The comprehensive assay of the position of milk production and milk market

This presentation is based on the monograph
„Proposal for the presidency of MOSZ on the position of milk production and milk market"

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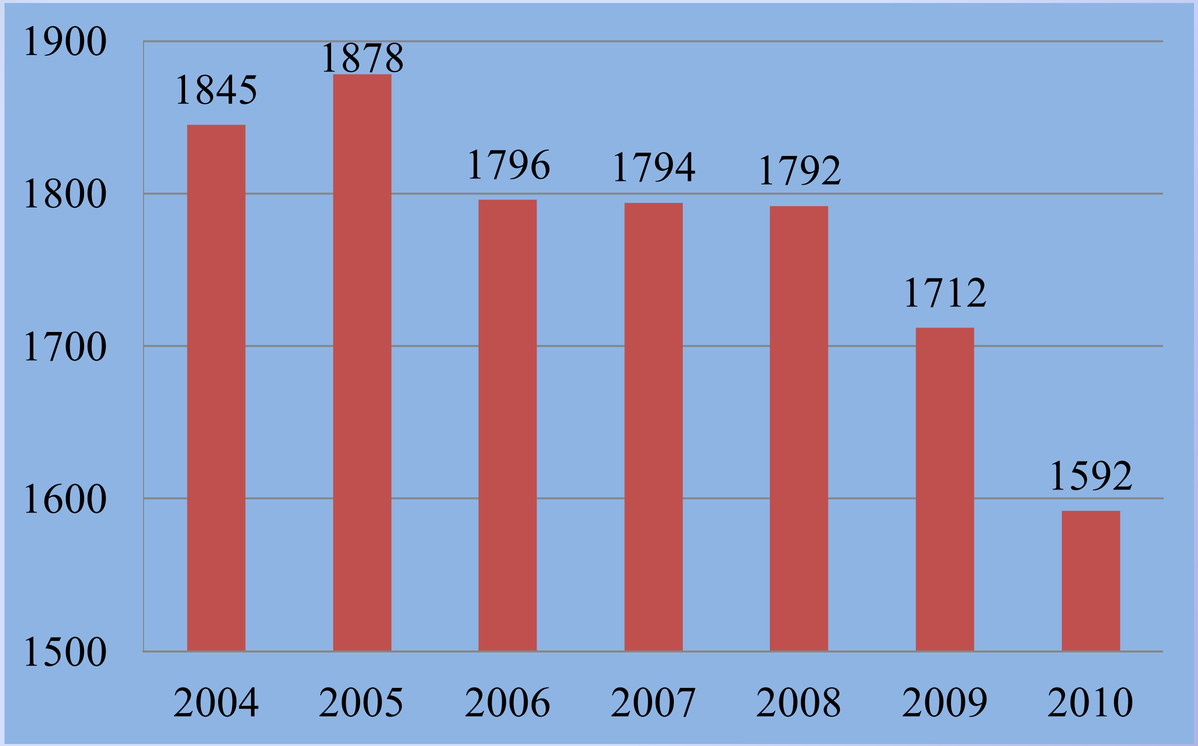
- The volume of milk production decreased significantly in Hungary.
- Hungary is net importer since obtaining EU membership.
- In 2011 the value of import exceeded that of export with 40 billion Ft.
- The value of imported milk and milk products exceeded that of export with 35%.

Market situation

Milk production

- In 2010/11 regarding milk production the **highest decrease was detected in Hungary** among the EU members.
- The amount of the produced milk was less than 1.6 billion litre (less that 75% of the the quota was exploited).



The tendency of milk production between 2004 -2010

Unit: million litre
Source: KSH

Buying up of raw milk

- In the first term of 2011 buying up of raw milk dropped with 11% related to the same period of the previous year.
- The tendency within EU is opposite to the previously mentioned inland tendency.
- The buying up of raw milk in the average of EU members increased with 2% within the first term of 2011.
- The quantity of buyed up milk increased with 5% in Germany, 6% in France and also in Poland with 2%.

Tendency of market prices

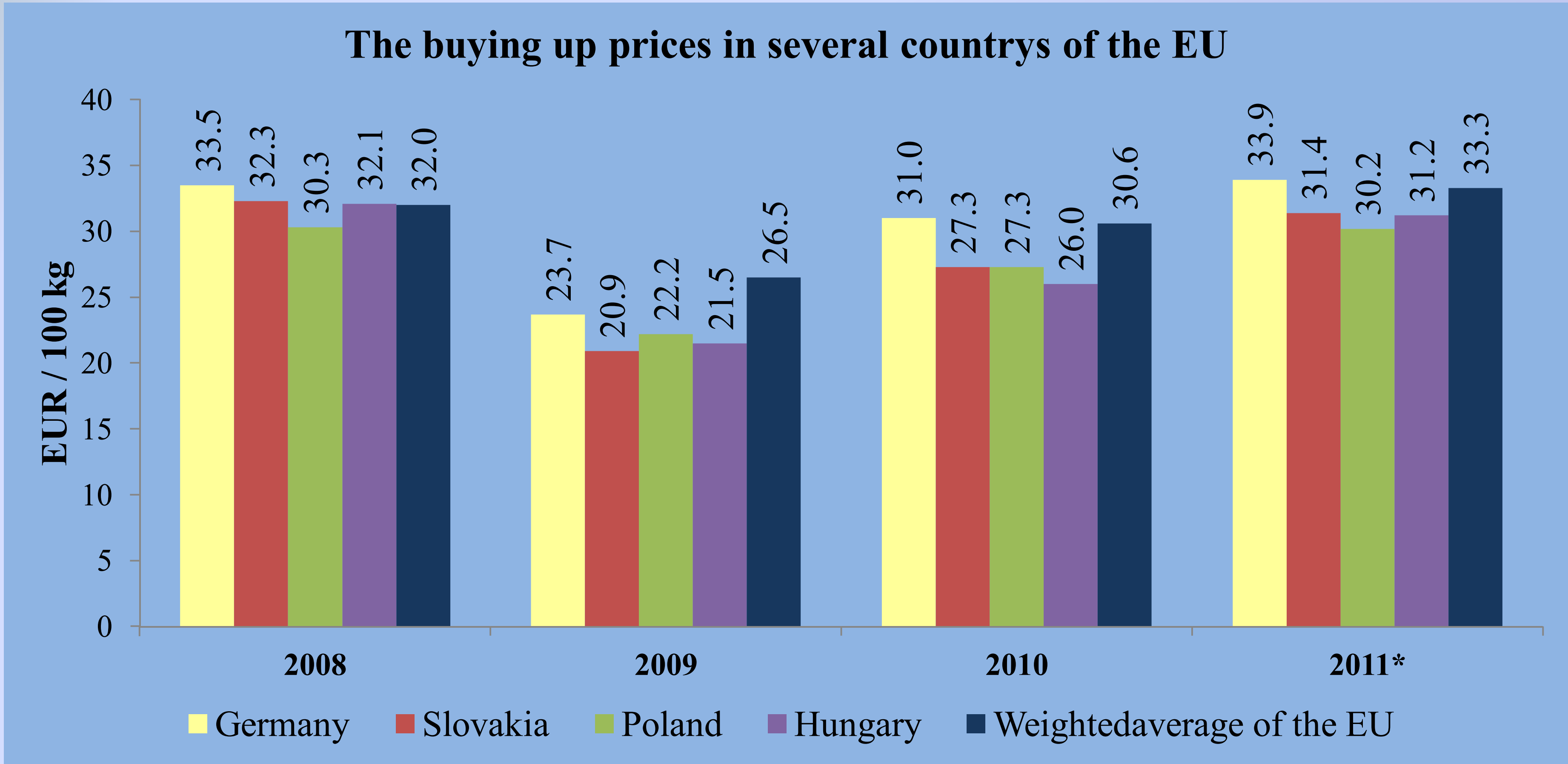
- In 2011 the average price of extra quality raw milk was 84,3 HUF/kg.
- This value exceeded the average price in 2010 with 18%.
- The increment of the costs of feeding stuff materials was significantly higher than that of the price of the milk. In the case of corn the increment was 40%.

The average price of rax milk
(extra quality)

2008	2009	2010	2011
81.2	60.3	69.2	84.3

Unit: HUF/kg
Source: AKI

- The buying up prices in Hungary was lower than the weighted average price in EU published by the European Commission.
- In 2009 and 2010 the inland average prices was lower with almost 20% than the average price in EU.



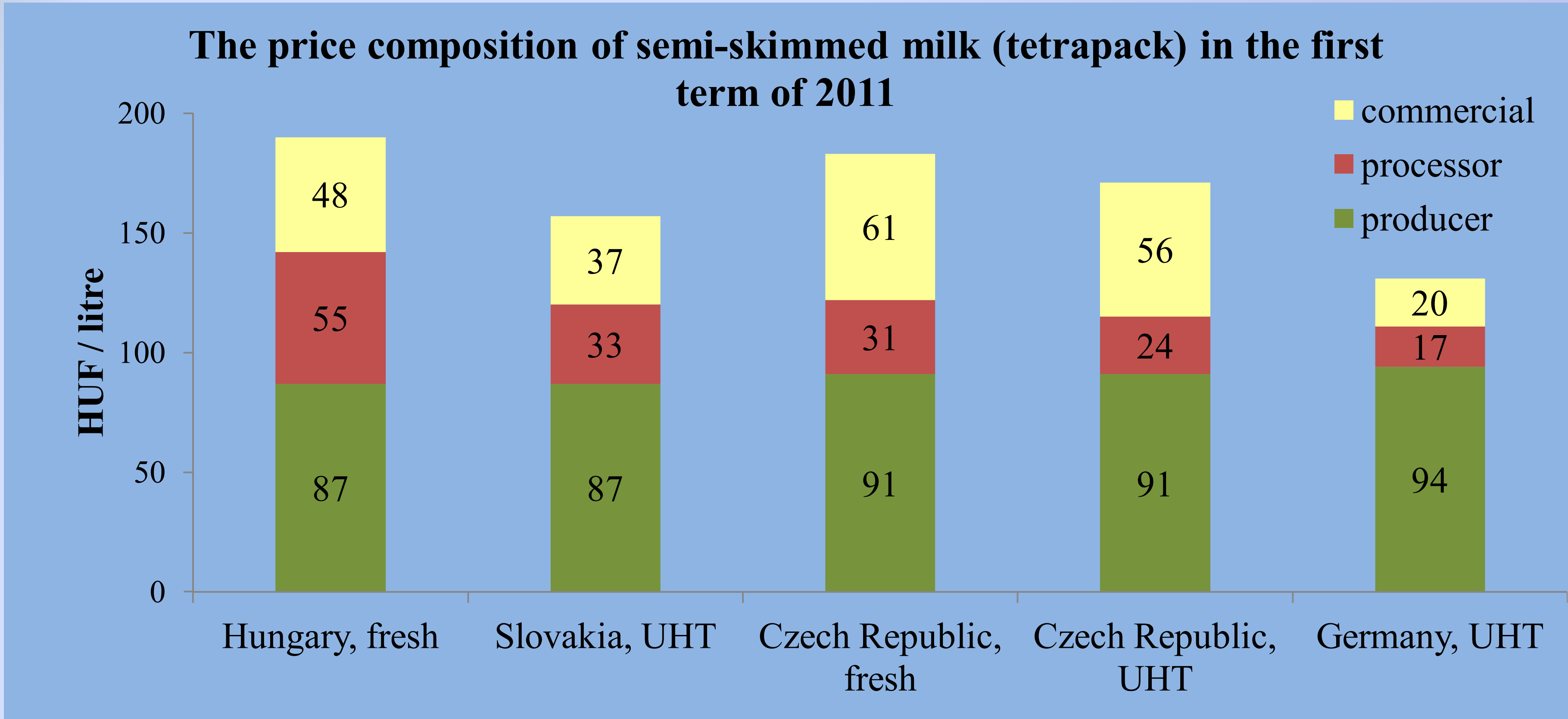
Source: European Commission

- The consumer price of 1.5% UHT milk originated from import was lower than that of the cheapest inland product in each examined store.

	Lidl	Penny Market	Tesco	Aldi	Spar	CBA
Home-made	169	-	179	169	169	219
Import	149* (german)	149** (slovak) 169 (german)	140 (bohemian) 159 (slovak)	149 (german)	159 (slovak)	179 (bohemian)

The table shows the cheapest price of home-made and import products.
Source: MOSZ own investigation, 12 -13. 09. 2012.
*Sale 136 HUF/l, ** Sale 129 HUF/l

- The consumer prices are influenced by the different costs of the phases of consumer milk production.
- The costs of the production, processing and marketing phases of semi skimmed tetra brick milk produced in different countries in the first term of 2011:



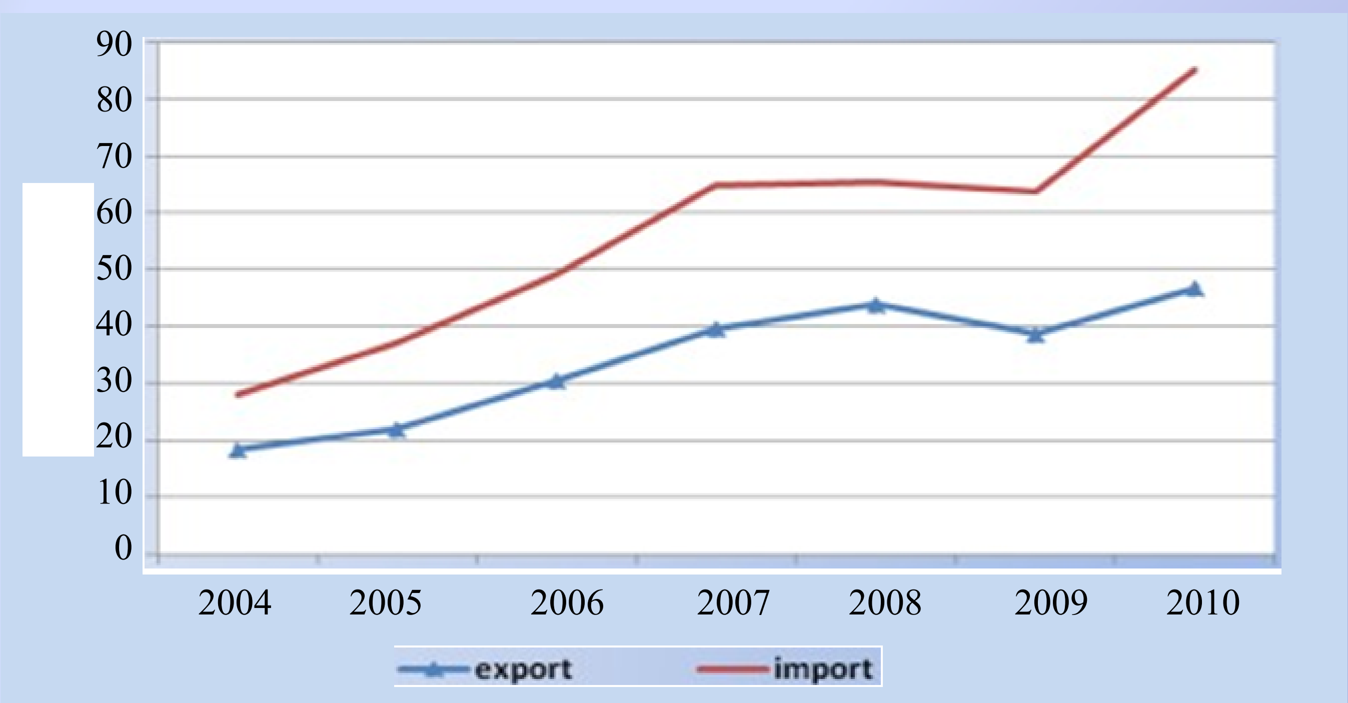
Source: AKI

- The price of semi skinned tetra brick milk was the highest in Hungary.
- The ratio of producer price within the consumer price is the lowest in Hungary (46%).
- This ratio is 70% in Germany.
- **In Hungary the producer price of milk is 103 HUF/litre, while in Germany it increases with 37 HUF in the phase of processing and marketing.**

- The participation of processing phase is the highest in Hungary both in value and in ratio.
- The high cost ratio of milk processors moreover their lag in economic efficiency result in significant drawback in competitiveness.
- The participation of comercial phase in the studied countries ranked between 19 and 33 %.
- In Hungary the participation of comercial phase is 25%.

External trade

- Hungary is net importer of milk and milk products since obtaining EU membership.
- In 2010 the value of the import exceeded 85 billion HUF while that of the export was 47 billion HUF.
- In the first term of 2011 45 billion HUF of milk and milk products were imported while the export was 29 billion HUF.



External trade of dairy products

Source: KSH

- The value of import exceeded that of the export with 35-45%.
- **The amount of the exported products is more than that of imported products since 2004.**
- The import increased from 89 millon kg (2004) to 403 million kg (2010) while the export enhanced only from 79 to 294 million kg (2010).

External trade of dairy products

	2004	2005	2006	2007	2008	2009	2010	2011*
import	79	134	151	218	211	261	294	155
export	89	151	274	353	400	388	403	233

Source: KSH

Unit: million kg

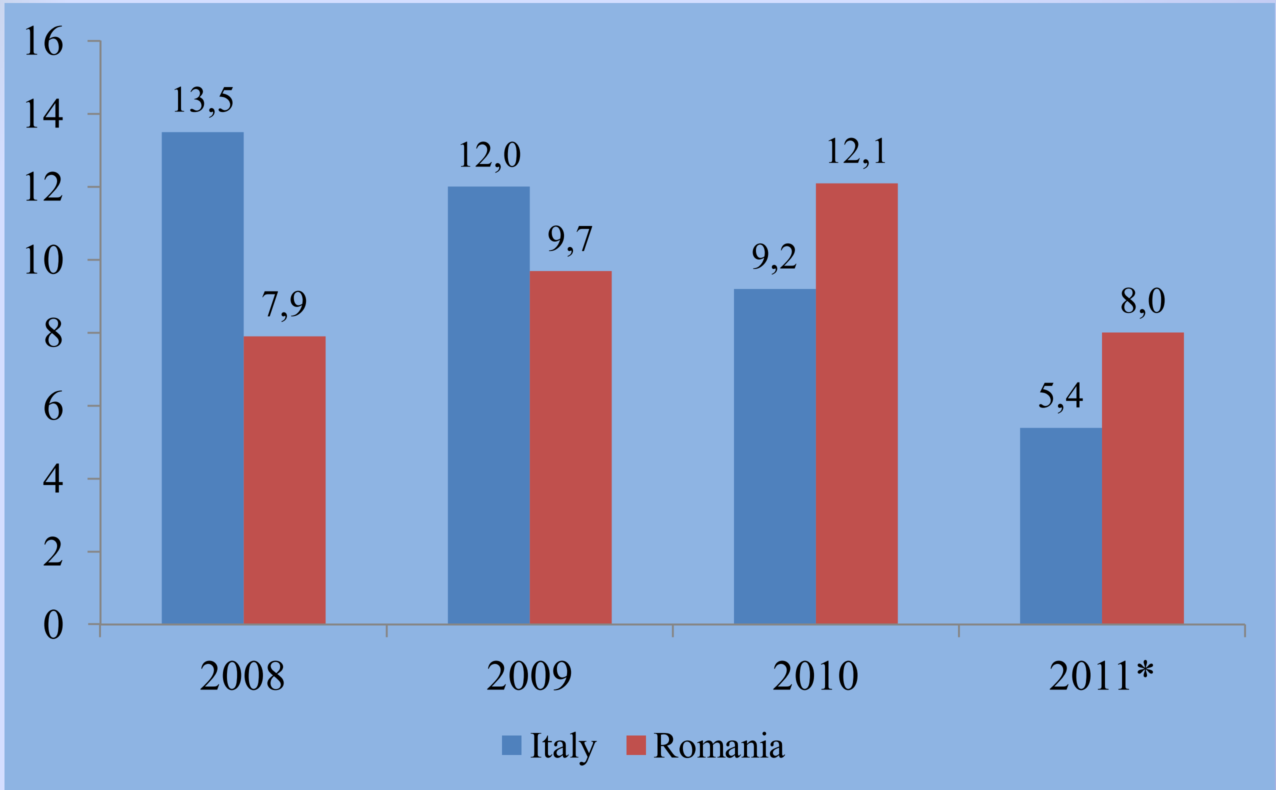
* January – June 2011.

- **This opposite tendency is derived from the different product stucture of export and import.**
- Almost 90 % of the export is milk.
- Within the import the ratio of milk is hardly 60%.
- The ratio of high value added processed product is markedly higher in import than in export.
- The export of cheese and cottage cheese both in volume and value is one-third of the import.

- The most import product arrived from Germany (in 26 billion HUF value), from Slovakia (16 billion HUF) and from Poland (16 billion HUF) to Hungary.

- Import items originated from Germany are mostly high value added product (cheese, cottage cheese, joghurt etc.) while from Slovakia mostly tetra brick commercial milk is imported.

- **The most important export partner of Hungary is Romania.** More than 50% of the 12.1 billion HUF Hungarian export was milk.
- **High value added products** were placed to the Romanian market with the value of approximately 6 billion HUF.
- The majority of the export to Italy was raw milk.



unit: billion HUF
Source: KSH
*January – June 2011.

Regulation and subsidies

<u>The main support types that milk producers can apply for in 2011:</u>

1. *The special support connected to the handling the special drawbacks of milk producers in 2011*

   The annual sum of the subsidy was 9.55 HUF/kg.

2. *Animal welfare support for the structure transformation of dairy sector*

   This subsidy can be resorted from 1. May 2011 to 30. April 2016 after dairy cows.

   This support is connected to seven commitments, its maximum sum is 30−35 thousand HUF/animal unit/day.

   This means 6−7 HUF/milk kg subsidy.

   The finantial funds are insured to the first two years of the program.

3. *Milk pop-up support*

The payment of this subsidy based on historical basis.

Its sum is 6 HUF/kg.

4. *Support for the prevention and elimination of some animal diseases*

The available funds for support is 7.035 billion HUF.

5. *Support for the transport and disposal of animal waste*

The frame support is 2.5 billion Ft.

6. *Support for farm modernization of milk-farms*

The awarded sum of the support is 213.5 billion Ft.

2012- Prospective changes:

1. Milk pop-up support

In 2012 Hungary presumably reaches the 90% of the possible levels of subsidies regarding direct supports.

In 2012 the levels of subsidies will be equalized among former and latter member states.

2. The special support connected to the handling the special drawbacks of milk producers

Approximately 12.5 billion HUF.

3. *Animal welfare support for the structure transformation of dairy sector*

The majority of the finantial source of annual support (2012) is available (19.9 billion EUR) from the European Economic Recovery Plan.

4. *Support for the prevention and elimination of some animal diseases; Support for the transport and disposal of animal waste*

The available funds for support depends on the actual state of the budget.

Following 2013 – Future trends

It is likely that the sum of direct supports that one producer can call for EU will be limited

1. The restriction will not affect the direct support sum below 150 000 EUR (appr. 40.5 million HUF).
2. The direct support sum above 150 000 EUR (appr. 40.5 million HUF) will be reduced with 20% til the sum of 200 000 EUR (appr. 54 million HUF).
3. The direct support sum above 200 000 EUR (appr. 54 million HUF) will be diminished with 40% til 250 000 EUR (approx. 67.5 million HUF).
4. The direct support sum above 250 000 EUR (approx. 67.5 million HUF) will be reduced with 70% until 300 000 EUR (appr. 81 million HUF).
5. The direct support sum above 300 000 EUR (appr. 81 million HUF) will be diminished with 100% that is it will be completely eliminated.