

Yielded to milk powders? (*Thoughts about prices in agriculture*)

A quick look at national and foreign press review is enough to remark the question, arising from several parties in the world, about what is happening to prices in agriculture.

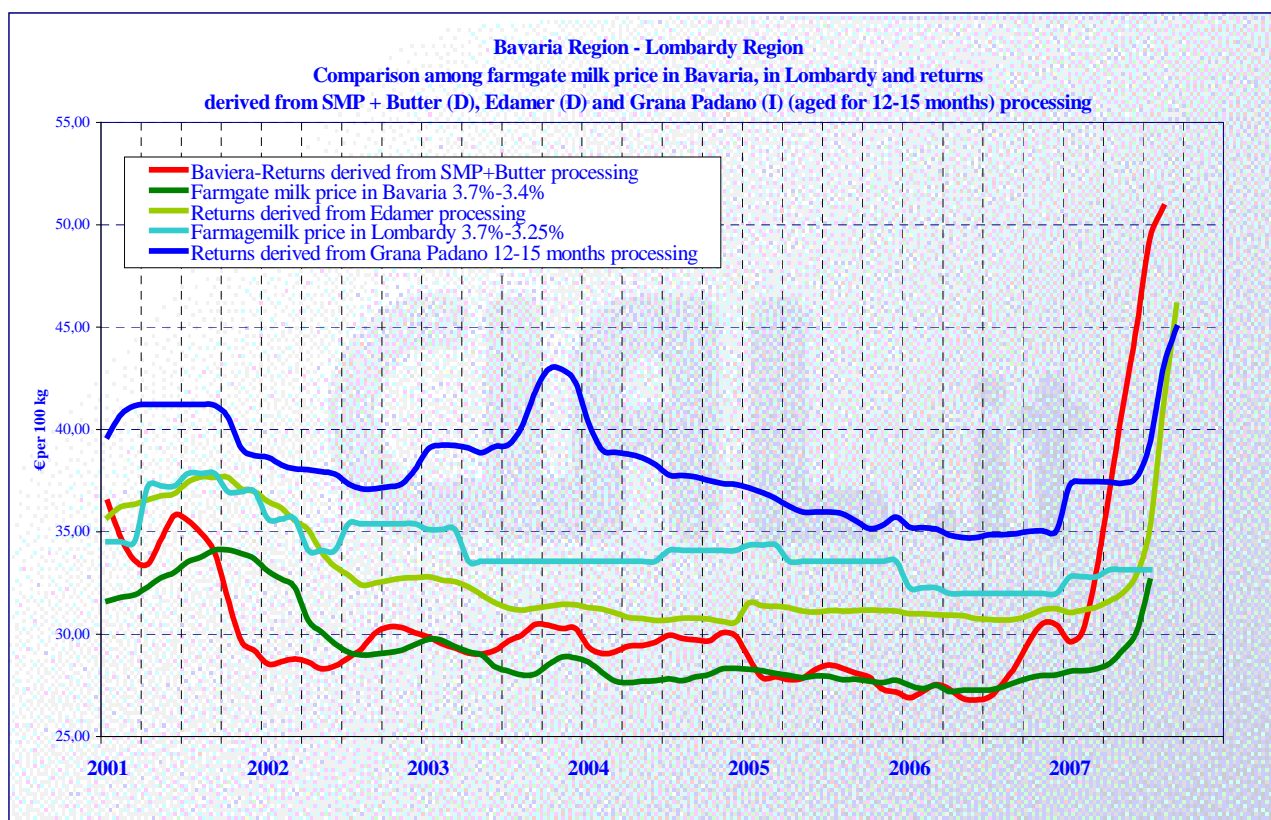
The answer is unambiguous and expressed with a spirit of general concern: after years characterized by a regressing trend, prices are now increasing at a positive rate.

Prices of corn, wheat, oilseeds as well as milk, butter, powders are all raising, causing fallout on the prices of transformed products.

Behind this overall growth of agriculture prices and consequent market perturbation, one can detect many reasons that might be tentatively summarized in the following list:

- Increased oil price has on one side lead to a faster transition towards renewable power sources like bio-fuel and, on the other hand, has augmented the purchasing power of countries like Russia, Algeria, Venezuela that have become, along with China, significant importers;
- Global climatic phenomena (drought, rainstorms) have modified the world cereal production and have inflated butter and milk powder prices;
- Consequent break of symmetry between demand and supply: too strong the first one, too weak the latter also because of the limited world stock.

For what concerns the dairy market, the following graph* might be useful to guide the reflection and to suggest possible implications.



The price trend is clear: although the milk price in Lombardy is swinging and slightly underestimated in the recent period, the farmgate milk price in Bavaria is increasing and has already reached the typically more expensive Italian milk.

This trend reflects the augmented revenues obtained from the milk destination to Grana Padano and Edamer, with the latter being slightly favoured in this period.

The most amazing current feature of the market is the exploding trend of milk powder price and its new role of “market yeast”.

This is yielding a boost to New Zealand, the first producer worldwide in this sector that, together with Australia, controls some 40% of the powder world trade. This has become possible thanks to mergers (e.g. Fonterra) that have contributed to generate wealth for producers and processors.

At this point, it is necessary to consider the great transformation that our sector is undergoing, both in terms of market (the actors are changing) and of products.

Can the increased price of powders be related just to the reasons previously mentioned?

Probably not.

The augmented value of powders – that Italy imports – means that the traditional distinction between more and less profitable milk destination or between noble and poor use of the raw material is no longer valid.

Powders, traditionally linked to the surplus production of milk, have achieved a strategic role and are now so widely employed to become a basic product in the food industry, even in the emerging countries market.

At this point in time, it is more profitable to destine milk to powders than to produce PDO (Protected Denominated Origin) cheese.

How long will this unsettled situation last? The matter is not just about this question. That’s why it is of the utmost importance in the dairy chain to understand the new frame and to face the new price volatility accordingly.

In Italy the new frame is the “PDO ” and “Freschissimi” cheeses .

It is essential to reconsider these remarkable traditional products.

Consequently, the most important concern is not how to choose the best milk destinations. The goal is instead to lead our most valuable products to traditional and new markets. Generate the customer need is our mission. The success key will be a global offer (and not on a stand alone basis) by the entire dairy chain in order to have a more positive influence on the clients.

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* To see the graph updated please refer to the following page of Clal website:

http://www.clal.it/en/index.php?section=confronto_germania

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