

SMP stocks 'must be sold', with limited public intervention in 2018

The EU must dispose of the large amount of skimmed milk powder (SMP) currently held in public intervention stocks and control the volume purchased under this mechanism next year, according to the bloc's Agriculture Commissioner.



Phil Hogan told national delegations at yesterday's (October 9) [Agriculture and Fisheries Council](#), held in Luxembourg, that, "to be quite blunt", the current 380,000 tonnes of SMP in storage "has to be sold" and "operators need to come up with bids that are in keeping with market reality."

Almost one year after the EU opened sales of SMP by tender, only 140 tonnes have been sold, while, at the same time, more than 30,000 tonnes have been brought into stock.

"The modest volume of sales by the Commission is the consequence of, on the one hand, a cautious approach to avoid damaging market recovery in late 2016 and early 2017, and, on the other hand, little interest by operators given the possibility they have to buy freshly produced SMP at competitive prices," Hogan explained.

But the situation has now substantially changed, he added, with average EU milk prices over €0.35 per kg and strong demand for cheese and butter seeing prices rise. "Market recovery is a reality," he stressed. "The only weakness is on the protein segment, notably SMP."

Preventing further build-up

The EU must approach the management of public intervention stocks from two angles, Hogan outlined. Firstly, how to realistically proceed with the release of existing stocks and, secondly, how to prevent a further build-up in 2018.

New buying-in under public intervention for the forthcoming year should be avoided as much as possible, without due market justification, he stressed.

“In recent weeks, we have seen a rush to sell SMP into intervention, even though market conditions didn't justify it. For the last week of September alone, more than 11,500 tonnes have been offered to public intervention,” he said. “If nothing is done, from March next year, we will be obliged to buy SMP at a fixed price within the ceiling of 109 000 tonnes.”

Public intervention for SMP is opened up between March 1 and September 30 every year. The EU's buying-in price for SMP is fixed as a reference price of €169.80 per 100kg, for a quantity of up to 109,000 tonnes each year – but if volumes brought into intervention exceed this limit a tendering procedure is activated to determine the maximum buying in price.

Dairy: Market Support

02 Aug 2017 EU public intervention, whereby the CAP budget pays appointed member state agencies to 'buy in' produce and store it until disposed of, is an emergency market support tool for some products, but is regularly open for others, including for butter and skimmed milk powder (SMP) in the spring/summer months, when production peaks. [Read the full article here](#)

Values in the bloc were below the level that triggers the intervention mechanism for much of the 2017 period, which resulted in stocks swelling to their current level.

The Commissioner suggested starting the next campaign, from March 1, 2018, with a tender procedure so member states decide between them, via committee, what volumes of SMP should be accepted and at what price.

“To make that possible, the ceiling for buying-in at fixed price (currently 109 000 tonnes) needs to be set at zero in 2018,” Hogan said. “This is a Council competence.”

He continued: “You should not misunderstand what I am putting on the table - intervention will remain available as foreseen by the basic act, but it would be operate it in a controlled manner, on the basis of prevailing market conditions. This would be done through decisions being taken on a monthly basis on bids received from operators from March until the end of September 2018.”

The Commissioner concluded by welcoming member state views on the approach to addressing the market situation for SMP but was adamant that “the status quo is simply not an option.”

More milk

Milk supply is expected to grow on the global market in the coming months, with a strong increase in EU output coinciding with a steady rise in US supply and a strong start to the season in New Zealand.

EU milk collection is expected to increase by 0.7% in 2017, compared to 2016, which is equivalent to to 1 million tonnes. It is expected to mainly be processed into cheese, which is giving better returns to dairies despite record high butter prices.

SMP exports from the bloc could reach close to 780,000 tonnes in 2017, up 35% from 2016, despite a 5% production drop. A more modest increase of 2% growth is projected for 2018, according to Commission estimates.

EU weekly average butter & SMP values vs intervention price (€/100kg)

