

15.05.2017

335 euros as honest price threshold for intervention milk powder

(Brussels, 15/05/17) There was too much milk powder in the past and still the milk market cannot cope with it: there are currently some 350,000 tons of skimmed milk powder stored in intervention, and in view of the tense situation in the EU milk market that volume lies as heavy as lead in the stomach. Although at present raw milk prices in the EU are a little higher than a few months ago, at an average of 33 cents/litre they are still way below a cost-covering level.

As the president of the European Milk Board (EMB) Romuald Schaber explains, another sharp drop in milk prices would be certain if the EU Member States were to sell the intervention powder at the current low market price of 175 euros/100 kg. "But the price of 215 euros/100 kg set by the EU is also too low, and would exert too much downward price pressure", Schaber points out. The intervention milk powder should only be sold at a stabilising price. Taking as a basis production costs of over 40 cents per litre of raw milk, which is the case in the strong intervention countries such as France, Germany and Belgium, and adding on transport, processing and marketing costs, the result is a price of at least 335 euros/100 kg of milk powder.

[Please find here more information on milk production costs](#)

Table: Calculation of the target minimum price for intervention skimmed milk powder

Intervention/reference prices	Value	Unit
Skimmed milk powder (SMP) threshold price	334.56 +	EUR/100 kg
Transport costs for skimmed milk powder		
- Dairy to intervention warehouse	350	km
= Estimated transport costs for skimmed milk powder	2.35	EUR/100 kg
Marketing and processing costs		
- Marketing costs, security costs	1	EUR/100 kg
- Processing costs butter/skimmed milk powder	32	EUR/100 kg
Reference price minus costs		
Reference price minus costs	299.21	EUR/100 kg
Conversion into milk equivalent (ME)		
Conversion factor (according to Bailey 2014, total solid content method)	7.48	kg ME/kg SMP
Cost-covering farm-gate price per kg of ME	40.00 +	EUR/100 kg

Extrapolation by BAL based on the calculation by the ife institute Kiel (2015)

"The EU is in a dilemma", says Schaber. "Since the abolition of quotas in 2015, intervention and private storage have been key instruments for stabilising the milk market. It has been obvious for over two years that they are not fit for the purpose." Right from the start the intervention failed to produce a price rise, and the stored powder has proven to be just heavy baggage, he says. "But this baggage cannot simply be discarded cheaply. The target price of 335 euros/100 kg represents an honest and adequate minimum price", the EMB president stresses.

Unlike the problematic intervention, the production reduction scheme launched by the EU at the end of last year has brought a noticeable recovery to the market. Under the scheme, excess volumes have not even been produced, and so have not subsequently burdened the sector. Yet so far this has been only a one-off measure. As Schaber explains, the voluntary restraint on supply including a temporary cap of production during the reduction period is still to be installed as a regular instrument in the EU. The EMB recommends establishing it as part of a crisis mechanism, the so-called [Market Responsibility Programme](#).

Contacts:

EMB president Romuald Schaber (DE): +49 (0)160 352 4703

EMB managing director Silvia Däberitz (DE, EN): +32 (0)2 808 1936

