



Dairy Sector Risk and Risk Management in Europe

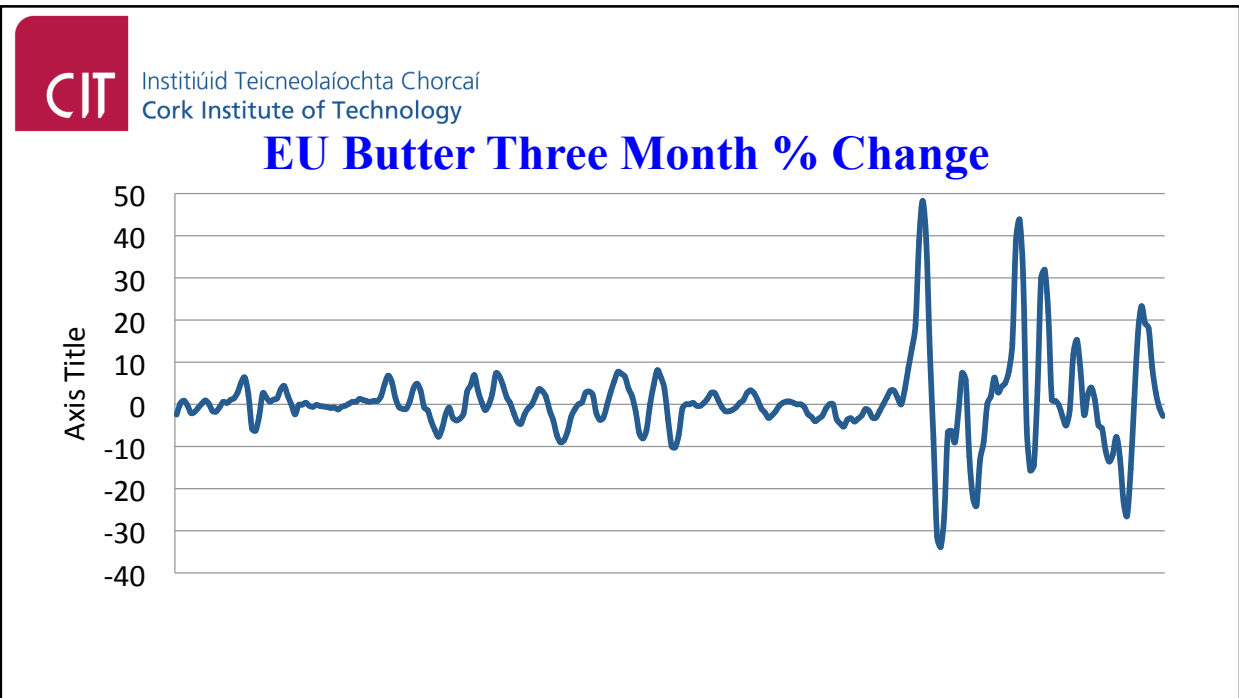
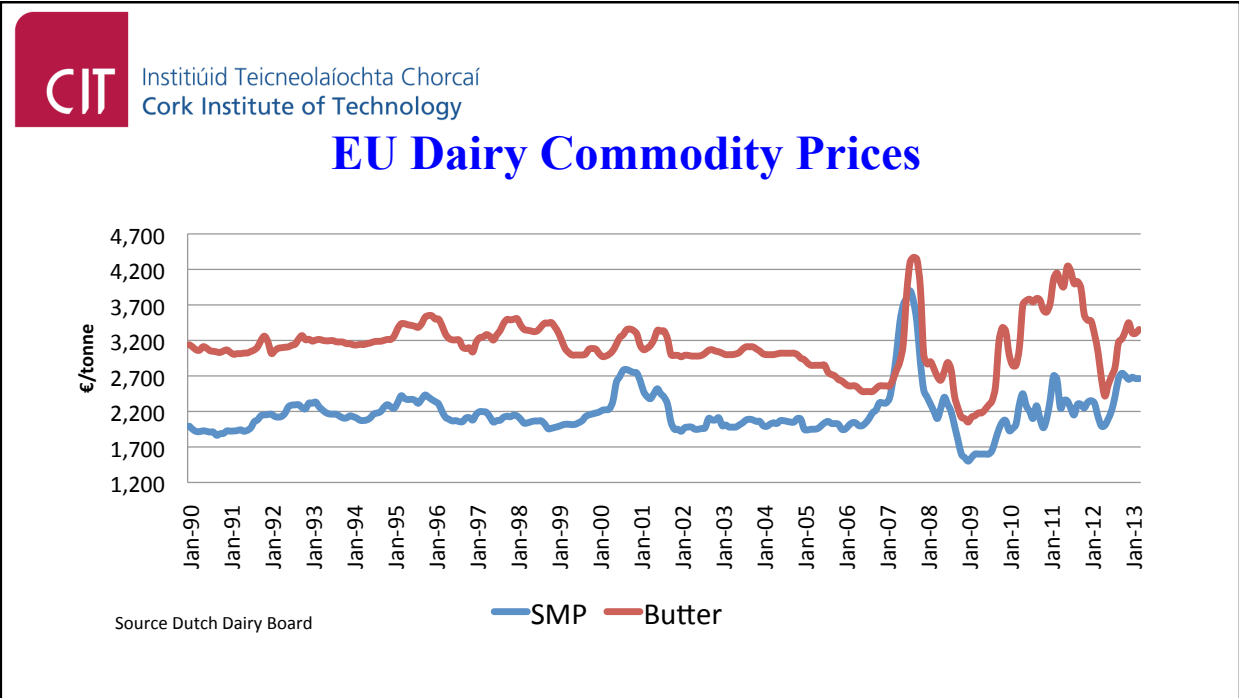
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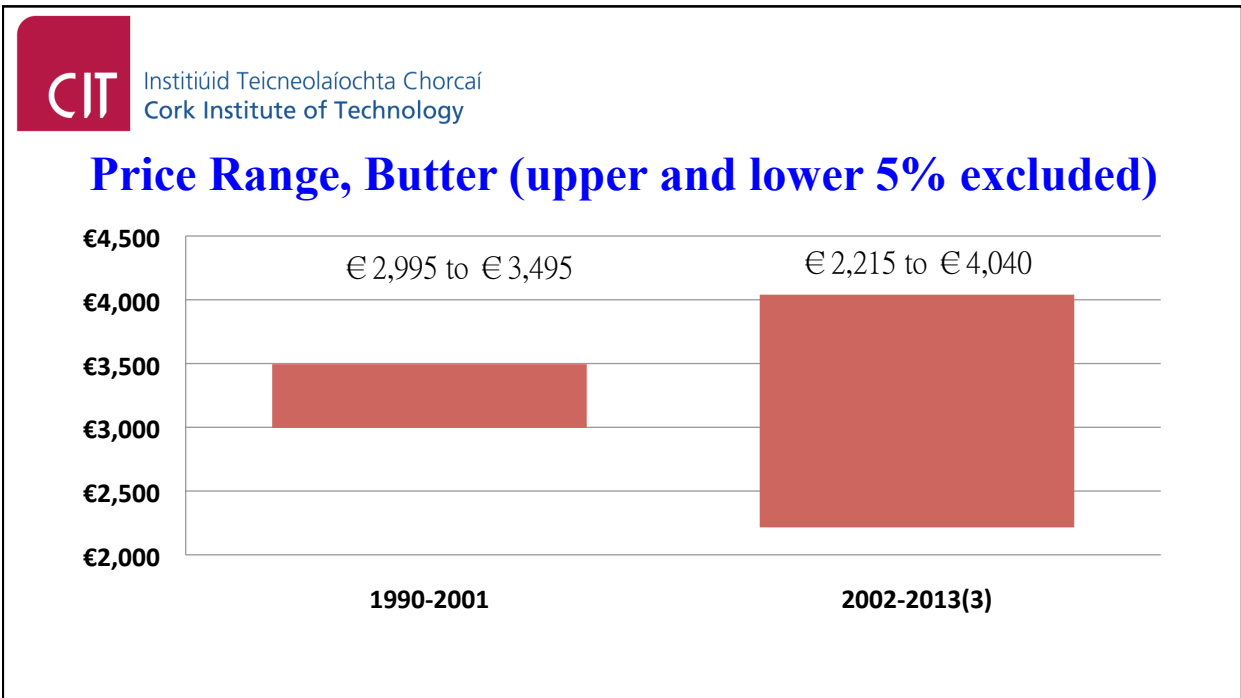
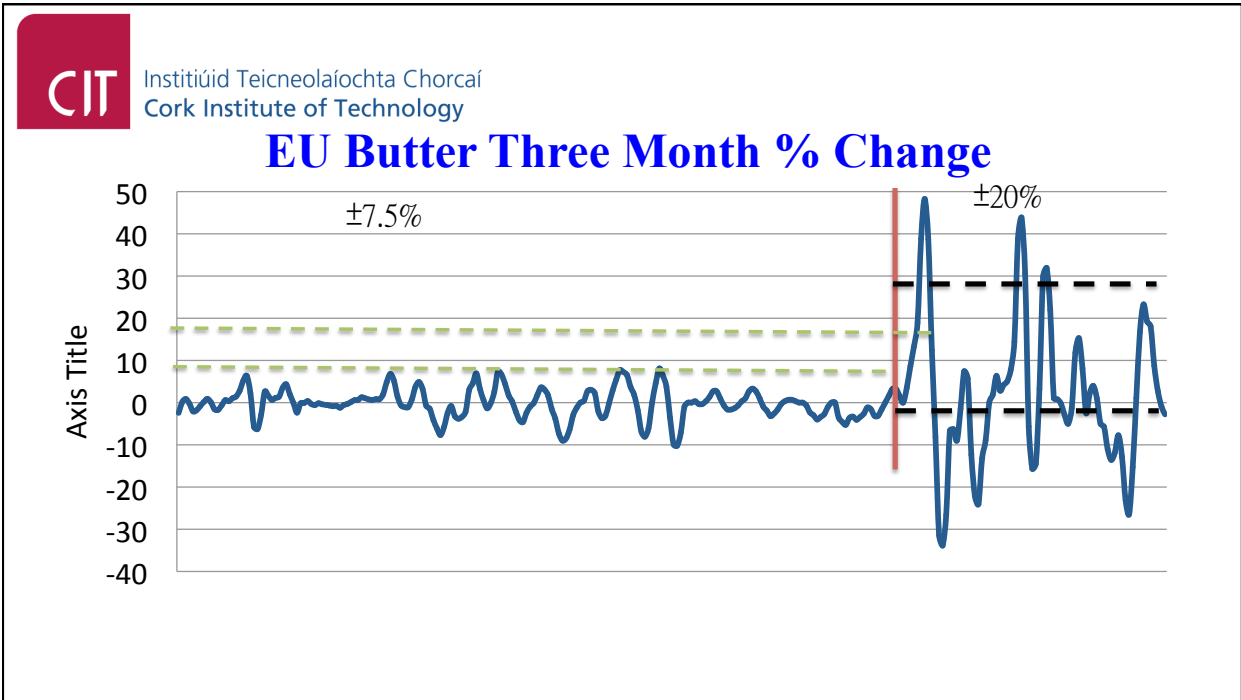
20th Annual National Workshop for Dairy Economists and Policy Analysts May 13, 2013



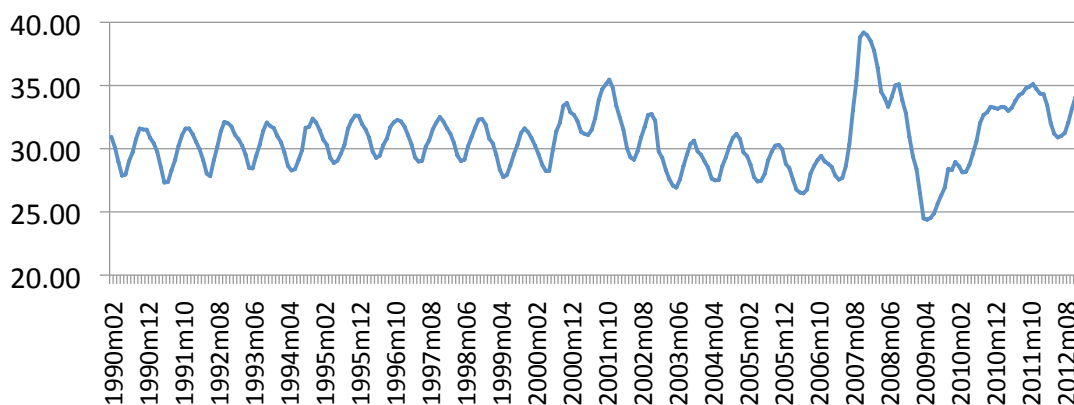
Overview

- Price Volatility in EU Dairy Markets – A New Era
- What is the Response?
- What are the Challenges?
- Conclusions





EU Weighted Average Farm Gate Milk Price (€/100kg)

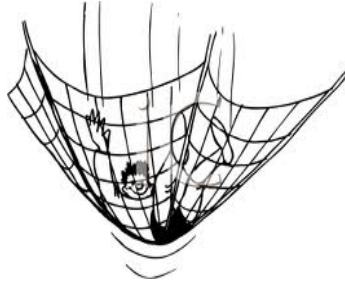


Source Circa AB (Actual Fat)

The Role of EU Policy/CAP

- The “Old” CAP
 - Intervention Buying
 - Export Refunds
 - Import Levies
 - Subsidised Consumption
 - Aids to Private Storage
- The “New” CAP (Post Luxembourg Agreement 2003)
 - Direct Payments
 - Pillar II
 - Market support reduction, e.g. lower intervention, price and volume

Hammock to Safety Net to.....



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Private Market Solutions

- Forward Contracts (e.g. Glanbia 3 year)
- OTC contracts
- Eurex
 - EU Butter (Financially Settled)
 - EU SMP (Financially Settled)
 - EU Feed Whey (Financially Settled)



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Eurex Butter Futures (FBUT)

Contract Size 5 metric tons

Notation In EUR per metric ton

Settlement Cash settlement, payable on the first exchange day following the Final Settlement Day.

Price Quotation and Minimum Price Change The Price Quotation is in points. The Minimum Price Change is 1 point, equivalent to a value of EUR 5.

Contract Months *Up to 18 Months*: The six nearest successive calendar months and the four following quarterly months of the January, April, July and October cycle.

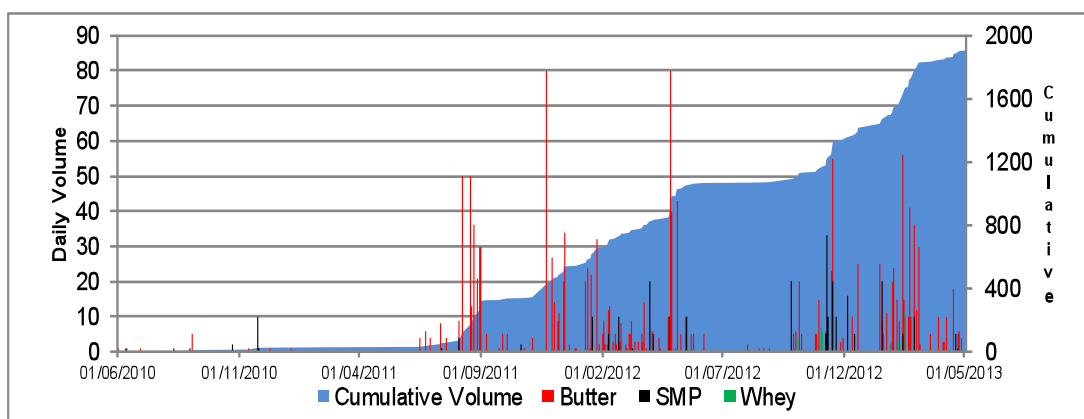
Last Trading Day and Final Settlement Day Last Trading Day is the Final Settlement Day. Final Settlement Day is the last Wednesday of the respective maturity month, if this is an exchange day; otherwise the exchange day immediately preceding that day. In the expiry month December, the final settlement day shall be the third Wednesday of the expiry month, provided this Wednesday is an exchange day; otherwise, it shall be the exchange day following this Wednesday. Close of trading in the maturing Butter Futures on the Last Trading Day is at 12:00 CET.

Daily Settlement Price The Daily Settlement Price for the current maturity month is derived from the volume-weighted average of the prices of all transactions during the minute before 18:30 CET (reference point), provided that more than five trades transacted within this period.

For the remaining maturity months, the Daily Settlement Price for a contract is determined based on the average bid/ask spread of the combination order book.

Final Settlement Price The Final Settlement Price is established by Eurex on the Final Settlement Day, based on the value of the Eurex Butter Index at 19:00 CET.

EUREX Daily and Cumulative Volumes as at 1st May 2013



Totals: Butter 1,615 SMP 256 and Whey 35

Recent and Future EU Policy/CAP

- **High Level Group (Milk Package)**
 - Written contracts between milk producers and processors
 - Possibility to negotiate contract terms collectively via producer organizations
 - Specific rules for inter-branch organisations
 - Increased transparency and better information
- Current CAP Reform Proposals

EU Policy Options Currently Under Consideration

Options	Tools	Changes
Strengthening current tools	Insurance subsidies, mutual funds	Expanding to include Revenue and Index Insurances and reducing the limitations for payouts
IST	Income stabilisation tool	New tool
Crisis fund	Agricultural calamity fund	New tool

Source: COMMISSION STAFF WORKING PAPER: IMPACT ASSESSMENT Common Agricultural Policy towards 2020 ANNEX 6 (2011)

EU Policy Options Cont.

European parliament proposal

Article 156A Measure to address severe imbalance in the market for milk and milk products

- Aid to producers who reduce production by 5% and levy on those who exceed 5%
- ..take into account the development of production costs, particularly the costs of inputs

Useful Sources for CAP Developments

- http://ec.europa.eu/agriculture/index_en.htm (Agriculture and Rural Development)
- http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm (Legal proposals for the CAP after 2013)
- <http://eu2013.ie/ireland-and-the-presidency/the-eu-and-policy-areas/agriculture-and-fisheries/> (Irish presidency)
- http://ec.europa.eu/agriculture/milk/index_en.htm (Milk and milk products)
- <http://capreform.eu/> (blog of news, views and analysis relating to the CAP)

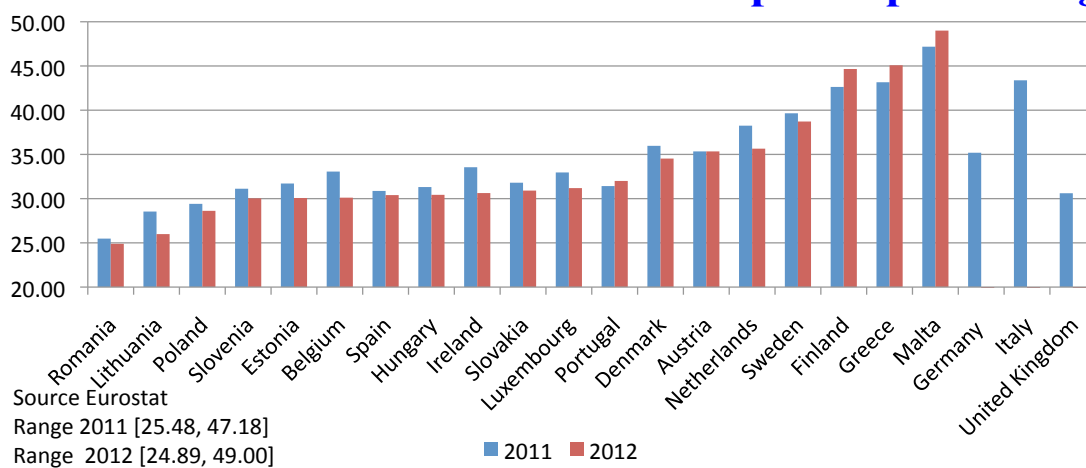
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Diverse Nature of EU Dairy Sector

	EU	Ireland	Denmark	France	Poland	Slovenia
% of EU Production		3.9	3.5	17.4	7.0	0.4
Average Herd (Cows)	30	56	139	47	16	15
Average Yield (Kg/head)	6,489	5,282	8,589	6,926	4,952	5,682
Average Production per Farm (Kg)	191,951	294,359	1,194,338	328,544	76,817	86,040
Source:	Dutch Dairy Board					

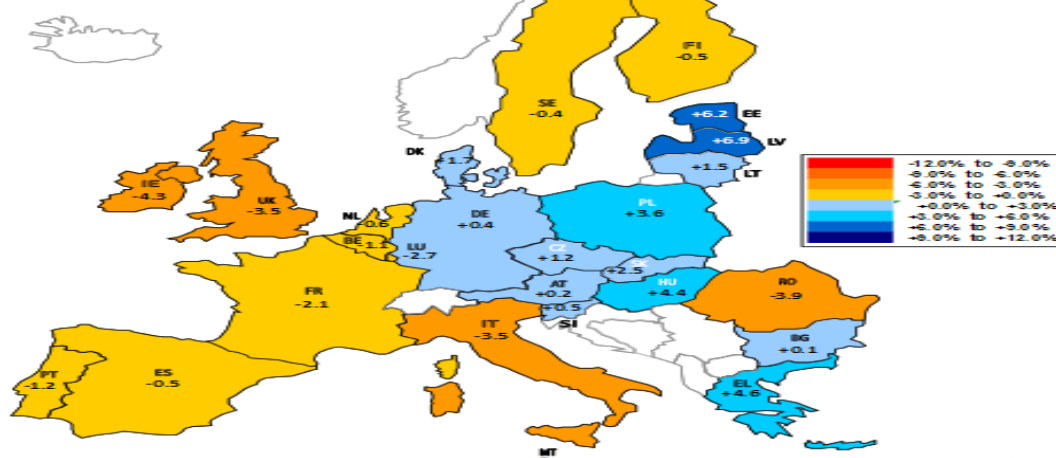
Raw cows' milk actual fat content - prices per 100 kg



Milk Deliveries

EU Milk Deliveries compared to last period (in %)

Apr 2012-Feb 2013 / Apr2011-Feb 2012



How practical are the policy solutions?

- Time to design and implement
- Data inadequacy
- Financing
- Co-financing

How practical are the Private Risk Management Solutions?

- These options are based on risk sharing or risk transfer so they will require
 - Data
 - Education
 - Support

Data

Public sources of

- Circa AB
<https://circabc.europa.eu/faces/jsp/extension/wai/navigation/container.jsp>
- EUROSTAT
<http://epp.eurostat.ec.europa.eu/portal/page/portal/agriculture/introduction>

Focus is on production and price data

Data is often incomplete and dated.

Issue of commercial sensitivity is often cited.

Data Cont.

Commercial sources

- Some is free but usually quite dated
- Are developing
- Faster dissemination
- More relevant data
- More user friendly
- Cost

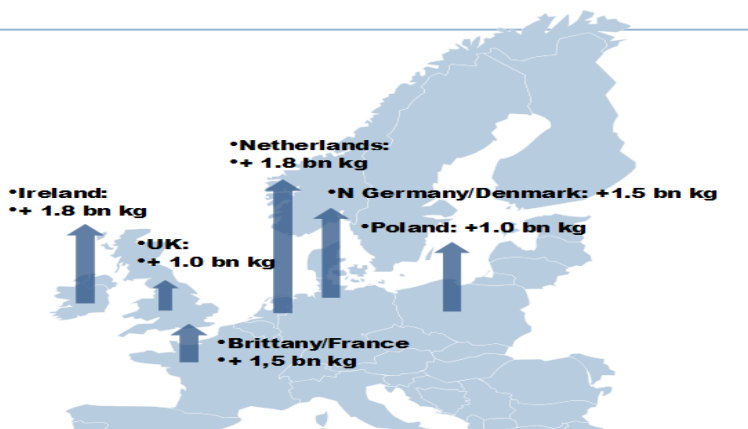
End of Production Quota

- What are the expansion estimates?
- ECOMM
 - milk production is projected to register a cumulative increase of about 8% from 2009 to 2022, while milk delivered to dairies would increase by around 10%.
 - By the last quota year (2014-15), EU milk deliveries are projected to be some 6% below quota.

End of Production Quota

- OECD-FAO Agricultural Outlook 2012-2021
 - 6.8% 2010 to 2021
- FAPRI
 - 4.2% 2010 to 2021

Rabobank 2012



End of Production Quota (Ireland)

- Harvest 2020 set a target of 50% by 2020
- Industry estimates 30-40%
- Significant investment at farm and milk processor level
 - Who will pay?
 - Ownership?
 - Contracts?

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Conclusions

- Volatility in EU dairy is a relatively new phenomenon.
- As well as being more volatile prices are reaching new highs and lows.
- Volatility is now on the agenda.
- The EU dairy sector is quite heterogeneous so it is unlikely that there will be a “one size fits all” solution to price volatility.

Conclusions cont.

- Unlikely there will be a comprehensive solution in the short run as there are gaps
 - ❖ Data
 - ❖ Education
- Farmers and processors will have to reconsider how they price milk.
- Learn from others (USDA/RMA, data, education).



Thank you

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