



Objectives and results of the phasing out of milk quotas with focus on dairy farmers



Competent Farmer Workshop

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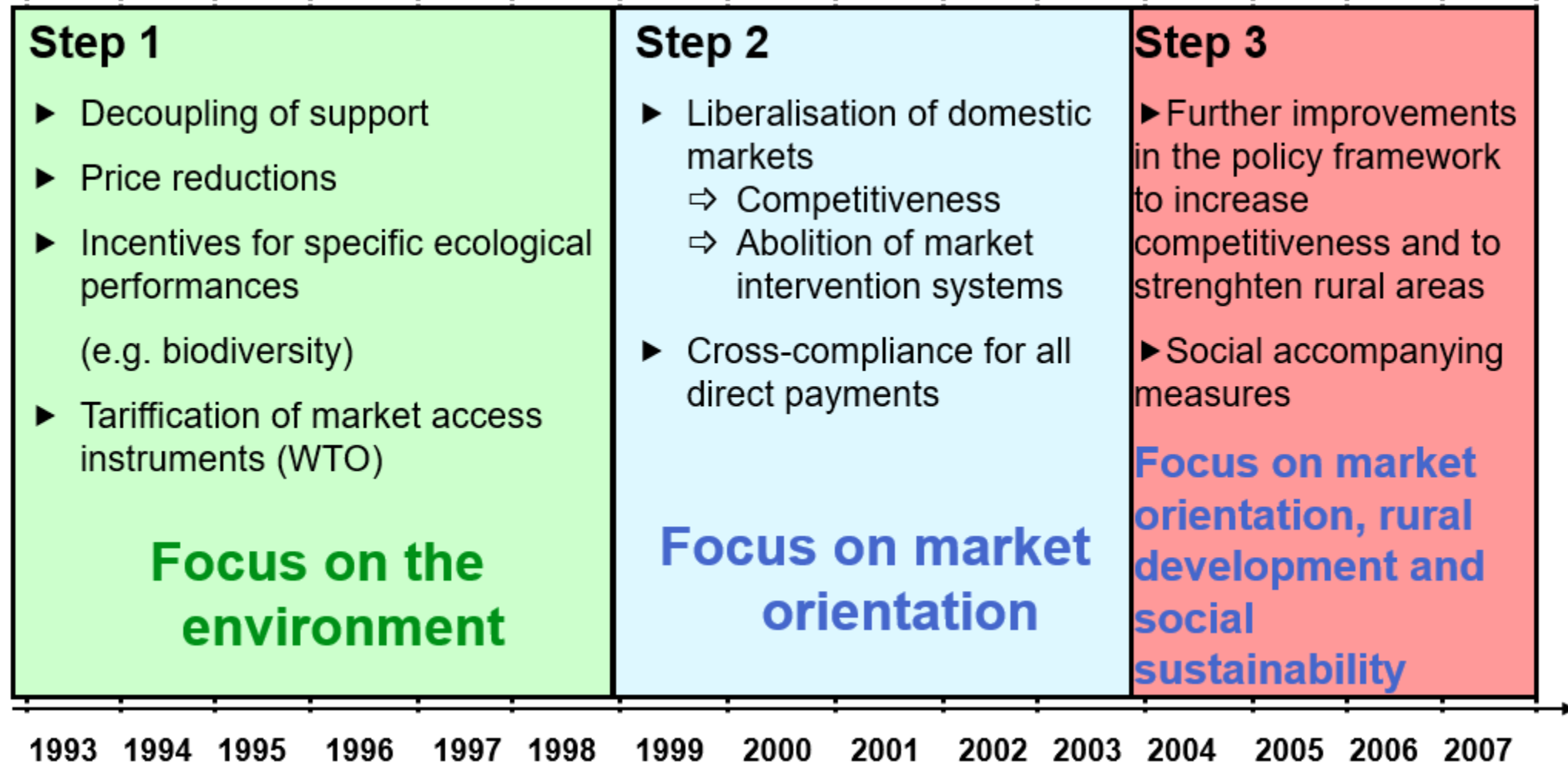
Facts and figures 2007



- milk production: 3.4 million tonnes / 2016: 3.45
- milk producers: 27,000 / 21'000
- Ø delivery: 126,000 kg milk/farm / 154'000
- dairy milk: 2.4 million tonnes / 2.339
 - 4 big processing companies / all still there, one grew large since
 - Ø raw milk price 08: 0.51 EUR/kg / 0,51 @ exchange rate of 1.10 instead of 1.60 → 0.39EUR/kg
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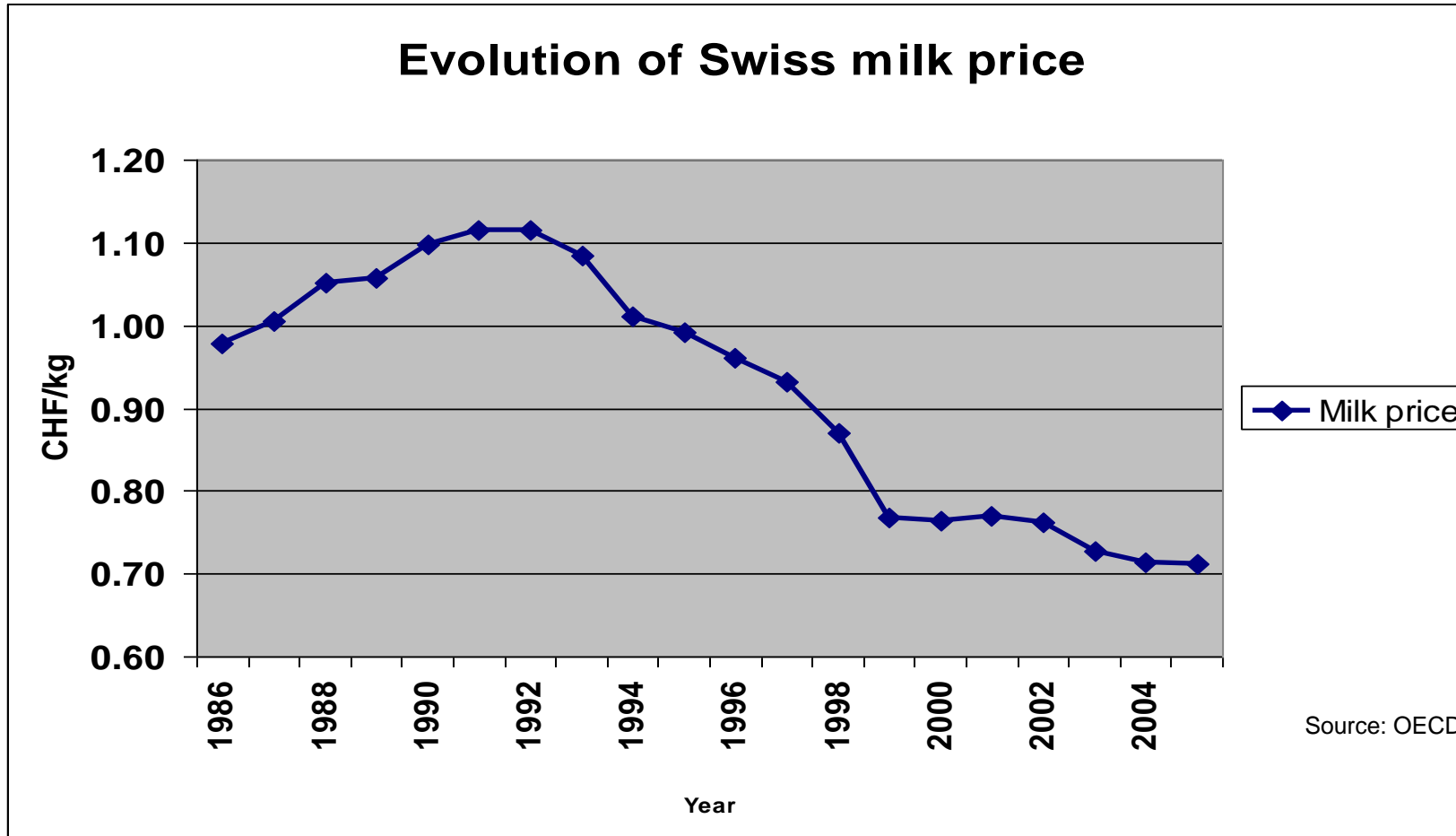


A step-by-step approach



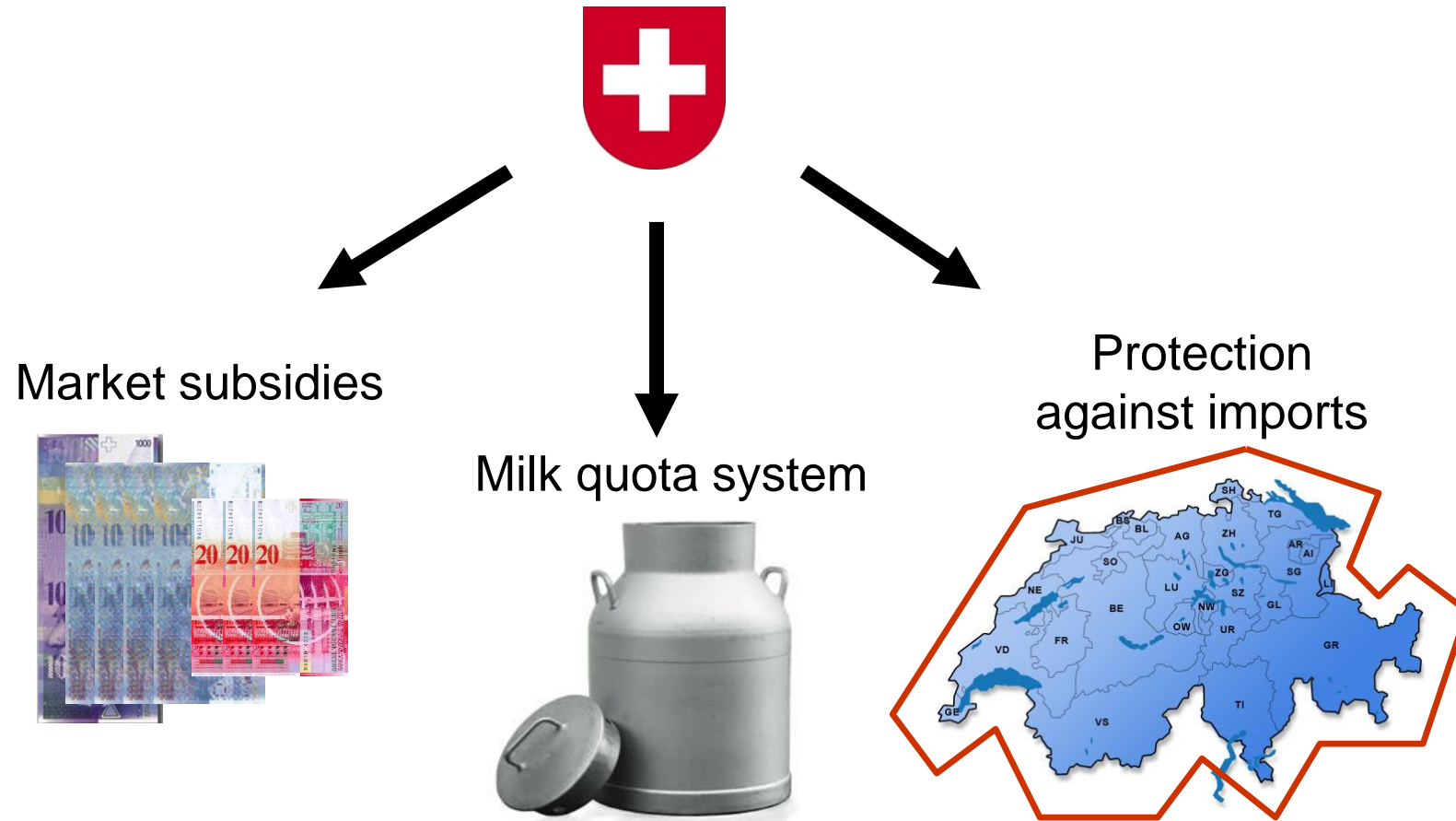


The milk market: price evolution



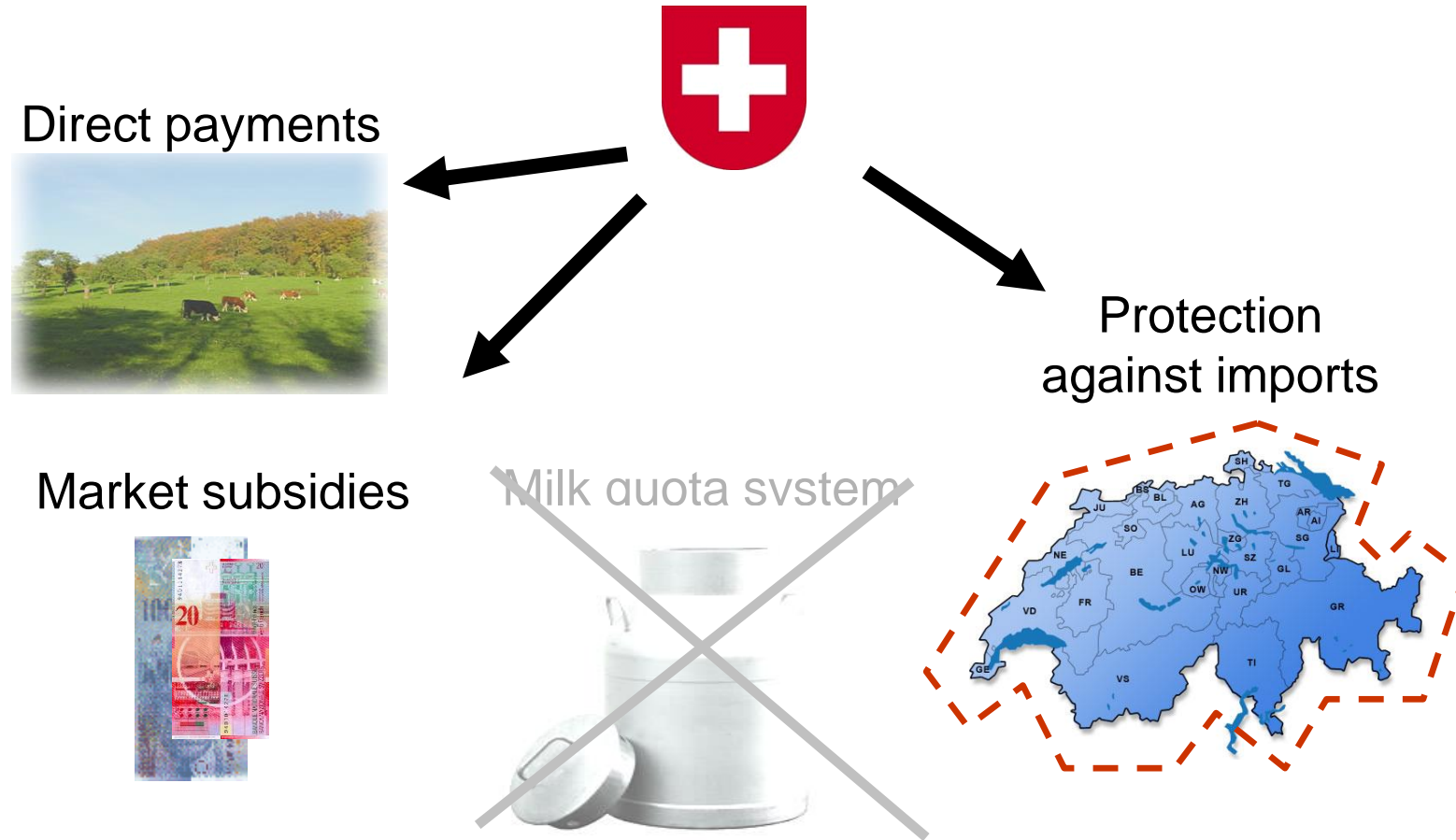


The milk market today



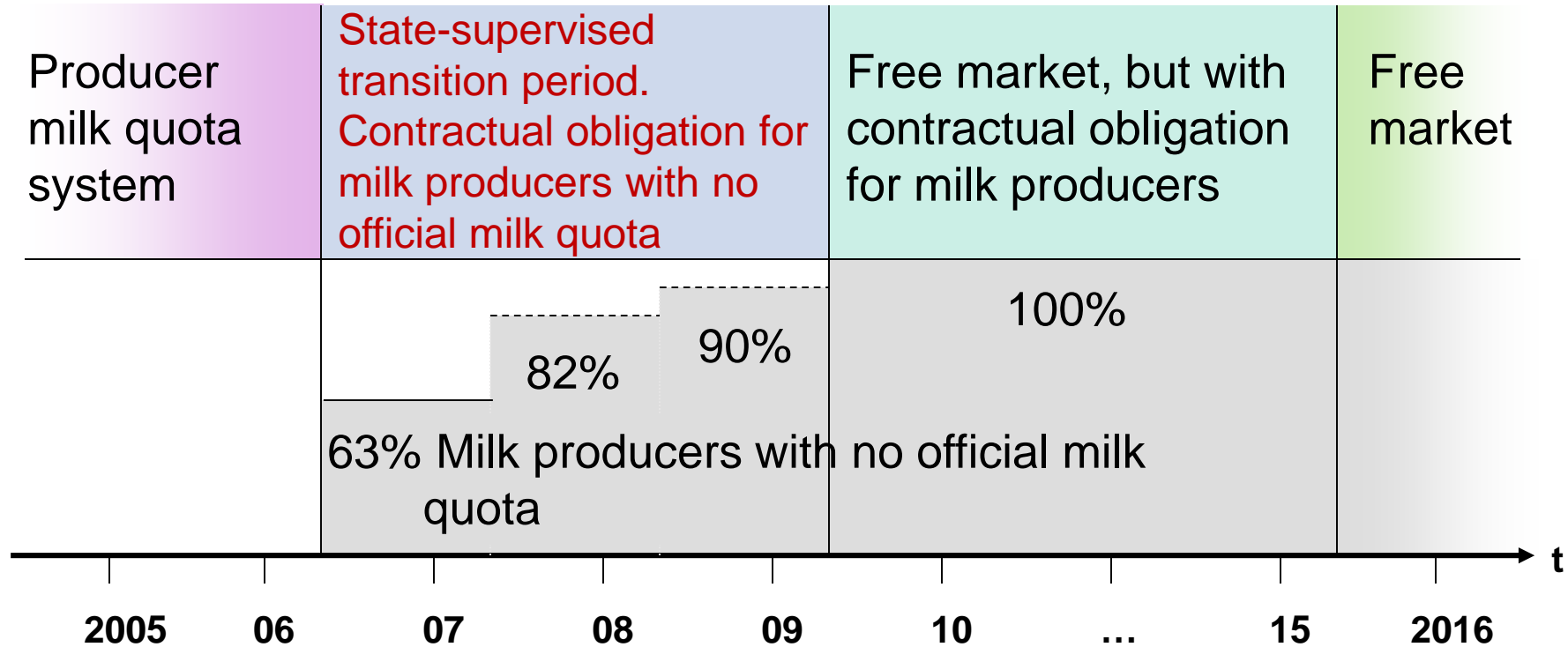


The milk market to come..





Milk policy reform: Abolition of producer milk quotas



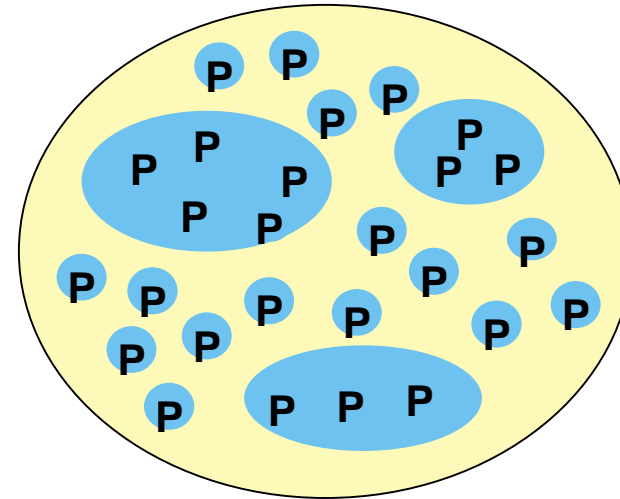
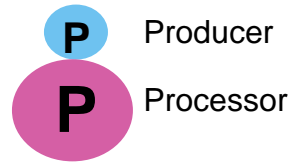
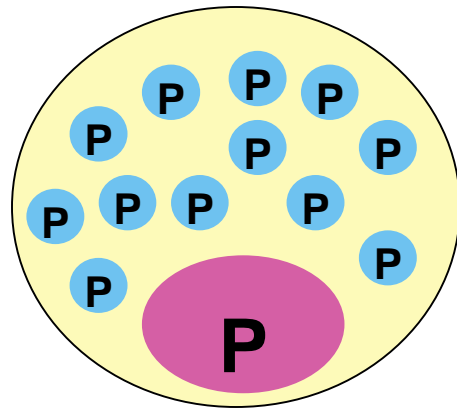


Milk policy reform: Transition period

1 May 2006 – 30 April 2009

Early withdrawal of producer quotas under these circumstances:

- member of a producer organisation or a producer processor organisation
- regulation of quantity in the organisation
- sanctions



Producer Processor Organisations

Producer organisations



Milk policy reform: Conclusions of the transition period, 1 May 2006 – 30 April 2009

- better market orientation compared with „quota-period“
- too many organisations
- experience with supply/demand management
- allocation of additional milk quantities by the Federal Office for Agriculture; instrument to adjust supply to market needs, mainly cheese export projects benefited from additional milk quantities



Milk policy instruments (under public law) from 1 May 2009 on (I)



- Allowance for milk processed into cheese
- Financial support for sales promotion activities
- Obligation for milk producers to conclude a contract with buyers
 - for a period of at least one year
 - arrange price and quantity – **in advance (2017)**
- Contract data are collected and published



Milk policy instruments (under public law) from 1 May 2009 on (II)



- Extension of self-help measures that meet specific requirements to non-members (of an organisation)
- Market monitoring: monthly published reports on producer and consumer prices of milk and milk products / calculation of margins



The Inter-branch Organisation Milk



- founded in June 2009
- vertical inter-branch organisation
 - *producer organisations, milk processing companies, cheese dairies, milk traders and retailers*
 - *95% of milk production/processing milk*
- Objectives:
 - to enhance transparency
 - to obtain secure contractual relations
 - to adjust milk supply to market needs
 - to support profitability
 - to determine quality measures



Conclusions and challenges (I)

- Premature withdrawal of producer quotas (2006-2009) was intended to ensure a “soft landing”. In any case, the dairy sector **was not well prepared**
- When the **pressure** to solve market problems was high enough, the inter-branch organisation milk was founded
- The inter-branch organisation milk has decided on some self-help measures for dairy milk and **these measures are already applied** (under private law)
- Decision **of the Federal Council in February 2010** (extension to non members until 31 December 2010)



Conclusions and challenges (II)

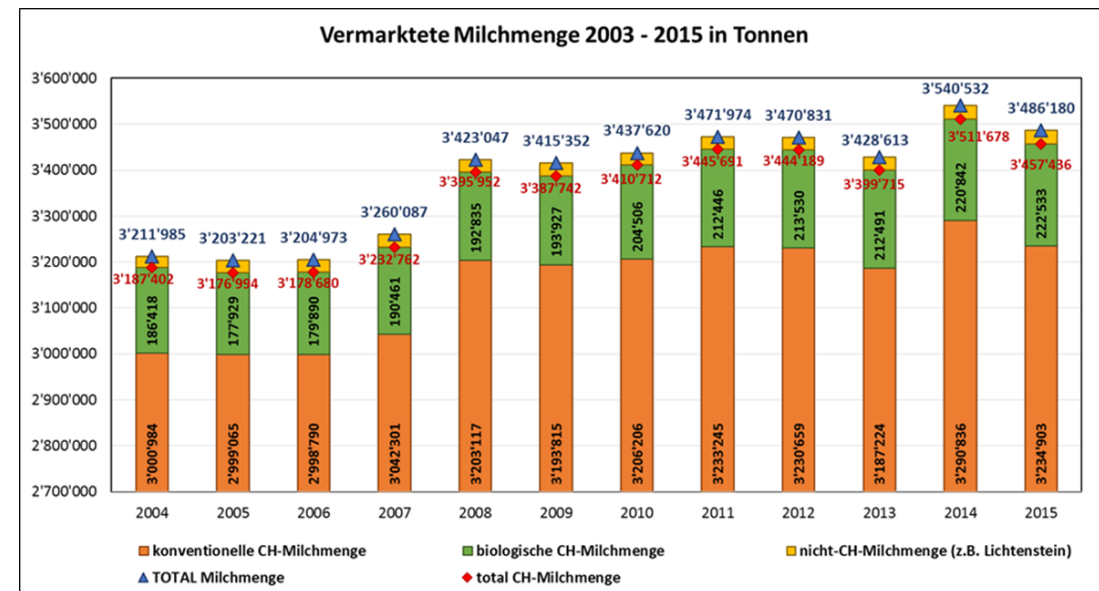
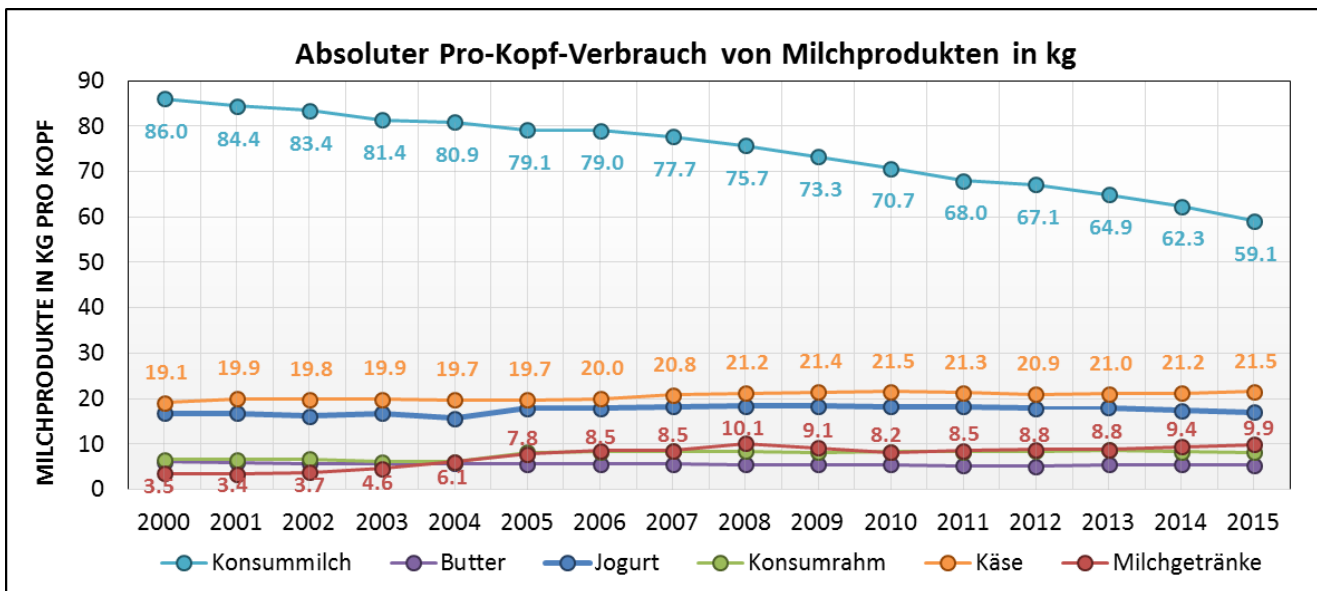
- Federal Council **cannot extend** all self-help measures, for example export duty of commodities, measures to solve structural problem or anti-competitive practices
- The impact of a Federal council decision:
 - **necessary for the transition**; market effect low
 - **psychological effect** may be high
- The **application** of extended self-help measure to non members **remains a task of the organisation**
- first **evaluation of the milk market with instruments under public and private law** cannot be made before 2011



Swiss milk market Supply and demand development

- Since the abolition of milk quotas, milk production has stabilised at 3.4-3.5 million tons.
- The conventional milk quantity increased from around 3 to about 3.25 million tons (+ 7.8 %), the organic milk quantity from 0.186 to 0.223 (+ 19 %)
- On average, 250 kg of whole milk equivalent per capita have been consumed in Switzerland over the last seven years
- The per capita consumption of cheese in Switzerland rose from 19 to 21.5 kilograms between 2000 and 2015. This corresponds to a growth of 13 percent or approx. 165 grams per person and year (+ 0.75 % / year).
- In contrast to cheese consumption, the per capita demand for drinking milk has fallen by 26.9 kilograms (-31.3%) since 2000, which corresponds to an annual decline of around 1.8 kilograms (approx. -2% / year).

Milchmarkt Schweiz	Menge
Produktion (Mio. t)	3,4 – 3,5
Import (Mio. t)	0,4
Inlandbedarf (Mio. t)	- 3,1
Exportbedarf (Mio. t)	0,8
Selbstversorgungsgrad	105 – 110 %
Pro Kopf Konsum (kg VMÄ)	250



Quelle: TSM 2016



Development of Segments 2004 - 2015

Tabelle 2.9: Entwicklung der Milchmenge ausgewählter Milchsegmente 2004–2015

	2004 (Mio. t)	Anteil 2004	2015 (Mio. t)	Anteil 2015	Index 2015 / 2004
Total CH-Milch	3.187	100 %	3.457	100.0 %	+ 8.5 %
Molkereimilch	2.031	63.7 %	2.339	67.7 %	+ 15.2 %
Silofreie Milch (inkl. Bio)	1.156	36.2 %	1.118	32.3 %	– 3.3 %
Konventionelle Milch	3.001	94.2 %	3.234	93.5 %	+ 7.8 %
Biologische Milch	0.186	5.8 %	0.223	6.5 %	+ 19.4 %
Emmentaler-Milch	0.412	12.9%	0.229	6.6 %	– 44.5 %
Gruyère-Milch	0.295	9.3 %	0.322	9.3 %	+ 5.7 %
Appenzeller-Milch	0.089	2.8 %	0.090	2.6 %	+ 0.8 %

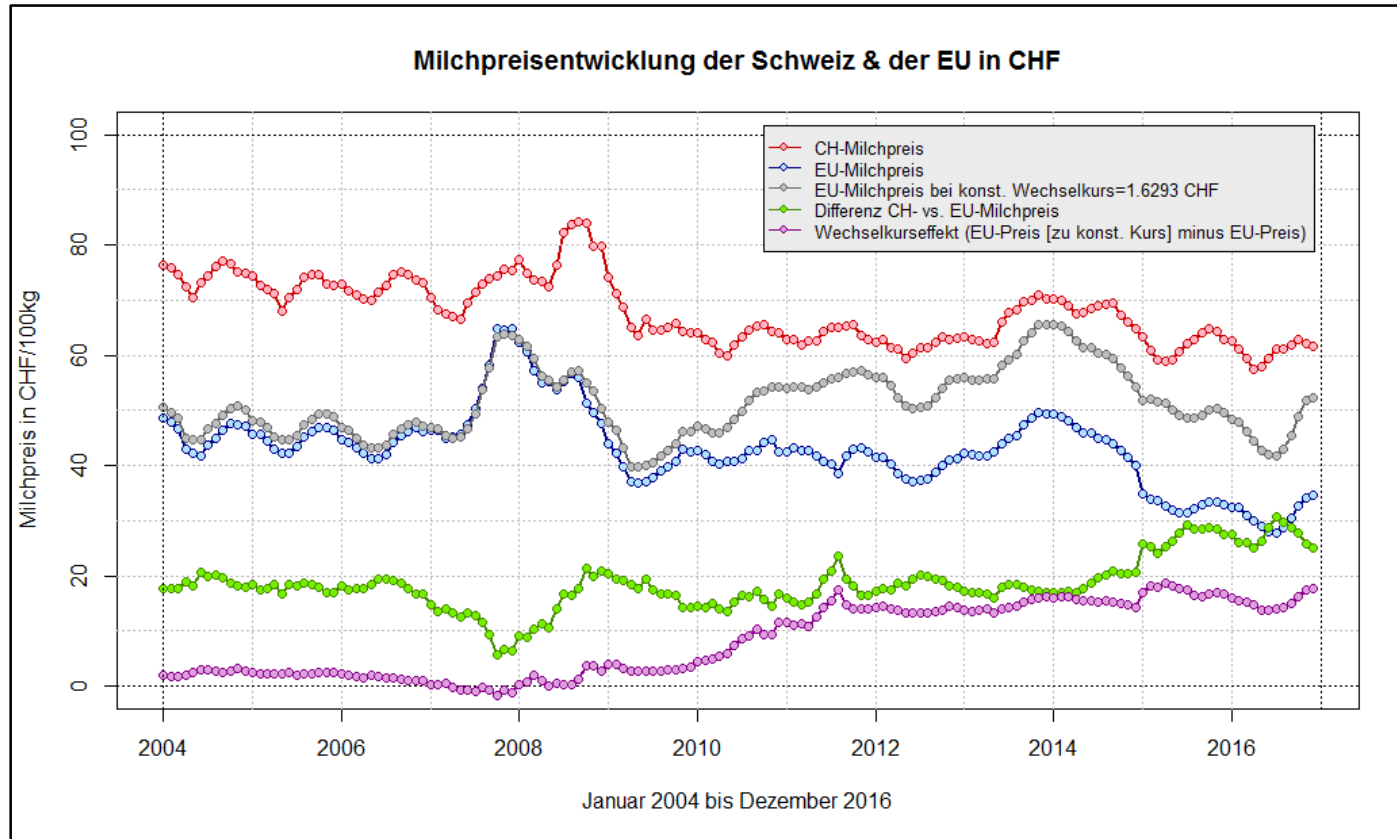
Quelle: TSM 2016



Global dairy market

Milk price development in Switzerland & EU 2004-2016 in CHF

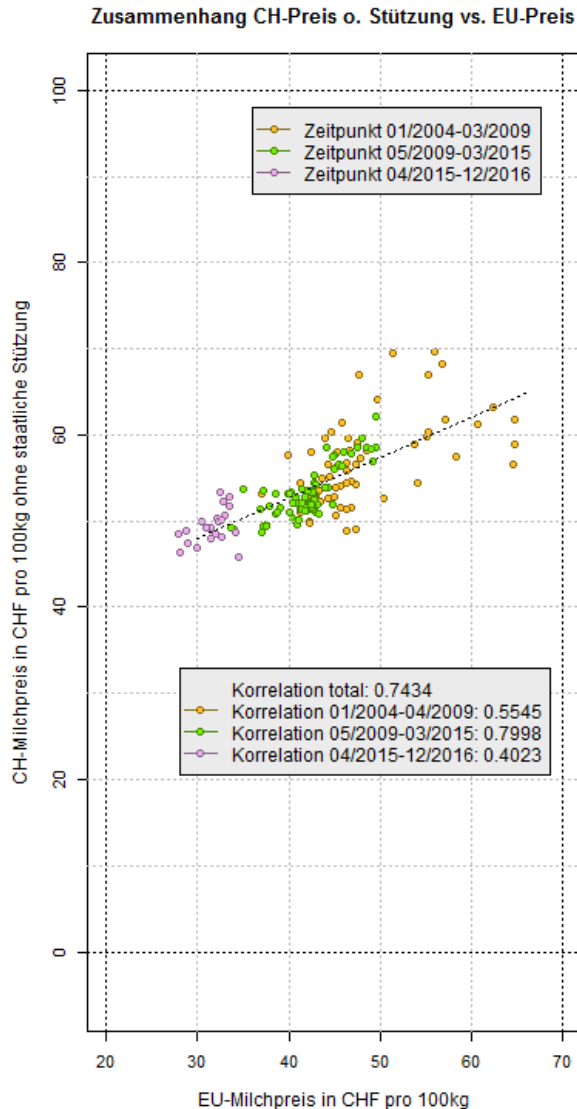
CH milk price, EU milk price, EU milk price at constant exchange rate, difference CH-EU



- Parallel development with declining trend
- Historical lows 2015/16
- Difference from CH price to EU price is on average around 23.5 CHF / 100 kg (green line).
- For 2 years now, the difference between the CH and EU prices has averaged 26-29 CHF/100kg.
- At an exchange rate of 1.63, the EU price would be just under 50 CHF/100kg today (grey line).
- The difference between the actual EU price and the EU price at the exchange rate of 1.63 is between 15-19 CHF/100kg (purple line).
- Delayed effects: CH price takes up EU development with a delay (price often drops later, also recovers later)



The Swiss milk price is influenced by...



- Developments in the EU: supply and demand
 - Current EU price
 - EU price development over the past 3 months (the EU milk price is itself influenced by its own price 3 months ago)
- From the exchange rate - rising € has a positive effect
- Political decisions such as the withdrawal of EU quotas (indirectly via supply development)
- Sale of dairy products at high value added

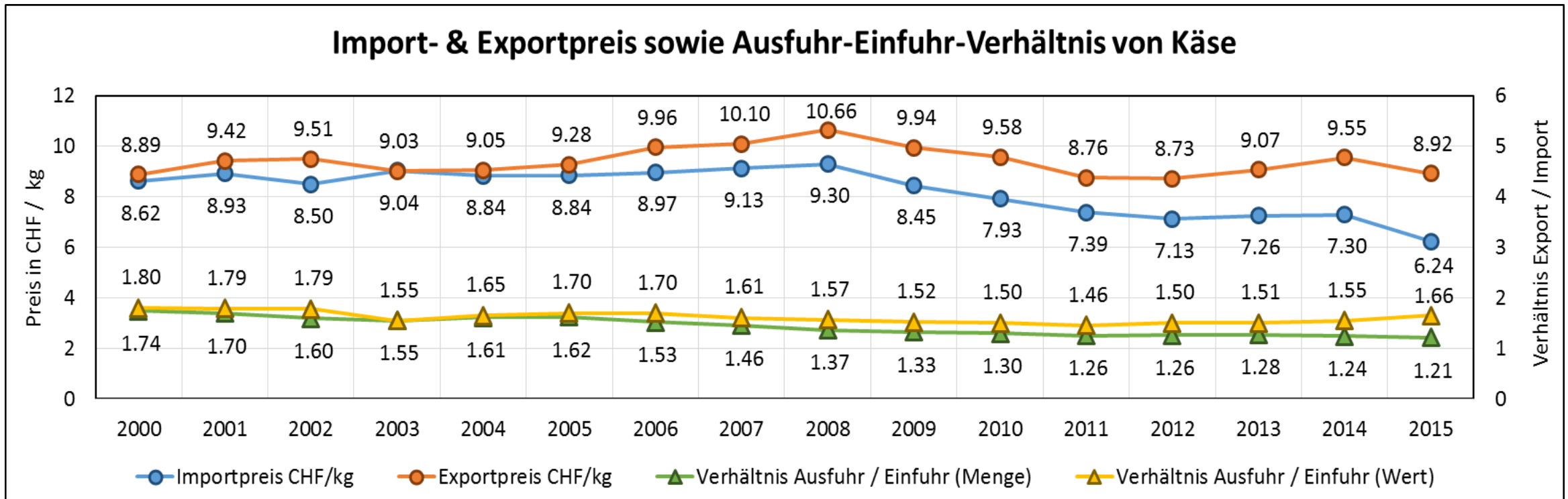
A unilateral reduction in quantity produced is not increasing milk price in a semi open market

In the future, stronger fluctuations (milk cycle) in the milk market must be assumed, which leads to higher requirements in liquidity and risk management!



Cheese free trade with the EU: import & export prices

- Since 2006, exports have increased from 50,000 tons to over 67,000 tons (+ 17,000 tons). However, import volumes increased more sharply from 33,000 to 55,000 (+ 22,000)
- In terms of value, the trade balance for cheese remains constant at an average of around CHF 200 million.

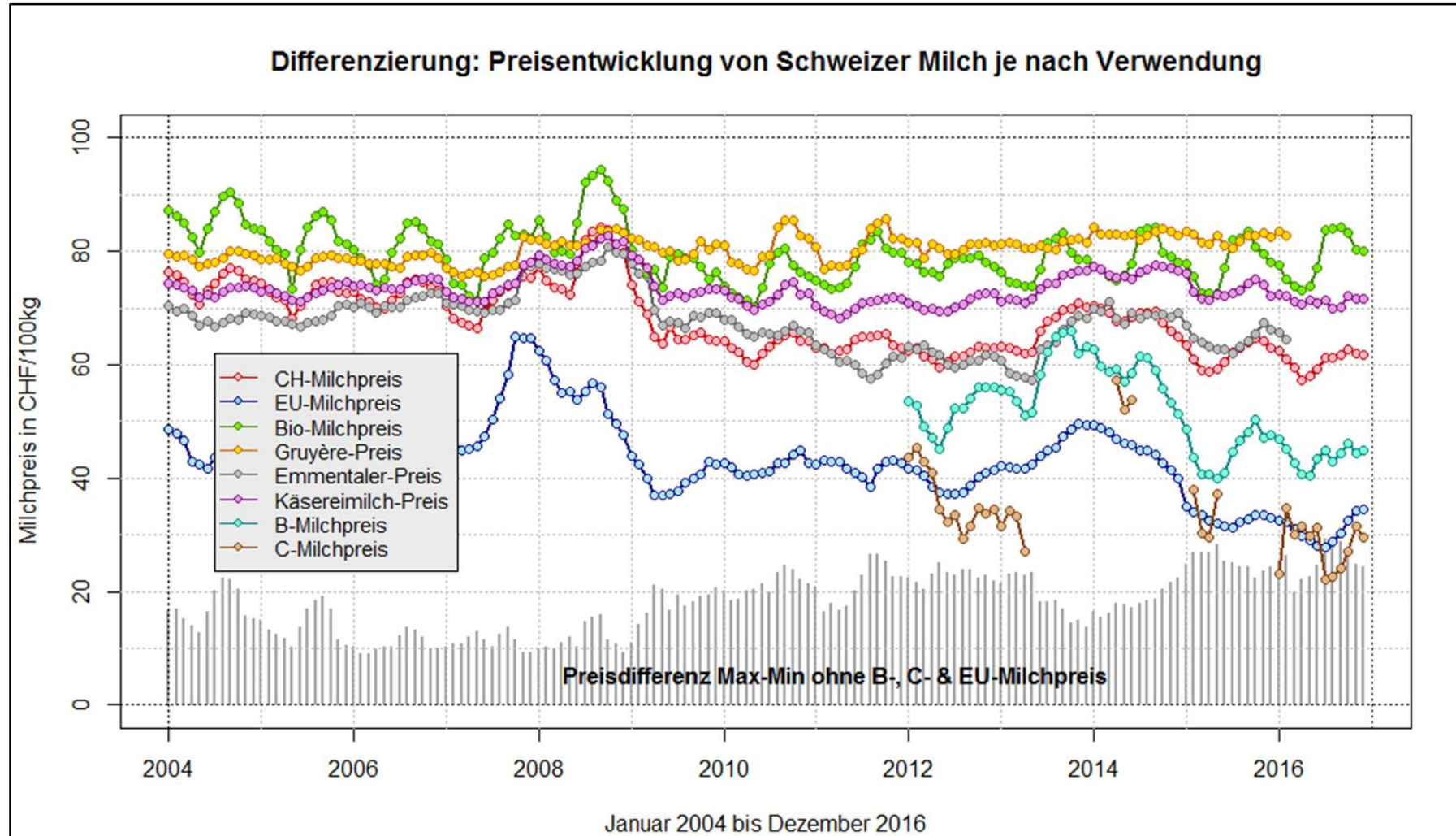


Quelle: TSM / EZV 2016



Milk production in Switzerland: Differentiation

- Since the abolition of milk quotas, there has been a growing price difference between "generic" and "differentiated" milk.
- Price range (excluding B and C milk) has increased from approx. CHF 10 / 100 kg to approx. CHF 20 / 100 kg





Conclusions (I)

- **The CH milk price is strongly influenced by exogenous factors**
 - EU milk price, exchange rate, consumer trends, climate, technological change
 - Expansion of domestic production volume without sales in the A-segment puts pressure on prices.
 - General CH quantity control has no effect on the EU market
- **Increasing price volatility forces risk management**
- **Demand development - changes that offer opportunities**
 - Growing population numbers and changing consumer preferences
 - Rising cheese consumption
 - Trend towards sustainable, close-to-nature and regional
- **Take trade as an opportunity → liberalisation of the cheese market**
 - Decline due to reduction of state intervention could be more than compensated for



Conclusions (II)

- Natural conditions and credible image
 - Traditional family businesses
 - World leader in animal welfare
 - The majority of cows in Switzerland graze (80% ROW OUT)
 - Grassland-based feeding: worldwide comparatively low concentrated feed consumption
 - High quality handcrafted (raw milk) cheese production
- Operational cost awareness and cost management
 - Growth does not automatically lead to higher returns
 - Customized strategies: differentiation, low-input systems, etc.
- Agricultural policy framework conditions. From state intervention to personal responsibility
 - Decrease in product-related support, increasing direct payments per hectare
 - The state continues to play an important role in the dairy market