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Polish Dairy Industry Suffers from the Reduced World Market Demand.

Report Categories:

Livestock and Products

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Report Highlights:

Despite of the drop of farm-gate milk prices and reduced export demand for cheese and whole dried milk, deliveries of milk in Poland are expected to increase by 2 percent in 2015 and continue to grow into 2016. Increased milk production is expected to be mainly processed into butter and non-fat dried milk, which remain in demand on the world market. In response to the European Commission's market intervention measures till November 15, 2015 Poland placed into the intervention and PSA stocks 2,572 MT and 724 MT of Non Fat Dried Milk, respectively.

General Information:

Production

Poland is the fourth largest milk producer in the EU28. It is estimated that in 2015, raw milk output in Poland will amount to 13,250,000 MT, a 2 percent increase compared to 2014. It is estimated that in 2015 85 percent of milk is delivered to the dairy industry and the remaining 15 percent is consumed on-farm or sold to the local community. The continuing increase of milk production resulted in Polish farmers exceeding the dairy quota in MY2014/2015 (Apr-Mar). As a consequence farmers who exceeded the quota will have to pay fines.

In the first nine months of 2015 milk deliveries in Poland increased by 1.9 percent in comparison to the same period of 2014. In September 2015 average farm-gate prices for milk in amounted to Euro 27 per 100 kilograms of milk, an 11 percent decrease in comparison to September 2014.

Production of milk and milk products (000 MT)

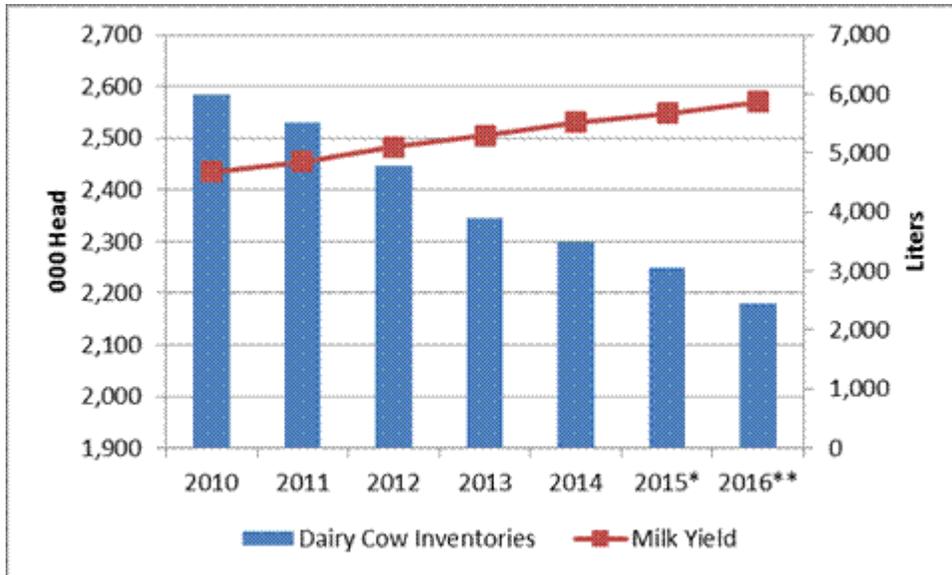
| | 2012 | 2013 | 2014 | 2015 (estimate) | 2016 (forecast) |
|------------------------|--------|--------|--------|--------------------|-----------------|
| Milk Production | 12,659 | 12,710 | 12,976 | 13,250 | 13,350 |
| Milk Deliveries | 9,754 | 9,817 | 10,515 | 10,900 | 11,000 |
| Fluid milk | 1,511 | 1,594 | 1,604 | 1,618 | 1,620 |
| Cheese | 710 | 735 | 717 | 713 | 720 |
| Butter | 171 | 172 | 180 | 200 | 210 |
| NFDM | 116 | 108 | 179 | 190 | 200 |
| WDM | 39 | 46 | 57 | 45 | 40 |

Increased supplies of raw milk and slower export markets for dairy products were the major reasons for declining prices in the first nine months of 2015. The increase in milk production expected in 2015 will be mostly directed for production of butter and Non Fat Dry Milk (NFDM), which remain in demand both domestically and internationally. Production of cheese in 2015 is expected to decline in comparison to 2014 because of lower exports to Russia. Production of Whole Dried Milk (WDM) is expected to decrease in 2015 and 2016 because of lower export demand. A drop in raw milk prices in the first three quarters of 2015, combined with summer drought and rising costs of feed and other inputs, reduced profit margins in dairy production. The trend of dairy herd contraction is expected to continue in 2015 and 2016. However, higher production per cow is expected to result in increased overall milk production. It is expected that in 2015 milk yields of dairy cows will be 2.9 percent higher than in 2014. The reduction of dairy cow inventories stems from a decrease of number of small scale producers and higher share of large farms which invest in better genetics and technologies. Large dairy farms widely use semen of genomically tested Holstein bulls imported from the United States which has a positive impact on the genetic value of animals which results in higher milk production.

In Poland there are 176 dairy processing plants which employ over 32,000 people. In the first half of 2015 the financial situation of the dairy processing sector improved because of a reduction in the prices paid to farmers. As a result, dairy plants increased investments by 11 percent in comparison to the first

half of 2014.

Inventories of dairy cows and evolution of milk yield of cows



*Estimate; **Forecast

However, it is expected that in the second half of 2015 the financial situation of the dairy sector will deteriorate because plants will have to pay fines for overproduction in the 2014/2015 quota year. These fines will be paid back to the dairy plants by farmers who produced over quota by deliveries of milk with reduced price later in 2015 and in 2016.

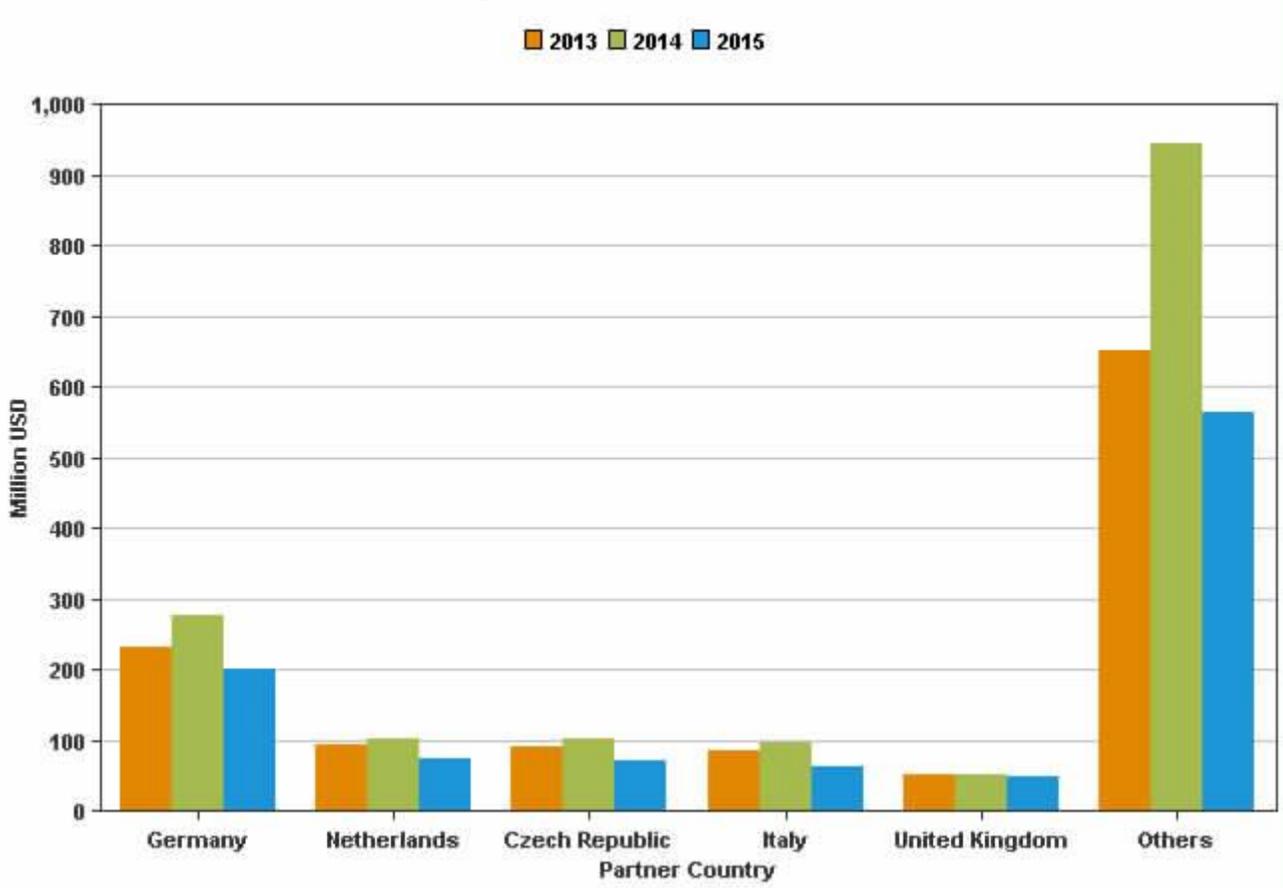
Consumption

It is estimated that in 2015 overall consumption of dairy products will increase by 2 percent in comparison to 2014 mainly because higher consumption of butter. Consumption of fresh dairy products is expected to slightly decline as a result of higher prices and substitution by increased consumption of meat. It is expected that higher consumption of butter in 2015 and 2016 will result from reduction of price stemming from higher supplies and decreased consumption of margarine. On-farm consumption of milk, cream and butter in 2014 amounted to 60, 29 and 14 percent respectively. On-farm consumption of dairy products in 2015 is expected to remain at the previous year's level.

Trade

Poland is a net exporter of dairy products. In 2014 the value of exports of dairy products amounted to US\$ 2.407 billion while imports were at the level of US\$ 0.962 billion. Germany, the Netherlands and Czech Republic are the main export markets of Polish dairy products. In the first seven months of 2015 the value of exports of dairy products amounted to US\$ 1.027 billion and was 35 percent lower than in the same period of 2014. The decrease of exports resulted from the Russian ban which caused lower demand for dairy products within the EU.

Value of Exports of Dairy Products



In the first seven months of 2015 Poland exported mainly fluid milk, cheese and butter to Germany, whey and butter to the Netherlands, and cheese and butter to the Czech Republic. Outside of the EU Poland exports NFD, whey and cheese mainly to Algeria, China and Vietnam. In 2014 the value of exports to the U.S. amounted to U.S.\$ 9.4 million out of which U.S.\$ 8.7 million exports of cheese. Within the EU, Poland imports dairy products mainly from Germany, Ireland and the Netherlands. In the first seven months of 2015 the value of imports decreased by 27 percent mainly because of a 43 percent drop in imports of concentrated milk and cheese from Germany.

Stocks

Until November 15, 2015, Poland placed 2,572MT and 724MT of Non Fat Dried Milk into intervention and PSA stocks, respectively. It is expected that Poland will continue to use the EU's PSA and intervention purchases of NFD, later in 2015 and on into 2016 in order to stabilize the domestic market for dairy products.

Policy

The elimination of the milk quota within the EU-28, as of April 1, 2015, gave farmers the option to adjust production based on the market situation. However, despite lower farm-gate milk prices, some farmers are not expected to reduce milk production in 2015 and 2016. 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 and pay fines for over-quota production in 2014/2015QY.

End of the Report