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EU Rescinds SMP Intervention Provisions Preventing Further Build-up

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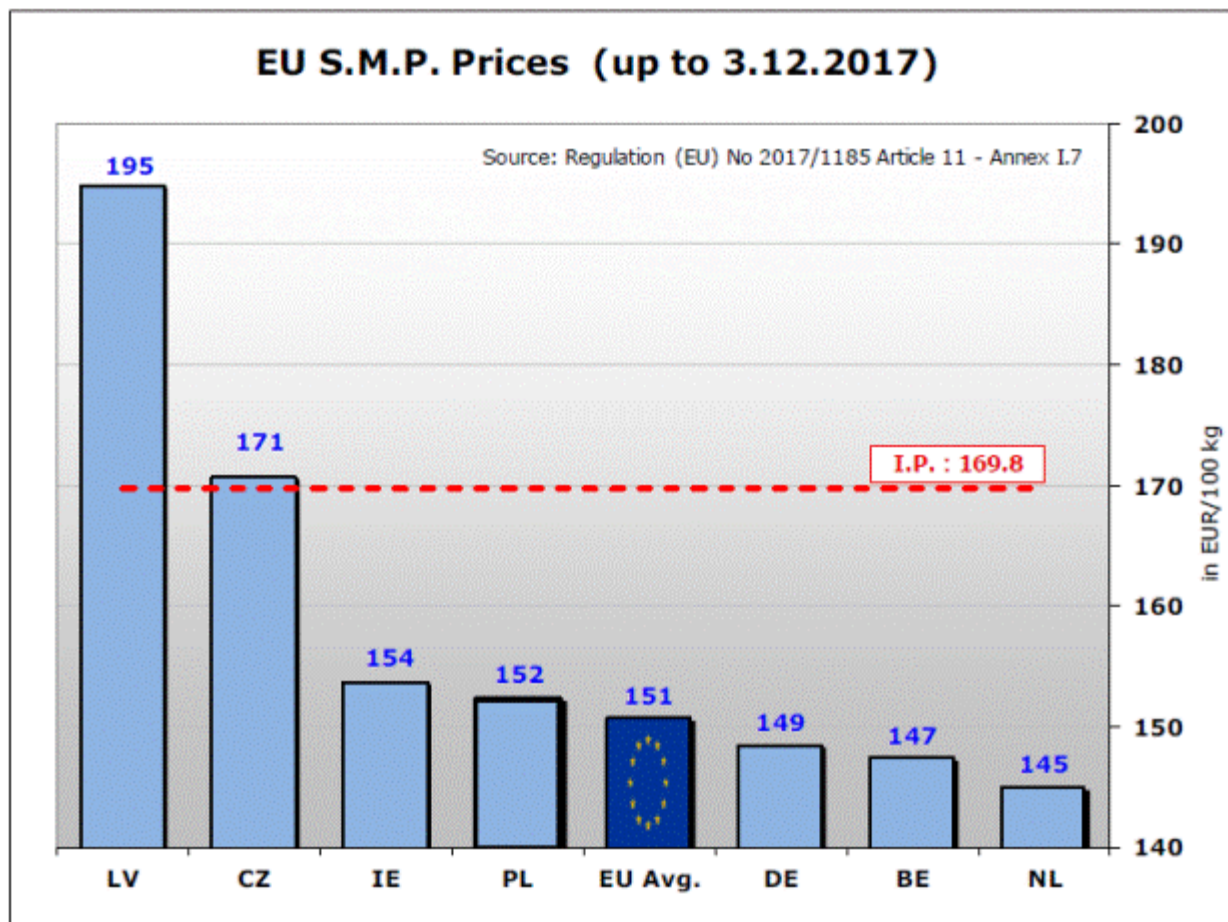
Report Highlights:

High EU skimmed milk powder (SMP) intervention stocks have been hanging over the EU dairy market for all 2017, without the EU being able to sell any of it. On the contrary, in the last weeks of the 2017 intervention scheme more than 30,000 MT of SMP was bought, increasing EU SMP stocks to 380,000 MT at the end of October, of which 3,800 MT under the 2017 private storage scheme. Given that EU SMP prices are now well below the reference price for intervention, the EU has proactively decided to rescind the yearly 109,000 MT intervention scheme for 2018 agreed in the 2013 CAP agreement and only allow SMP intervention buying under periodic tenders.

General Information:

On December 4, 2017, the EU Special Committee on Agriculture (SCA) approved a Commission proposal to rescind the yearly EU intervention storage scheme at a fixed price for skimmed milk powder (SMP) for 2018. The 2013 Common Agricultural Policy (CAP) agreement provides a yearly scheme for buying a maximum of 109,000 MT of SMP into intervention storage at the fixed reference price of €1,698/MT between March 1 and September 30 of each year. If there is still an oversupply on the EU market once the scheme volume is reached, the CAP allows the Commission to continue buying for intervention through tenders without price guarantee. Under the new regulation, the Commission will immediately move to tenders for eventual intervention buying, forgoing the CAP regular scheme. The EU Agricultural Council is expected to take the final vote on the proposed regulation at its January 2018 meeting.

The new regulation is critical if the EU does not want its SMP stocks to increase further as they have been unable to sell off any significant amount of its 2015 and 2016 SMP stocks. Given current EU prices for SMP (see graph below), it could be expected that EU dairy processors would fill the 109,000 MT intervention scheme expeditiously. In the last weeks of the current market year, additional SMP sold for intervention storage amounted to more than 30,000MT.



Source: European Commission

EU Failure to Lower SMP Stocks

In the CAP Committee meeting of December 14, 2017 the EU again rejected all bids for its 15th tender since November 2016 to sell SMP from 2015 intervention storage as they were all below the prevailing market price of €1,481/MT. Bids were received from five Member States (MS) for 13,472 MT at prices between €801 and €1,300/MT, well below the bids for 33,195 MT at between €1,201 and €1,440.5/MT from the 14th tender. Because in all previous tenders only 220 MT of SMP has been sold, the Commission proposes to try and ratchet interest up by offering fresher product from early 2016 until April 1, compared to the SMP from before November 2015 offered so far. This would widen the offered SMP volume to over 100,000 MT from 13 MS, compared to less than 22,000 MT from 9 MS only.

EU SMP Stocks Evolution

At the December 14 CAP Committee meeting, the EU reported SMP stock numbers. SMP in intervention storage in October amounted to 376,005 MT, of which 28,598 MT from 2015, 321,427 MT from 2016 and 25,980 MT in 2017. Despite past year's failure to sell much SMP from intervention, the EU aims at selling 150,000 MT in 2018. Furthermore, the EU will still have another 3,800 MT of SMP under 1-year private storage agreement at the end of 2017.

Conclusion

Large EU SMP intervention stocks have been hanging over the EU dairy market for all 2017 without any perspective for liquidating them. On the contrary, high demand and record prices for butter have kept SMP production going, maintaining the EU SMP oversupply situation. Increasing EU and global milk production has led to a drop in butter prices over the past month and further increases in EU milk production will only spur higher SMP production. Despite high EU SMP exports (663,481 MT through October 2017 compared to 478,678 MT in the same period of 2016), it must be feared that the increase in milk production in the coming year will only induce higher SMP production as a side product of increasing butter production. Hence, the EU demarche to proactively take measures to restrain SMP intervention buying in 2018, given the low EU SMP prices. The Commission's view is that is the dairy processors' responsibility to manage this problem and that ultimately only the market can solve this situation.