



IFCN

Dairy Data · Knowledge · Inspiration

Outcome of the 18th IFCN Dairy Conference

Kiel, Germany
10 - 14 June, 2017

Hosted and sponsored by:



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SCOPE OF THE CONFERENCE

The IFCN Dairy Conference is a key annual platform for the IFCN Research Network of dairy economists and experts to discuss sector developments, farm economic analysis, research methods and special topics.

On June 10-14 the conference, themed “Dairy development: past, present and future” brought together 98 participants representing 43 countries from all continents. The institutions delegating their representatives encompassed universities, research centers, dairy boards and associations, private and public sector representatives, consultants and farmers.



The key questions of interest for participants were to find out about the short and long-term dairy sector developments and importantly what is coming up in the next year. Also high on the agenda was to share the work and perspectives of each other with such diverse backgrounds. The special focus on dairy development in turn prompted many participants representing various stakeholders to make sure the voice of all groups is heard, from smallholder farmers to international organizations.

The IFCN Research Centre shared perspectives and results on the world dairy landscape, developments and outlook prospects. Representatives of FAO and ILRI elaborated on the roles of dairy, the importance to consider the nexus while leading dairy businesses - Fonterra, Royal Friesland Campina, Tetra Laval FB and DMK – shared their international and national dairy developments programs and perception on dairy development. For more on the dairy development at the conference, a further outcome paper will soon to be published.

Sat. June 10 Preconference	Sun. June 11 Field trip day	Mon. June 12 Dairy World Status	Tue. June 13 Dairy Development	Wed. June 14 Dairy Outlook
<ul style="list-style-type: none"> Preconference opening 	<ul style="list-style-type: none"> Dairy plant visit 	<ul style="list-style-type: none"> Conference opening The dairy world after the crisis 	<ul style="list-style-type: none"> Opening: dairy development Development pathways: FAO, ILRI IFCN survey results 	<ul style="list-style-type: none"> Dairy world 2030: GDP perspective IFCN Outlook 2026
<ul style="list-style-type: none"> Strategy session 		<ul style="list-style-type: none"> Monthly developments Panel discussion with IFCN Research Partners 	<ul style="list-style-type: none"> Company panel: Dairy development from companies' perspective. 	<ul style="list-style-type: none"> IFCN Dairy Outlook 2017/18 IFCN Network 2018 Closing
Lunch	Lunch	Lunch	Lunch	Lunch package
<ul style="list-style-type: none"> Training session Research session 	<ul style="list-style-type: none"> Farm visit Harbor boat ride in Hamburg 	<ul style="list-style-type: none"> Farm economics Discussion/ Q&A 	<ul style="list-style-type: none"> Workshop on dairy development 	<ul style="list-style-type: none"> CONFERENCE NETWORKING OPTIONAL
		<ul style="list-style-type: none"> Farm structure Summing up 	<ul style="list-style-type: none"> Workshop on dairy development 	
Free time	Welcome dinner	Social activity	Farewell evening	

MARKET DEVELOPMENTS

Outlook from the IFCN Network a year ago predicted a world milk prices recovering by the end of the year, proved to be accurate with the 63% recovery since May 2016. The May 2017 estimate of the IFCN World Milk Price Indicator at 35.8 USD per 100 kg energy-corrected milk (ECM, to 4% fat, 3.3% protein) is approaching the average from 2007 of 38 USD per 100 kg ECM. Therefore, the last price roller-coaster from 2014, with around 50% fluctuations, seems to have halted after nine months of recovery and is oscillating due to milk supply reduction and recent high fat prices.

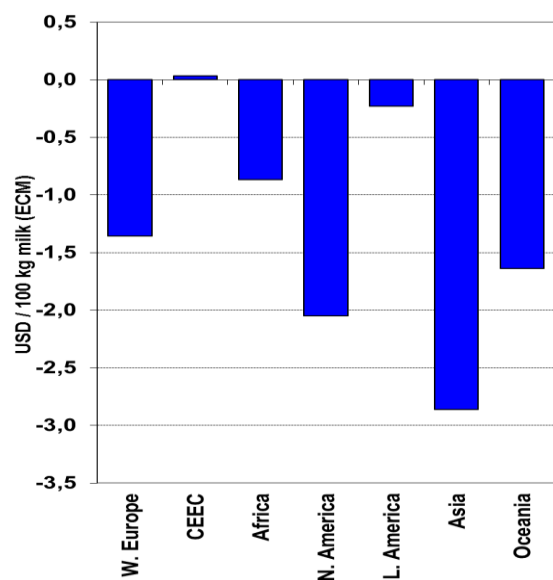
2016 saw the lowest production growth since 1998. Worldwide, leading growth in milk production occurred last year in India, USA and the Netherlands, offsetting decreases in China, Brazil, Argentina, Oceania. In Europe, Netherlands, one of the fastest growing milk producers in 2016, was presented at the conference to have introduced the 2017 Phosphate Reduction Plan which is demanding the animal phosphate production from manure below a state ceiling. This is likely to lead to animal numbers reduction, especially in young stock. Milk price and feed ratio also likely to be a factor to reduce or limit the animal numbers and therefore prevent further growth of production. US farm milk prices held up versus international prices over the recent years, although are now converging. Strong economy and consumer confidence is expected to support demand and drive national prices upwards this year. On the other hand, from the countries with largest drop in milk production, detailed data of Australian farmers showed strong importance of the operating profit margin in driving production decisions. Farmers tend to adjust milk production rather fast over few months, especially in fall and winter period when more purchased feed is required, and sell livestock if they expect low milk prices. This was also vivid in 2016. Demand growth has not yet recovered to records from 2006 or average level, yet it has been not too devastating. More specifically milk import demand has been growing in China, Brazil, Philippines, Mexico.

However, various factors were discussed indicating that milk prices are not likely to increase significantly in the near future, but rather stabilize. In terms of production, since October the milk production growth resumed worldwide and has been raising. Many markets are starting to pick up national production in two first quarters of 2017 reacting to price recovery in the second half of 2016. The issue of stocks remains of major uncertainty and their levels estimated as still quite high. Furthermore, oil and feed prices which are important drivers for milk price, appear to remain rather stable.

FARM ECONOMIC TRENDS

Unsurprisingly, the low milk prices in 2015-2016 were reflected in the costs and economic results of dairy farms around the world. Every year the IFCN Dairy Research Network analyses in depth data from typical dairy farms from 52 countries around the world. The comparison for 2016 results versus 2015 have shown the costs of milk production decreasing in all the regions except barely changing for CEEC. On the income side, milk and non-milk returns have also dropped for all regions, but Asia, with Oceania seeing the biggest drop year on year. The only region with entrepreneur's profit increasing last year was Asia, while Oceania and CEEC account for the biggest decreases.

Cost of milk production only, change 2016/15



Ten lessons learned from 2015-16 milk price crisis (voices of the participants)

1. You build trust with your stakeholders before the crisis happens
2. Countries are effected differently
3. Tough times are good times for good people
4. It is a cycle, not a crisis
5. Decrease costs, be efficient, volatility is not the only thing
6. Market decides how much to pay
7. Volatility is here, build a system that can live with it
8. Policy makers are too slow, so they should stay out of the game
9. Have a system where you can adapt and respond, it is important
10. Two ways: ask government for help or help yourself
11. Have a risk mitigation plan from beginning (diversify and have buffer)
12. In tough times, keep costs low
13. No one policy fits all
14. Build systems that allow farmers in good times to save for bad times like

Farm structure change

When exploring the development of the sector it was pointed out by Roger Cady from Elanco, how important it is to look at the adjustments in animals and farm numbers to fully understand the transition of the industry. Recognizing this important question, IFCN explores farm structural changes every second year. In 2017 the analysis of preceding years showed some meaningful observations:

- After a constant growth in farm numbers in the past, a worldwide gradual decrease of farm numbers since 2014 at around 1.5% annually is observed. However, milk production increases ever since
- While the global average is a 3.2 cow farm, regions vary substantially from 1.9 in South East Asia to 363.5 cow farms in Oceania
- Policies can either impede or facilitate structural change as occurs even within Europe
- Apart from policies, drivers of future structural change include prices, technologies, macro-economic situation, infrastructure, environment, and skills
- In the regions with prevailing smaller farms the following is observed: South Asia is seeing growth of 2-30 cow farms, Eastern Europe and CIS sees expansion of 10-100 cow farms and those over 1000 cows, Latin America observes most development of farms with 30-300 cows
- As for the countries at a further stage of the structural stage: Western Europe is subject to growth most of all within 100-1000 cow farms, North America is home to expansion primarily of farms over 1000 cows, and Oceania observes strongest increase in share of cows in 300-1000 cow farms
- Change of farm structure plays major role to define the demands on the dairy supply chain in a country

Data quality and network development further on

In terms of the data quality development, the network is determined to further strengthen the unique method of data standardization. The decision is to change to a more precise method for IFCN Data Standardization (**ECM**) based on milk solids. This was argued to improve the accuracy in milk volume and therefore prices and costs. Reasons were also shown for the need to pay extra attention to accurately account for **VAT** in the collected data as this will also influence the accuracy of data in certain countries. Specific modules of the IFCN Typical Model were introduced for estimating an indication of **farm supply response** to a milk price.

Depending on the milk price, 3 categories of typical farms can be used: household, family and business farms. A model were **short-term simulations** based on validated updates was presented. It is a step forward to quicker reactions on most recent information. Overall, the positive developments of the **IFCN Network** were presented reflected in a growing geographical coverage of data planned in the IFCN Dairy Report analysis 2017 at 110 countries.

Final comments and what are the key learnings from this conference (voices from the participants)

- Inspiration can match knowledge to drive the country forward
- Networking and people create real worth
- Things will get better
- Crisis is over nearly and less volatility with current data
- Knowledge and inspiration are art. Butter is the new champagne product (luxury product),
- Dairy & FS are changing very fast. With IFCN Data, knowledge is vital to make decision
- Milk production is very diverse but all effect with world milk prices developments; we recovered from milk prices, however forecast is bounded with high uncertainties;
- We together create value;
- Stability is in the market after the crisis, but not giving confidence to everyone;
- It is not about crisis, 2013 circle comes to the end; Dairy development is happening all over the world but with more strategic and less strategic ways in different countries;
- Confidence and influence; make sure influencing of retailers and policies have access to this knowledge