well placed to grasp these market opportunities

Big uncertainties for the future

Will the Russian import ban continue?

Assumed to continue until end 2018

Only gradual and partial recovery of EU exports to Russia

What will be the impact of Brexit?

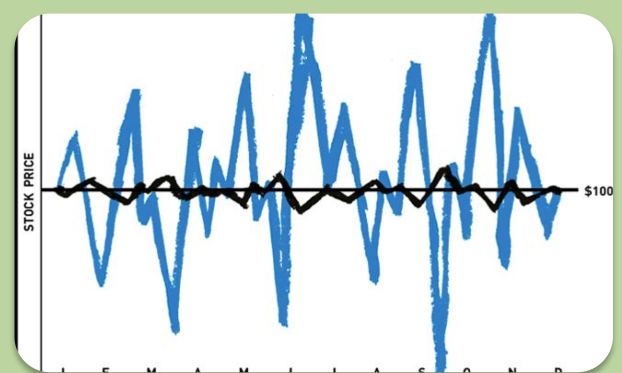
As outcome of negotiation not known

Outlook for EU28 includes the United Kingdom

What will be the impact of future trade agreements?

The outlook does not include future agreements

Nor those recently concluded but not yet ratified



Will prices be more or less volatile?

The outlook assumes average weather and stable macroeconomic environment

However JRC assess the impact of past yield and macroeconomic variability

And many more: the outlook is used to assess the impact of different assumptions

Short-Term Outlook

- supply balance sheets for current and next year
- covering crops, meats, milk and dairy products, selected fruit and vegetables , wine and olive oil
- published 3 times/year
- expert-based exercise

European Commission

Summer 2017

Short-term outlook

for EU agricultural markets in 2017 and 2018

HIGHLIGHTS

- EU cereal production expected to be below average for a further year, in a context of ample global supply.
- Significant increase of beet planted area in this first year without quota.
- Modest milk production growth in the EU, in a context of sustained demand for dairy fat.
- Good EU meat exports, but falling for pigmeat, owing to lower availability.

As a result of heatwaves and drought in various regions EU cereal production is likely to be slightly below average in 2017/2018 for the second year running, slowing down EU exports and tightening EU stocks. However, global supplies are expected to be ample, and world prices are not expected to rise significantly. Total oilseeds and protein crops production in the EU is expected to recover after 2 lower harvests. EU 2017/2018 white sugar production is forecast 20 % above 2016/2017, mainly driven by an increase in planted area. This production level is only 3 % above the 2014/2015 harvest.

Despite lower olive oil production in the EU and globally in 2016/2017, demand remains strong in non-producing countries, leading to high prices.

Milk production is expected to be higher than last year in the second half of 2017. The size of the increase will depend largely on weather and pasture conditions. A butter shortage, a strong cheese market and high SMP exports are the 3 main current features of the dairy market.

Good beef exports help to balance supply and demand on the domestic market. The dip in EU pigmeat production has pushed up prices and lowered exports. Poultry production and trade have resisted several episodes of bird flu (avian influenza) by diverting trade. EU sheep and goat production continues to rise, while meat exports are performing above expectations.

This report has been drawn up for the EU-28 under constant policy assumptions, with the Russian import ban assumed to be in place until the end of 2018.

Contents

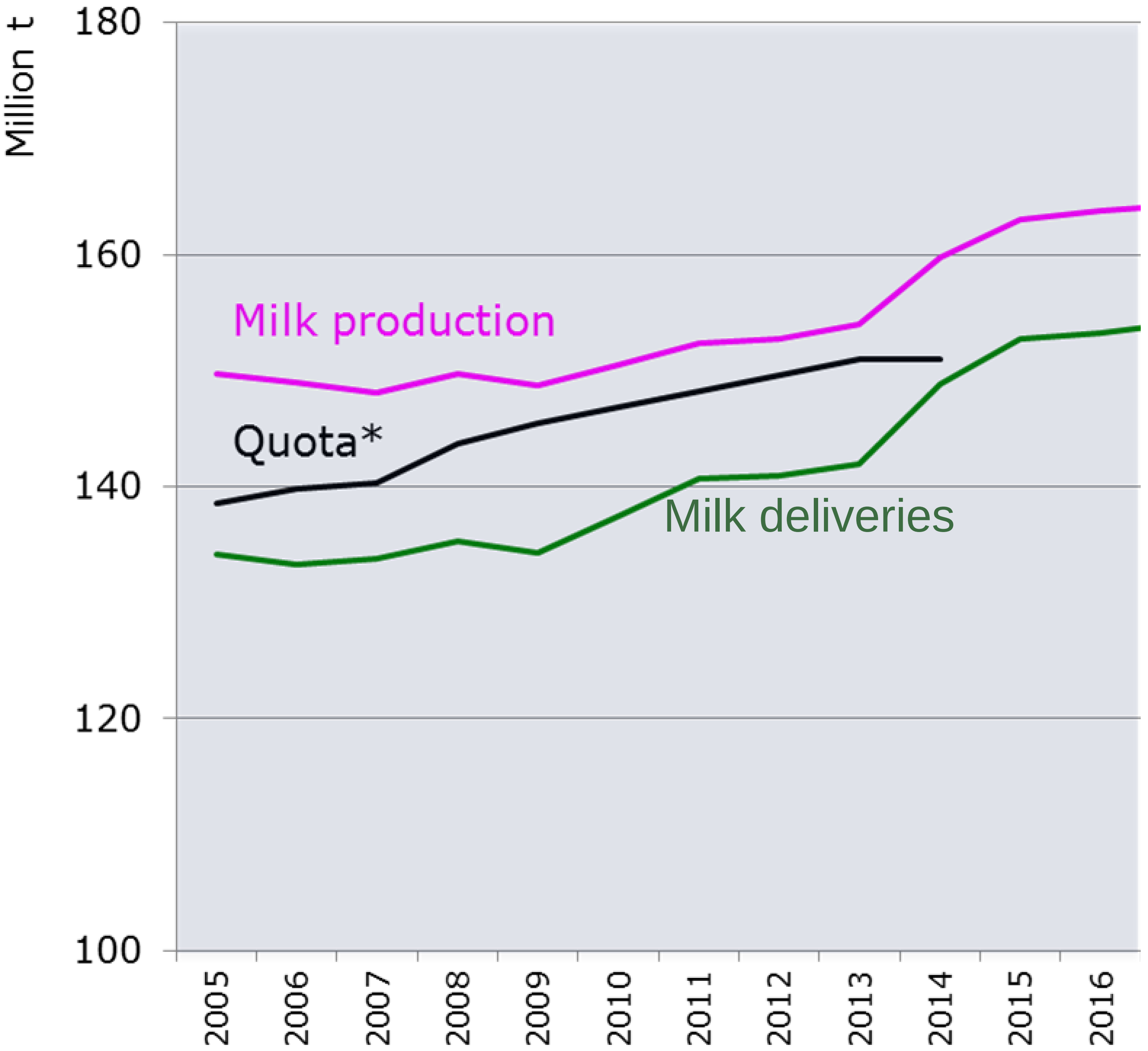
This report presents the outlook for 2017-2018 as regards arable crops and meat and dairy markets in the EU. It is the result of analysis carried out by market experts in the European Commission's Directorate-General for Agriculture and Rural Development. It is based on data available up to 15 June 2017. The next issue is due in the autumn of 2017.

Directorate-General for Agriculture and Rural Development — Short-term Outlook — No 18
http://ec.europa.eu/agriculture/markets-and-prices/index_en.htm

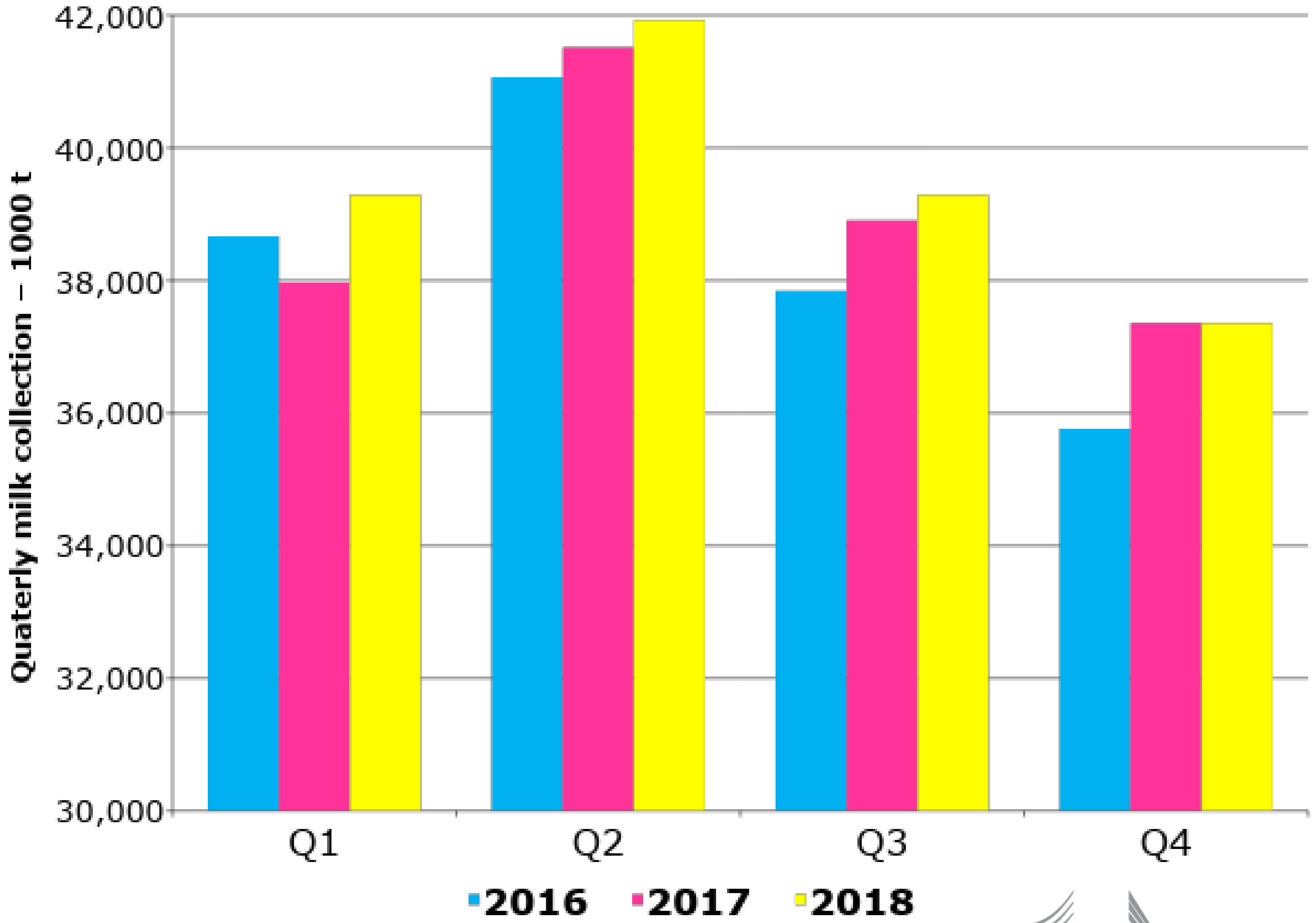
Agriculture and Rural Development

Short-term Outlook:
EU milk production without quotas

Lifting production quotas



2018 EU milk collection +1.4% / 2017 - draft



EU milk collection higher in the first half of 2018

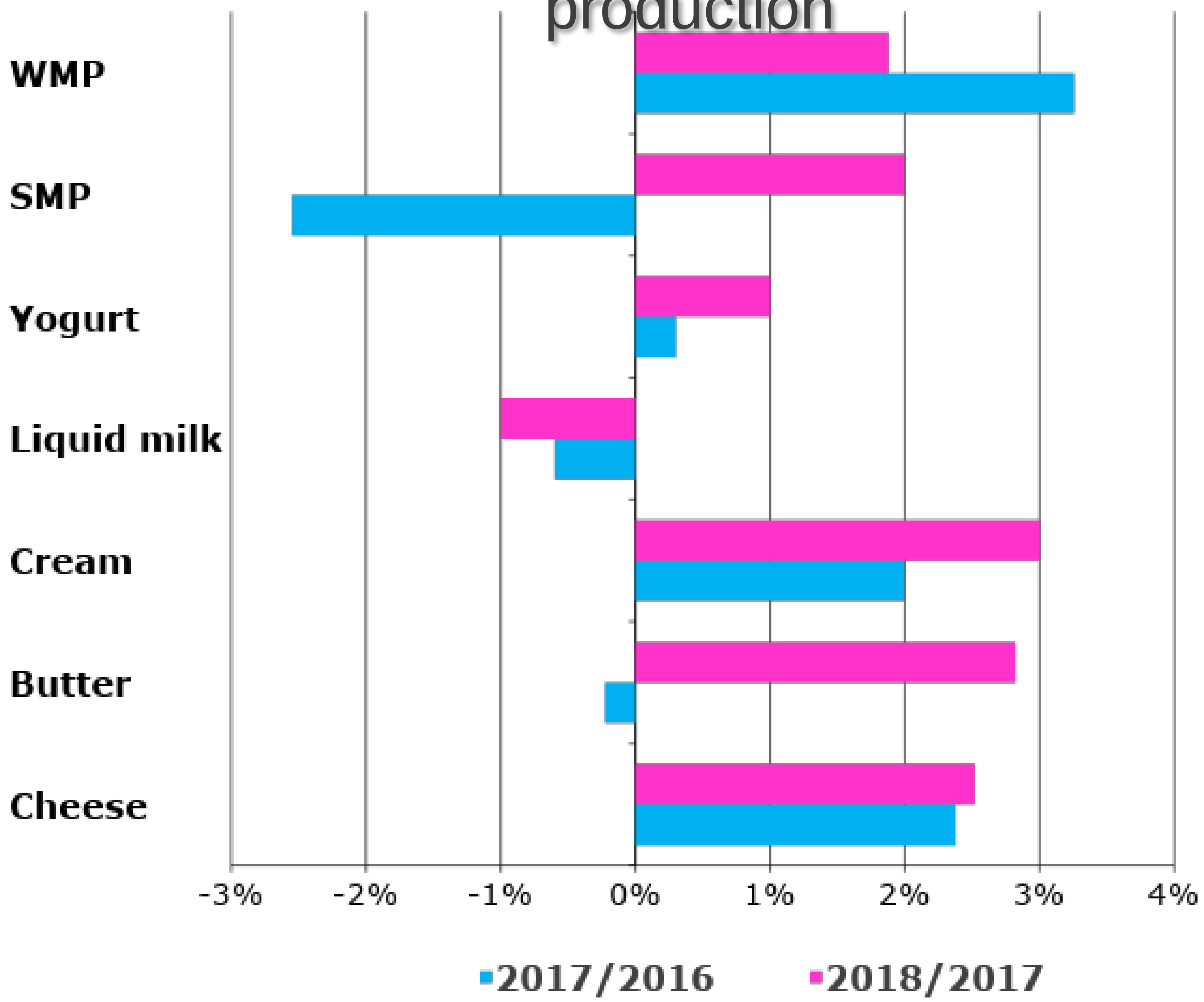
… supported by:

- Good milk prices
- Low feed prices
- Good forage

2018 draft forecasts for dairy products

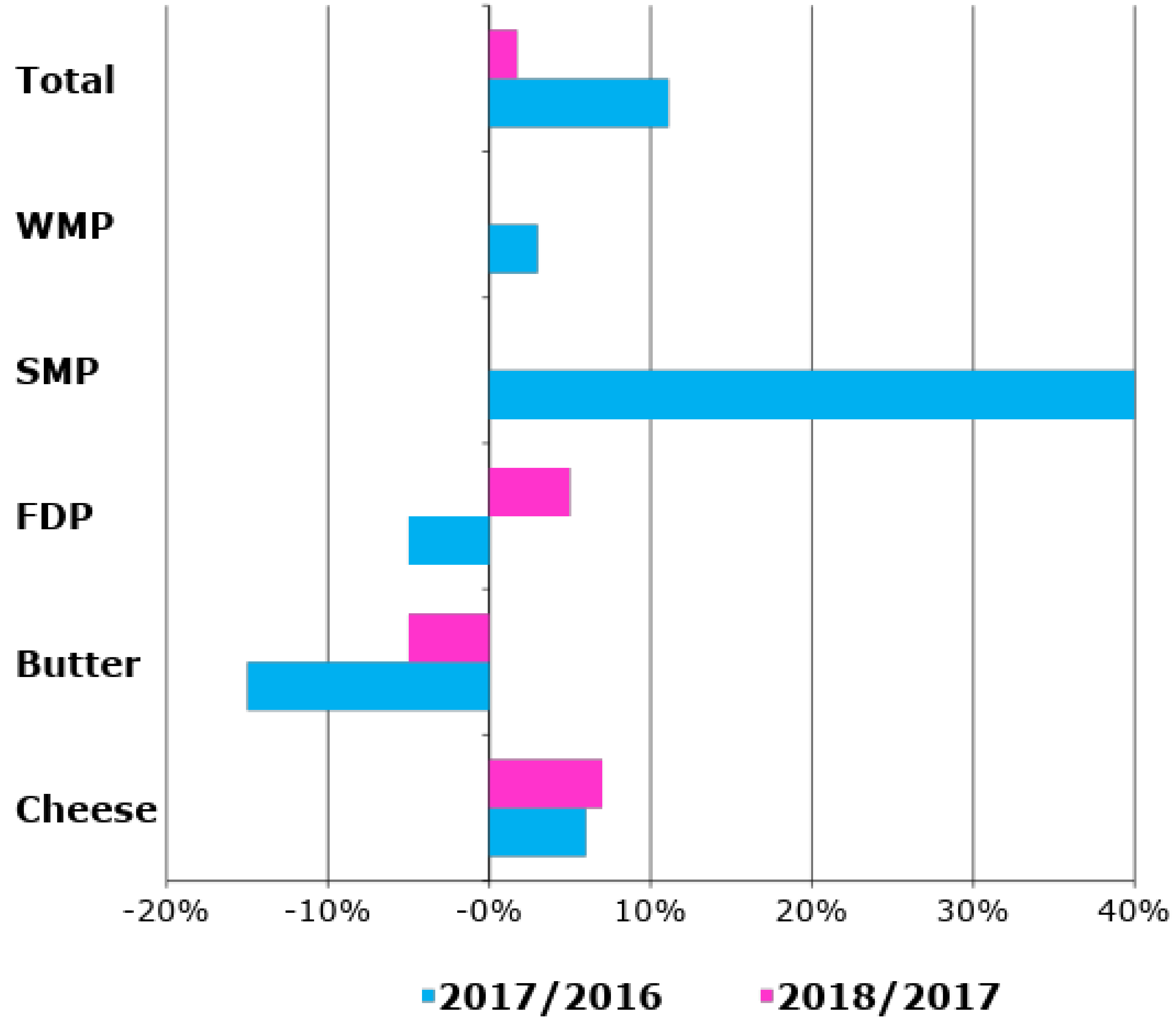
EU dairy products production % change

EU milk going mainly into cheese production



Sustained EU exports in 2017

Performance maintained in 2018?



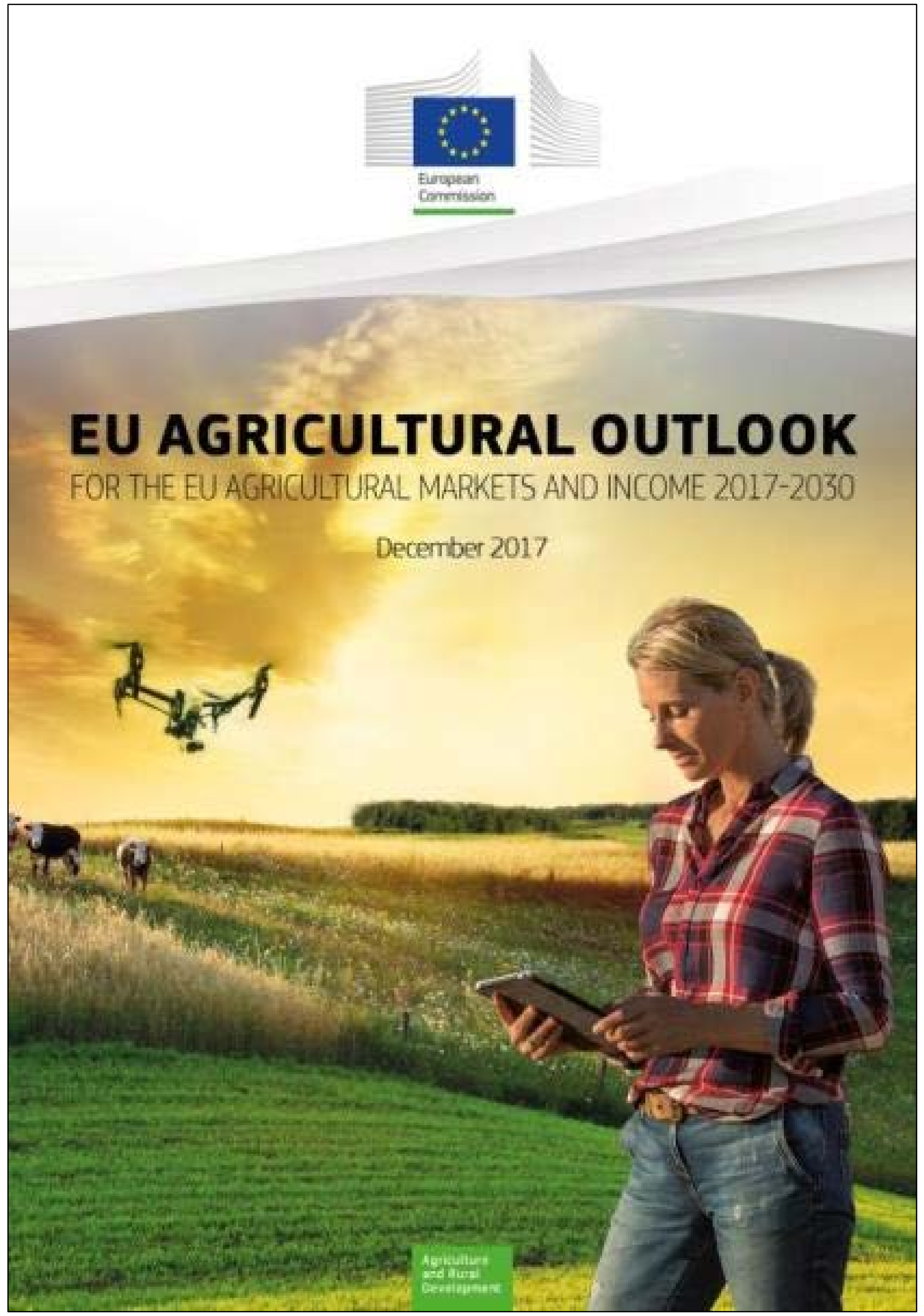
Focus on SMP

2 scenarios for 2018

	2017	Scenario 1		Scenario 2	
		2018	18/17	2018	18/17
Prod.	1 521	1 551	2%	1 580	4%
Exports	805	805	0%	750	-7%
Use	794	819	3%	800	1%
Stocks	416	310	-25%	456	10%
Intervention	376	276	-27%	376	0%
Private	50	80	60%	80	60%
Change in stocks	-75	-70		30	
out of which Intervention	25	-100		0	

Medium-Term Outlook

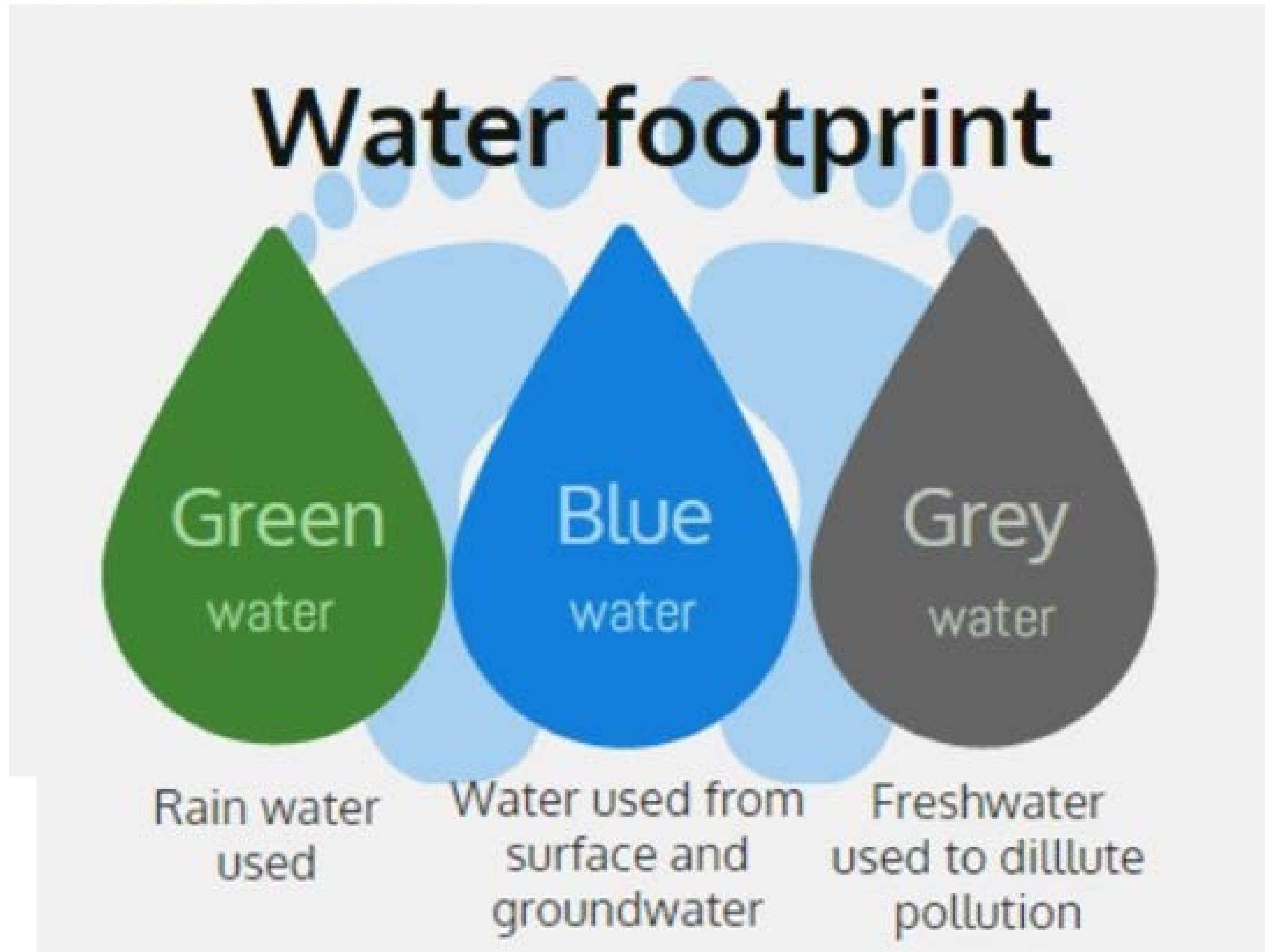
- After difficult years, growing world and EU demand to support dairy markets
- Volatility remains present. Actors to develop strategies to address this.
- Higher value added products more resilient to price variability
- EU milk sector facing environmental climate change pressures



What we hear…

GREENHOUSE GAS EMISSIONS
GLOBALLY BY LIVESTOCK SPECIES

100% vegan



Animal welfare

100% Guaranteed
GMO
FREE

… and what we observe and expect for the future

An **increase of dairy products** consumption

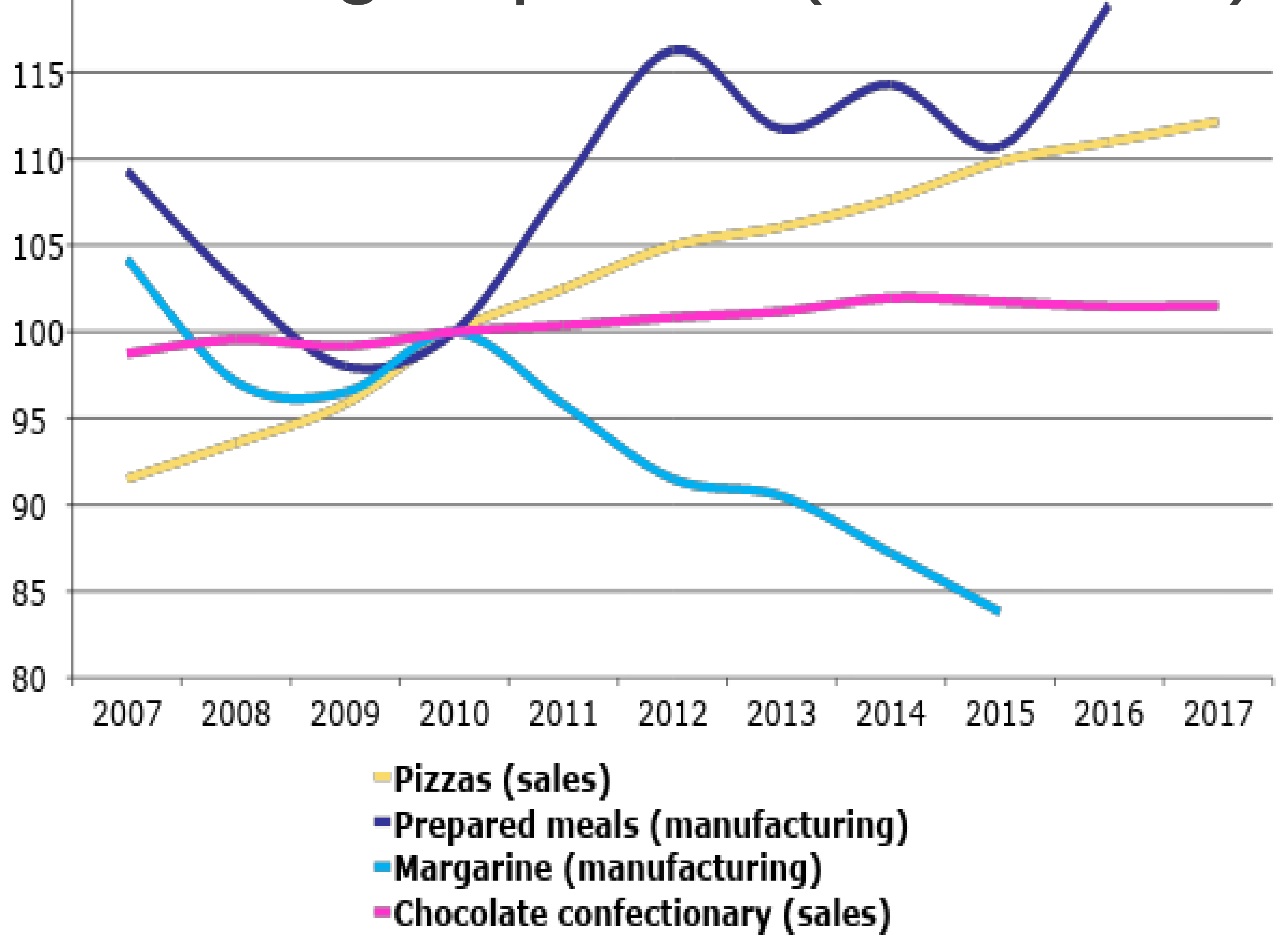
- Less drinking milk
- But more butter, cream, cheese…

More processed products

More products of **higher value added**

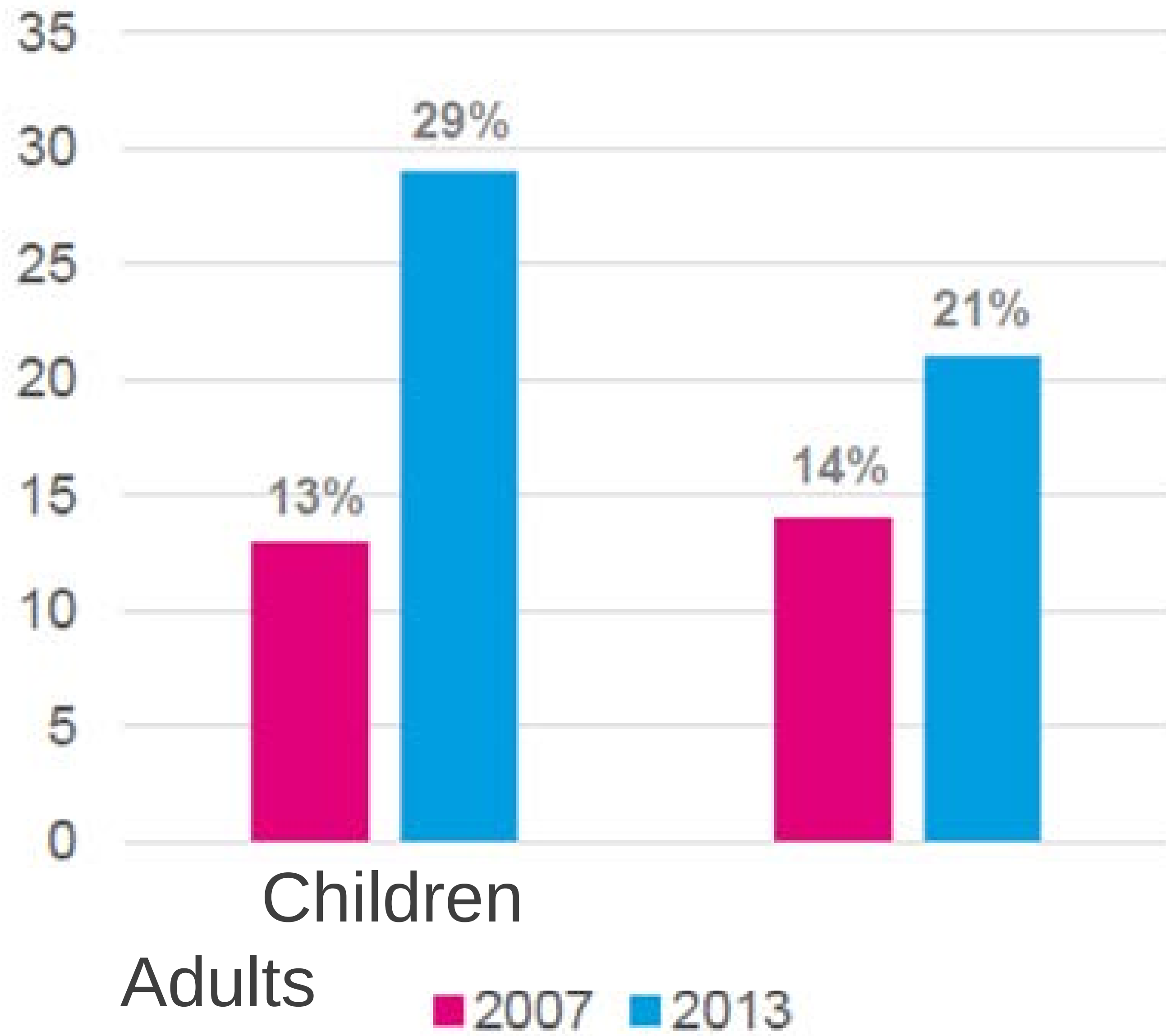
Changing consumption habits

Production of prepared meals and retail sales and use in catering of pizzas (2010=100)



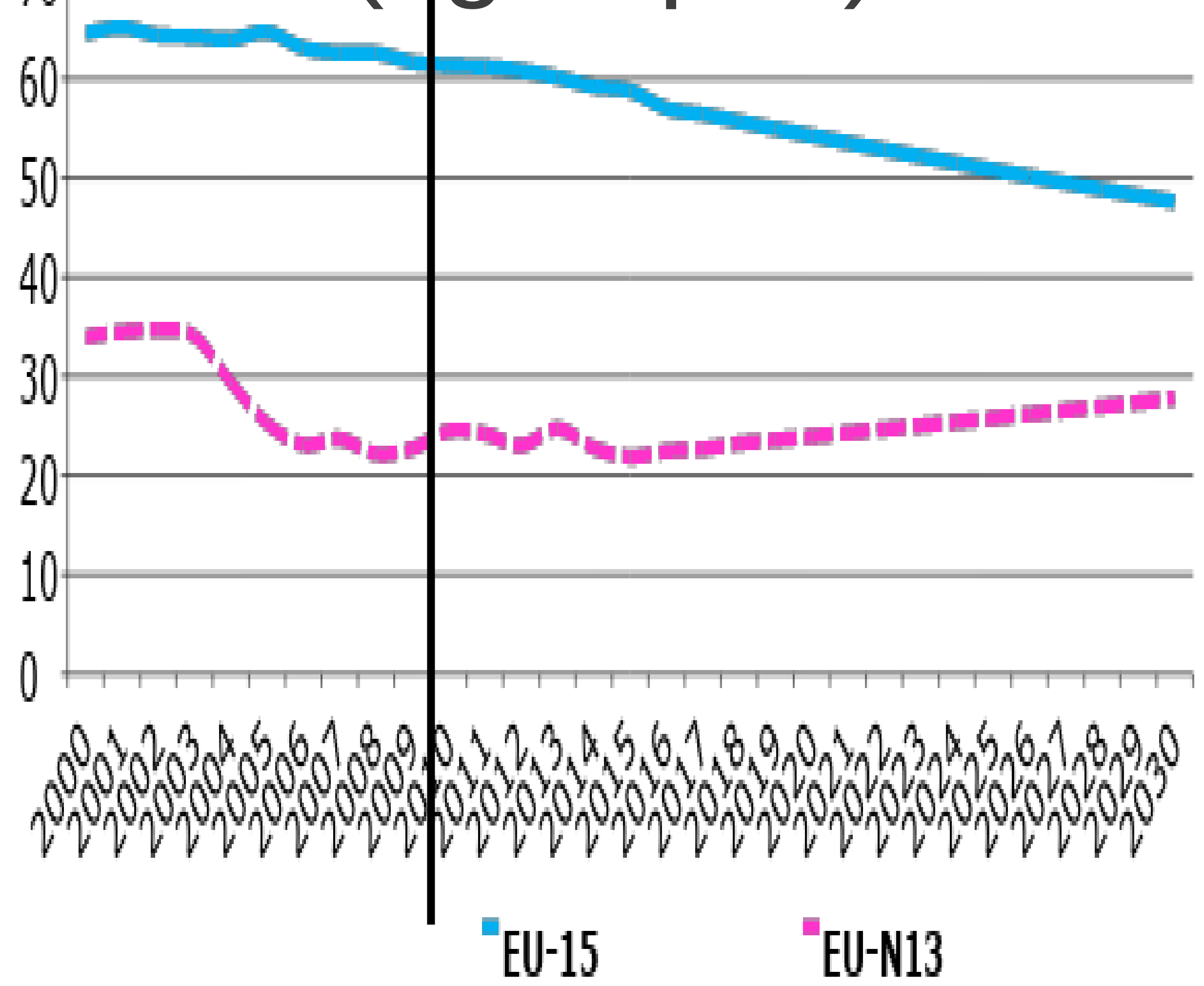
Source: DG Agriculture and Rural Development, based on Eurostat and Euromonitor

Share of individuals skipping at least 1 breakfast per week in



Source: CREDOC, 2013 CCAF surveys

Outlook for liquid milk consumption (kg/capita)



Source: DG Agriculture and Rural Development

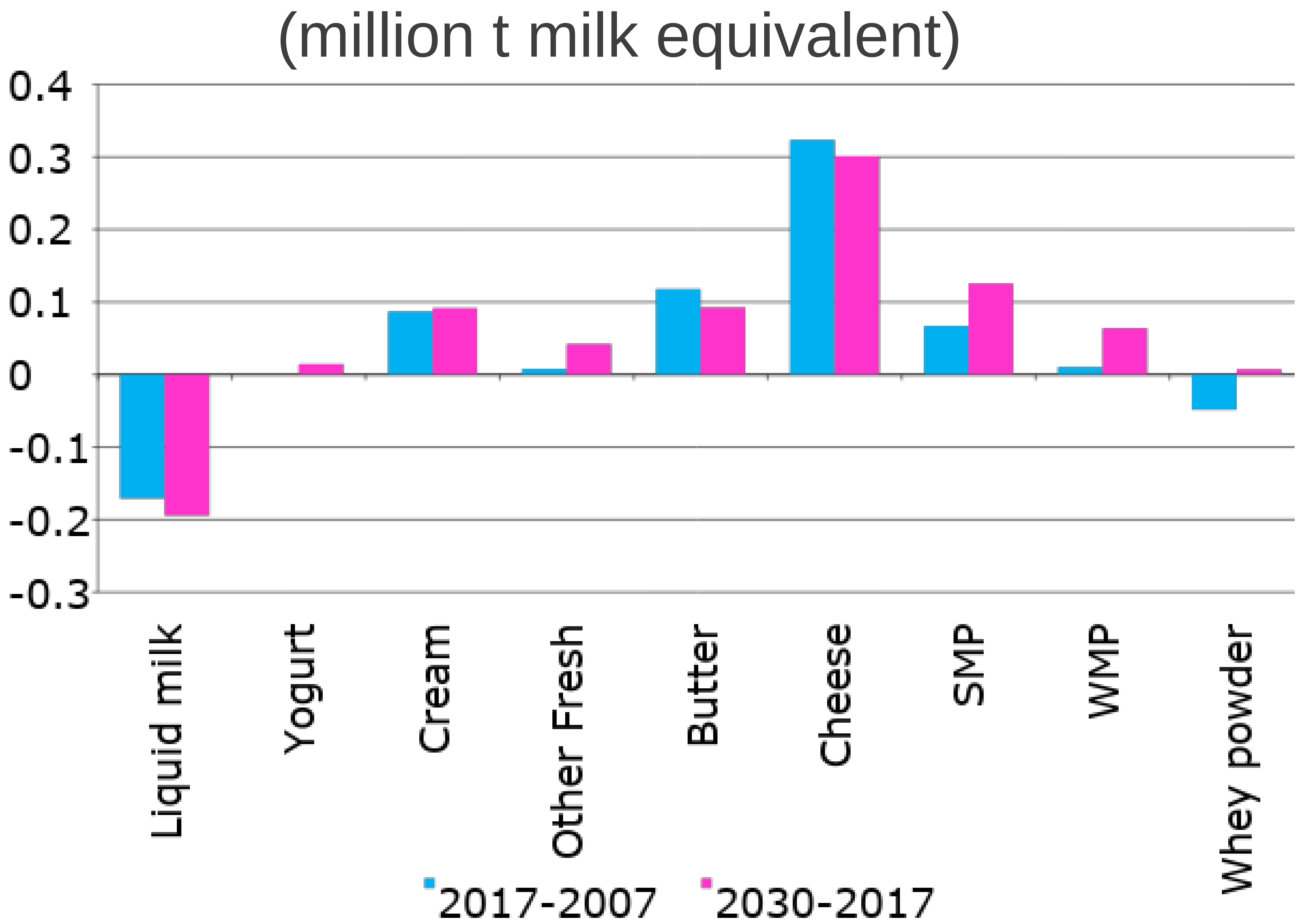
→ **EU liquid milk consumption** to continue **decreasing by 0.5 kg/capita** per year

European Commission | Agriculture and Rural Development

The EU domestic market

Main drivers of EU production growth

Average yearly change in milk domestic use



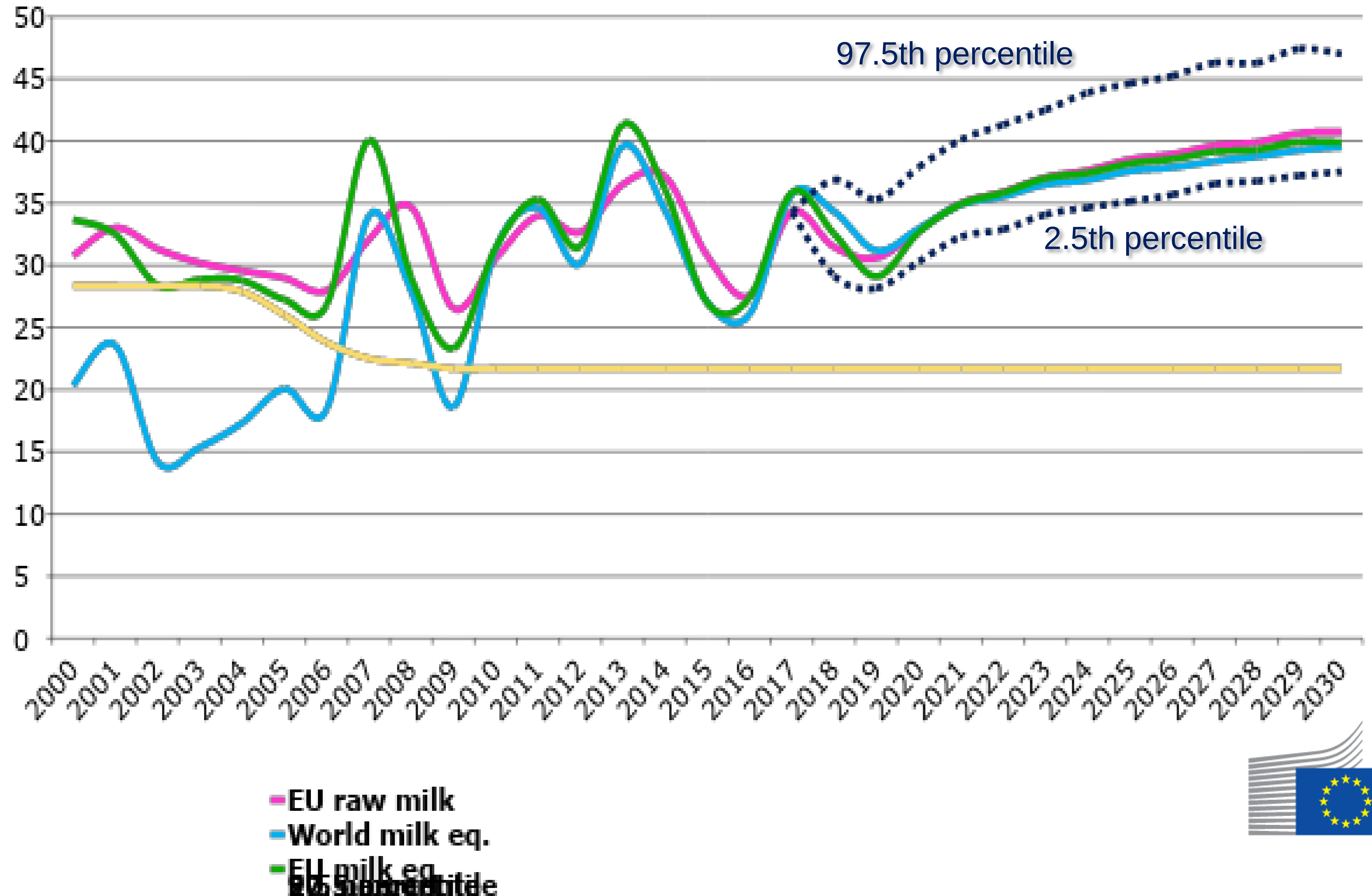
- Moderate **increase in milk production**:

→182 Mt in 2030, +18 Mt in 13 years

- **Domestic use** also to **process** products → export

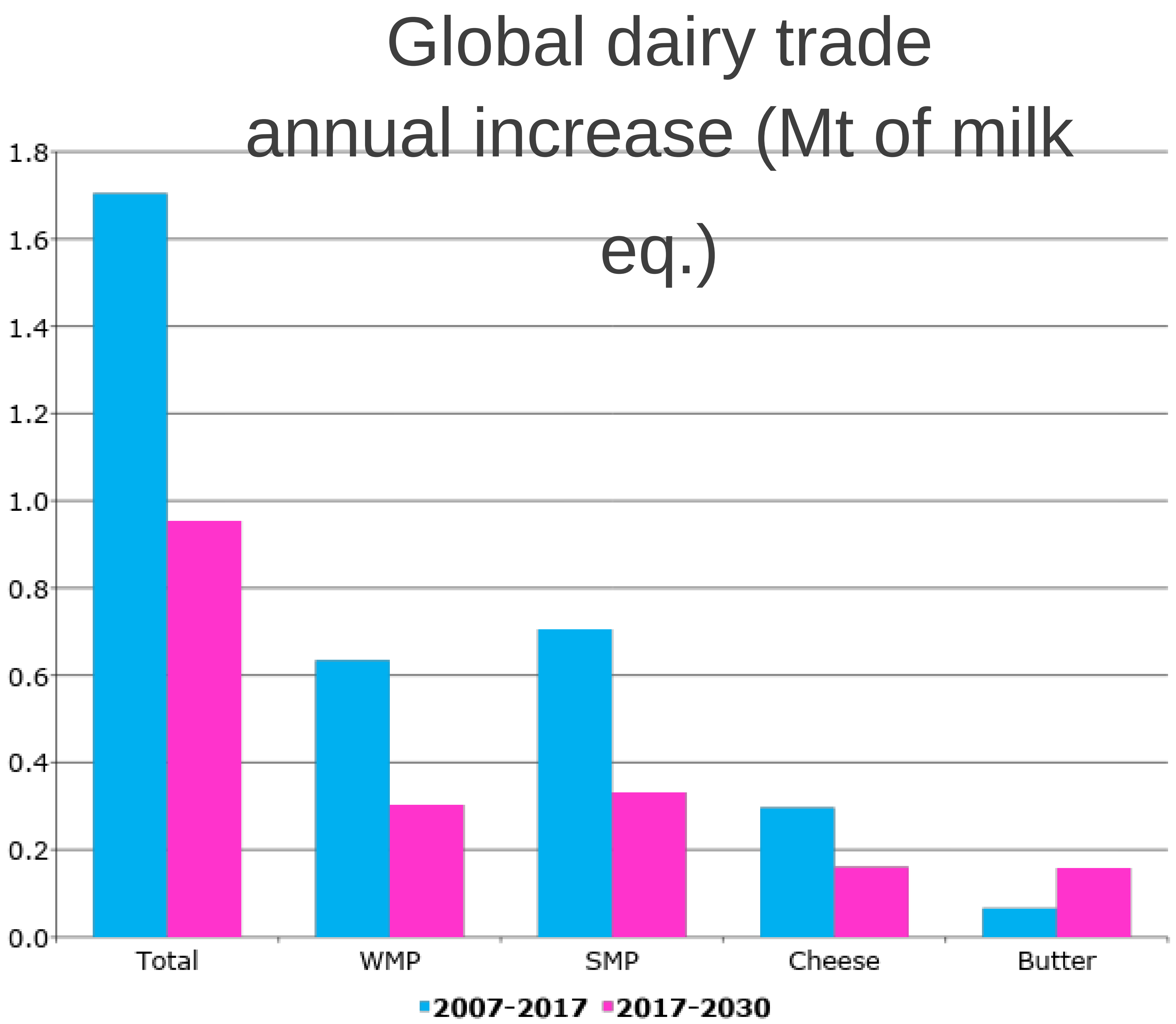
Milk price increase

Driven by demand



Continuous growth in world import demand

Though lower than in the past decade



Note: Based on trade of SMP, WMP, cheese and butter in milk equivalent (total solids).
Source: DG Agriculture and Rural Development

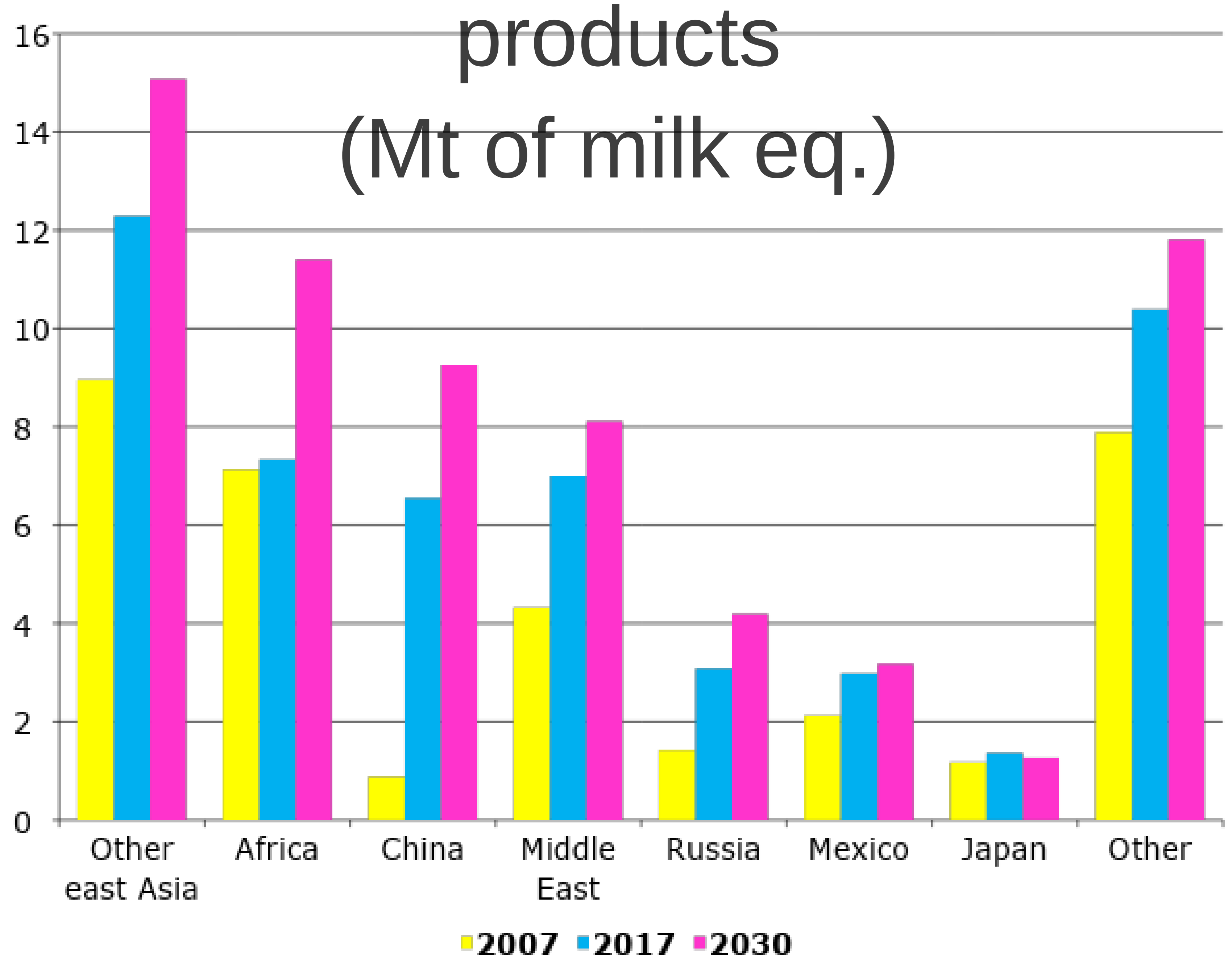
- **+1.7% per year** in world **consumption and production,** i.e. +16 Mt/year
- **+1.7% per year** in world **imports of SMP, WMP, cheese and butter**, i.e. less than 1 Mt/year
- **China** remains the **first world importer**, with imports up by **3.7%/year**
- Main importers: **China, East Asia** and **Africa**
- Towards more:

→ **Value added** products

→ **Technical** products

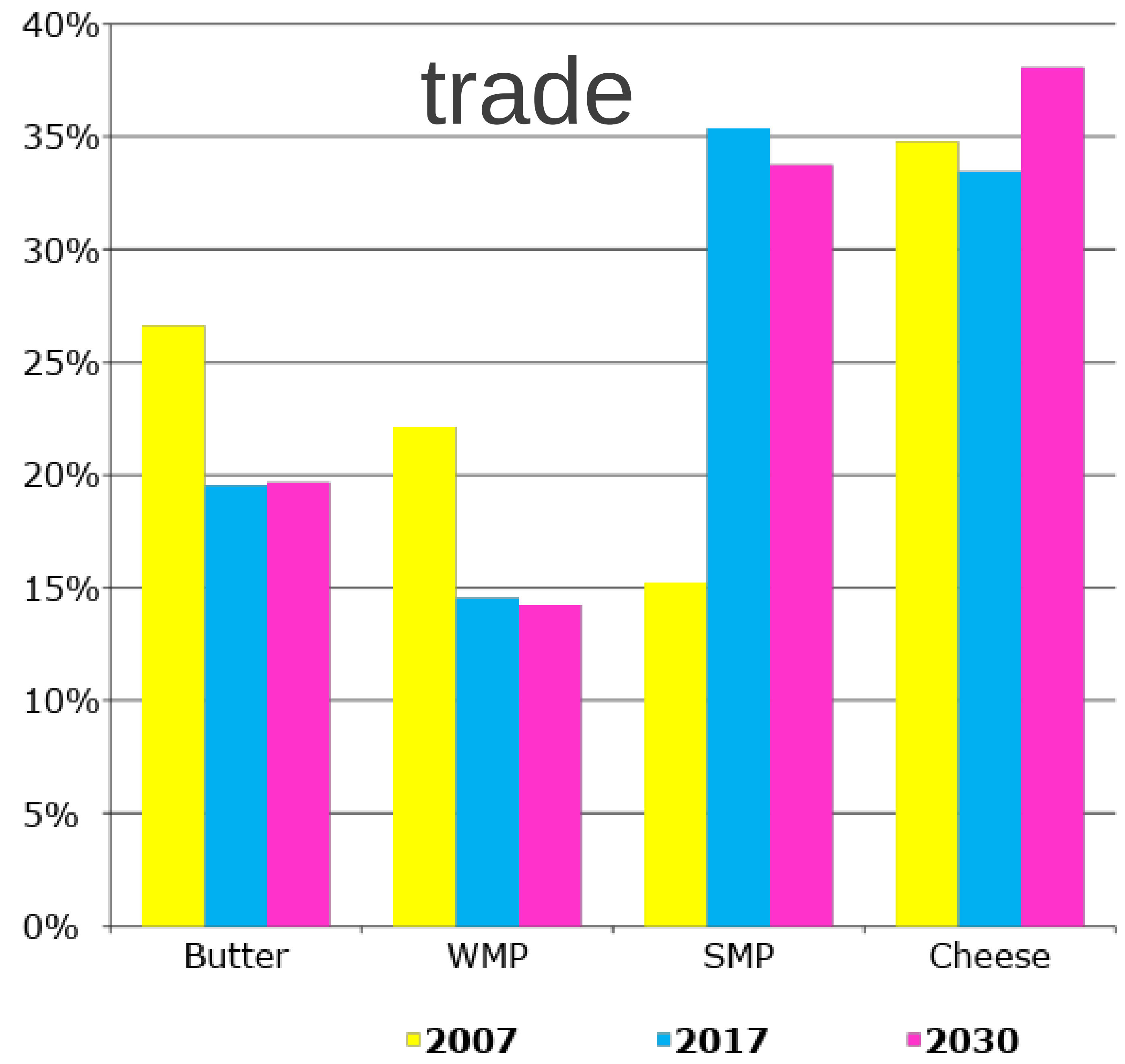
Global dairy market

Global imports of dairy products
(Mt of milk eq.)



*Note: * Africa without South Africa*
Source: DG Agriculture and Rural Development

Share of EU exports in global trade



- **EU exports** to **expand** by more than **400 000 t/year** (in milk equivalent)
- **More than 1/3** of world trade growth for **cheese, SMP, WMP and butter**

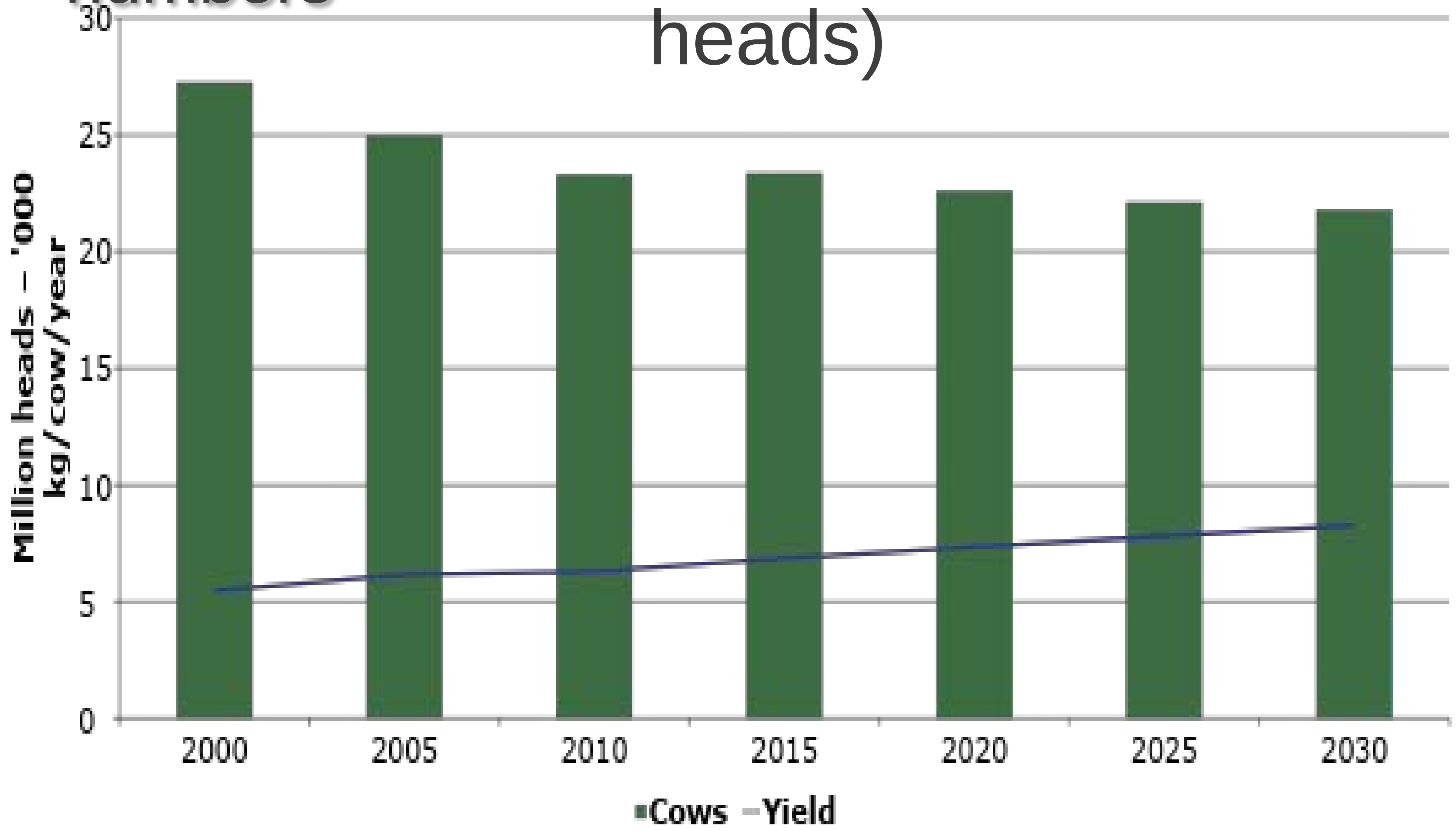
Towards changes in production systems

Driven by consumer expectations and to create value

The example of **milk production:**

→ Towards **10% of organic milk** (assumption)

→ **Yield gap** => lower decrease in cow numbers



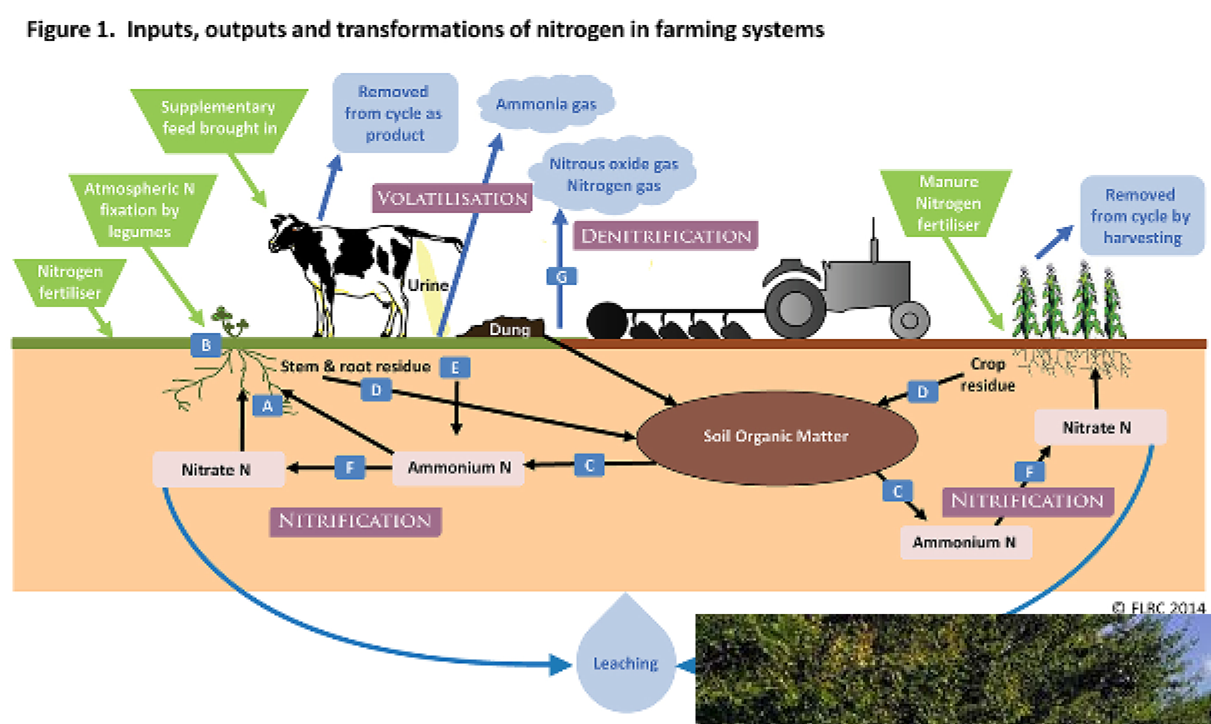
Towards changes in production systems

Driven by sustainability requirements and COP 21

Main issues in **livestock production**

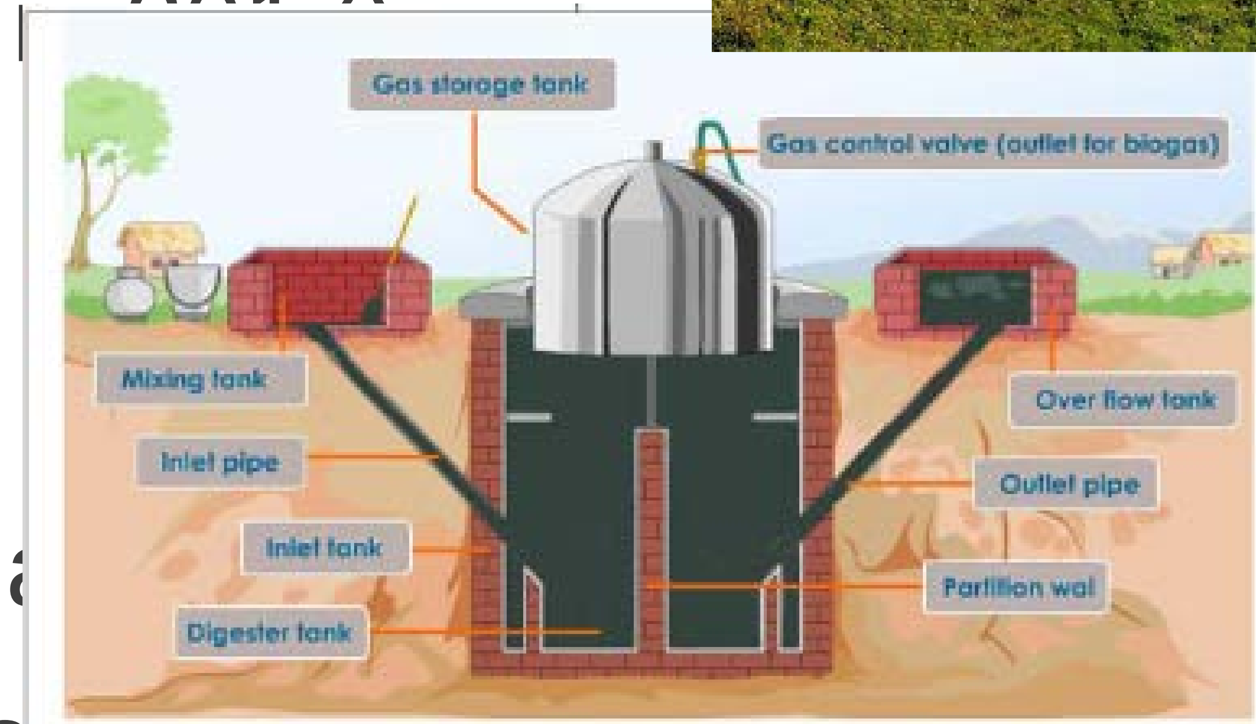
- Water and air quality (Ammonia)
- GHG emissions

Potentially **limiting supply development**



Leading to **changes in production systems**

- production location and competition between farming a
- nutrient management plan, biogas plants, better management



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Thank you

Agricultural Outlook

https://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook_en

Markets briefs

https://ec.europa.eu/agriculture/markets-and-prices/market-briefs_en

Market observatories

https://ec.europa.eu/agriculture/market-observatory_en

CAP reform

https://ec.europa.eu/agriculture/future-cap_en