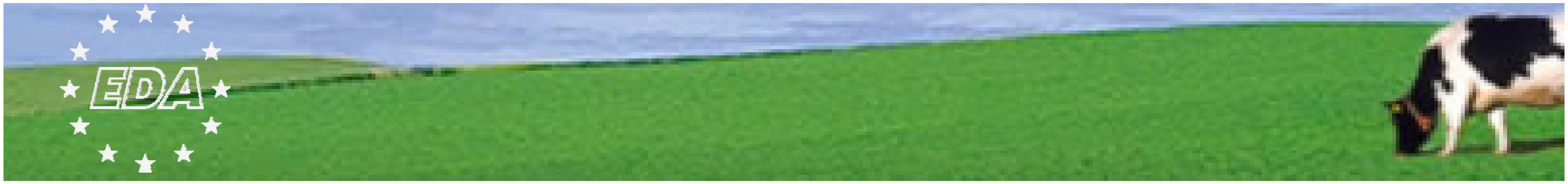

Towards a liberal competitive dairy market

Romania, April 2008

Joop Kleibeuker, Secretary General EDA

Contents

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II. Recent EU market developments

III. Triggers for change:

- EU policy changes
- Trade liberalization
- World market supply & demand trends

IV. Expectations

I. EU Dairy Facts & Figures

EU Milk production

2006 Milk production ('000 tonnes)

World	**639.700**
EU	**145.000**
France	23.000
Germany	27.000
UK	13.900
Italy	10.300
Netherlands	10.700
Poland	8.500
Spain	5.800
Ireland	5.200
Denmark	4.500
Austria	2.700
Finland	2.300
Lithuania	1.300
Slovenia	500

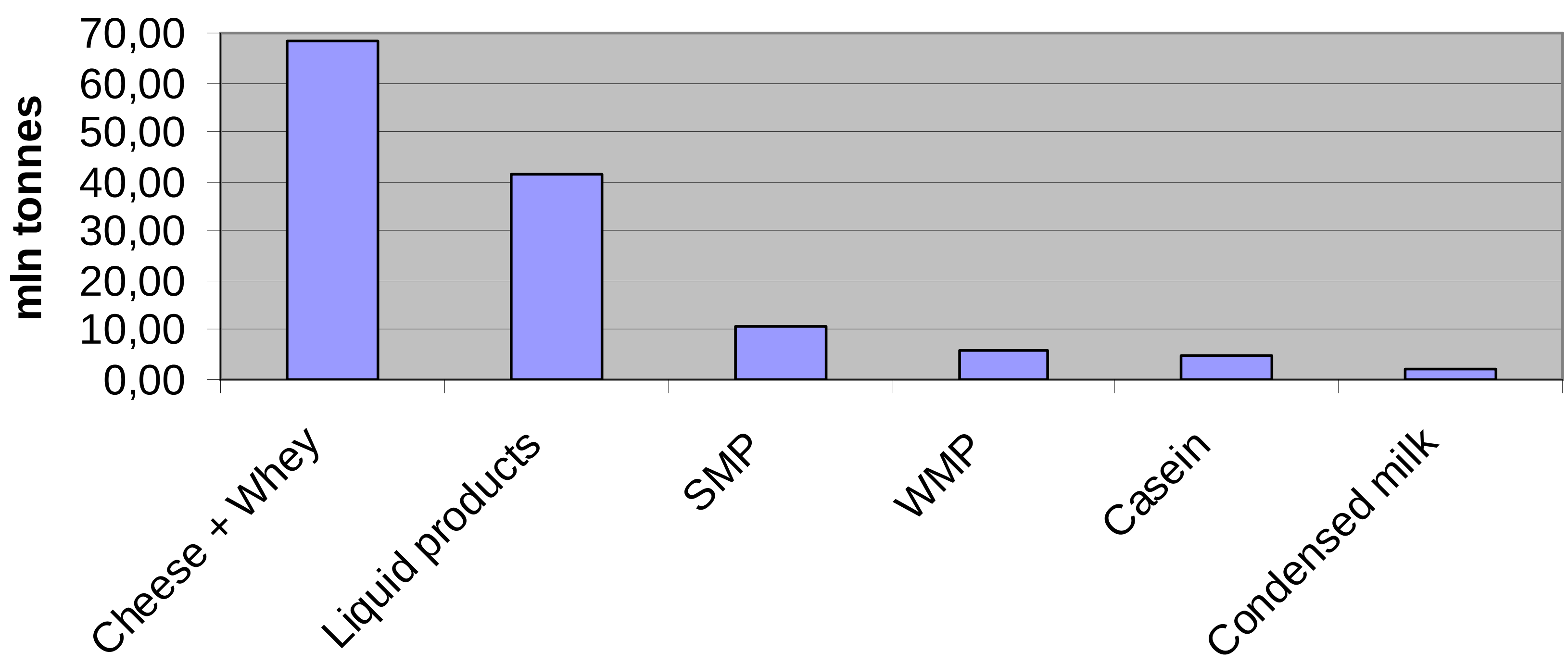
Bron: OECD / ZMP

Consumption per capita

Country	Liquid Milk Drinks (Litres per year)	Cheeses (kg per year)	Butter (kg per year)
Finland	183.9	19.1	5.3
Sweden	145.5	18.5	1.0
Ireland	129.8	10.5	2.9
Netherlands	122.9	20.4	3.3
United Kingdom	111.2	12.2	3.7
Germany	92.3	22.4	6.4
France	92.2	23.9	7.3
Italy	57.3	23.7	2.8

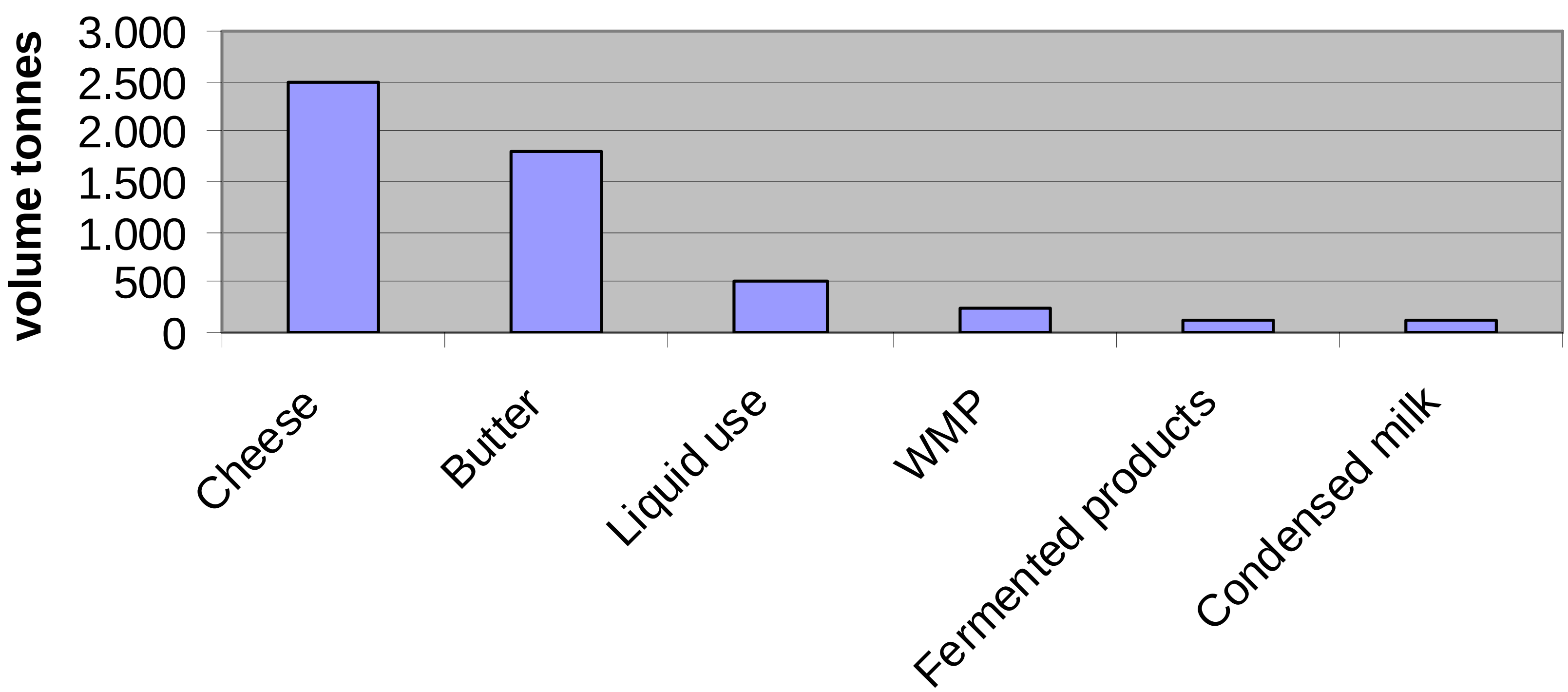
Source: EDA 2006

EU 27 skim milk balance 2007

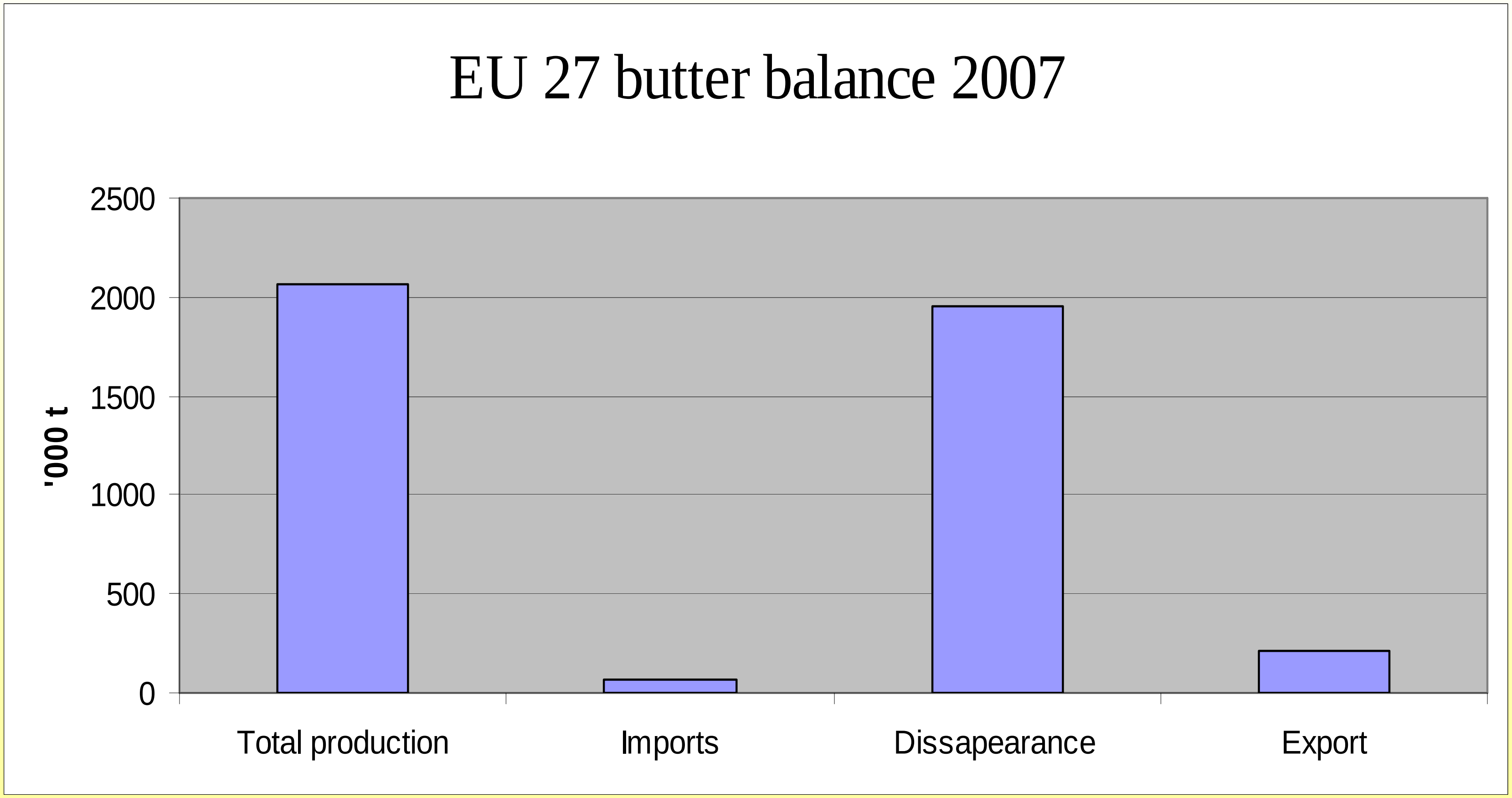


Source: ZMP 2006

EU 27 milk fat balance

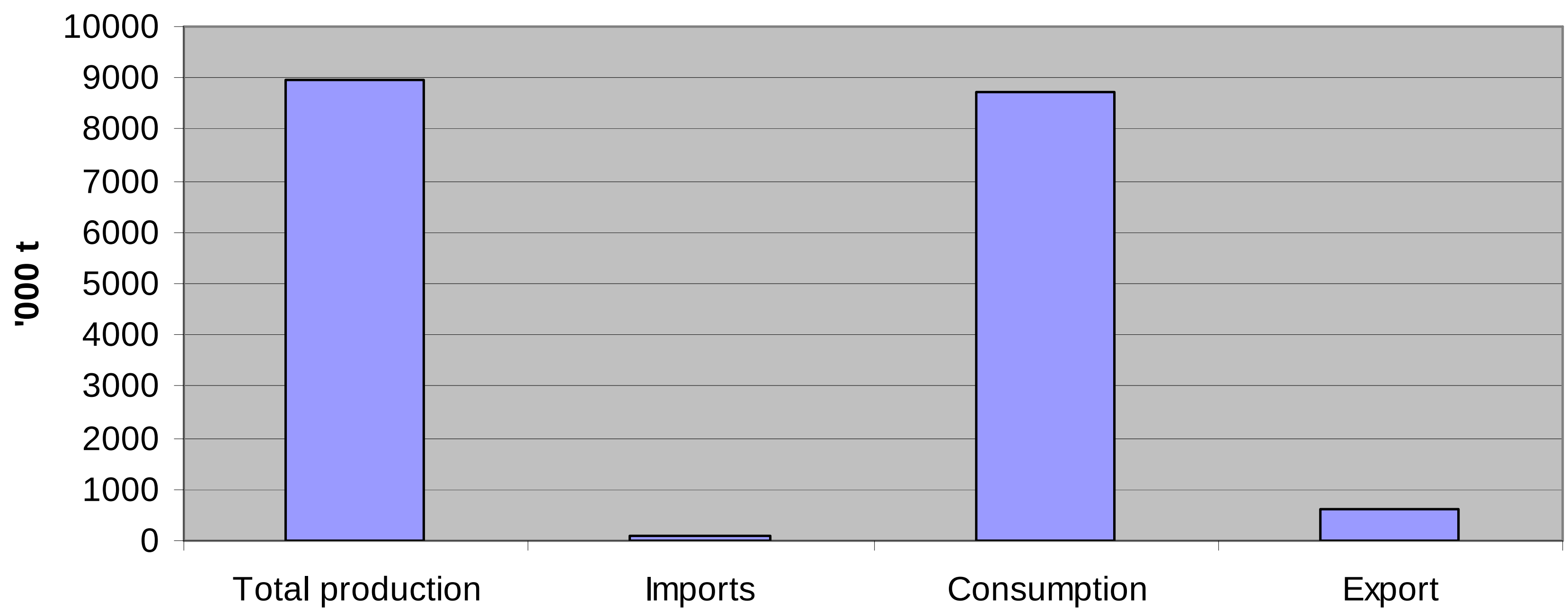


Source: ZMP 2006

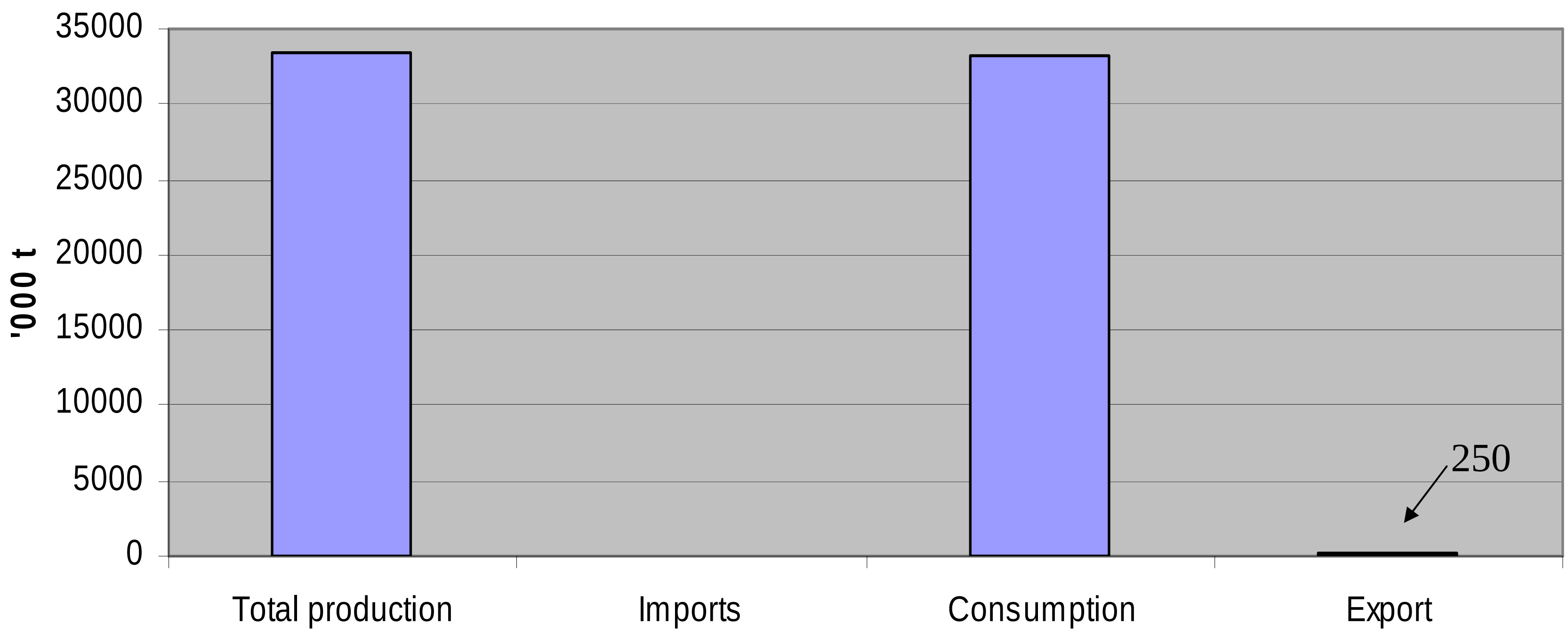


Source: ZMP 2006

EU 27 cheese balance 2007

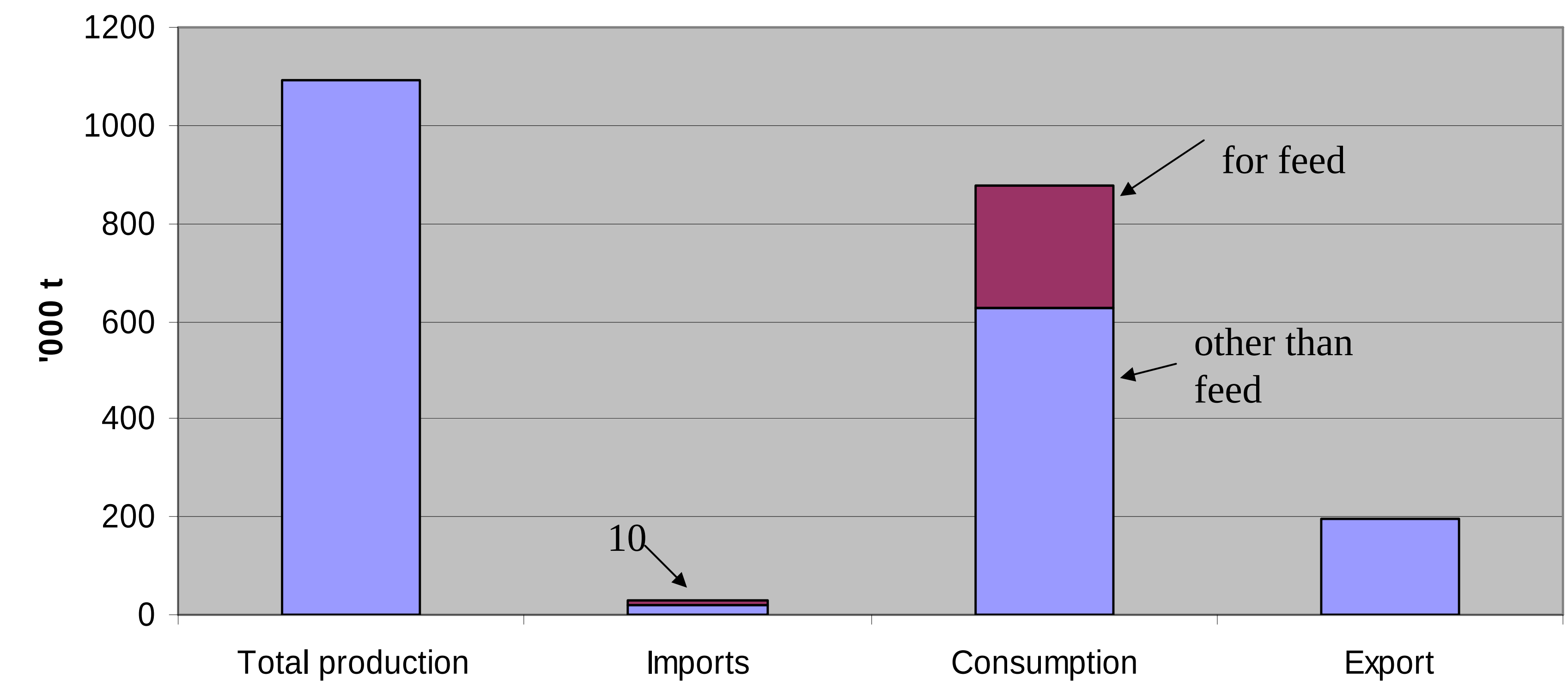


EU 27 liquid milk products balance 2007



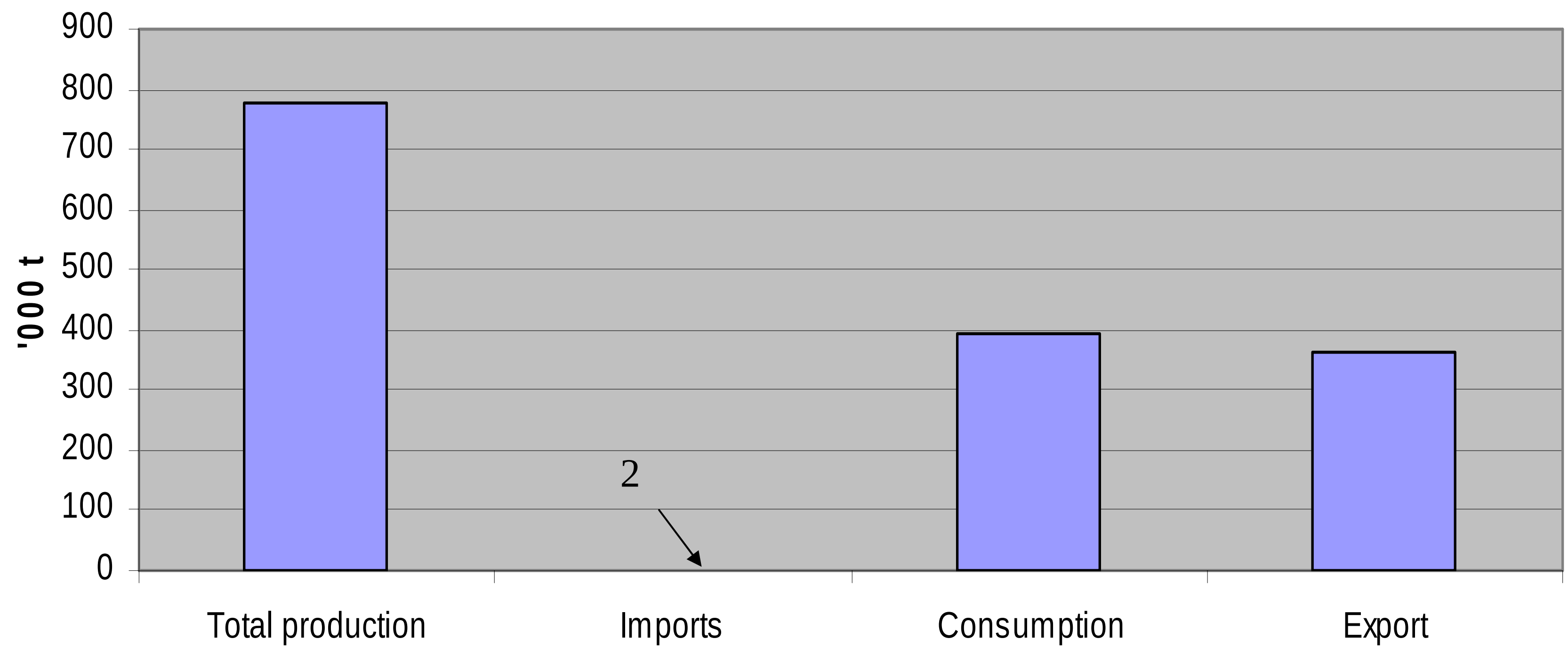
Source: ZMP 2006

EU 27 SMP balance 2007



Source: ZMP 2006

EU 27 WMP balance 2007



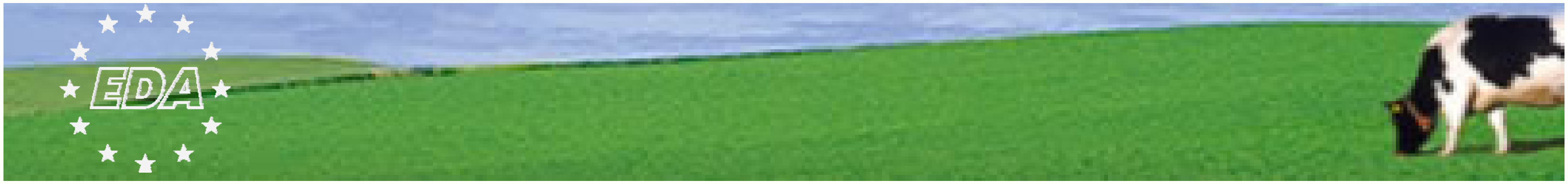
Source: ZMP 2006

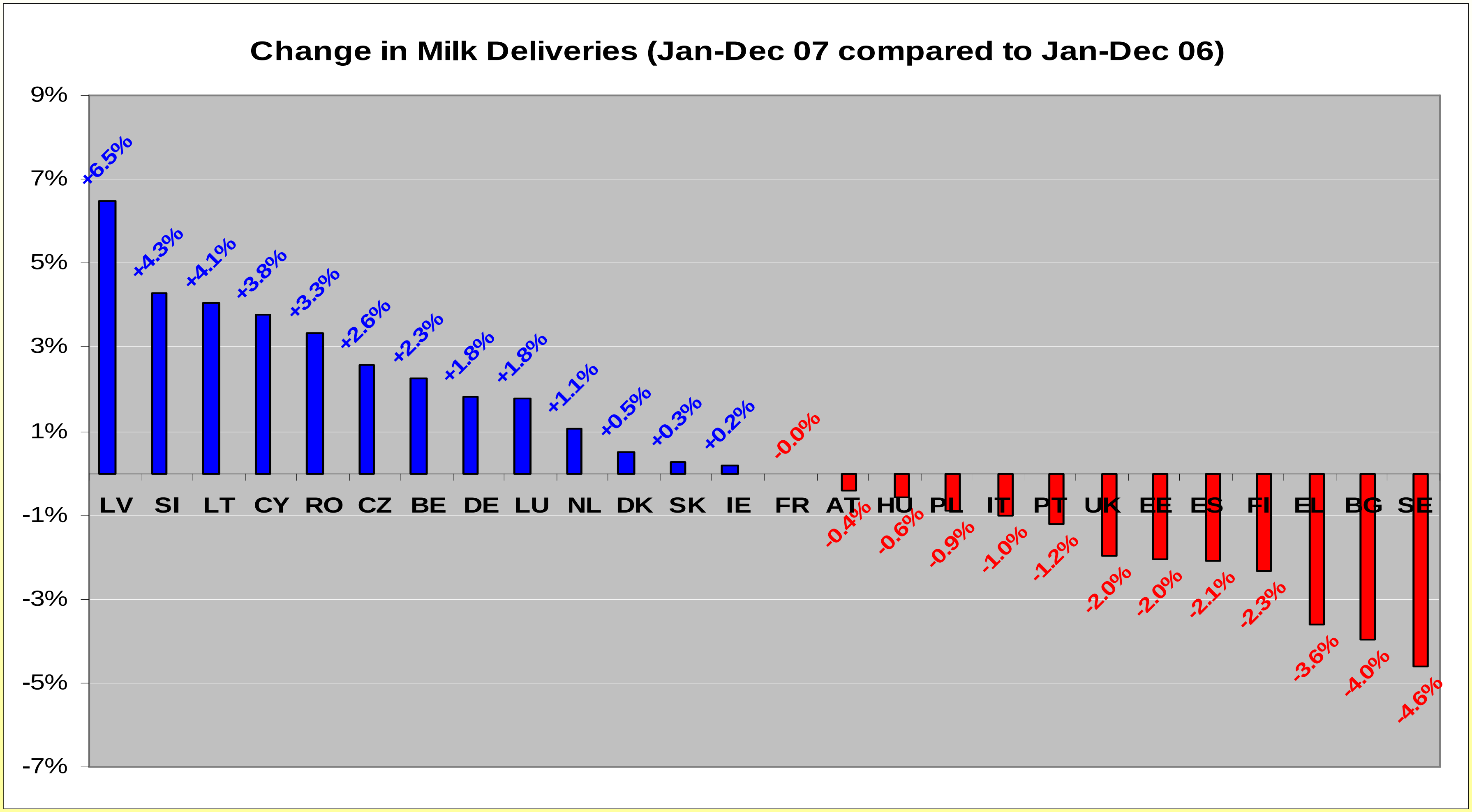
II. Recent European Market Developments

- Milk supply

Milk supply developments

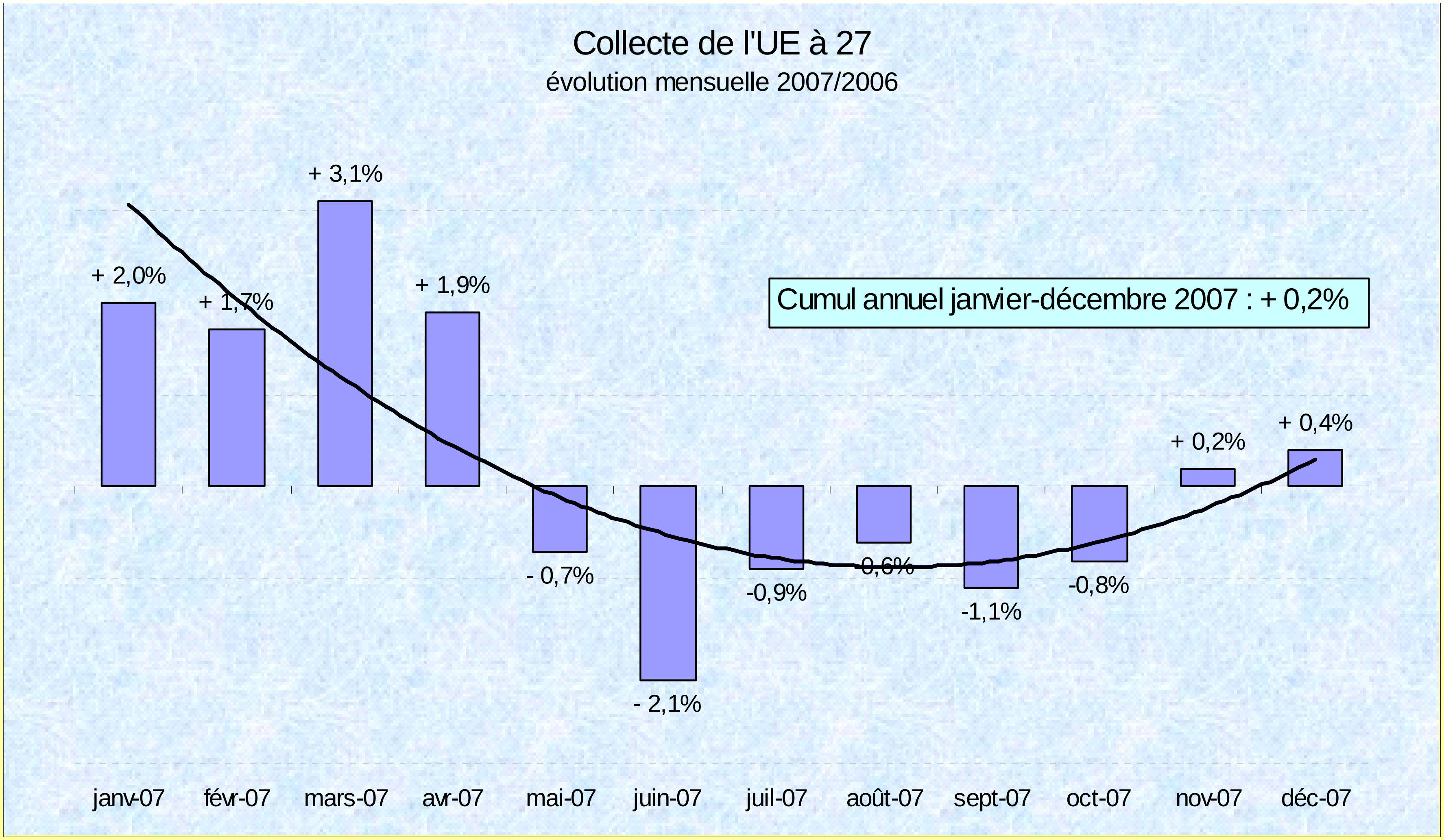
- Following 2006/2007 deliveries under quota (1,9 mln tonnes); also 2007/2008 quota not expected to be fully supplied.
- But the April 2008 2% quota increase allows farmers to react on market forces <u>if they want to</u>.
- After seasonally low milk supplies, the spring supply increase will result in prices reflecting world market conditions.





BE : June; LT and UL : September

Monthly EU-27 deliveries 2007



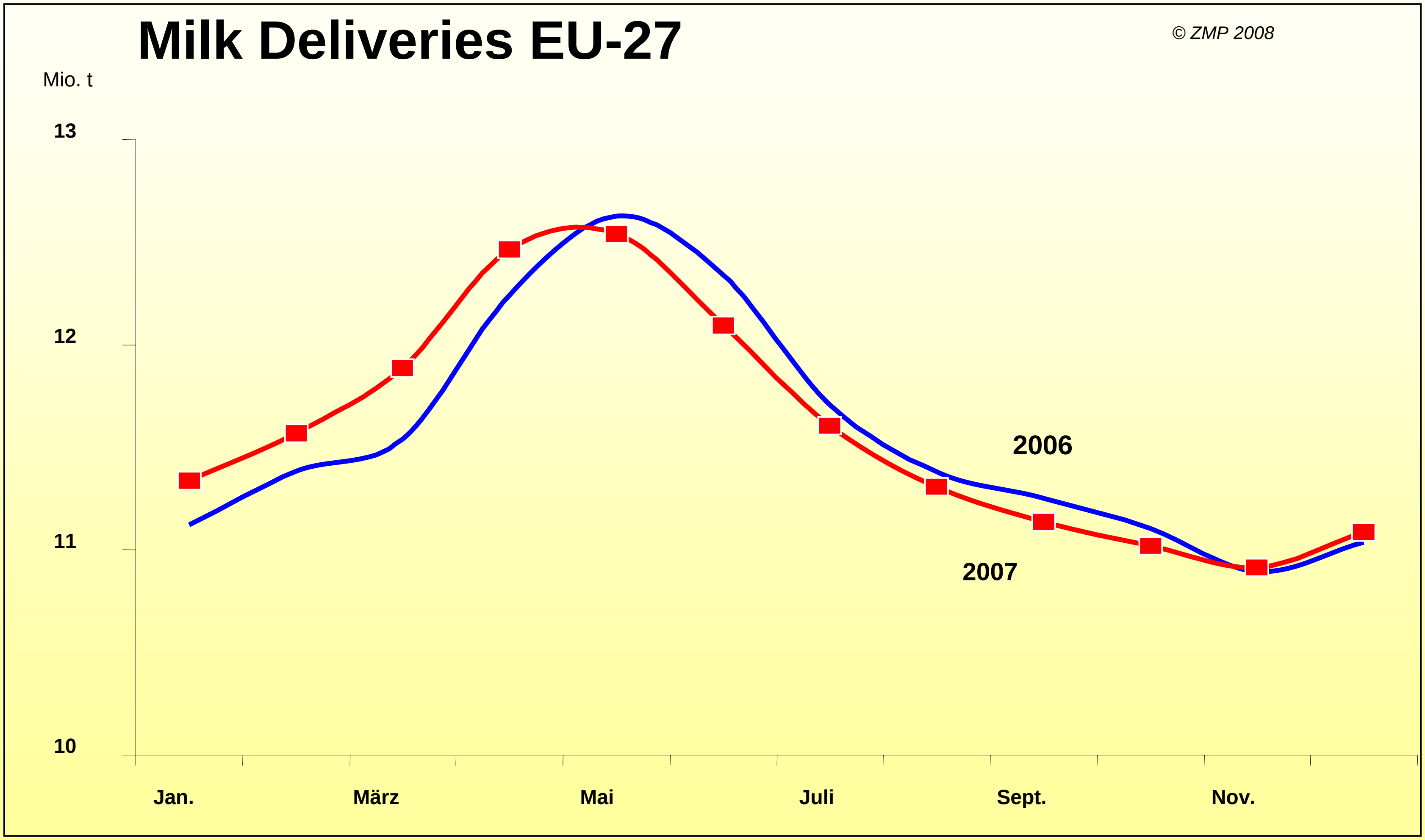
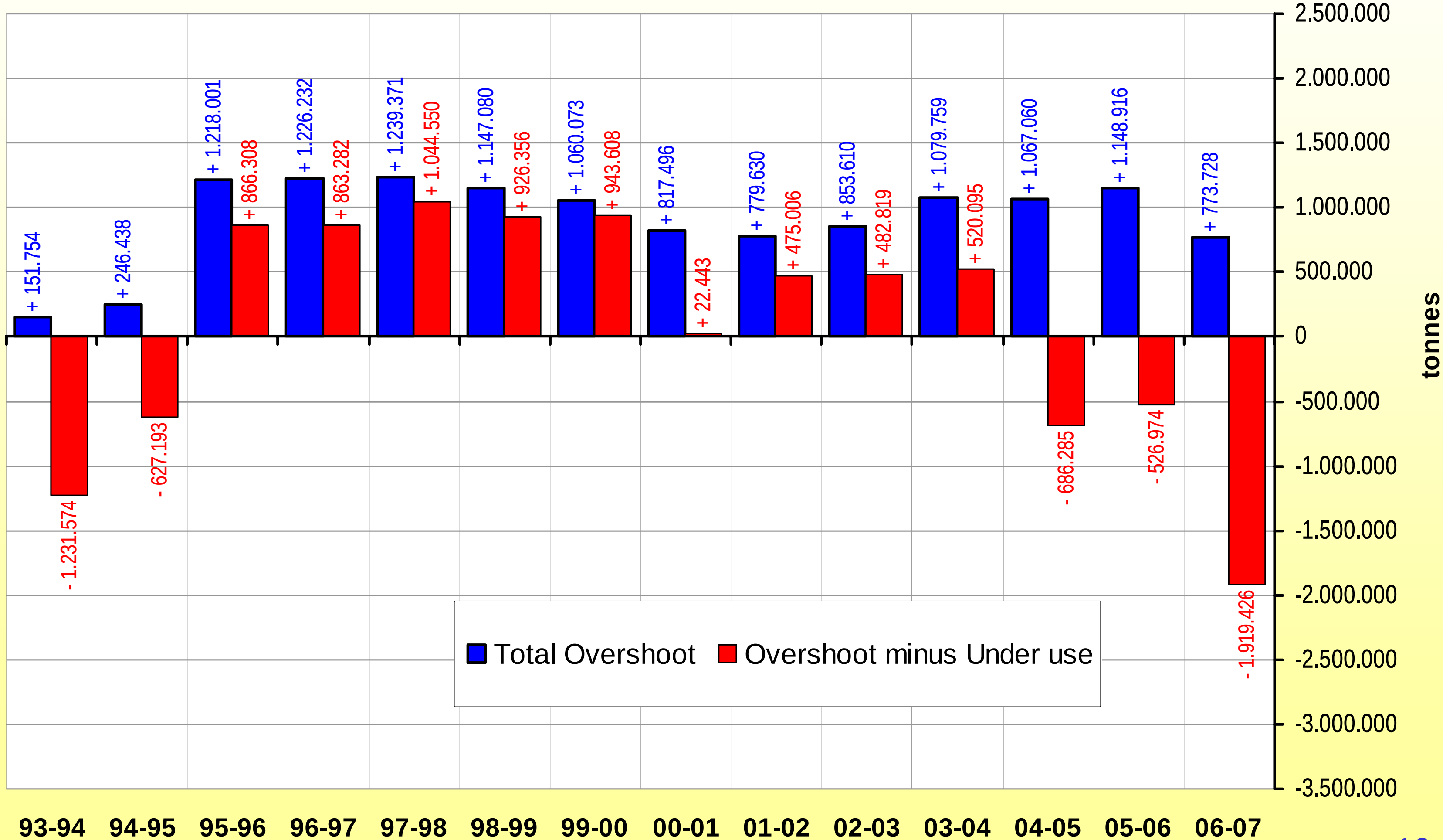
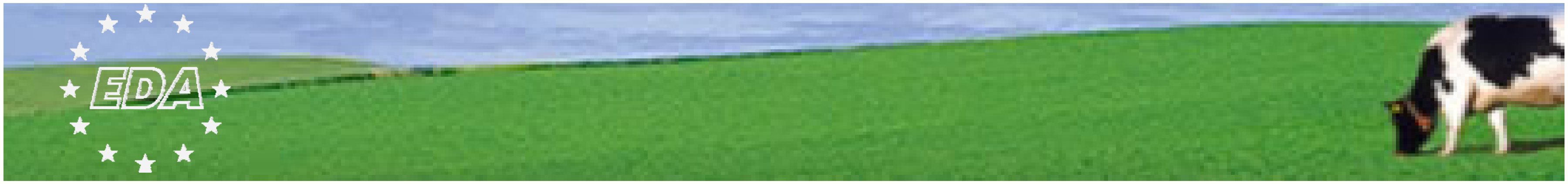

Milk Deliveries EU-27
© ZMP 2008
Mio. t
13
12
11
10
2006
2007
Jan.
März
Mai
Juli
Sept.
Nov.

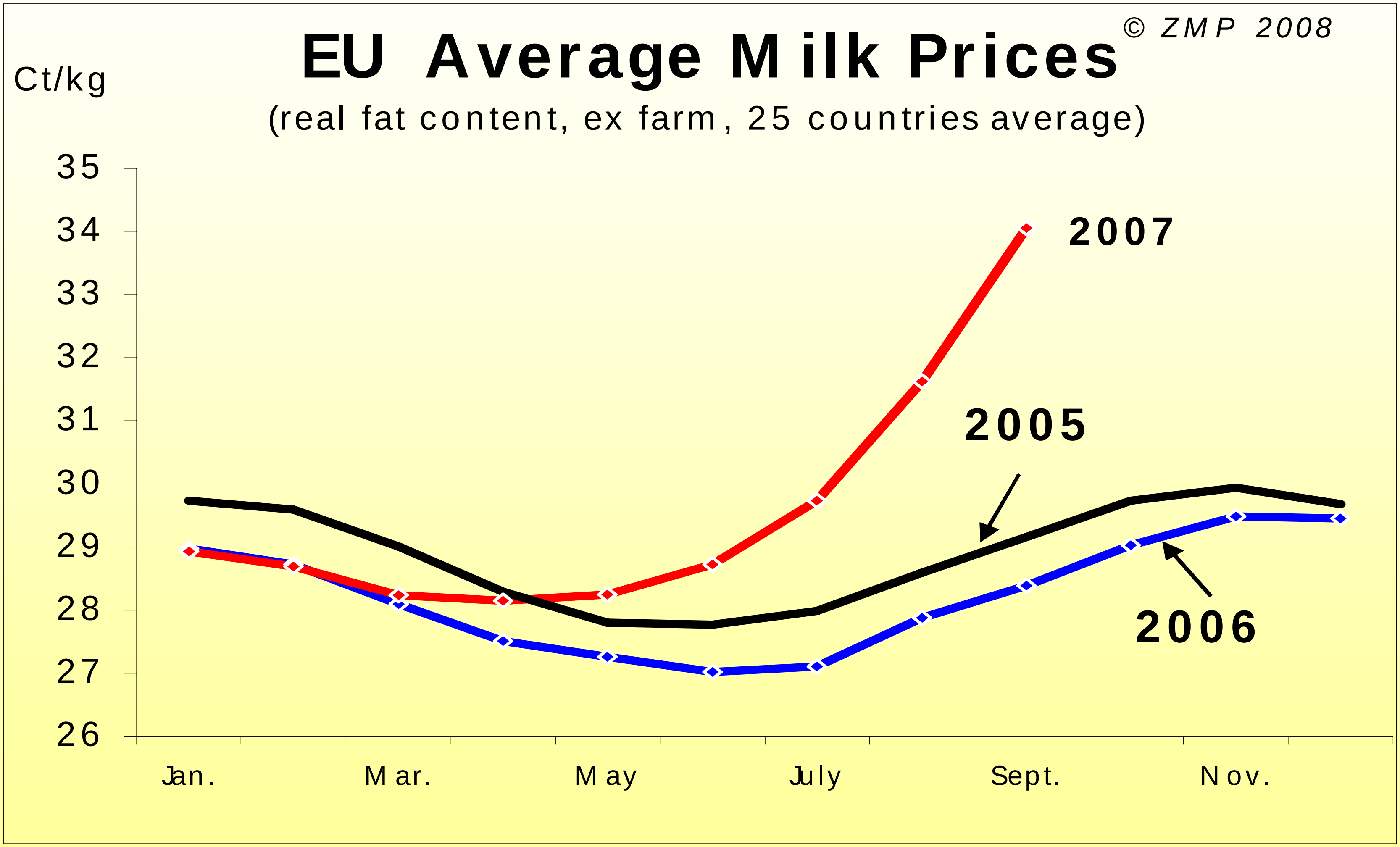
Figure A.3.2 : EU overshoot / under-use



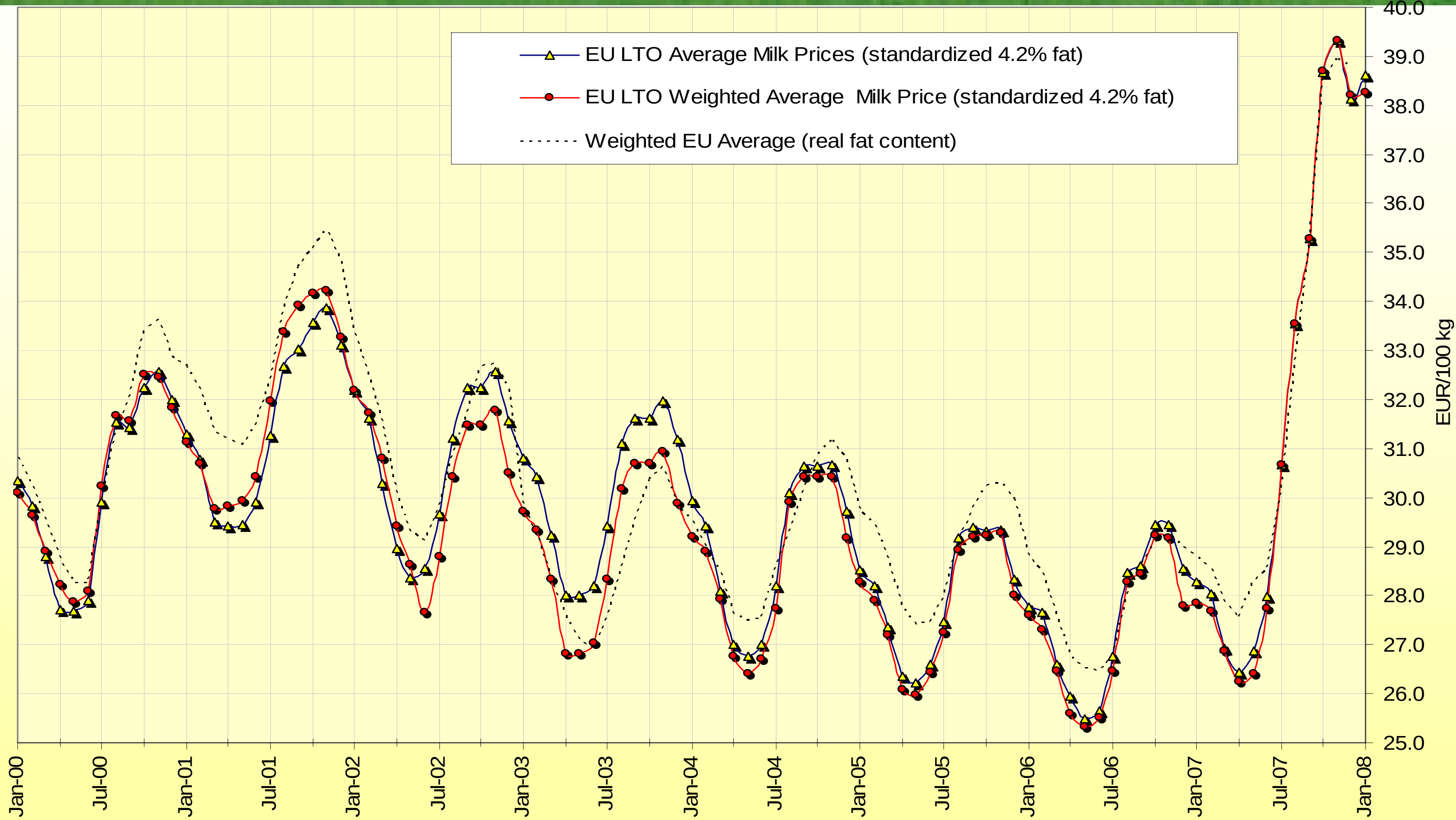


II. Recent European Market Developments

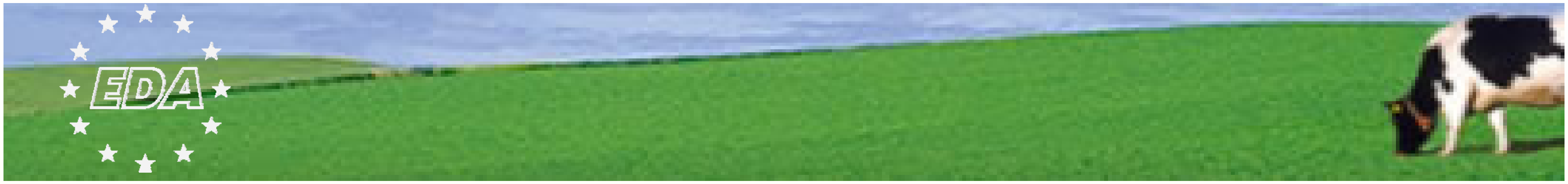
- Dairy prices


© ZMP 2008
EU Average Milk Prices
Ct/kg
(real fat content, ex farm, 25 countries average)
35
34
33
32
31
30
29
28
27
26
2007
2005
2006
Jan.
Mar.
May
July
Sept.
Nov.

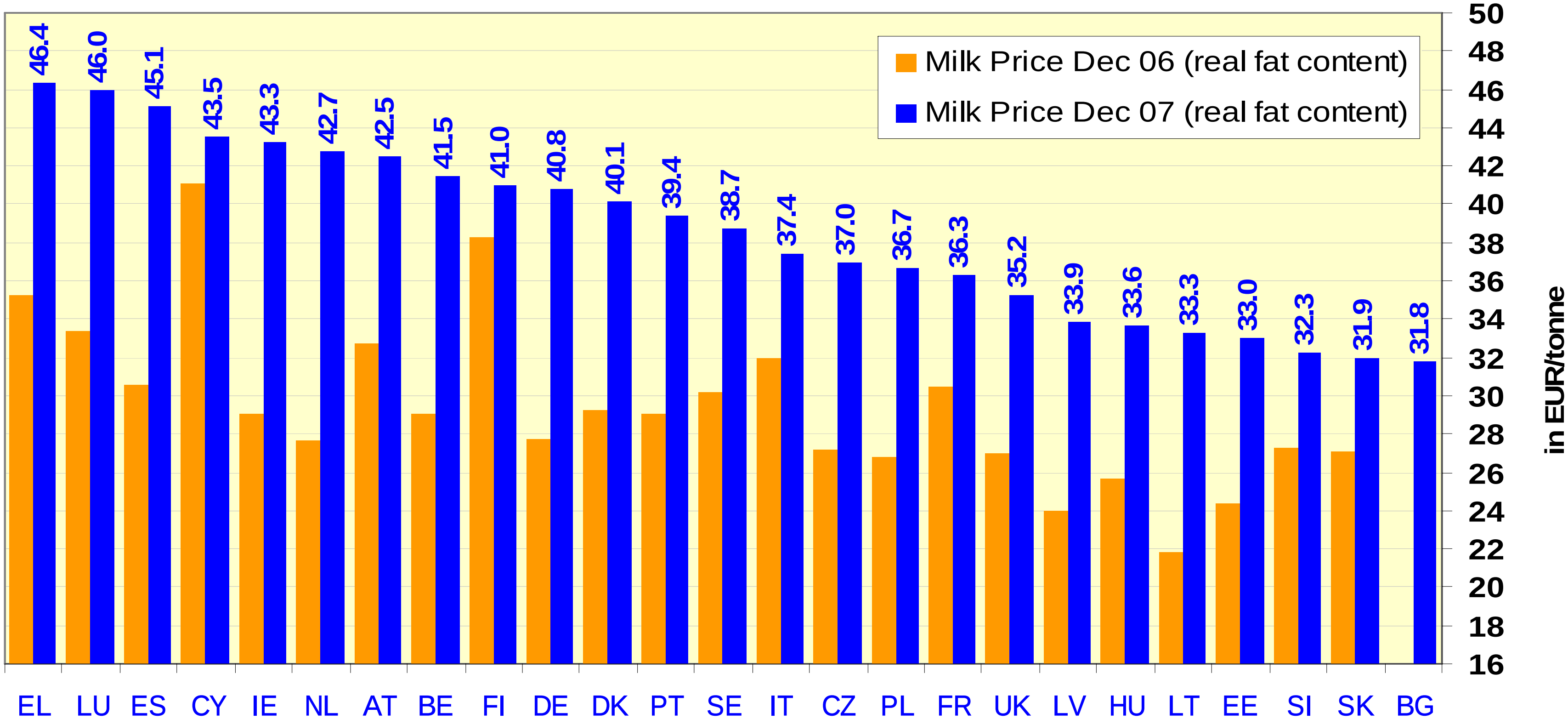
Milk Prices Evolution *(up to Jan 2008)*



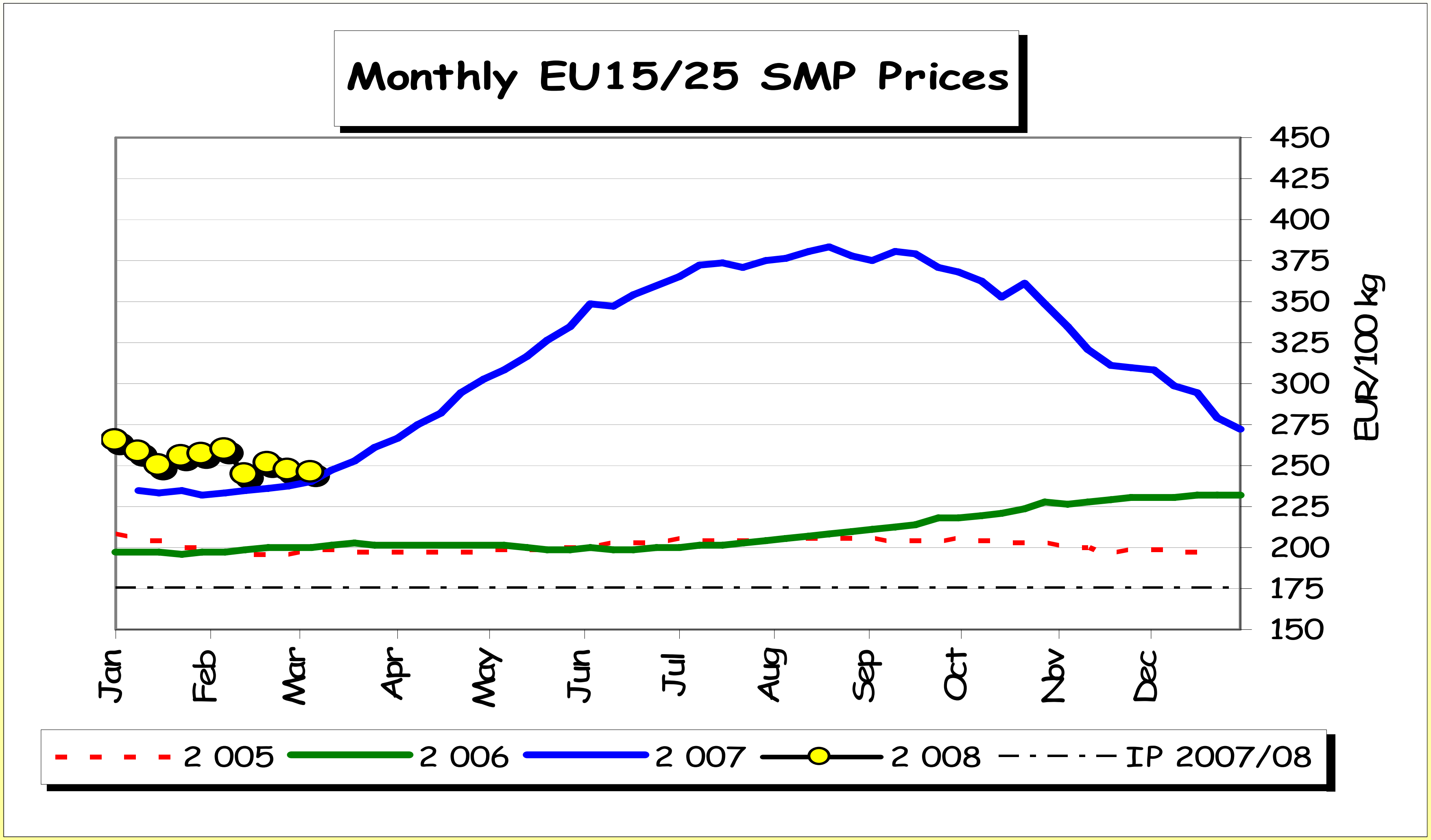
LTO : Land- en Tuinbouworganisatie Nederland (http://www.milkprices.nl/)



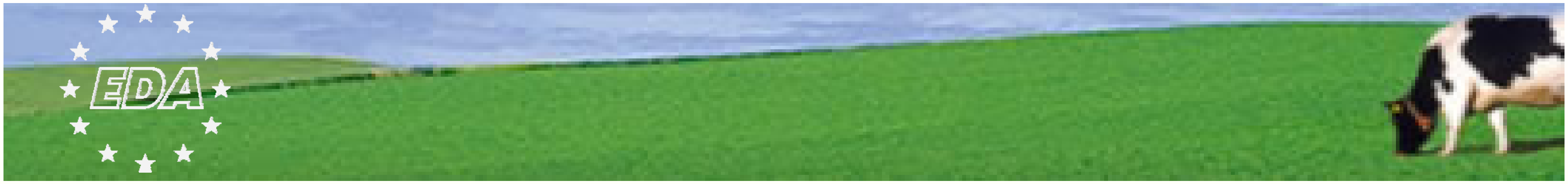
EU Milk Prices increase (Dec 07 compared to Dec 06)

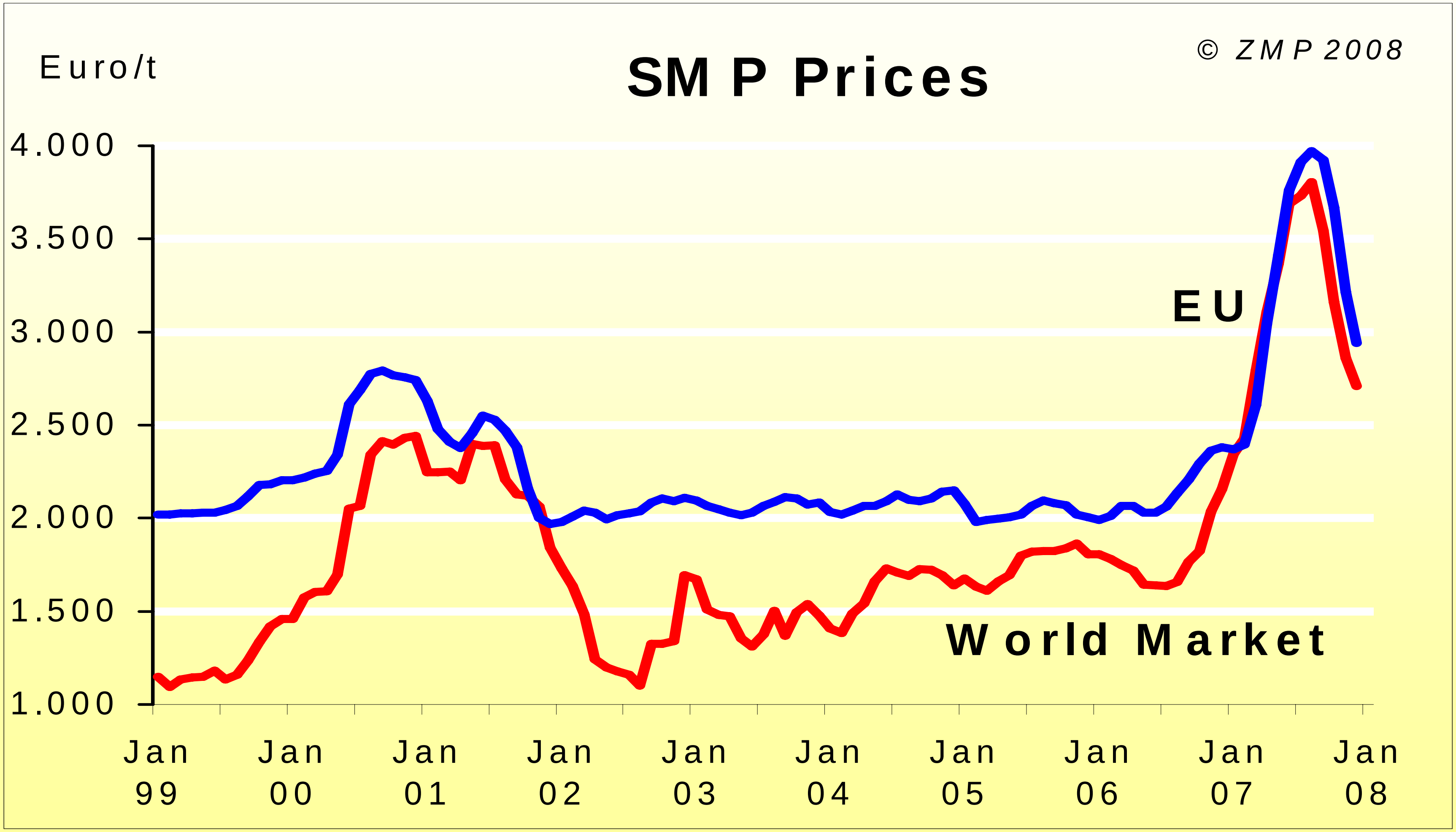


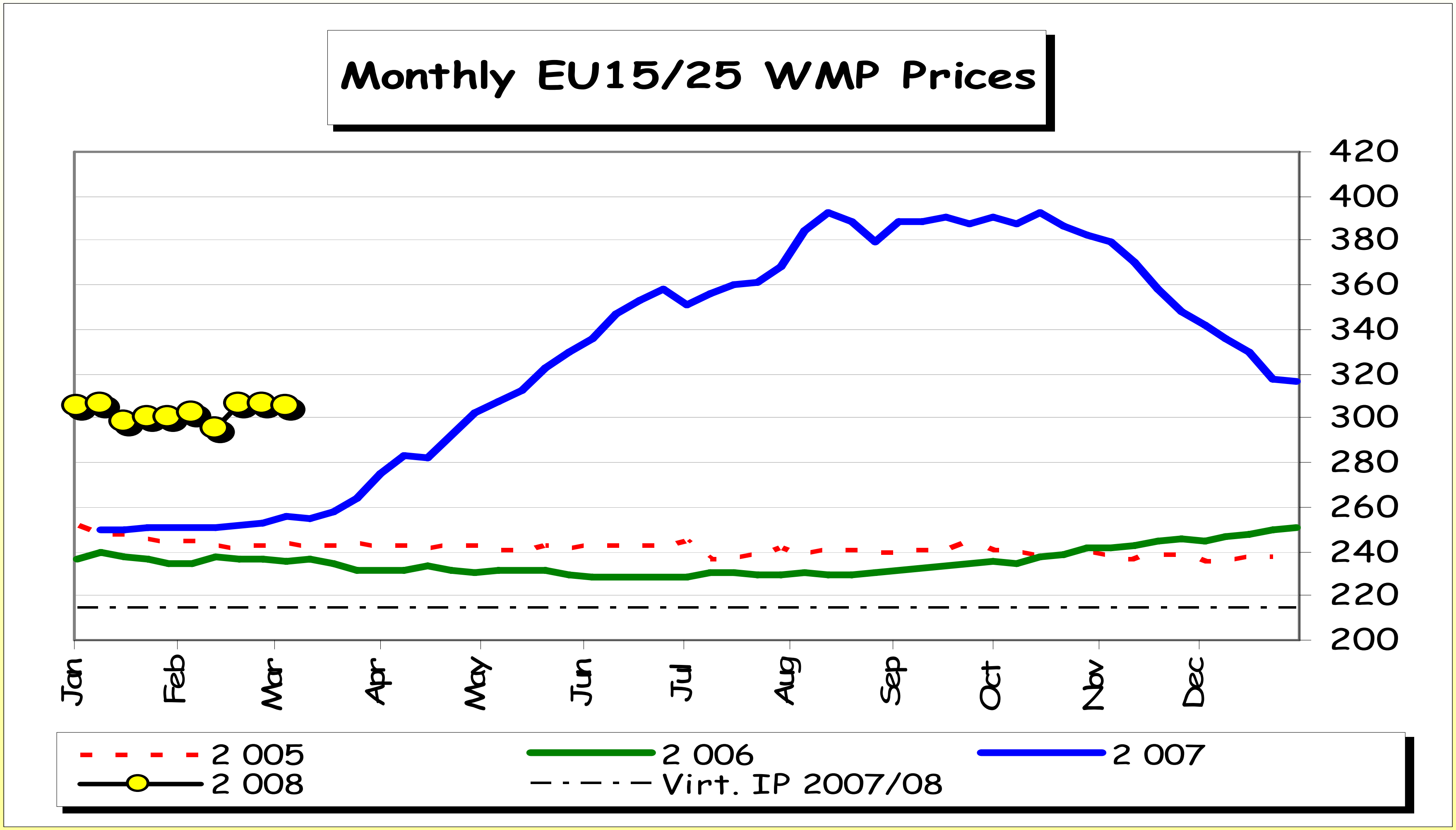
BE, ES, SE: estimations for December 2007

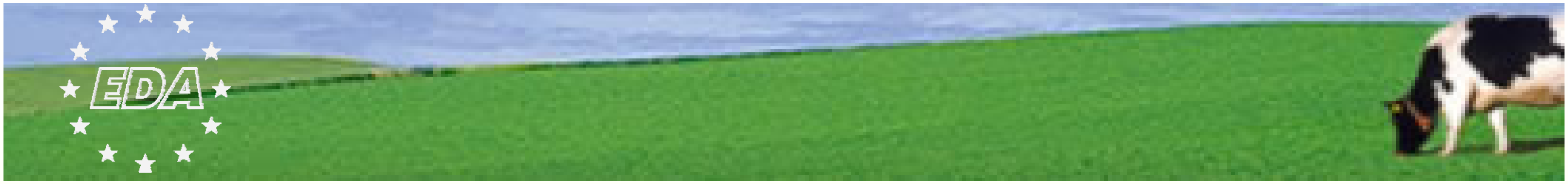


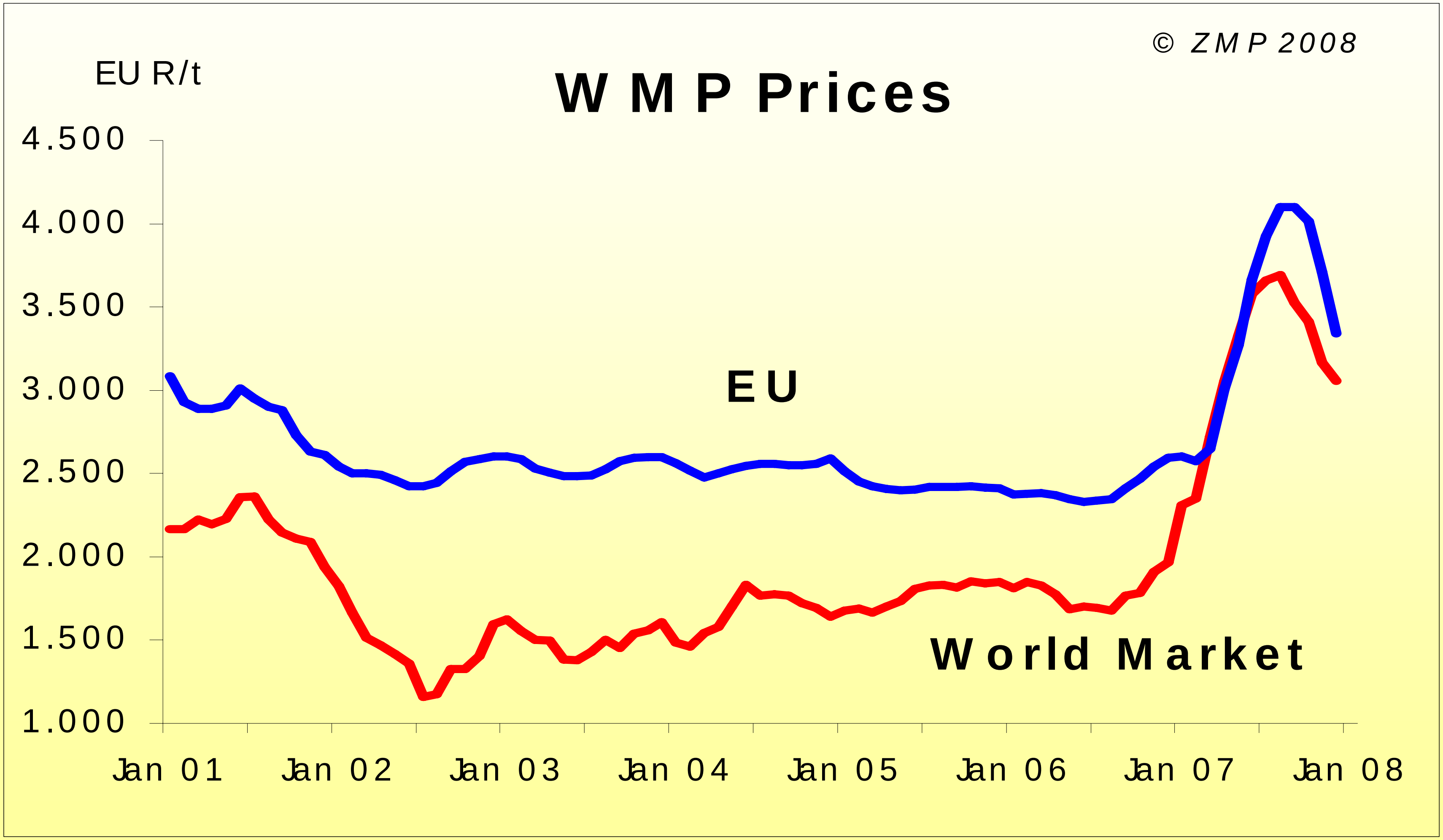
Monthly EU15/25 SMP Prices
450
425
400
375
350
325
300
275
250
225
200
175
150
EUR/100 kg
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2 005
2 006
2 007
2 008
IP 2007/08



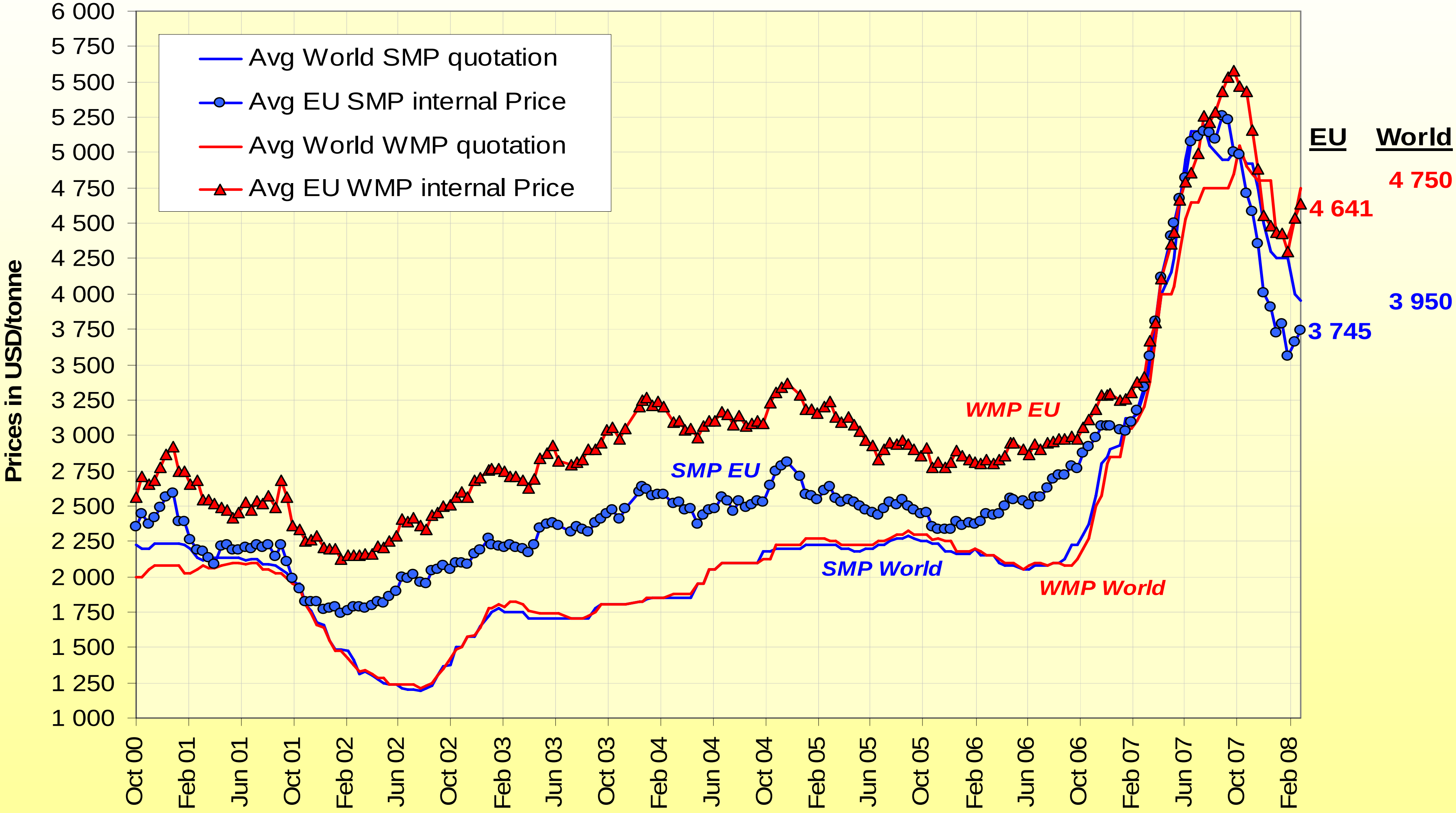

SM P Prices
Euro/t
© ZMP 2008
4.000
3.500
3.000
2.500
2.000
1.500
1.000
Jan 99
Jan 00
Jan 01
Jan 02
Jan 03
Jan 04
Jan 05
Jan 06
Jan 07
Jan 08
EU
World Market

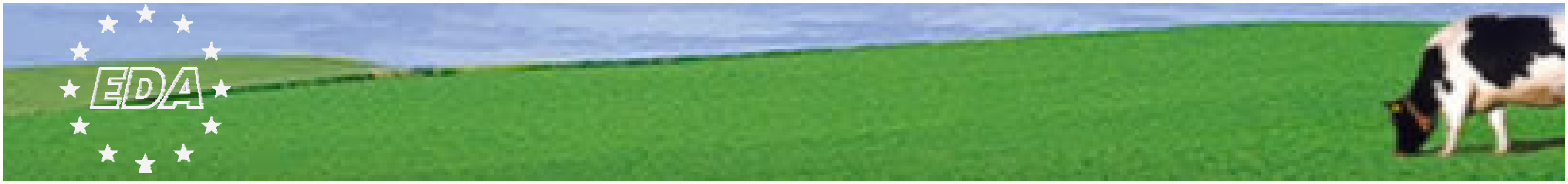

Monthly EU15/25 WMP Prices
420
400
380
360
340
320
300
280
260
240
220
200
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2 005
2 006
2 007
2 008
Virt. IP 2007/08


EDA

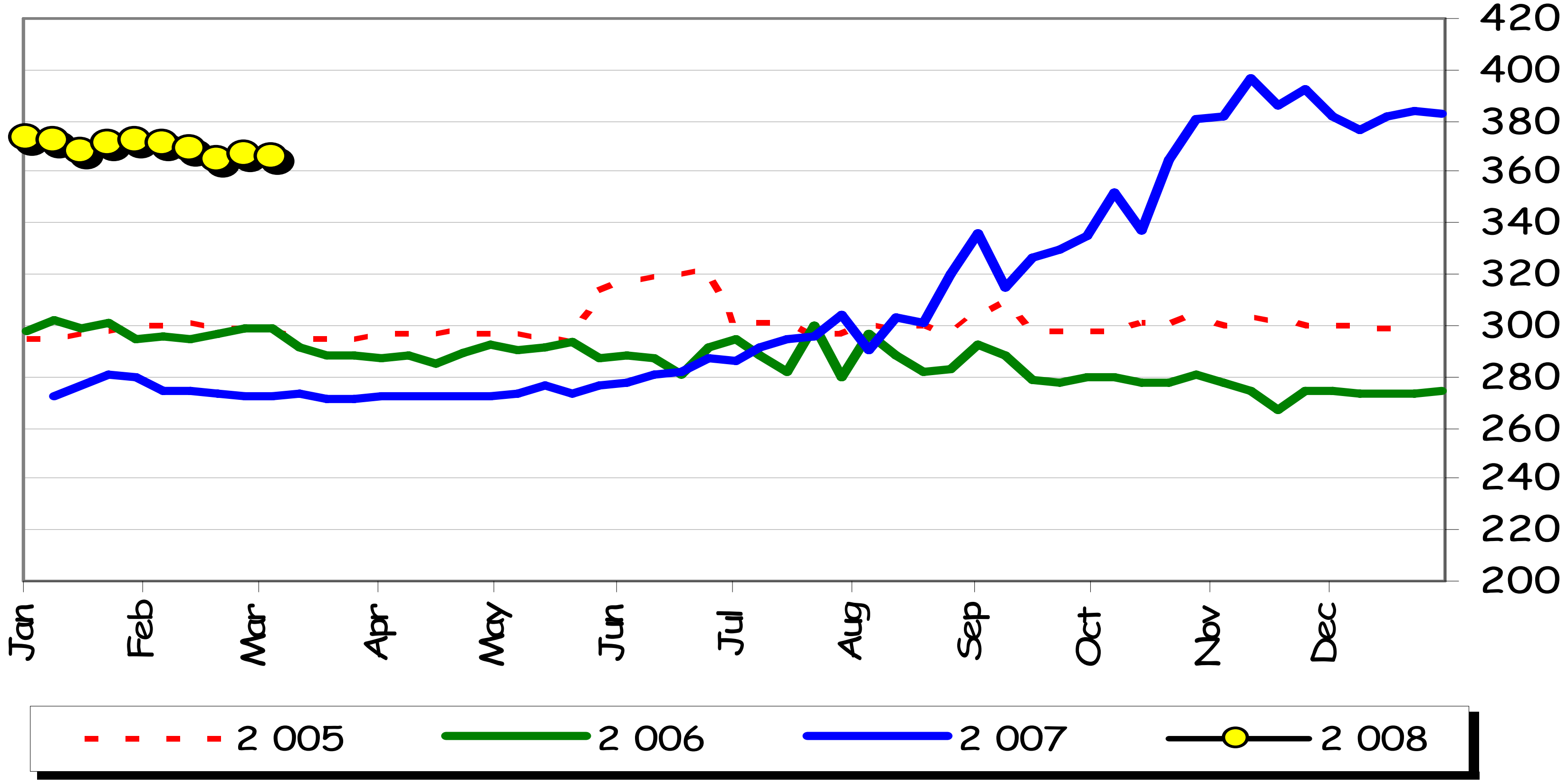

© ZMP 2008
EU R/t
W M P Prices
4.500
4.000
3.500
3.000
2.500
2.000
1.500
1.000
EU
World Market
Jan 01
Jan 02
Jan 03
Jan 04
Jan 05
Jan 06
Jan 07
Jan 08

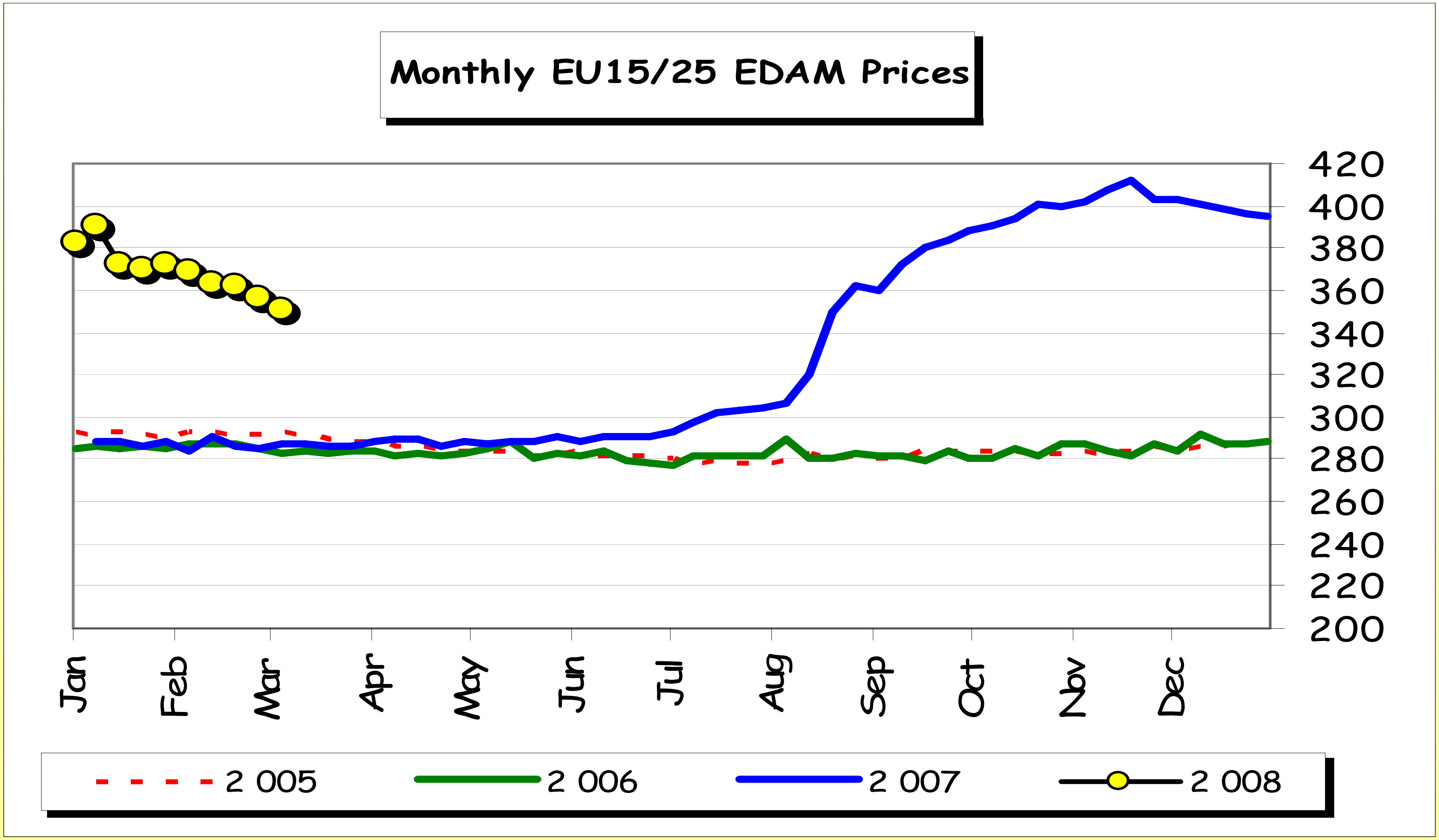
Average EU/World Quotations of MILK POWDERS





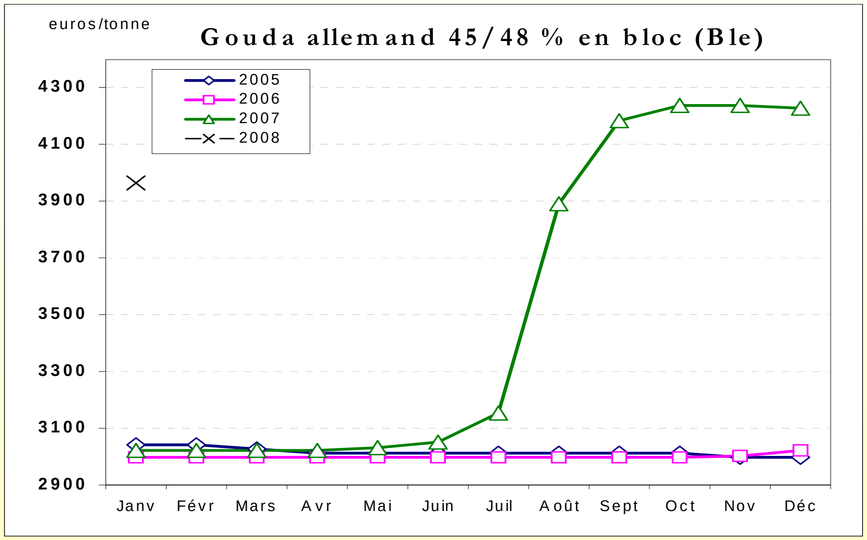
Monthly EU15/25 CHEDDAR Prices

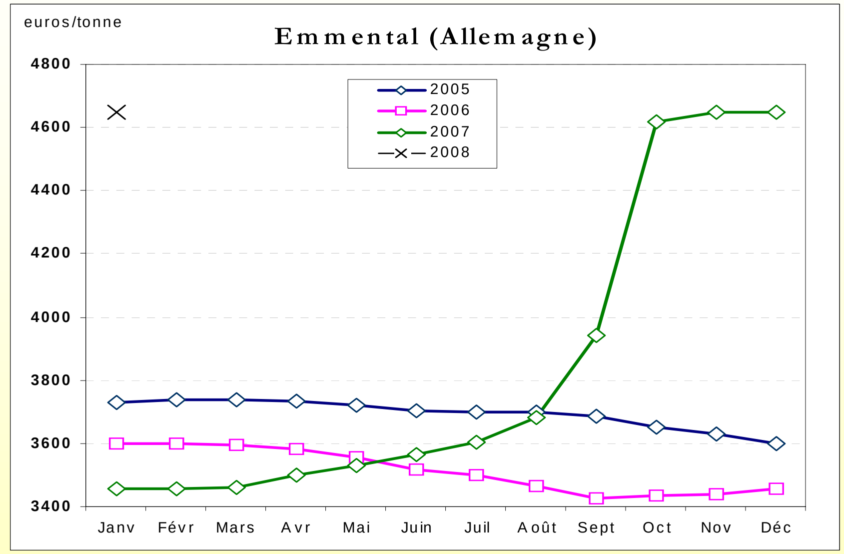


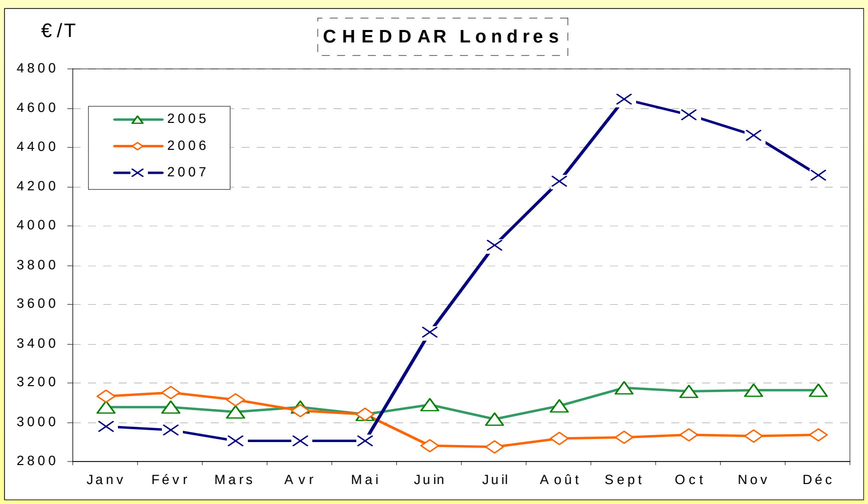


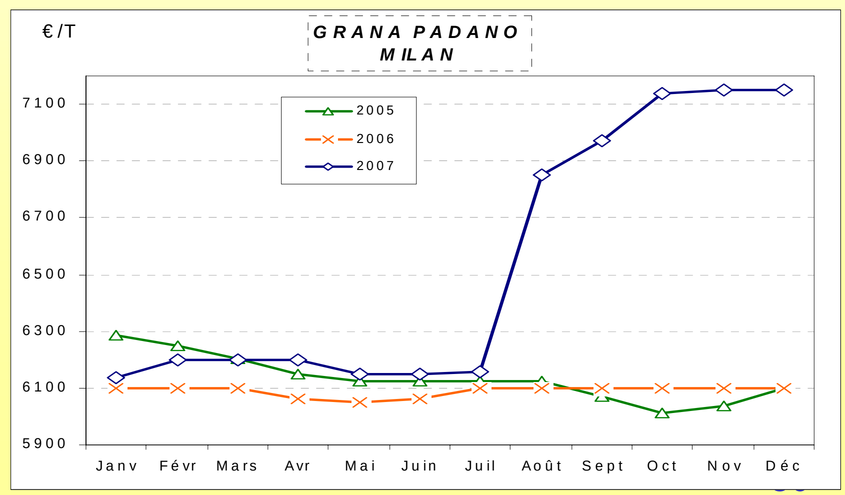
Monthly EU15/25 EDAM Prices
420
400
380
360
340
320
300
280
260
240
220
200
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2 005
2 006
2 007
2 008

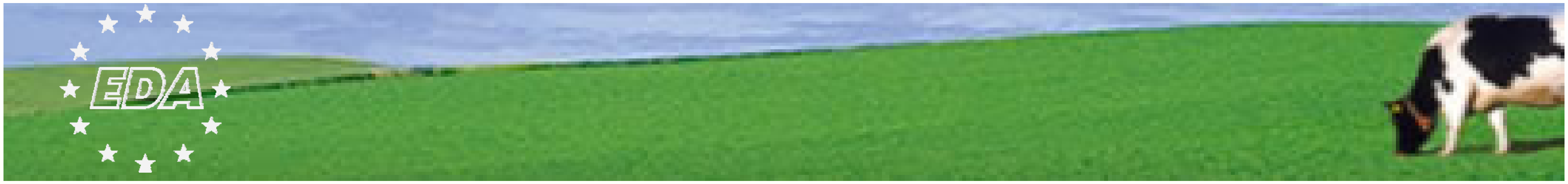
European Cheese prices

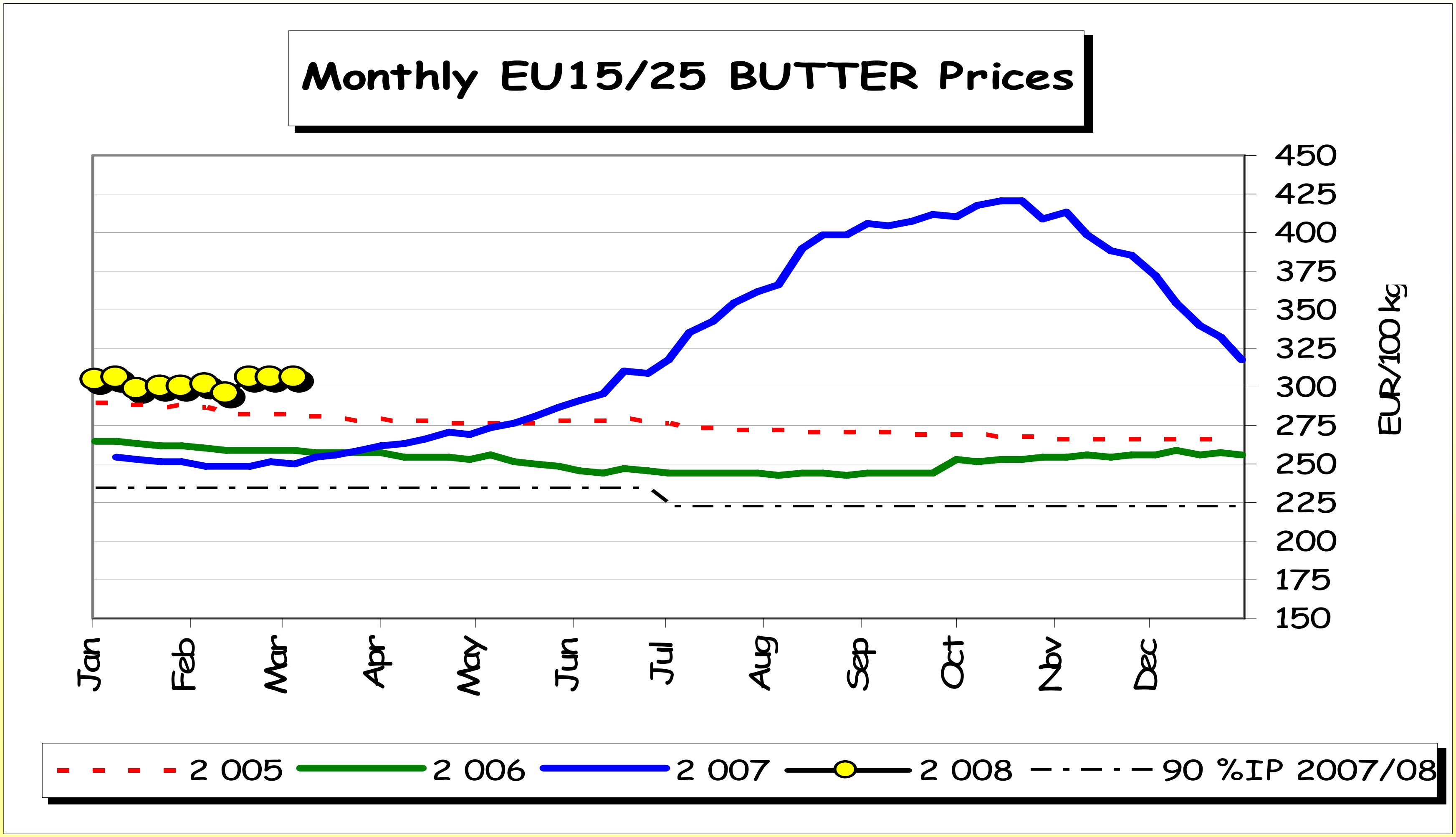


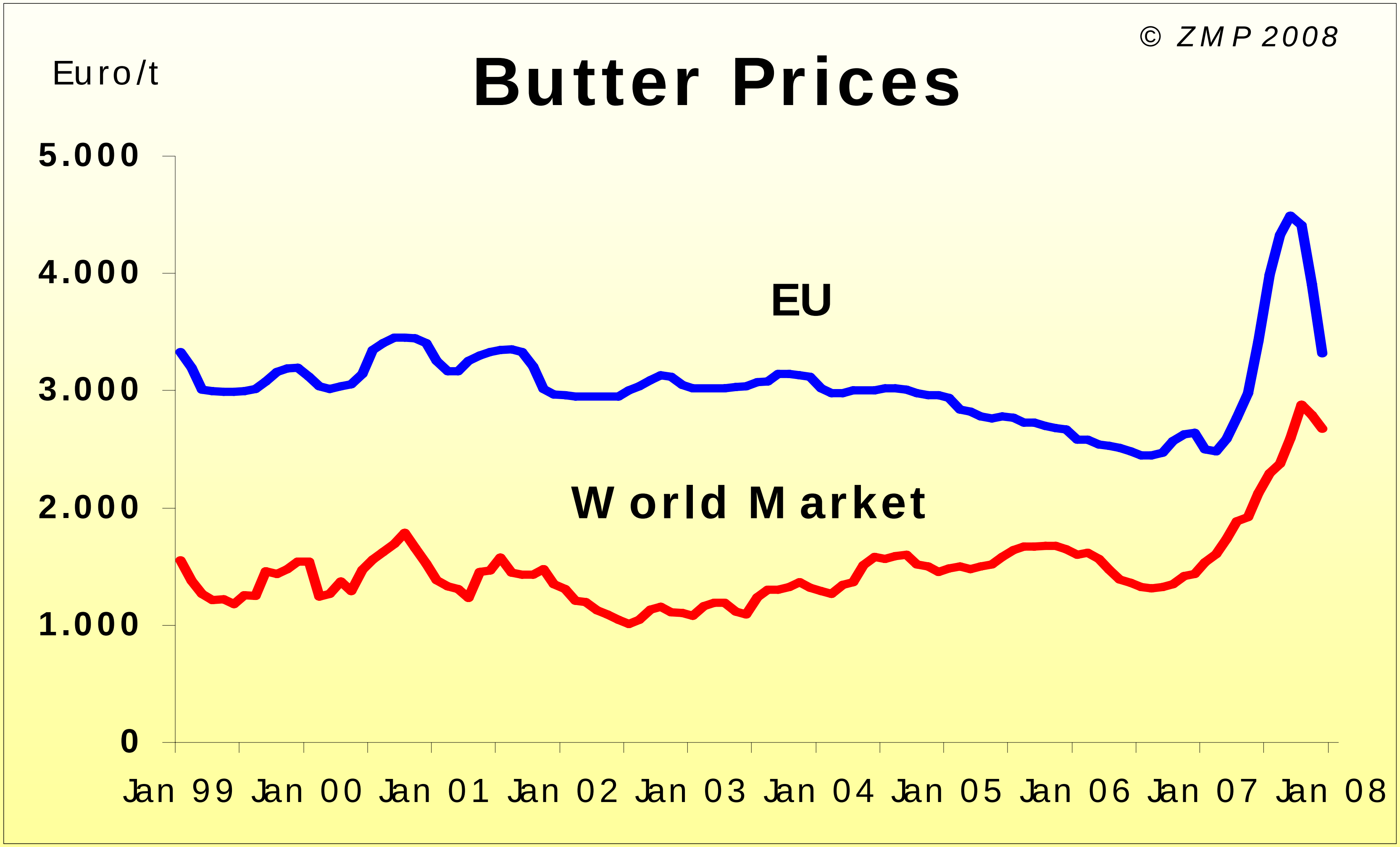




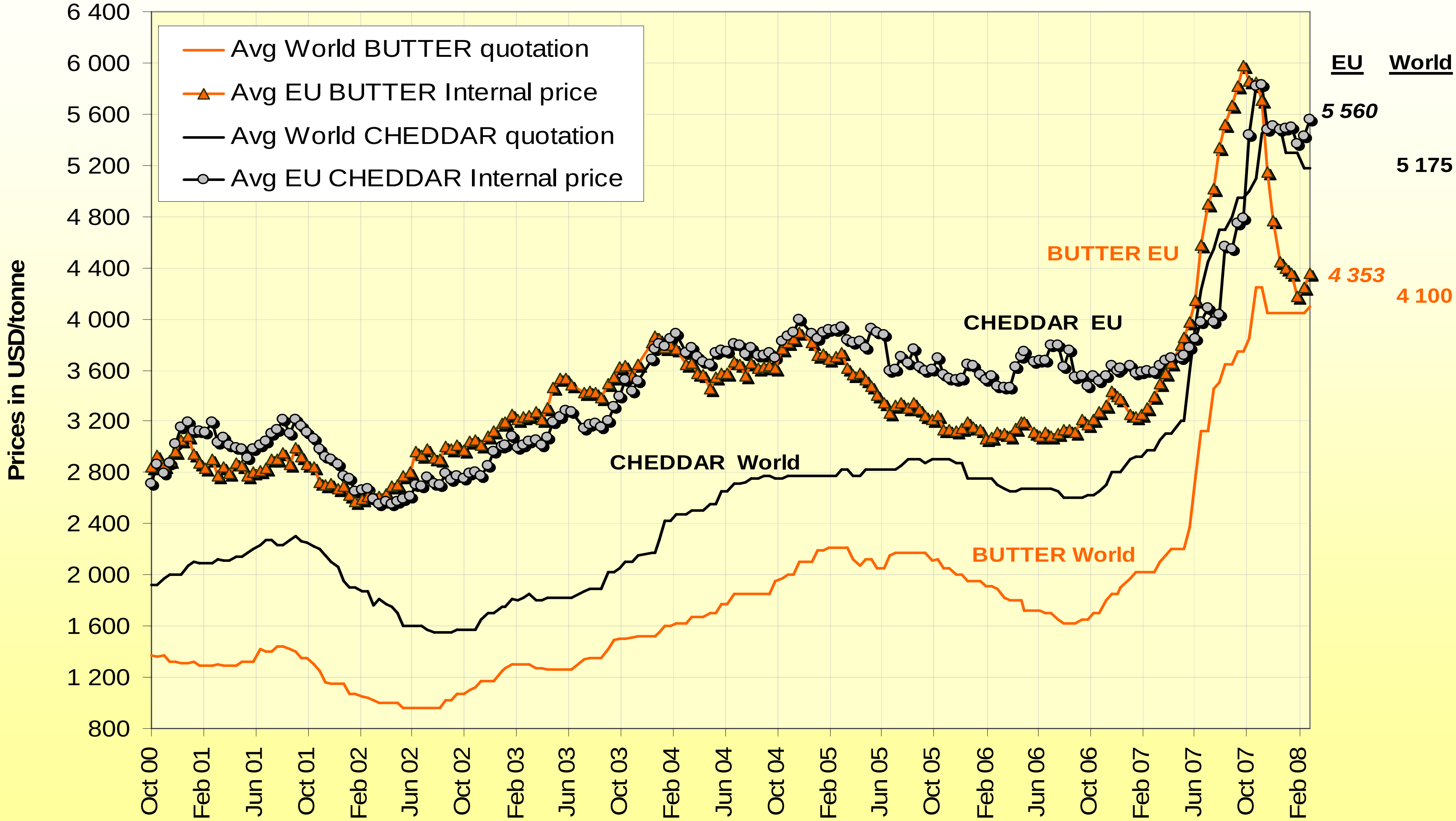


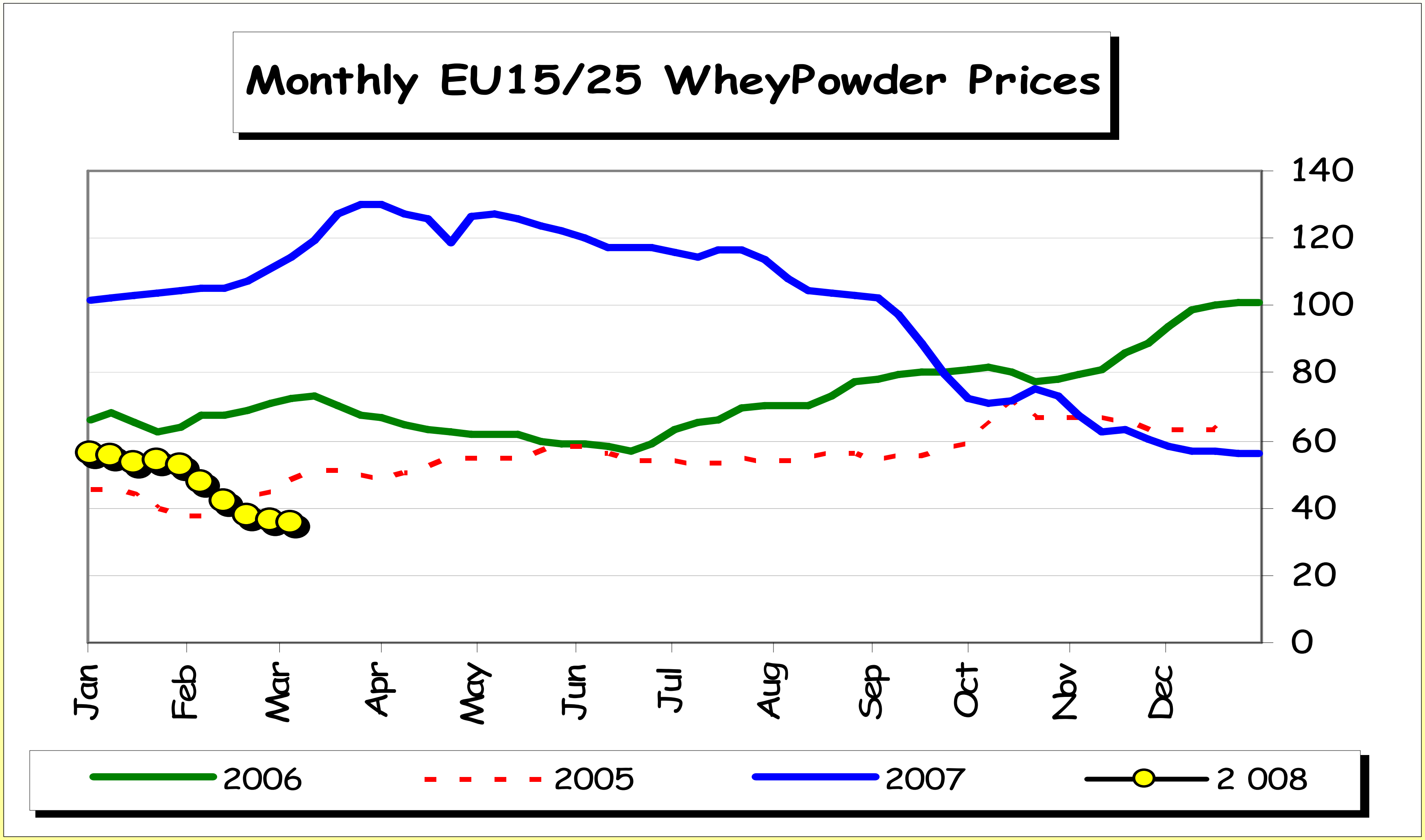



Monthly EU15/25 BUTTER Prices
450
425
400
375
350
325
300
275
250
225
200
175
150
EUR/100 kg
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2 005
2 006
2 007
2 008
90 %IP 2007/08


© ZMP 2008
Euro/t
Butter Prices
5.000
4.000
3.000
2.000
1.000
0
EU
World Market
Jan 99
Jan 00
Jan 01
Jan 02
Jan 03
Jan 04
Jan 05
Jan 06
Jan 07
Jan 08

Average EU/World prices of BUTTER and CHEDDAR




Monthly EU15/25 WheyPowder Prices
140
120
100
80
60
40
20
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2006
2005
2007
2 008

III. Triggers for change

A. EU Policy

Common Agricultural Policy

<u>Farming with security</u>:

- One of the aims CAP:
  - *“to ensure that farmers were encouraged financially to continue to farm and subsequently receive fair prices”.*

- Instruments
  - Intervention
  - Export restitution
  - Domestic support
  - Import duties

Result: increasing surplus

CAP Reform 2003:New reality farmers

- Lowering intervention prices
  - Butter – 25%
  - SMP – 15%

- Limitations on intervention (ceiling / period)

- Prolongation milk quota system to 2015
  - +3 x 0,5%

- Compensation in decoupled direct payments:
  - Cross compliance / modulation

<u>Increased market orientation!</u>

Health Check: EC draft legislative proposals 1

- Annual quota increase 1% for 4 quota years 2010/2011 - 2013/2014 (separate from 2% increase April 2008!)

- Before end 2012 EC presents report on other possible measures such as:
  - Further quota increases and/or
  - Reduction super levy

  and make proposals if necessary…

- Less favoured areas: financial support provided under article 69 for producers that are affected by the quota abolition.

Health Check: EC draft legislative proposals 2

- To keep a safety net in the absence of market supply control, the intervention tendering system will be extended to butter and SMP.

- Abolition of private storage aid for cheese.

- Abolition of disposal aid for butter for pastry and ice cream and for direct consumption.

- Optional support to be decided by the EC on:
  - Private storage aid for butter,
  - SMP feed stuff,
  - aid for casein production.

EDA position in “Health Check”

- Policy clarity on future EU dairy policy allowing the sector to make investment decisions based on certainties.

- Abolition quota system 2015 through soft landing, taking into account market developments.

- EU market management tools should be available up to, and possibly beyond, 2015.

- Adequate support mechanisms will be needed to ensure a healthy dairy sector also in less-favoured areas.

III. Triggers for change

B. Trade Liberalisation

Uruguay round result

- Reduction export support 1995 – 2000
  - Volume: - 21 %
  - Budget: - 36%

- Market Access: 3 – 5% of domestic consumption

- Reduction trade-distorting income support 20% (1986-1988 base period).

Doha Round, what's on the table:

- Phasing out export support 2013
  - Volume and Budget
- Reduction import duties: - 60 % (avg)
  - TRQ
  - Special Safeguard
- Reduction trade-distorting income support - 80% (for EU highest level)

WTO position EU dairy industry

- Trade liberalization: yes, but time needed for adaptation large / complex industry.

- In Doha round:
  - Phasing out export refunds, only over budget
  - Strong reduction of domestic support
  - Market access: balanced approach
    - Only restricted increase market access into EU
    - Some increase market access into third countries to compensate lowering support.

EU dairy industry points of concern

- Domestic support level US

- EU commitment to end export refunds conditional on ending other forms of export subsidies: Export Credits, STE's and Food Aid.

- US – Federal milk marketing orders: the most disturbing state trading enterprise concept in dairy markets

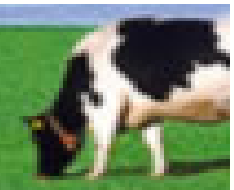
- Unrealistic demand of US and G-20 on market access

Bilateral trade

- Multilateral trade agreement priority, but if not feasible: bilateral trade agreements (FTA's)
  - Current EU FTA negotiations
    - South Korea, ASEAN, India, EPA
  - EDA's offensive interests
    1. US, Canada, Japan, South Korea
    2. China, ASEAN, Euromed, Mercosur, ACP, Ukraine and Russia.
- Lowering of duties expose Non-Tariff-Barriers (NTB's): quotas, import licensing systems, sanitary regulations, prohibitions.

III. Triggers for change

C. World Market supply & demand



Global demand growth

- Population growth and higher incomes leads to higher consumption of animal protein.

- Changing diets and rising living standards in Asia, notably in China and the Middle East

- By product:
  - in Europe, North America: cheeses and ingredients.
  - Emerging markets: drinks, yogurts etc. partly based on recombination from milk powders, concentrates and ingredients, ice cream, fast food of Western style.

Supply limits

- Drought and irrigation restrictions in Australia and parts of US.
- EU reduced market support; decoupling policy.
- Supply control (EU quotas, CWT-Program in USA, Export restrictions of Argentina).
- Alternatives from arable crops and in particular bio-energy and (Brazil, EU, USA…).
- Environmental policies.

IV. Expectations

Market outlook

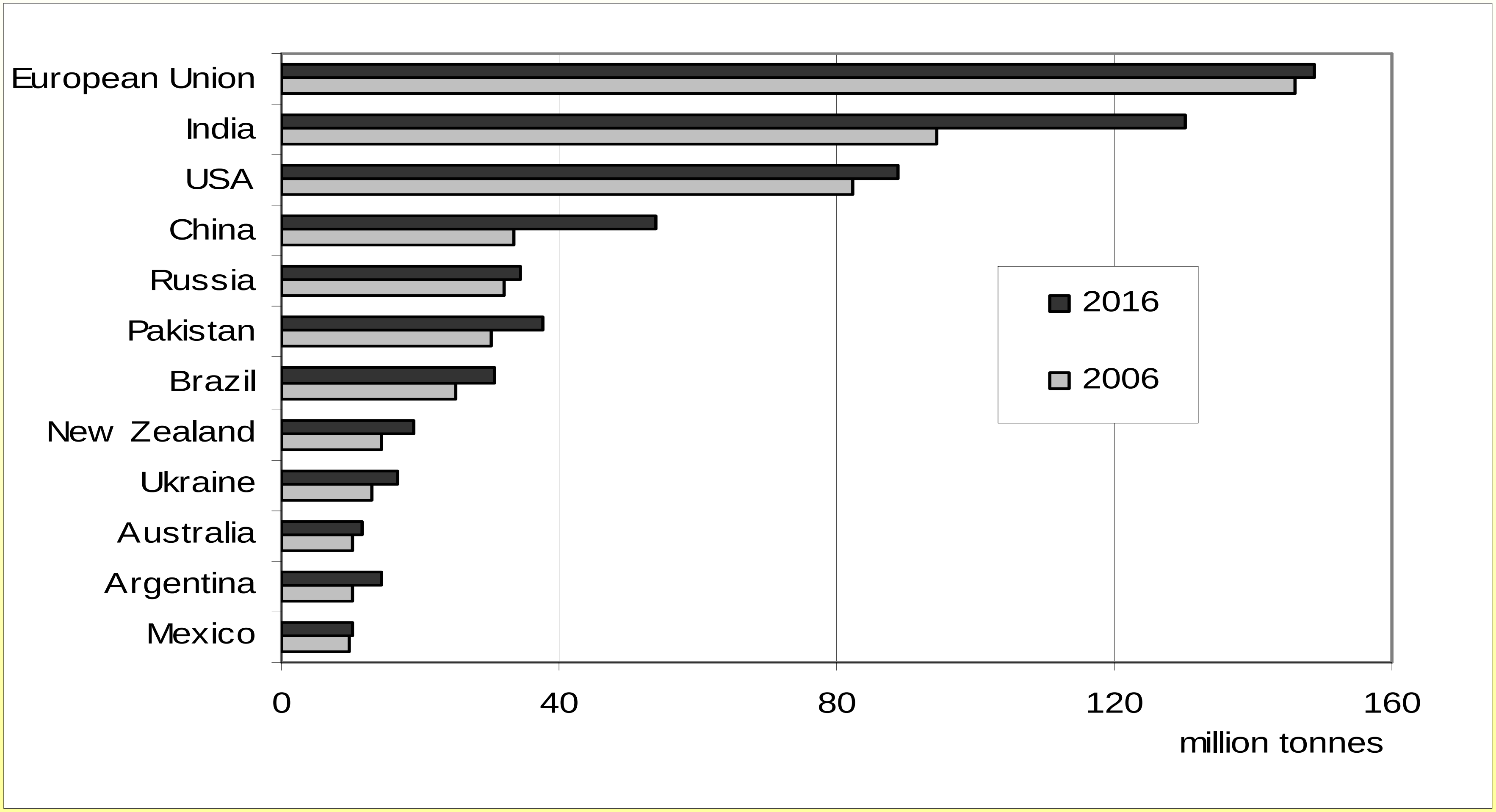
- 2008 prices remain above level recent years

- Less volatility expected this year as markets will be more balanced:
  - reasonable production growth and more restrained demand.

  - All over the world production costs increased (feed, energy, land etc.); so falling prices result in falling production.

- Expectation for future market development
  - Uncertainty remains on supply development
  - Increasing cheese consumption
  - Increasing consumption added value products
  - Increasing consumption functional foods

Milk production growth projections



Source: OECD-FAO jul 2007

Growth Markets

By Region

- Asia
- Middle East, North Africa
- Latin America
- Russia, CIS
- USA
- Europe

By Product

- Liquid milk
- Fresh products
- Ice cream
- Ingredients
- Cheese

Challenges ahead

- Increasing competitive pressures.
- Increase production to satisfy growing domestic and global demand.
- High energy prices.
- New expectations in food quality (high standards and food safety).
- Ecology (climate change and increased environmental standards).

Ensuring competitiveness

- Market regulation will slowly be reduced to zero and trade barriers will be slowly eliminated.

- Making other domestic policies more important in ensuring competitiveness:

  – Harmonization of legislation
  – Cutting red-tape
  – Investments in infrastructure,
  – Innovation and increasing R&D

Getting ready for the world market

- Quota system hinders the sector to adjust to the world market:
  - to react to market forces.
  - To let young ambitious farmers to enter the market.

- The EU cannot be cut off from the world market anymore as:
  - EU market support decreased the last years to minimum levels.
  - import tariffs will be significantly reduced under pressure from the WTO.

- For less favoured areas, support mechanism will be required.

- Different mindset: benefit from global opportunities, not avoiding price volatility in a forced manner.

- Security provided by market support dissapearing:
  - Farmers need managerial and entrepreneurial abilities

  - Current Market situation: Farmer should use this to adjust!

Thank you for your attention