News Details
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Recent developments in the dairy sector in light of the Coronavirus crisis

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In spite of far-reaching relaxations in Coronavirus restrictions and an incipient macroeconomic recovery, the situation for European dairy farmers continues to remain tense.

Please read on for information about the agricultural priorities of the German Presidency of the Council of the European Union, about the political measures implemented by the European Commission in the Member States, and about the current situation in Belgium, Denmark, Germany, France, the Czech Republic, Hungary, Ireland, Italy, Lithuania, Luxembourg, Norway, Portugal and Switzerland.

Thereafter, you have information about the current market situation – represented by key market indicators like the Global Dairy Trade-Index (GDT), the milk price on spot markets, the EU prices for butter and skimmed milk powder as well as the rates for milk-product futures on the European Energy Exchange (EEX).

German Presidency of the Council of the European Union

On 1 July, Germany took over the rotating presidency of the Council of the European Union. The priorities for Federal Minister of Agriculture Julia Klöckner include a greater alignment of agricultural policy with environmental goals, climate action and animal-welfare standards. She aims to strengthen this last aspect with a new label. Furthermore, the Coronavirus pandemic continues to be a key factor. Klöckner says that she wishes to draw conclusions to improve future resistance to crises from this situation.

EMB comment
In light of the Coronavirus pandemic, milk producers and some dairies have, in recent months, signalled their willingness to participate in coordinated volume reduction to reduce surplus production and thus prevent a major price collapse. Contrary to private or public storage, this approach would ensure that milk for which there is no demand is not produced at all, and thus will not need to be put into storage and will not continue to weigh down the market even after the current severe crisis is behind us.
The EMB is therefore calling on policy-makers to anchor temporary production reduction within future crisis management measures at EU level. In addition to bringing urgently-needed stability to the dairy sector, it can also contribute significantly to improving animal welfare as well as environmental and climate protection as envisaged by the German Minister for Agriculture. However, there are no signs to date of any efforts by the German Council Presidency to arrest unrestricted surplus production. Since Klöckner has chosen to underline the importance of local and regional food production, she should definitely be thinking about appropriate instruments to support this activity. Socially, environmentally and economically-sustainable food production is only possible in a market where supply and demand for high-quality milk are matched at a cost-covering price.

Measures by the European Commission

Support for private storage ended on 30/06/2020

The deadline to apply for EU subsidies for private storage was 30 June 2020 (Implementing Regulation (EU) 2020/591 , 2020/597, 2020/598). Between 5 May 2020 and the deadline, the storage of about 20,100t of skimmed milk powder, 67,700t of butter and 47,700t of cheese was subsidised. Seven countries filled their entire national quota for cheese (Belgium, Ireland, Spain, Italy, Lithuania, Sweden and the United Kingdom). *For the quantities in private storage in individual EU Members States, click here.*

COVID-19 EU promotion programmes

On 30 June 2020, the European Commission launched a call for two programmes to promote the agri-food sector in the recovery of the COVID-19 crisis. A total envelope of ten million euros will be used to fund promotion campaigns aimed at increasing the sales of farm products. These measures also apply to the dairy sector, which was especially affected by the sudden change in demand because of the closure of restaurants, bars and cafés. A range of promotion programmes like advertising campaigns in print, TV, online and radio as well as events, stands at trade fairs, seminars and tastings shall be funded. Producer organisations, inter alia, have up to 27 August 2020 to apply for funding for their project proposal.

You can find further information about this promotion programme as well as the programme documents published by the Commission here.

Information from European milk producer associations

Belgium
Since the beginning of the year, the milk price in Belgium has been on the decline. It has been below the 30-cents per litre mark since March and was an average 28.5 ct/l in the month of May. The milk price has, nonetheless, not dropped all the way to intervention levels (22 ct/l), as feared by some dairies in April.
Due to the drought, pasture-fed cows are producing less milk than cows raised in stalls.
The Flemish Milk Board, an EMB member organisation, donated 200 litres of "Fairebel" Fair Milk to the Gent Solidarity Fund. This grouping of aid organisations is preparing meals for the needy during the Coronavirus crisis.

Luxembourg
In Luxembourg, the milk price for the month of May was 33.59 ct/kg. This was the lowest price recorded for 2020 (January to April: between 34.44 and 34.90 ct/kg).
38,537t of cow milk were delivered in May. This is an increase of 2,457t as compared to the same period in the previous year (May 2019: 36,080t).
The sales figures for drinking milk continue to be very high. Because of Coronavirus-related circumstances over the last few months, consumers have gained a greater appreciation for the importance of regional and seasonal products. This trend continues even today.

Denmark
The milk price in July is 32.5ct, which is 0.5ct lower than the previous month. The milk volume has reduced by 0.5% as compared to the second quarter of 2019. Due to low milk prices, the situation in the dairy sector remains unchanged.
Beef producers are also being paid very low prices.

Italy
An average 34 ct/l is paid for raw milk to produce mature and semi-mature cheeses, while an average 36 ct/l is paid for fresh milk.
Milk deliveries are stable or even showing slight decreases. The prices for mature and semi-mature cheeses are declining. After an early decline of 10 to 15%, the milk price recovered slightly as compared to April with an increase of about 1 ct/l.

Germany
The evolution of milk prices is not uniform – some dairies have reduced milk prices further, while a few have increased them by up to 1 ct/kg. The milk price ranges from 27 ct/kg to 36 ct/kg; the national average should be around 30-31 ct/kg. Milk deliveries are currently 1.6% higher than the same period in the previous year.
After the collapse of spot milk prices to 22-23 ct/kg, large dairies probably bought up the available milk volumes and used them to make long-life products. This led to a quick increase in prices to something over 30 ct/kg for spot milk and brought a degree of relief to the milk market. Private storage has not been used to its full extent.
Farmers are perceiving these developments in two different ways: Some are happy that things did not end up being worse, while others are quite concerned that the milk price is well below full cost coverage and they wonder how it will evolve.
Contrary to slaughtering in the meat industry, the Coronavirus crisis did not lead to any bottlenecks in terms processing in the dairy sector. Even the dreaded collapse of milk-producer prices all the way down to intervention price did not come to be. However, significant reductions in milk price had to be taken in stride.

Czech Republic
In general, the coronavirus had no very serious consequences for dairy farmers. Border crossing restrictions were causing trouble for farmers selling to Germany and other countries, exports decreased. Supply to schools, restaurants and other food service decreased, however these problems are more related to rather large farms.
Due to a lack of demand in ordinary shops (since people preferred to stay at home), closure of farmers markets and other

sale restrictions, active farmers were trying to find new ways to sell their products, such as on-line markets, or direct sales on their farms. Sales mostly remained stable, or even grew slightly.
The slight decrease in the number of livestock farmers could have other causes such as droughts.
It is still too soon to draw an overall conclusion.

Lithuania
In Lithuania, the milk procurement price fell by 9.9% in May to 254 EUR/t (for 4.13% fat and 3.35% protein) as compared to April. Very marginal price increases are expected in June and July.
The size of the cow heard in Lithuania is no longer shrinking because the price for cows sent to slaughter is currently very low. Even before the lockdown, the milk procurement price in Lithuania was at an absolute low. However, it has now reached rock-bottom to such an extent that many dairy farmers are planning to discontinue milk production. Within the context of the Coronavirus crisis, the Lithuanian government has, nonetheless, approved a subsidy to the tune of 77 EUR per cow for dairy farmers. The suitable weather conditions that are allowing farmers to produce feed is also a positive development.

Hungary
A state of emergency was declared on 11 March 2020, after the rise of the COVID-19 epidemic in Hungary. This special legal order ended at midnight, 17 June 2020.
The price of raw milk – in a relatively and surprisingly stable market situation – continuously fell from March to June, but the monthly decline barely reached 2%. Only May brought a decline of almost 3%. The price in June is 8% lower than the highest price in the last three years (January 2020), but it is still more than 5% higher than the year before. The trend of our raw milk export price reacted strongly. The decline was more significant in April, but its rate (-13%) did not reach the rate of local Italian spot prices. In May it was stable, in June the export price firmly rose by 8%. Today's export price is more than 5% higher than a year earlier.
Due to the extremely mild winter, the spring biological raw milk peak occurred earlier, almost at the same time as the large-scale appearance of the coronavirus. However, significant raw milk surpluses were not shown on our market.
Already before the lock down came into effect, the Milk Interprofessional Organisation and Product Council (Dairy Board) set up an operative committee. We informed the Government on a daily basis about the situation in the Hungarian milk sector and put forward urgent crisis management proposals. Furthermore, we carried out a very intense milk and milk product campaign (TV spot, leaflets of retailers, etc.), celebrating World Milk Day online. Domestic retail sales increased for most dairy products during March and April. The market situation was also significantly affected by the euro exchange rate. The weak Hungarian forint helped to counter the flood of dumping prices that came into our direction during April.
The continuous international transport of packaging materials and raw milk by road had become difficult, the international transport of milk and milk products within the EU slowed down and was even paralyzed for 2-3 days.

Ireland
The current milk price in Ireland rages from 28 to 32 ct/l for 3.3% fat and 3.6% protein. The prices for milk deliveries in May remained largely unchanged.
Irish milk collection in May 2020 was 3.5% higher than in May 2019. It has increased by 4% between January and May.
Many regions of Ireland experienced a severe drought in May. This difficult situation has somewhat eased since mid-June thanks to increased precipitation. Grass is growing again and the weather is within the normal range, alternating between sunshine and showers – ideal conditions for the seasonal production model.
Ireland has had a grip on the Coronavirus crisis so far. This has been thanks to good cooperation within the entire dairy industry – from farmers to processors, all the way to government authorities and ministries. As a result, the sector experienced very few interruptions and disruptions. However, the milk price did fall by 3 ct/l. This had a major impact on dairy-farmer incomes as the production peak lasts from April to June.

France
The milk price oscillates between 31 and 36 cents, depending on the dairy. After a relatively dry spring, the feed harvest is slated to occur, depending on the region, two to three weeks before schedule. The harvest yields are low.
There has also been a renewed increase in offers in supermarkets since June, which has led to a decrease in the price of milk products.

Norway
The situation on the Norwegian dairy market is stable. The milk price is about 5 NOK (the equivalent of about 47 eurocents).
Milk quotas in Norway were increased with the outbreak of the Coronavirus pandemic, mainly because cross-border trade came to complete standstill.

Switzerland

The milk price for factory milk is currently between 54 and 61 centimes (the equivalent of about 50 to 57 eurocents), depending on purchaser. Milk volumes are about the same as the previous year. The milk price usually increases in July, with 80,000 cows out on mountain pastures and the heat affecting them to some extent. Milk deliveries in July and August will be about 20% lower than in May.
This year, however, the milk price (derived from a mixed calculation) has not increased. The price in the protected and supported A segment is, nonetheless, oscillating at more favourable levels. But the collapse of the B-segment price (because of a lower EU price) means that, at the end of the day, the price paid has actually decreased to a certain extent.
In 2020, Switzerland will have to import large amounts of butter for the first time in many years. It is said that these imports could be to the tune of 4,000t. Milk producers are rightfully demanding that this butter shortage lead to better milk prices. However, much to the frustration of farmers, their protests are falling on deaf ears.
During the crisis, milk sales have somewhat shifted. The consumption of fresh milk products in private homes has increased sharply while demand from the hospitality and catering sector has collapsed. This change implied a major challenge for dairies, who were, nonetheless, able to successfully adapt to it.
Many have waxed on about how important the work of farmers has been during the crisis and how this work is, once again, being given the recognition it deserves. However, this greater appreciation has, unfortunately, not led to any economic gains on dairy farms.

Portugal
The milk price in May was 30.04 ct/kg. The largest cooperatives and dairies have maintained their prices. Smaller cheese producers or cooperatives who buy milk on spot markets to make cheese have reduced their prices by one or two cents per kilogram.
The early months of the health crisis were less onerous than in other neighbouring countries. However, the number of new Coronavirus cases in the Lisbon area increased after the lockdown, severely affecting tourism, the national economy and the consumption of milk products.
News of the arrival of a large amount of French milk in Spain is a cause of much concern. The Portuguese and Spanish markets are very closely linked. Therefore, the import of French milk could have a negative effect the sale of Portuguese milk.

Market indicators

The Global Dairy Trade-Index experienced a slight drop of 0,7% this week (previously 8,3% and 1.9 %). The average price for Italian spot milk increased in July by 0,8% to 35.4 ct/kg as compared to the previous month (-22.3% as compared to July 2019).

The EU-27 milk price, on the other hand, fell in June by a further 0.9% and is calculated at 32.65 ct/kg. EU butter prices are around 336 EUR/100kg. This is an increase of 6 % in the last 4 weeks. EU skimmed milk powder prices are currently at 211 EUR/100kg, an decrease of 1,4% in the last 4 weeks.

The rates for milk-product futures on the European Energy Exchange (EEX) are showing a slight downward trend. Skimmed milk powder contracts for September had fallen as of 22/07 by 1% to 2,157 EUR/t according to a weekly comparison; for butter, they fell in the same period by 2,1% to 3,415 EUR/t.

Measures for crisis mitigation

Crises are, unfortunately, nothing new for Europe's dairy farmers. Policy-makers at EU level must, therefore, adopt voluntary production cuts with capping, as outlined in the Market Responsibility Programme (MRP), as an effective instrument in their repertoire of measures.

In this context, the following points must be kept in mind:
1. Capping for dairy farmers who choose not to participate in the volume reduction programme is absolutely essential. This means that those who increase their production during the reduction period would be sanctioned with a penalty.
Why? If milk production is not capped, voluntary production reduction would not have its positive effect to the fullest possible extent.

2. In order to ensure that enough dairy farmers participate in the programme, the bonus per litre of milk not produced should be large enough.

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

It is imperative to emulate this example to ensure the success of a voluntary volume reduction programme.

It is important for the EU to take action and ensure that it is capable of counteracting market disruptions. The inclusion of temporary volume reduction as part of its crisis toolbox, as outlined in the MRP, is the only logical step if one were to draw the correct lessons from the many previous crises.

<<< back