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## Estonia

**Post:** Warsaw

### **Estonian dairy industry in a deep crisis.**

**Report Categories:**

Dairy and Products

**Approved By:**

Russ Nicely, Agricultural Attaché

**Prepared By:**

Piotr Rucinski, Agricultural Specialist

**Report Highlights:**

It is estimated that in 2016 milk deliveries in Estonia will decline by one percent compared to the previous year's level. The Russian ban on EU food items reduced export demand and resulted in a drop of farm-gate milk prices. It is estimated that in 2016 the crisis of the dairy market will result in a 10 percent reduction of the national dairy herd. It is estimated that in 2016 milk production will be processed into cheese and butter, which are in demand on the world market. In response to the European Commission's market intervention measures till August 16, 2016, Estonia placed 672 MT of Non Fat Dried Milk (NFDM) into the EU intervention stocks.

## **General Information:**

### **Production**

It is estimated that in 2016 raw milk output in Estonia will amount 775,000 MT, a one percent decrease compared to 2015. In the first seven months of 2016 milk deliveries in Estonia increased by 1.3 percent in comparison to the same period of 2015. It is expected that supplies of milk will decline in the second half of 2016 because of low farm-gate milk prices and reduction of dairy cow herds. In August 2016 average farm-gate prices for milk amounted to 21 Euros per 100 kilograms of milk, a 10 percent decrease in comparison to August 2015.

Estonia used to be a traditional supplier of dairy products to the Russian market. The introduction of Russian export ban in August 2014 adversely affected the Estonian dairy industry which was focused on fresh dairy products shipped to Russia. Despite the drop of farm-gate milk prices, Estonian farmers are continuing milk production because they are dependent on the revenue to pay back credits taken in 2013 and 2014 to enlarge and modernize their farms in expectation of the approaching termination of the milk quota system. However, according to the Association of Dairy Producers (Eesti Piimaliit) the first half of 2016 was one of the most challenging periods in the history for Estonian dairy farmers. It is estimated that because of the difficult economic situation 7 percent of dairy farms have already discontinued production and dairy cow inventories are expected to drop by 10 percent in 2016. The Estonian dairy processing industry tries to adjust to new market conditions by switching to production of butter and cheese, which remain in demand both domestically and internationally. In Estonia 92 percent of total milk production is delivered to dairy processing plants. A drop in farm-gate milk prices in the first half of 2016 reduced profit margins in dairy production and resulted in a drop of dairy cow inventories. At the beginning of 2016 dairy cow inventories amounted to 91,000 head and were 5 percent lower than a year ago. It is expected that dairy cow inventories will further decrease in 2016. In 2015 average annual milk production was 8,442 kg per cow and was almost 40 percent higher than in Latvia and Lithuania.

### **Trade**

In the first eight months of 2016 value of Estonian exports of dairy products was 10 percent lower than in the same period of previous year. However, it should be noted that in 2015 the value of export already dropped by 50 percent in comparison to 2014. The decrease of exports resulted from the Russian ban which apart reduced exports to Russia and also from lower demand for dairy products within the EU. Major export destinations within the EU are Lithuania, Latvia, Finland and Italy. In the first eight months of 2016 the value of imports of dairy products decreased by 12 percent. Major suppliers of dairy products were Latvia, Lithuania and Finland.

### **Stocks**

In response to the European Commission's market intervention measures till August 16, 2016 Estonia placed into intervention and PSA stocks 672 MT of Non Fat Dried Milk. It is expected that due to the

increase of prices for NFDM beyond the intervention price threshold Estonia will not continue to use the EU's intervention purchases of NFDM later in 2016.

End of Report.