

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: 9/24/2010

GAIN Report Number: IT041

Italy

Post: Rome

Dairy Outlook 2010

Report Categories:

Dairy and Products

Approved By:

James Dever

Prepared By:

Stefano Baldi

Report Highlights:

The past few years have been difficult for the Italian dairy sector and despite the long term restructuring process which has forced more than 30,000 dairy farms to shut down, in MY 2010 the Italian dairy sector seems to be gradually recovering. Cow milk deliveries in MY 2010 are expected to grow slightly to 11 MMT; approximately 1.4% higher than the previous year production, butter production should slightly increase in MY 2010 to 96,000 MT while cheese production is expected to decrease slightly to 1.1 MMT.

General Information:

The past few years have been difficult for the Italian dairy sector and despite the long term restructuring process which has forced more than 30,000 dairy farms to shut down, in MY 2010 the Italian dairy sector seem to be gradually recovering, thanks to world demand going back to pre-economic crisis levels and to an increase in prices. Starting from the third quarter in MY 2009, dairy prices, mainly driven by Protected Designation of Origin (PDO) cheeses and butter, changed their course and since then haven't stopped in their upward trend. Nevertheless, many dairy farms still have to comply with high input costs (feeding grain prices have recently started to rise again), low productivity and strong competition from other countries which sometimes shrink their profit margin to zero.

Fluid Milk Production, Supply and Demand ('000 HEAD, '000 MT)

Milk	Estimate	Estimate	Forecast
	2009	2010	2011
	Marketing Year begin: Jan 2009	Marketing Year begin: Jan 2010	Marketing Year begin: Jan 2011
	Current Post data	Current Post data	Current Post data
Cows In Milk	2,018	2,099	2,080
Cow's Milk Deliveries to Dairies	10,906	11,060	11,000
Other Milk Production	991	900	900
Total Milk Production/Deliveries	11,897	11,960	11,900
Imports	2,124	2,200	2,265
Total Supply	14,021	14,160	14,165
Exports	20	15	15
Fluid Use Dom. Consum.	3,250	3,300	3,300
Factory Use Consum.	10,751	10,845	10,850
Feed Use Dom. Consum.	0	0	0
Total Dom. Consumption	14,001	14,145	14,150
Total Distribution	14,021	14,160	14,165

Cow milk deliveries in MY 2010 are expected to grow slightly to 11 MMT, approximately 1.4% higher than in previous year's production despite increasing imports from other EU countries where dairy companies enjoy economies of scale and are able to sell milk at lower prices. Moreover, following the rising trend, a higher number of milk cows are expected to be raised in MY 2010. In MY 2011, according to forecasts, cow milk production should not differ from current MY's.

However the positive dairy market trend is partially overshadowed by a milk price war between farmers and processors who are not able to reach a common solution regarding prices. Due to a nonexistent national price agreement, many bilateral agreements are being carried out around Italy and farm gate prices are fluctuating, on average, between 0.35 euro cents and 0.40 euro cents. Growing demand from the dairy industry in MY 2010 is likely to bring overall consumption to 14, 1 MMT, around 150,000 MT up from MY 2009. Italian fluid milk imports, mostly from Germany, France and Austria, are expected to increase in MY 2010 to 2.2 MMT and in MY 2011.

Butter Production, Supply and Demand ('000 MT)

Butter	Estimate	Estimate	Forecast
	2009	2010	2011
	Marketing Year begin: Jan 2009	Marketing Year begin: Jan 2010	Marketing Year begin: Jan 2011
	Current Post data	Current Post data	Current Post data
Beginning Stocks	0	0	0
Production	93	96	95
Imports	27	30	30
Total Supply	120	126	125
Exports	10	11	11
Human Dom. Consumption	110	115	114
Other Use, Losses	0	0	0
TOTAL Dom. Consumption	110	115	114
Ending Stocks	0	0	0
Total Distribution	120	126	125

According to first estimates, butter production should slightly increase in MY 2010, from 93,000 MT in MY 2009 to 96,000 MT following it's' price increase which started in September 2009 as a consequence of the whole dairy market recovery. Butter consumption in Italy, which generally reaches its peak in December\January, is forecast at 110,000 MT in MY 2010. This is a steady trend which continues over the years, despite competition from other substitute goods, such as olive oil and margarine. Italy mainly imports butter from other EU countries (Germany, Belgium, Netherland and France) and are forecast to reach 30,000 MT in MY 2010.

Cheese Production, Supply and Demand ('000 MT)

Cheese	Estimate	Estimate	Forecast
	2009	2010	2011
	Marketing Year begin: Jan 2009	Marketing Year begin: Jan 2010	Marketing Year begin: Jan 2011
	Current Post data	Current Post data	Current Post data
Beginning Stocks	0	0	0
Production	1,135	1,107	1,115
Imports	448	506	500
Total Supply	1,583	1,613	1,615
Exports	250	276	280
Human Dom. Consumption	1,332	1,337	1,335
Other Use, Losses	0	0	0
TOTAL Dom. Consumption	1,332	1,337	1,335
Ending Stocks	0	0	0
Total Distribution	1,583	1,613	1,615

In MY 2010 cheese production is expected to decrease slightly to 1.1 MMT notwithstanding the ongoing dairy market recovery. According to forecasts it should increase again in MY 2011. The

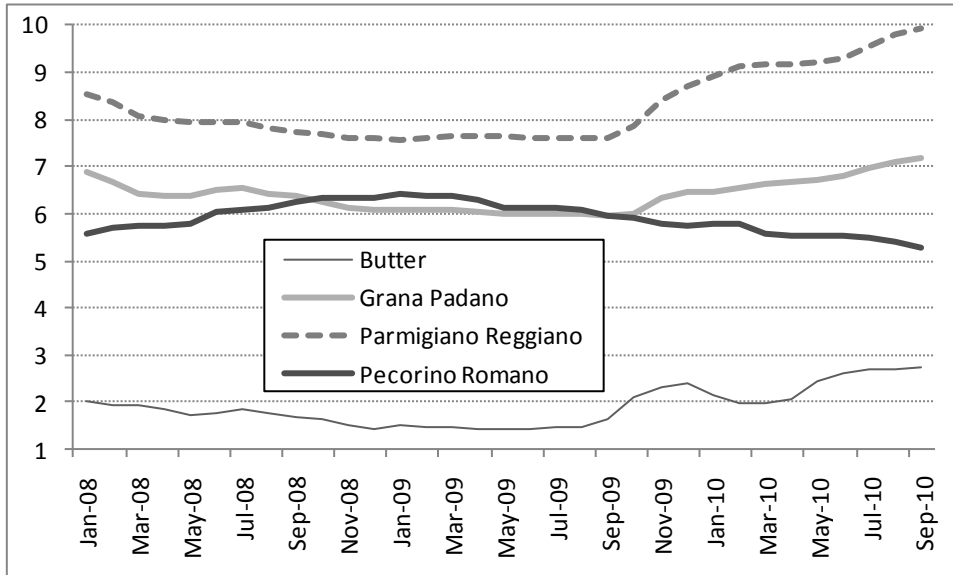
Italian cheese market is mainly driven by its hard PDO cheeses, Parmigiano Reggiano and Grana Padano representing 44% of the Italian milk production. In MY 2009, despite a decline in cheese domestic consumption and production, exports kept growing reducing Parmigiano and Grana cheese stocks. In addition, the Italian government purchased a large amount of the product to give away to the poor, further reducing Parmigiano and Grana stocks in ageing warehouses. In MY 2010 (according to first semester figures), hard cheese exports are increasing and companies have started to enhance their production even if at a slower pace, by trying to meet the increasing demand from the international and domestic market. Prices have started to soar since the end of MY 2009 due to the supply-demand imbalance and some experts claim prices will not decrease at least until the first quarter of MY 2011. Following the growth in demand, other cheeses (such as semi-hard and soft cheeses), have dropped production in MY 2009, with a weak recovery in MY 2010.

Pecorino Romano cheese adsorbs nearly 40% of the Italian sheep milk supplies. Due to the economic downturn and consequent fall in demand, Italian exports of Pecorino Romano have fallen during the last couple of years. In particular, exported quantities have been declining for the past 5 years (-24.6% in the 2005-2009 period) mainly due to a decrease in demand by the U.S. market, Italy's main trading partner for Pecorino cheese. Such a drop has forced processors to cut production costs, which in turn has sparked harsh protests from sheep farmers who cannot live on shrinking margins.

In terms of quantity, Italy has a negative cheese trade balance due to large amounts of fresh cheese imports from Germany and France. However, in terms of unit value, Italian exported cheese is significantly higher than imports, generating a zero trade balance. Moreover, Italian companies are increasingly exporting cheese to France, Germany, U.S., UK and Switzerland.

Growing exports have been recorded in the first semester MY 2010 especially for Grana Padano and Parmigiano Reggiano (+13%), Provolone (+10%), Asiago, Caciocavallo, Montasio and Ragusano (+27%), Italico and Taleggio (+11%), Mozzarella (+17%) and Gorgonzola (+7%).

Italian main cheeses price trend (€/kg)



Source: Ismea.

Policy

The Italian Parliament just passed a law that extends the deadline by which dairy farmers must pay their fines for exceeding EU milk production quotas in previous MYs, from July 31 until December 31. Italy has repeatedly come under fire from the European Commission over failure to pay sanctions for exceeding EU milk production quotas. EU sources say that Italian fines since the milk quota system was introduced over 20 years ago have reached four billion Euros (2.3 billion yet to be paid). However, in 2009/2010 Italy didn't exceed their national milk quota and therefore, will not have to pay the EU fine. This will be the first time after 25 years.

Abbreviations and definitions used in this report

HS codes:

Milk Fluid: 040110, 040120

Cheese: 040620, 040630, 040640, 040690

Butter: 040510

MT Metric ton = 1,000 kg

MY Marketing year: January/December

Protected Designation of Origin is a geographical indication quality scheme built up in the EU to promote and protect names of quality agricultural products and foodstuffs

ITALIAN DAIRY ASSOCIATION

ASSOLATTE

They represent dairy companies

Contact info:

Via Adige 20, 20135 Milan

Fax (0039) 0272021838

Tel (0039) 0272021817

E-mail: assolatte@assolatte.it

Website: www.assolatte.it