

WORLD DAIRY SUMMIT

IDF

World Dairy Situation 2004

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The World Dairy Situation 2004

**A major IDF publication:
with the objective to
provide an orientation in
an industry which is
exposed to fast and
continuous change**

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Short Term Market Trends 2004

- milk supplies in the Northern hemisphere at seasonal lowest point
- compared to 2003 reduced supplies in the EU, Eastern Europe and New Zealand
- modest recovery in Australia
- resumed growth in the United States
- fast recovery in Latin America and Asia
- ongoing fast growth in China and India
- but in general behind the growth of the worldwide demand

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Outlook 2005

- Recovery of milk production in some countries of the EU 25, growth in America, both resulting from improved situation in feed costs
- But space for expansion limited in EU 15 by quotas and higher fat contents, ongoing expansion in some of the new member countries
- Price levels might be lower in some national markets, but the latest on the World market (if they are expressed in US-Dollars)

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Medium Term Market Trends

- availability of products has changed from exceeding demand now to trailing behind
- consequently ongoing clearing of public stocks in the EU
- but markets seem to be cleared now and private stocks are at normal levels
- prices have partly firmed up from low levels, particularly milk powder prices

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Medium Term Market Trends (II)

- again currency changes and changing policies lead to different results on the national level:
- adoption of EU dairy market regime has increased prices in most of the new member states since May 1st, 2004
- in EU 15 prices were almost weaker than 2003, although the mid-year intervention price cuts had no immediate effects
- product subsidies and export refunds have been reduced
- the effects of higher world market prices in US-Dollar were smaller in supplying countries due to currency changes

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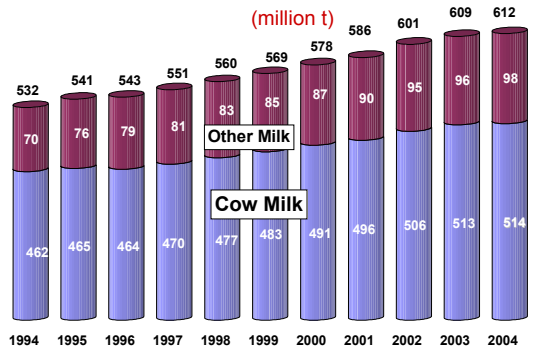
Medium Term Market Trends (III)

- the international trade continues to grow by volume, and has increased its share of overall production to 8%
- these shares vary widely according to the products' nature and are also changing by origin and destination
- for the time being Europe has stabilized its share in the growing trade after several years of decline



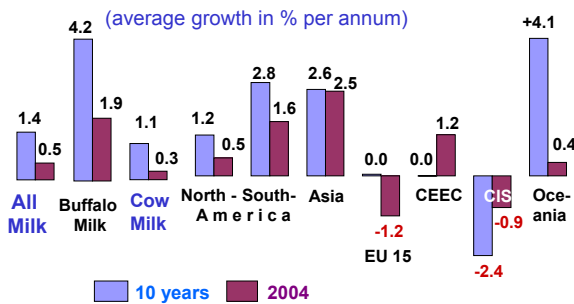
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World Milk Production



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Short-term Growth of Milk Production Has Slowed Down



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The Milk Processing Industries

- Consolidation and expansion is going on
- The ranking by turnover in the following chart is reflecting also different price levels
- It has also been modified by the currency changes
- but whether it is expansion, consolidation or simply the currency cannot be identified in any case
- No figures by volume of milk processed are available



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The World's Top 10 Dairy Companies, August 2004

Company	Country	bn US-\$	Ranking 2003
1 Nestlé	Switzerland	15.3	1
2 Dean Foods	USA	7.1	2
3 Danone	France	7.0	6
4 Dairy Farmers of America	USA	6.9	3
5 Fonterra	New Zealand	6.9	4
6 Arla Foods	Denmark/Sweden	6.2	5
7 Lactalis	France	6.1	9
8 Unilever	Netherlands/UK	5.9	10
9 Kraft Foods	USA	5.6	8
10 Parmalat	Italy	5.1	7



Source: Rabobank International

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Milk Processing

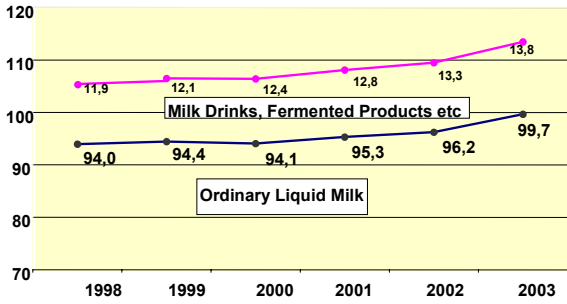
- Slow increase of ordinary liquid milk in established markets, stronger developments in emerging markets
- Fresh milk products sector growing
- Increasing production of products not only taking care of diet, but also of health aspects (probiotics, active cholesterol reduction, reduced lactose content,...)



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Production of Liquid Products

(as far as recorded, million tonnes)



Increase mainly resulting from China

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Milk Processing

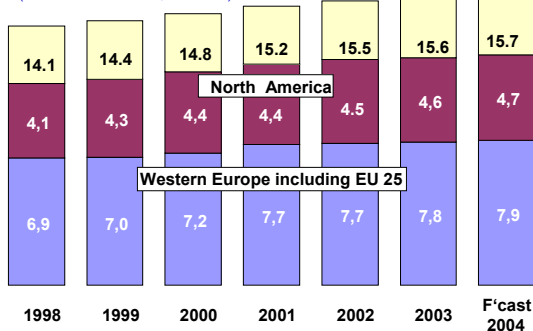
- Steady growth of cheese production, absorbing more than the additional milk supplies
- More bulk products in the form of cream, skim concentrates, protein products are supplied to other food industries
- More milk is processed into whole milk powder and ingredients
- Consequently less milk is available for the traditional items butter and skimmilk powder



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World Industrial Cheese Production

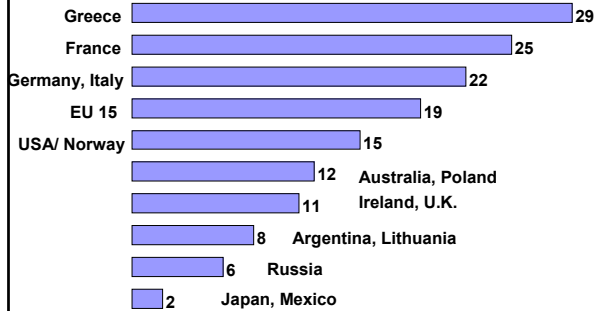
(as far as recorded, million t)



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Cheese Consumption

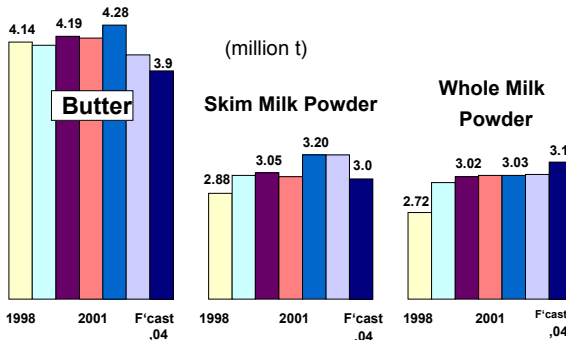
(Selected countries, kg per capita)



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World Industrial Butter and Milk Powder Production 1998 - 2003 and forecast 2004

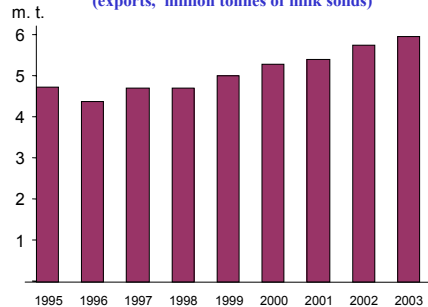
(million t)



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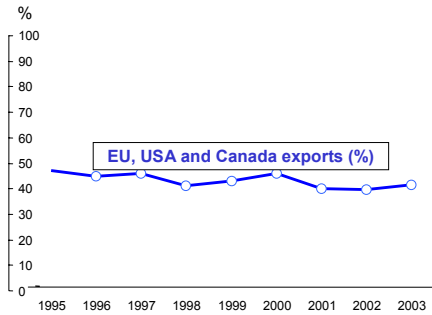
World Trade in Milk Products

(exports, million tonnes of milk solids)



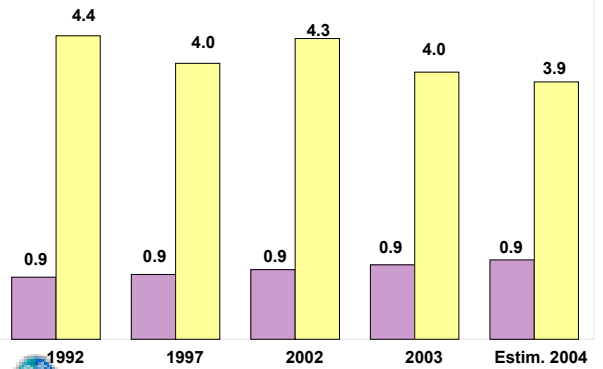
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World Trade in Milk Products



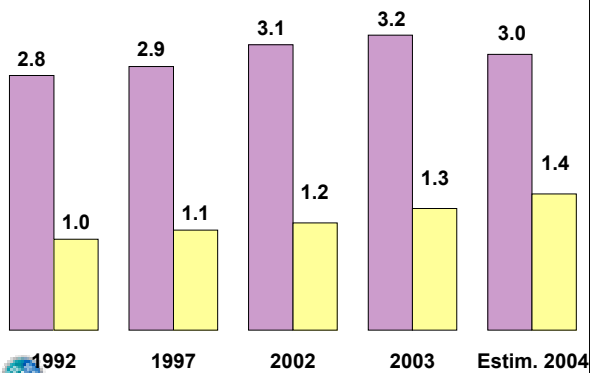
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World Butter Production and Trade (million t)



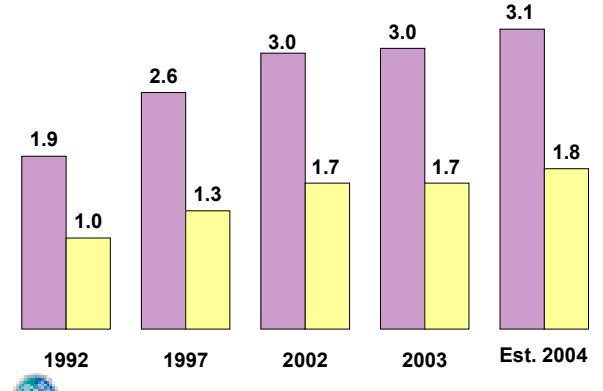
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World SMP Production and Trade (million t)



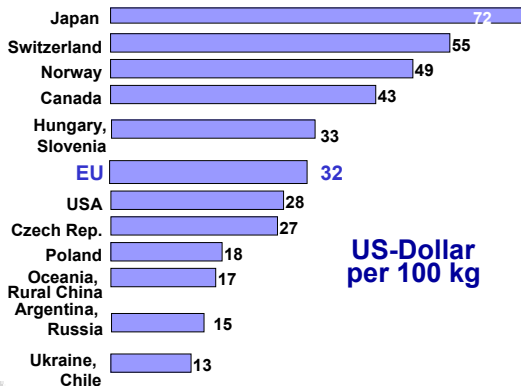
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World WMP Production and Trade (million t)



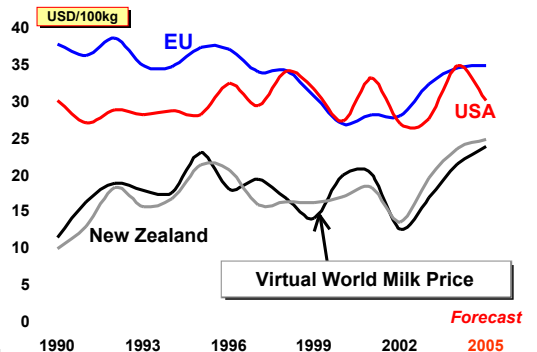
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Farm Milk Prices 2003

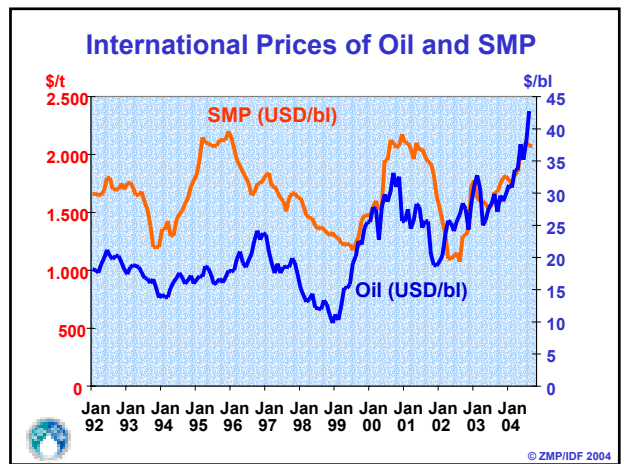
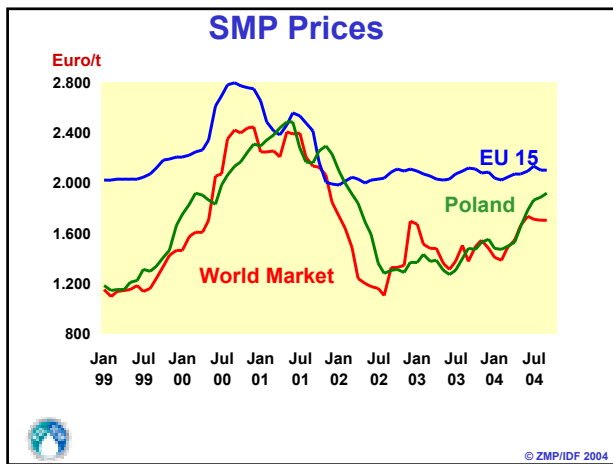
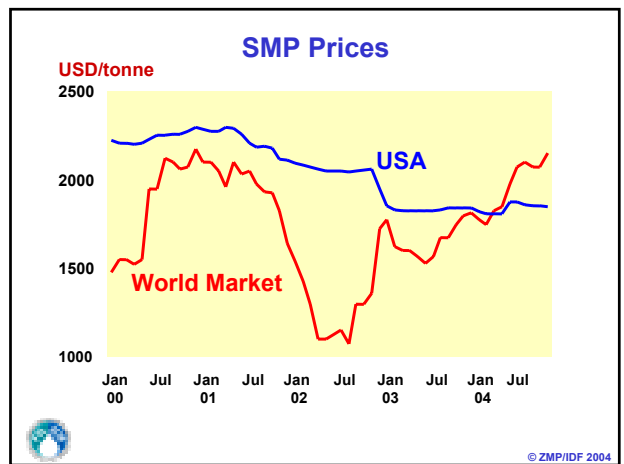
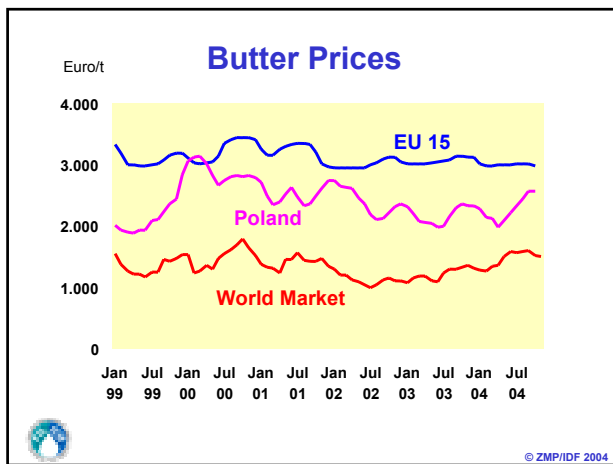


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International Comparison of Milk Prices



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Special Focus on the EU Market Situation

Major events

- 1. May 2004: Enlargement by 10 new member countries
- 1. July 2004: First step of the reforms decided in 2003
- Growing competition within the new member countries

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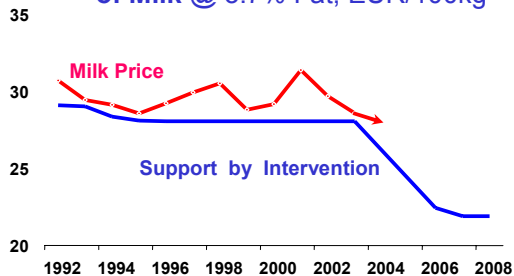
Enlargement by 10 new member countries

A few key figures:

	EU 15	EU 10	EU 25
• Consumers (m. head)	380	75	455
• Milk production (m. t.)	121	22	143
• Milk deliveries (m. t.)	114.6	15.7	130.3
• Per capita availability of milk			
from deliveries (kg)	302	209	286

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Support of the Ex-Farm Milk Price by Intervention and Average EU Price of Milk @ 3.7% Fat, EUR/100kg



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EU 25 Market Situation after Enlargement

- Less product supplies than expected from new member countries
- Regional impacts: new trade flows in East and South Germany, Austria and Italy (bulk milk from Slovakia to Italy and Hungary, bulk cream to Germany, cheese from Lithuania to Italy)
- Growing competition within the new member countries

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EU 25 Market Situation after Enlargement (II)

- Less milk than 2003 in EU 15 at least up to the end of September
- Intervention activities ended before the scheduled cut of intervention prices
- Intervention volumes were significantly lower than the ceilings for intervention (butter 70,000 t and SMP 109,000 t)
- Decline of public stocks by significant sales of SMP

All price depressing events had so far no immediate effect

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EU 25 Market Situation after Enlargement (III)

- Still different price levels coming closer
- Several cuts of export refunds and processing subsidies resulted both from the cut of the intervention prices and the market situation
- The effects were mainly a barrier for the transformation of high World market prices into higher prices in the EU-15 domestic market

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Dairy Situation in Eastern Europe outside the EU 25

- Less milk in Russia and Ukraine
- Demand recovering
- Growing imports of Russia
- Uncertain situation for EU exporters by Russian claims for health certificates

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United States Dairy Situation

- Milk production expanding again since the mid of the year
- Effects of the CWT programme and other factors had reduced milk output temporarily
- Prices had soared in spring but are now down to a normal seasonal pattern
- Significant exports of SMP without refunds

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United States (II)

- **Competitive position comfortable also if world markets should become weaker because reduced domestic prices are expected in 2005 and the Dollar has devalued**



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Latin America

- **Fast expansion of milk production:**
- **Ongoing growth in Brazil, Mexico**
- **Strong recovery in Argentina**
- **Brazil becoming an exporting country**
- **Mexico still a major market for imports from the United States**



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Asia

- **Fast expansion of milk production in China**
- **Consumption growing, partly boosted by government support**
- **Improving of the dairy farming and processing structure (China, Japan)**
- **Growing share of industrial milk processing also in India and other countries**



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Asia (II)

Nevertheless growing import demand:

- **Japan: more demand for butter and cheese**
- **China and other countries: More demand for milk powders, lactose, whey powder, ingredients**



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Oceania

- **Australia: Milk production recovering after deregulation and draught effects**
- **New Zealand: Production in 2004/05 season slightly reduced so far**
- **Demand from the international market exceeds possibilities of both countries**



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Conclusion

- **Growth of milk production mainly in emerging markets with growth potential**
- **therefore only minor parts of the additional production can appear on the world market**
- **high prices might reduce demand significantly**



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Content of Section World Dairy Forum

- Recent policy developments (Michael Griffin, FAO)
- Summary of medium and long-term forecasts (OECD, EU Commission)
- International investments in dairy processing
- Goat and sheep milk around the world



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**Thank you for
your attention**

