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Latest developments in the milk sector in the context of the coronavirus crisis

For European milk producers, the impact of the coronavirus of the past weeks now coincides with peak milk production in spring.

Below you will find information on the extent to which the European Commission's political measures are being used in the Member States as well as an overview of the current situation in Belgium, Denmark, Germany, France, Ireland, Italy, Latvia, Lithuania, Portugal and Switzerland.

Thereafter, we present the current market situation, illustrated using key market indicators such as the price on the spot market, the Global Dairy Trade-Index (GDT) as well as the EU prices for butter and skimmed milk powder.

Political measures taken by the European Commission

EU Member States use private storage Private storage of skimmed milk powder, butter and cheese was opened on 5 May 2020. Member States have so far offered volumes of almost 4,800t of skimmed milk powder, 31,000t of butter and about 38,000t of cheese. Five countries have already reached their national cheese quota (Ireland, Spain, Italy, Sweden and the United Kingdom).

Here are the current volumes of private storage in the EU Member States:
https://circabc.europa.eu/sd/a/aacdfe67-6e5e-4f84-8f3a-b61b10f38d42/PSA-covid19.pdf

Information from our national member associations

Belgium
The milk price is between 27 and 28.5 c/l.

Denmark
Arla Foods pays prices between 32.3 and 33.3 c/l this year.

Germany
For April, many dairies have reduced farm-gate milk prices between 1 and 3 cents, with 3 cents being an exception. The national average milk price is estimated to be around 31.5 c/kg.
The measures authorising the planning of milk production granted by the European Commission have not yet been implemented by any producer organisation in Germany.
The current position of many German policy-makers is that the sector would now have to adopt the crisis measures of the Sector Strategy 2030 (fixed and multi-price models, use of commodity futures exchanges, etc.). Apart from private storage, no further measures have been announced, except of course the possibility of making use of coronavirus aid programmes (grants, loans, short-time compensation, etc.).

France
The base price is between 29.5 and 34.5 c/l with a slight upward trend. The French interbranch organisation CNIEL has released a total of 10 million euros to encourage dairy farmers to reduce their milk production. Milk producers receive 32 c/l of milk not produced. However, this measure only applies to a reduction of 2 to 5% compared to the previous year.

Ireland
The milk price has fallen by 3 c/l on average in March and April and is between 28 and 30 c/l. Ireland is currently at peak milk production. The cheese quota for private storage has already been filled. Butter and skimmed milk powder are also being stored.

Italy
The current average price is 33-35 cents per litre. Compared to February, the price has fallen by 20%. The possibility for interbranch and producer organisations to plan production has not been implemented in Italy. COPAGRI and APL are in contact with the national and local governments and other agricultural organisations to promote EU-wide production cuts.

Latvia
The average milk price in Latvia in April is 28.4 c/kg, a decrease of 7.5% compared to the previous month (30.7 c/kg). Forecast milk price for May is 25.9 c/kg.

Lithuania
The average milk price for April is 28.2 c/kg. Compared to the previous month, this represents a decrease of 9.2%.
For the months of April and May, a government support of about 77 euros per dairy cow is planned. However, the measure still needs to be agreed on by the European Commission. National support for dairies is planned from June onwards to compensate for losses related to exports. However, this measure is subject to one condition: dairies have to commit to pay milk producers the average price for the according months of 2017-2018. This measure has not yet been approved either.

Portugal
The milk price for March is 30.4 c/kg. Larger cooperatives and dairies continue to pay the same price, while smaller cooperatives announced a reduction of 1.5 to 2 c/kg for May and June.
Portugal uses private storage aid for skimmed milk powder and butter. The possibility for interbranch or producer organisations to plan production has not been taken up.
A report by the Ministry of Agriculture points out that producers of sheep's and goat's cheese cannot find outlets because the catering sector and markets are closed. Moreover, families don't necessarily buy such quality products.

Switzerland
The milk price continues to fall in May. The reason indicated is the low price of skimmed milk powder in the EU. However, milk prices are only slightly below the usual level in spring. The coronavirus has rather little influence here compared to the neighbouring countries. The situation could in part be compensated by the fact that consumers deliberately buy Swiss products, that shopping tourism ceased and the milk price is better in retail than in the catering sector.
In Switzerland, a decline in the milk volume has been observed for some time now, which processors neither saw coming nor want to believe. Accordingly, no calls for volume reduction are being made. Butter imports are partly explained by the decreasing volume.

Market indicators

In the EU, the produced milk volume increased by 2.8% from January to March 2020 compared to the same period last year. The EU-27 milk price for April falls by a further 0.5% and is estimated at 34.23 c/kg.

EU butter prices are at 295 €/100 kg. This means an increase of 2.6% in the last 4 weeks. EU skimmed milk powder prices are 203 €/100 kg, which represents a rise of 4.1% in the last 4 weeks.

A slight recovery of 1% can be seen in the Global Dairy Trade-Index (previously -4.2% and -0.8% respectively). The average price for Italian spot milk rose to 31.13 c/kg in May compared to the previous month (-19.7% compared to May 2019).

The prices for futures on dairy products on the European Energy Exchange (EEX) hardly changed. The contracts for skimmed milk powder for August, for example, rose by 0.4% to €2,235 per tonne on 26 May in a weekly comparison.

Crisis-mitigation measures

Policy-makers at EU level must implement voluntary production cuts with capping, as laid out in the Market Responsibility Programme (MRP).

The following aspects must be kept in mind:

1. Capping for milk producers who are not participating in the volume reduction programme is an absolute must. This means that a fine should be levied on all those who increase their production during the reduction period.
Why? If milk production is not capped, the positive effects of voluntary volume reduction will be hemmed in.

2. To ensure that enough milk producers participate in the programme, the bonus payment per litre of milk not produced should be high enough.

- When the volume reduction programme was activated in 2016/17, the EU paid 14 cents per kilogram of milk not delivered. However, this financial incentive is not strong enough to motivate a large number of producers to participate in the programme. Therefore, in 2016/17, France, for example, decided to increase this bonus payment at national level. The final bonus payment in France was thus 24 cents for a maximum volume reduction of 5% (as compared to the same period of the previous year).

This is the model to follow to ensure that voluntary production reduction provides the desired results.

It is important for the EU to act immediately in order to effectively counteract emerging issues. There is a good chance that this would prevent the dairy sector from falling into a very severe crisis. The right measures must be activated at once.

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