Dairy For Future Finale conference

« Tackling the challenges of the Atlantic Area dairy sector »

What solutions and what dairy systems for future?

A perspective from South Atlantic Europe

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Objective:

-to provide some considerations about the milk production and its future in Southern Atlantic Europe.

-focusing on the production situation in the humid areas of northern Spain and also in Azores and norh of Portugal.

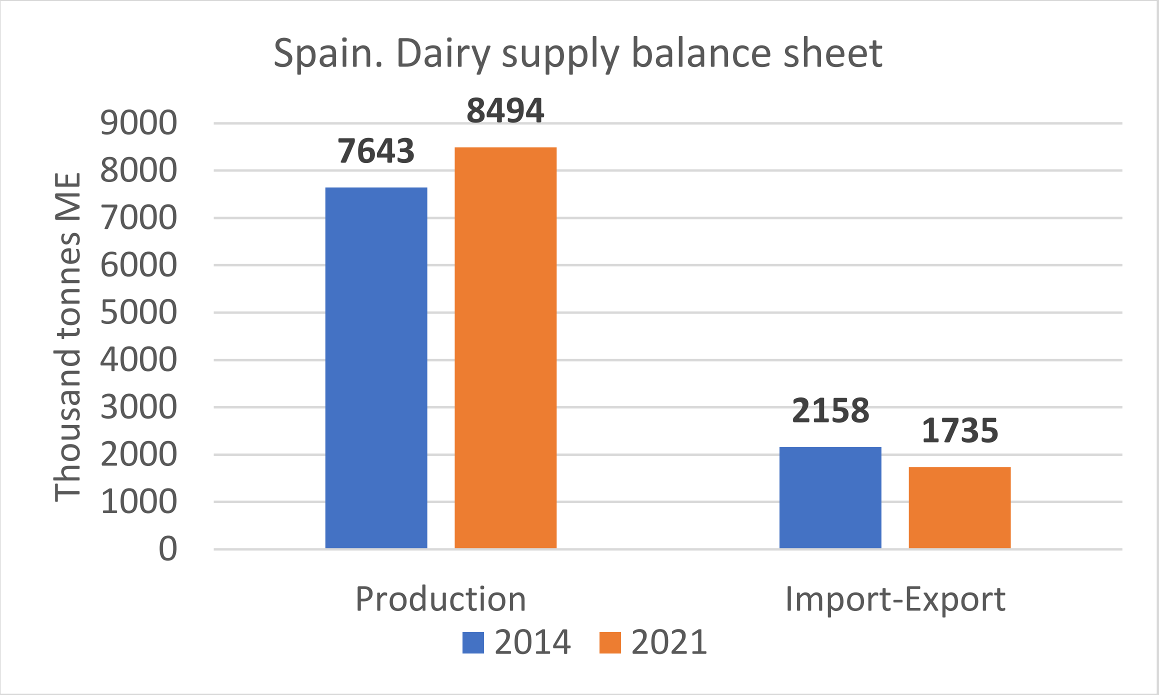
Spain and Portugal: two countries whith a milk production mainly addressed to the domestic market and with an external trade deficit.

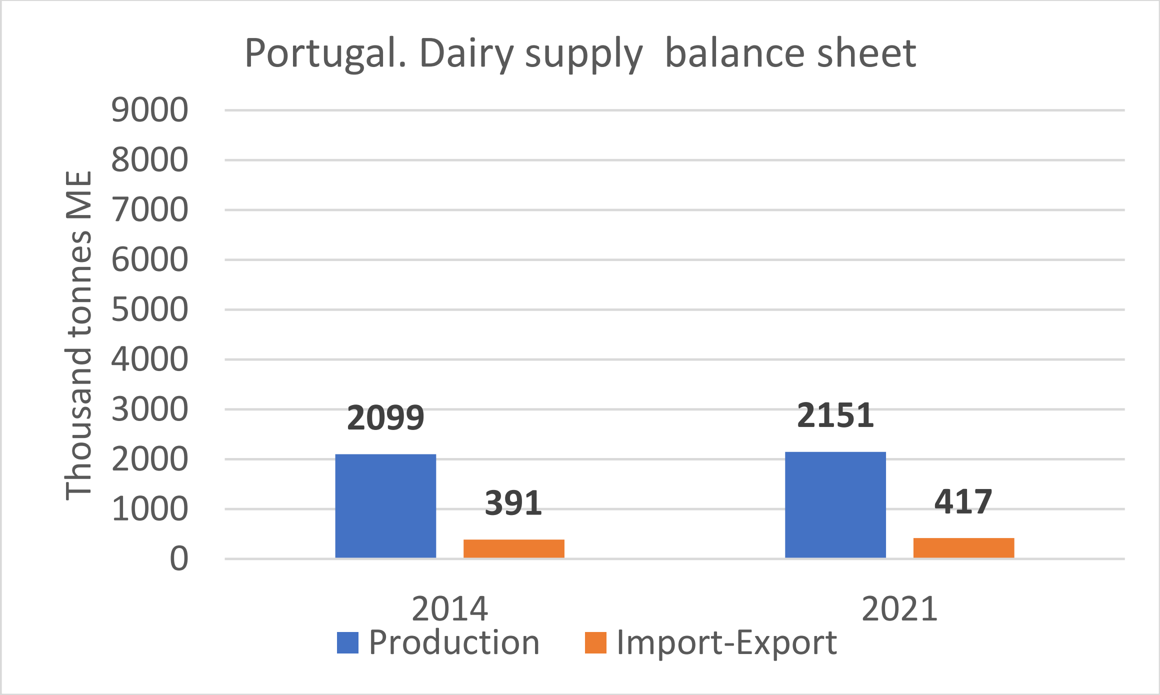
-compared to the last year with quotas production has increased in Spain by 850,000 tonnes (11%) and has remained almost stable in Portugal.

-the increase of production in Spain:

* has replaced imports of spot milk and expanded industrial production: half in cheese and the rest in ultra-fresh and industrial products, with the volume of drinking milk remaining stable.

* has reduced the external trade deficit by some 420,000 tonnes of milk equivalent





Production organisation and milk prices

-Producer milk prices in the last 5 years were below the EU average: -3.5 EUR/100 kg in Spain and -5.2 EUR in Portugal.

Some causes of these differences:

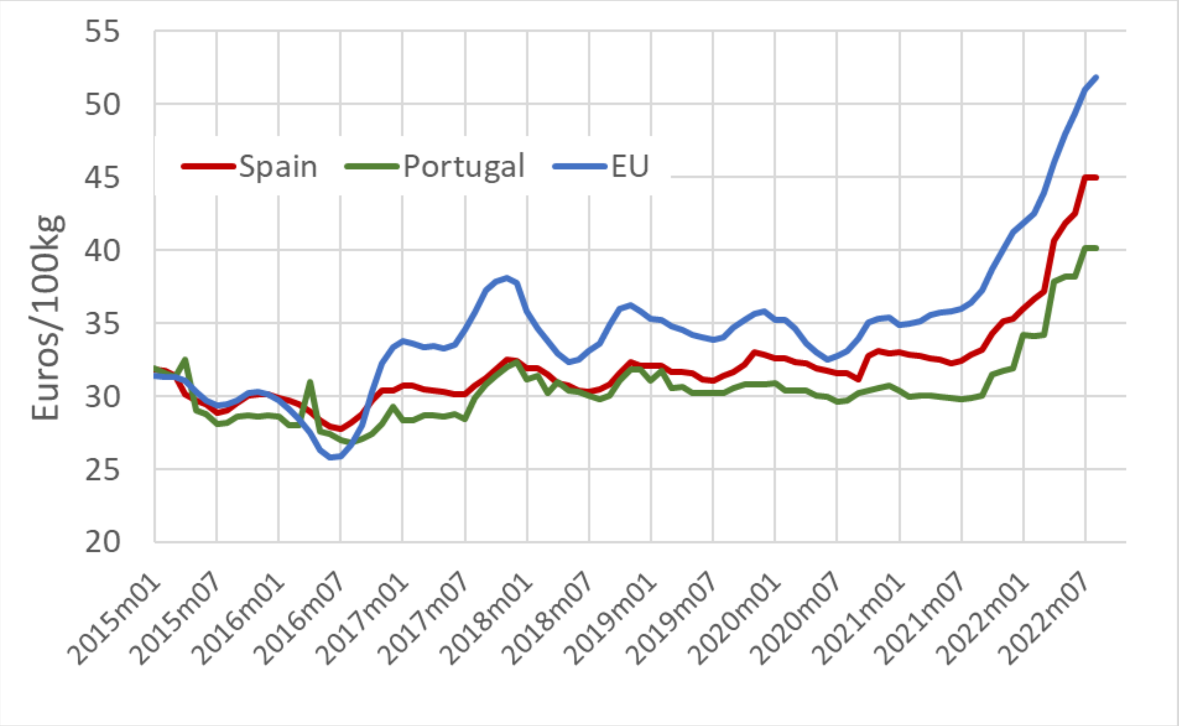
→ Limited progress in the organisation of producers and in the implementation of the Milk Package: lack of price negotiation and operability of POs constituted, and limited participation of producers in processing.

→ Difficulties for the processors to pass on price variations in a market oriented mainly towards domestic consumption, with relatively stable price.

→ Limitations in the valorisation of drinking milk market (the main destination of the collection), with a high share of private labels (60%) and prices around €0.55/litre until the beginning of 2022. In recent months they have risen to €0.78/litre in Spain, but remain below €0.70 in Portugal.

→ In recent months the draining of milk to industrial products is creating strong tensions in the spot supply of small and medium sized dairies.

Monthly milk prices



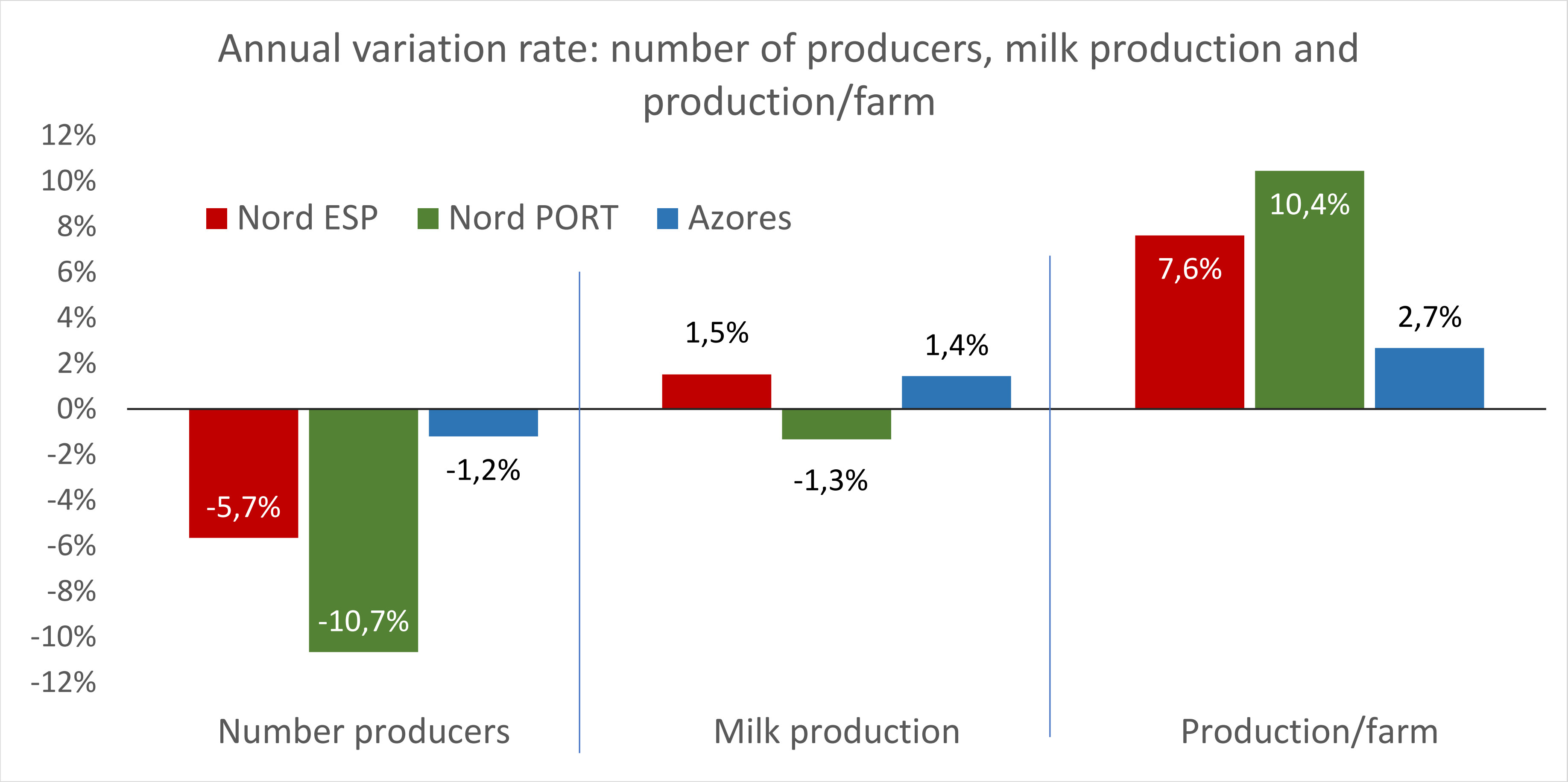
MMO, European Commission

Evolution of farms in the post-quota period.

→ High rate of decline in the number of farms in the of Northern Spain and Northern Portugal regions

→ With sustained growth in production, except in Northern Portugal

→ The result is a strong growth in mean production on farms that are still active, especially in Northern Portugal and Northern Spain.



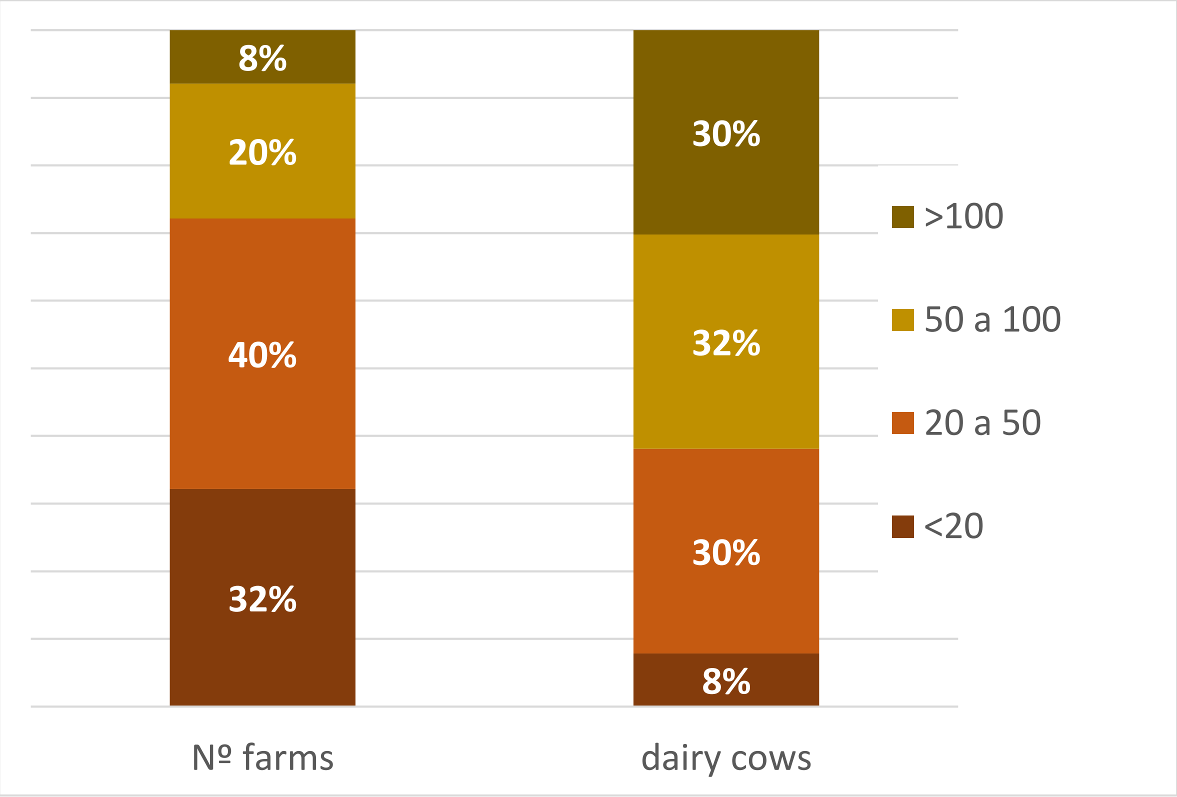
Results on farm structure in Northern Spain: 2016 to 2020

-strong decline of smaller farms and concentration on those with more than 50 cows: 28% of the total and 62% of the cows.

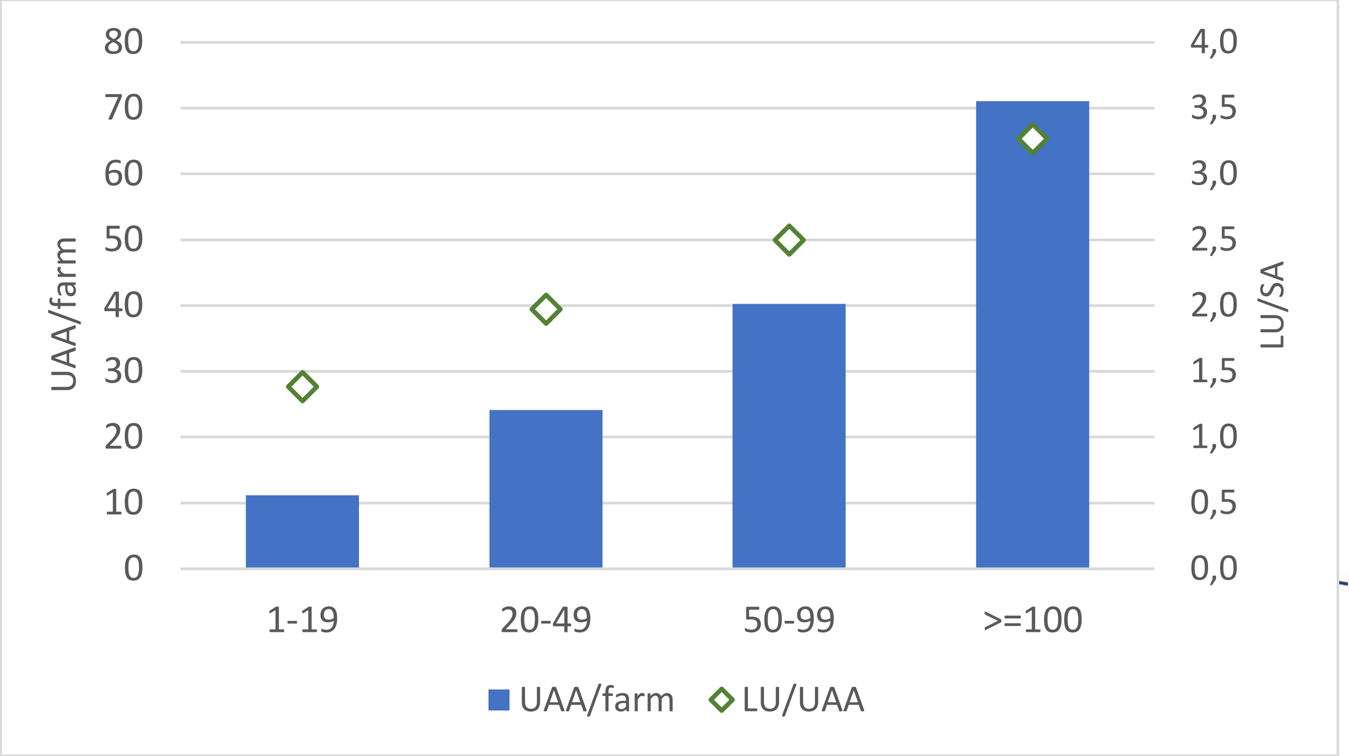
-progress in intensification: production increases by 1.9% per year, but the UAA by only 0.1%.

-many farms with more than 50 cows exceed 2.5 LU/ha, although their environmental impact is mitigated by the limited area of dairy farms, which occupy only 7% of the territory.

Distribution of farms and dairy cows by herd size 2020



Area per farm and stocking rate, 2020



What current problems (1)

-assessment of the situation of the sector in recent producer surveys: 60% rated it as regular and 33% as bad.

-farmers' main concerns:

>> land constraints

>> the implementation of environmental measures

>> farm succession and continuity

>> lack of workers

>> excessive bureaucracy

(all these items were mentioned by 30/40% of the farmers in a multiple-choice answer)

-45% of the smaller farms and more than 85% of the others say that they will remain in activity in the next 5/10 years, but only 15% of the small farms and 65% of the large farms have succession (*).

(*): CIAM, 2017; USC, 2012; CMR, 2020

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What current problems (2)

-some factors that help explain these responses by farmers:

-the uncertainties generated by the volatility in the price of milk in the last 15 years with the changes in price deregulation first and the elimination of quotas later.

-the uprise in grains and energy prices from 2006 onwards, which have not returned to their previous values and have increased again since 2021

-the result is a deterioration in the input/output ratio, which has fallen from an average value of 36% between 1995/2005 to 24% in the last ten years.

-In recent decades, increasing production has been the way to maintain the level of income per occupied to counteract the fall in the unit margin.

-the generation of farmers who made the "great step forward" in production since 1980, some two/three decades behind other Northern European countries, is retiring and their successors, more qualified and with higher quality of life requirements, are questioning whether to continue milk production or to take other alternatives.

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What production systems

In simplified terms, we have two production systems:

-one dominant of "high ouput/high input": with housed cows, feeding maize and grass silage, with a TMR ration , and intensification forced by low land availability. Variability in: maize area, level of concentrate, milking mode (ie robot, 3 milkings a day)

-another in minority of “low output/low input”, especially on smaller farms (mostly below 200/400 thousand litres); it is the majority in the Azores, but is carried out only on part of the smaller farms in Northern Spain.

What changes and improvements in production systems

Future changes will be conditioned by the market situation, the competitiveness of the dairy industries, the organisation of the supply chain, the actions of the institutions (the CAP 2023-27, the 'farm to fork' strategy), technological innovations and consumption changes (changes in consumption (affected inter alia by existing social controversies).

Intensive systems will remain in majority, but will have to adapt to new environmental constraints

Some challenges:

-particular emphasis on ways to enlarge land of the farms to sustain production increases and to adapt to environmental regulations;.

-limits to the level of intensification?

-continuity and succession on the farms; family and non-family transmission (difficulties in sales and leasing, share milking). Salaried work (training, continuity)

-improvements in price competition (economies of scale and production efficiency).

-with limited improvements via differentiation: certifications, A2A2 milk, PDO-linked production

-advances in digitalisation and automation

Extensive systems:

-production is limited by a low price incentive, the farm land and the fragmentation of the paddocks.

-succession and continuity

-organic production is expected to increase (currently only 2% of dairy farms are organic).

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Thank you for your attention

27th september 2022