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MCT COMPASS

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EU Policy to Slow Milk Output

In December 2021, the European Union adopted its latest Common Agricultural Policy (CAP), which should be implemented in January 2023. The five-year overarching CAP strategy adopts 10 strategic objectives for the European Union, and each member state is responsible for interpreting, implementing, and reaching the overall targets, including the European Green Deal. This indicates most of the new policy will be environmentally focused.

To encourage change, use of CAP funds for direct payments to dairy producers and funds devoted to the Intervention program could be slashed considerably headed into 2023 and beyond.

Each country has six months to approve its plan, at which time the European Commission will evaluate each plan's efficacy toward climate and environmental commitment. While each country will deal with the intricacies of implementation, execution of technology, diversification away from livestock agriculture, curbing methane emissions, and transition to younger farm operators are hallmarks of each plan. To encourage change, use of CAP funds for direct payments to dairy producers and funds devoted to the Intervention program could be slashed considerably headed into 2023 and beyond.

Ireland has released its Strengths, Weakness, Opportunities, and Threats (SWOT) analysis as well as its draft plan. Along with Italy and Poland, Ireland has been one of the member states responsible for significant milk production expansion since quota was eliminated in 2014. However, the proposed language in Ireland's new CAP plan could curb livestock growth while focusing on gains in crop production, especially protein-based crops to reduce reliance on imports. Today, dairying is the most lucrative farming sector in Ireland, bringing in more than double what tillage did in 2020, according to Teagasc, the semi-state authority responsible for the Irish agri-food sector.

In 2020, family farm income for Ireland's dairies averaged €74,249 compared to €32,100 for tillage operations. Included in these figures were direct payments from the government of 28% for dairy and 79% for tillage.

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Ken's Corner

by Ken Meyers
President, MCT Dairies Inc.

World agricultural policy will increasingly focus on supporting production operations to become more sustainable, while at the same time trying to ensure a plentiful and affordable food supply to feed the world's growing population. That is going to be challenging, particularly in food-deficit and low-income countries.

Limiting milk and meat production to mitigate climate change could create long-standing inflationary pressures in these sectors. That would either have a negative impact on demand as the world's consumers look to less expensive sources of protein and nutrients, or civil unrest could ensue as citizens of some countries look to the government for food relief. If governments are pressured to improve food affordability, they might need to loosen environmental restrictions unless new technologies have advanced enough to ensure an adequate food supply.

The world's most efficient producers, including U.S. dairy producers, could benefit more so than dairies in other countries, where production constraints have become burdensome. The United States' diversified dairy sector could help backfill markets where policy has resulted in scaled back milk and meat sectors. Thus, slowing output amid growing demand suggests milk prices will be higher in the current decade than in the last. **MCT**

Russian Invasion Ignites Prices

After Russia invaded Ukraine this week, soaring fuel, energy, wheat, and corn prices sent dairy commodity prices rocketing higher. Dairy product prices were already primed to climb on 33% lower year-over-year butter stocks in January and faltering milk production. Between December and January, butter stocks typically expand by 30 million to 60 million pounds. But this year, they grew by just 22 million pounds. On the day of the invasion, most CME futures traded limit up, opening the door for even higher markets. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Feb	1.9150	1.8825	20.79	2.6175	23.95	0.7775	1.7425
Mar	1.9100	1.8350	20.58	2.7375	25.20	0.7775	1.8300
Apr	1.9350	1.8575	20.79	2.7275	24.40	0.7750	1.8575
May	1.9875	1.9075	21.26	2.8375	26.26	0.7650	1.9025
Jun	2.0375	1.9675	21.81	2.8250	25.64	0.7675	1.8375
May	2.1000	1.9900	22.12	2.8725	25.60	0.7475	1.8100

** CME prices.*
***NASS prices.*

...shift to crops

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Absent government direct payments, economics show dairying offers the best return. But it is likely Ireland will shift direct payments away from dairy and other livestock farming and toward tillage to achieve its goals. Ireland is not alone but given it has been responsible for considerable growth since 2014, it is notable that milk production from Ireland could slow.

Several European nations are working to reduce the intensity of livestock production by shifting to organic output given the EU policy target that 25% of all agriculture be organic by 2030. That shift is already underway and impeding milk production growth. Ireland has the third-lowest land area dedicated to organic farming, which could further slow growth as Ireland strives to hit 7.46% of land dedicated to organic farming by 2027. In addition, more investment in technology and renewable energy equipment could occur at the farm level. For organic investments, Ireland proposes to provide up to 50% grants of up to €100 million to invest in "productive" equipment. Thus, while milk production could slow in Ireland, the government intends for the remaining farms to be more productive to mitigate the decline in cow numbers.

More specifically, dairying and livestock have come under scrutiny for water consumption and ammonia and methane emissions. The Irish study noted that since 2010 dairy cows have expanded by 40%. Furthermore, 40% of greenhouse gas emissions are linked to agriculture. The study also noted that the Irish dairy sector has grown faster than its ability to mitigate environmental issues and suggests a slowdown in the growth of Ireland's dairy herd to meet emission goals. Ireland is not alone; it is simply a good example of the tectonic shifts happening in EU agricultural policy. EU milk production could be flat to declining throughout the implementation period. Once Europe right sizes its herd, though, milk production could resume modest year-over-year increases.

The next decade could be marked by much slower output growth than the last two, particularly from Europe as it focuses on pasture-based and organic dairying. The challenge, given the pasture-based focus will be increasing output per cow to compensate for smaller herds. That could cause some countries to rethink their product mixes and force others to exit or greatly reduce sales of commodity dairy products to maintain or grow higher-margin products. **MCT**

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