7 March 2018

The joys of spring

In the dairy world, all eyes are on Europe where the strength of the spring flush will largely determine market developments in the months to come. In addition to the new milk, supply will be influenced by whether, how and when the voluminous SMP intervention stocks will find their way back on the market. The last two tenders gave a hint about how things may evolve.

The political arena certainly does not provide the dairy sector with any stable structure to operate within. Brexit is perhaps the greatest but not the only source of uncertainty. Populism is on the rise, as most recently demonstrated by the Italian election results, while certain Member States are pursuing policies or reforms which are clearly incompatible with what is often referred to as European values. On the global stage, a trade war is in the process of igniting following the US imposition of additional tariffs on steel and aluminium that will be followed by counter measures in Europe and beyond. What will all this mean for the dairy market? Impossible to predict but it is probably safe to say trade is unlikely to get smoother.

Back to Brexit. The outcome should, if not be decided, at least become much clearer in Q2 as discussions on the ultimate EU-UK relationship commence. Recent declarations on both sides have made clear that customs union and single market membership are out of question, meaning that trade across the channel will no longer be frictionless. The UK is still hoping for an extra special unprecedented relationship of to date undetermined nature which will reduce the burden on businesses to a manageable minimum. According to the EU, a Canada-style trade deal is the best possible outcome given the UK red lines. Hopefully there will at least be agreement on a transitional (or implementation) period prolonging the status quo as far as trade is concerned, at least until the end of 2020. The transitional arrangements are part of the withdrawal treaty, to be agreed by October at the latest so that it can be adopted in time before March next year. And it should give a clear direction of the future relationship as well. There is not much time left.

On a more positive note, the negotiations with Mexico and Mercosur might finally be concluded (yes, this was already the language used in December) and provide some additional market access for our dairy products, following the Japan deal finalised at the end of last year. Dairy is a highly sensitive topic in both negotiations, as Brazil and Mexico aim to limit the concessions granted. SPS related matters and disputes about the fate of certain geographical indications add a layer of complexity to the tariff talks. With the upcoming election campaign in Brazil, the window of opportunity for concluding with Mercosur is reportedly very small. The timeframe with Mexico seems a little bit longer, with a possibly final round taking place in April.

Q2 will also be decisive for EU internal policies relevant for our sector. The (draft) EU budget for the next budgetary period 2021-2017 (commonly known as the Multiannual Financial Framework or MFF) will pave the way to the adoption of the legislative proposals forming the future common agricultural policy in May/June. While the market orientation of the policy does not seem to be under threat, the current market management toolbox may be tinkered with and any decisions taken on producer support levels or environmental criteria will obviously have longer term impacts on the competitiveness and functioning of the EU dairy sector. The Commission is also busy trying to tackle unfair trading practices - it is actually about improving the position of the producers in the food supply chain – and will soon present proposals to this end. Whether this will also have an impact on day to day dairy trade remains to be seen.

To summarise: some interesting months ahead.

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