


# BULLETIN #3

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## DAIRY EXPORTS DURING THE WAR

Special information bulletin produced by Infagro analytical agency in the frame of the set of expert discussions for dairy exports support and promotion during the war

June 15, 2022

# World market trends

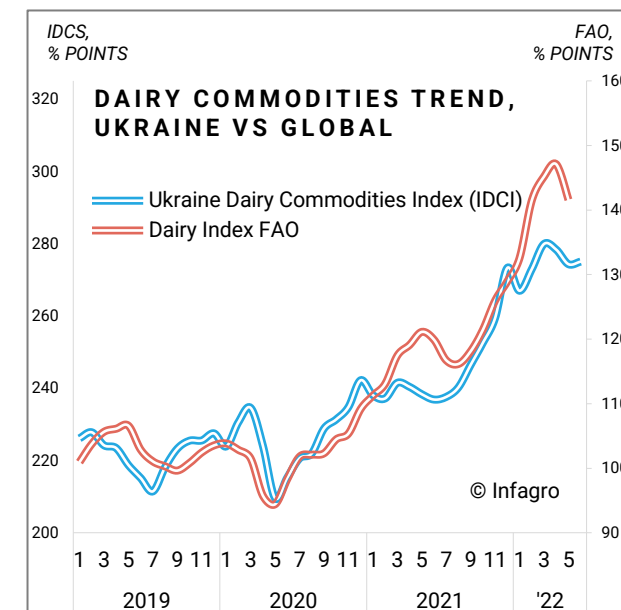
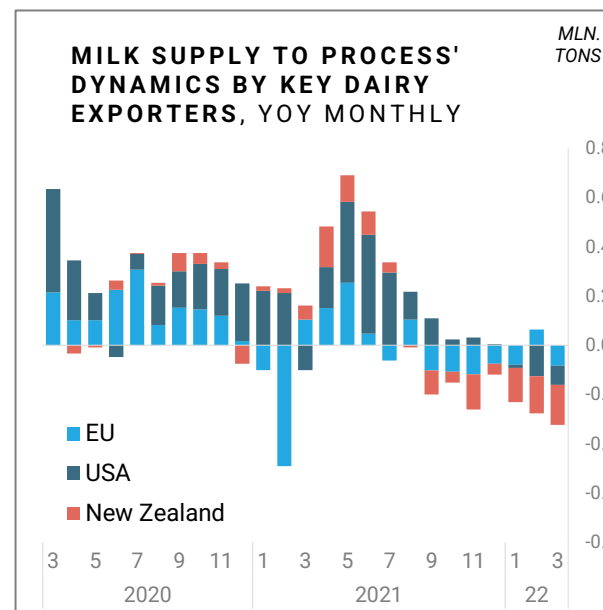
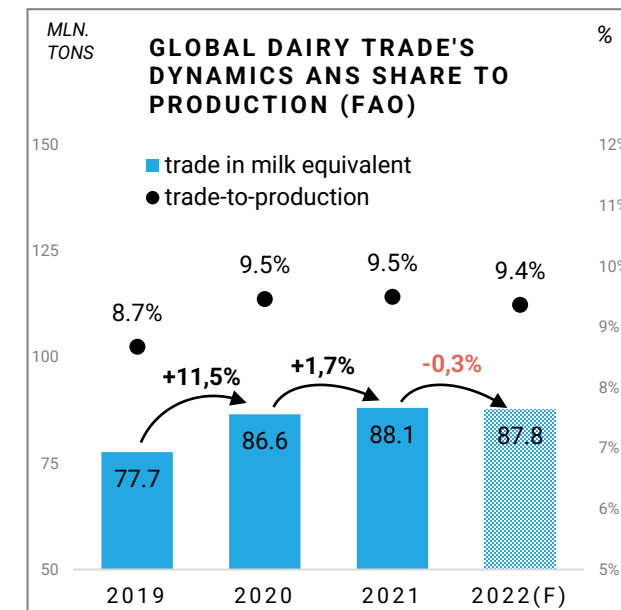
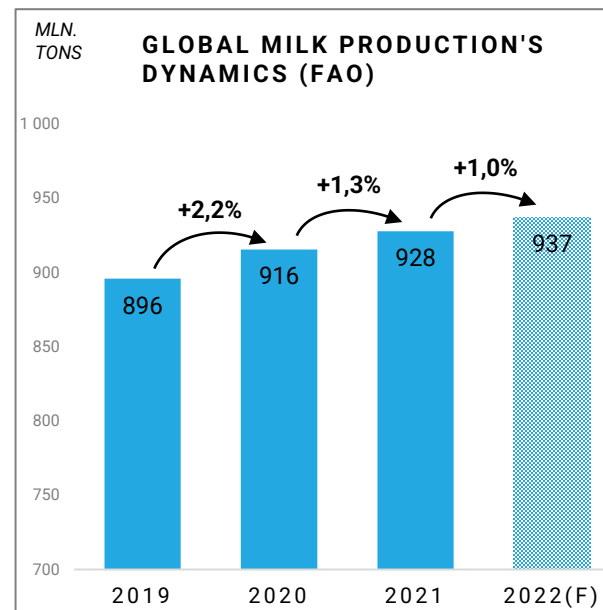
This year is not similar to the previous ones, and this is true not only for the dairy industry of Ukraine. Strong inflation, rapid rise in energy prices and impact of COVID-19 pandemic are striking countries all over the world. The growth of milk production has also slowed, the geography of international dairy trade is changing, and the volume of trade is expected to decrease. These and other factors have contributed to the record high growth of the world prices for a number of dairy products.

According to FAO forecasts, the world milk production in 2022 will reach 937 million tons, which is 1% more than in 2021. Milk production in Asia is likely to be a major contributor to this year's global growth, and it will continue due to the growth of dairy cattle and milk collection efficiency in India and Pakistan, as well as growth of the number of large farms in China. Conversely, milk production in major exporting countries in Europe, South America and Oceania is expected to decline due to decline of the dairy cattle and significant increase of production costs.

In 2022 the world dairy trade will show a decline for the first time in many years. FAO forecasts the figure of 88 million tons (in milk equivalent), which is 0.3% less than last year. Analysts attribute this decline to the expected decline in imports from Sri Lanka, Russia, Nigeria and Brazil, and even Ukraine. Other causes include conflicts, economic downturn and low consumer purchasing power. However, this decline is projected to be offset by increased purchases from China, Indonesia, Thailand and Mexico. Recovery is also expected in the UK, Algeria, the Philippines and Saudi Arabia.

In terms of exports, New Zealand and Australia are expected to see the most significant decline in sales among major exporters, reflecting limited export opportunities mainly due to lower milk production. This decline is likely to be offset by the increased supplies from the European Union, Iran, Turkey and the United States.

Since last year, the demand for dairy imports has exceeded the export supply of the leading exporting countries. Reflecting this trend, in April 2022 the FAO Dairy Price Index reached the eight-year high.



## Key importers and the role of China

In 2021, world dairy trade continued to show a growing trend. Volumes increased by almost 2% compared to 2020. This result became possible primarily due to high imports to China, where there was an increase in consumer demand for dairy products. Interestingly, without taking into account the volume of purchases by China, the world trade of all other counterparties together would have shown a decline compared to 2020.

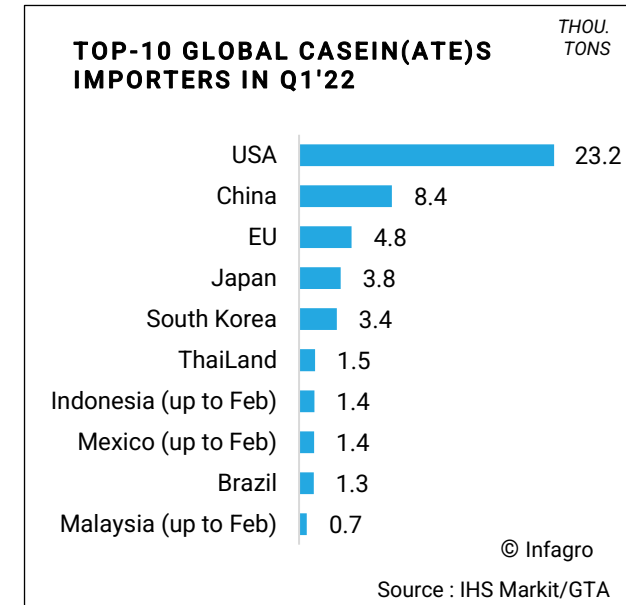
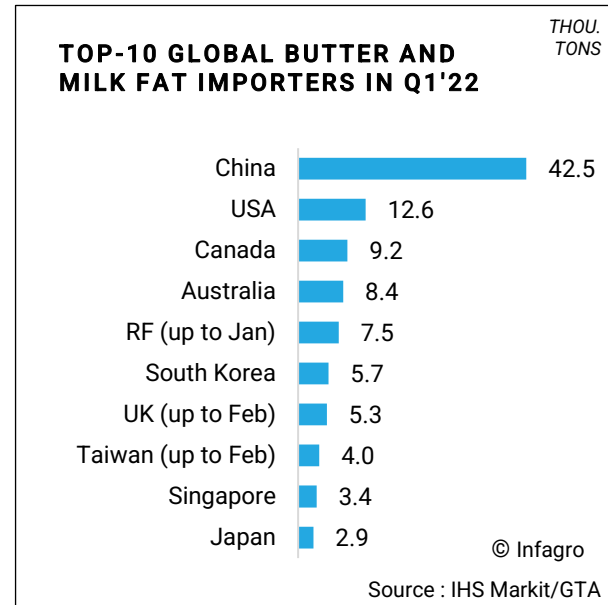
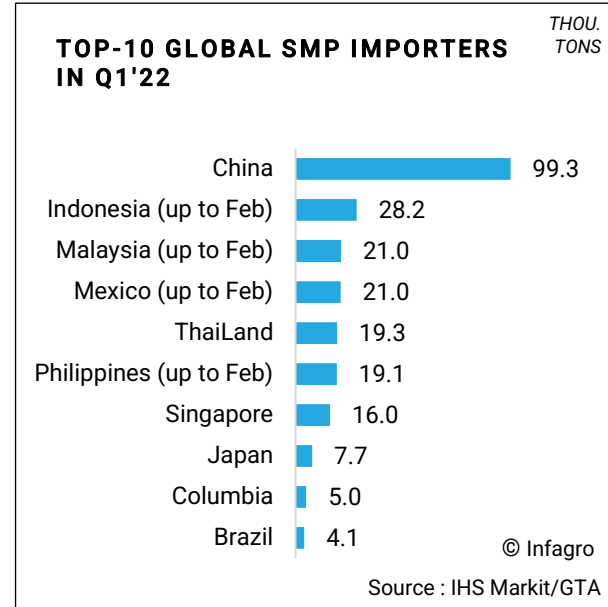
As for the dynamics of the key importers, last year showed a significant increase in purchases in Mexico, Indonesia, Vietnam, Bangladesh, Peru and the Republic of Korea. In contrast, the European Union, the United Kingdom, Japan, the United Arab Emirates, Saudi Arabia and Algeria have shown particularly significant declines. The decrease in activity was caused primarily by the global economic downturn and disruption of logistics channels because of COVID-19 and other reasons.

In general, the dominant target markets for all dairy products are Middle East and North Africa (MENA), developed countries, Southeast Asia and China. China is expected to remain the world's largest importer of dairy products, especially whole milk powder.

China's per capita dairy consumption is relatively low, but there has been a significant increase in demand over the past decade, and it is projected that it will continue to grow despite declining imports in 2022.

In the first four months of this year, imports to China fell by 4% in raw milk equivalent. The decrease was caused by several factors: a decrease in demand due to quarantine restrictions related to COVID-19; high stocks accumulated over the past year; significant growth in raw milk production within the country. Rabobank forecasts an increase in raw milk production in China in the first half of 2022 by 5%.

Most Chinese imports of dairy products come from Oceania, although in recent years the European Union has increased exports of butter and skimmed milk powder to China. The United States and South American exporters also have significant sales to this key dairy importer.



# The world key dairy imports

In general, the global dairy import flows can be distributed as follows: supplies to the Middle East and North Africa come mainly from the European Union, while the United States and Oceania are the main suppliers to Southeast Asia and China.

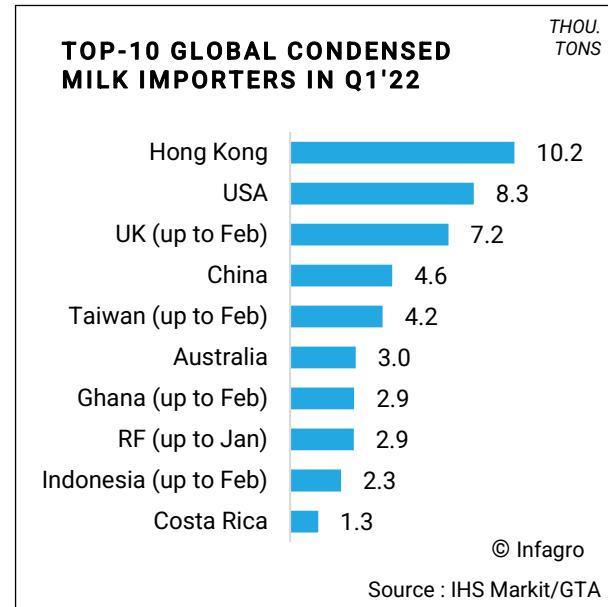
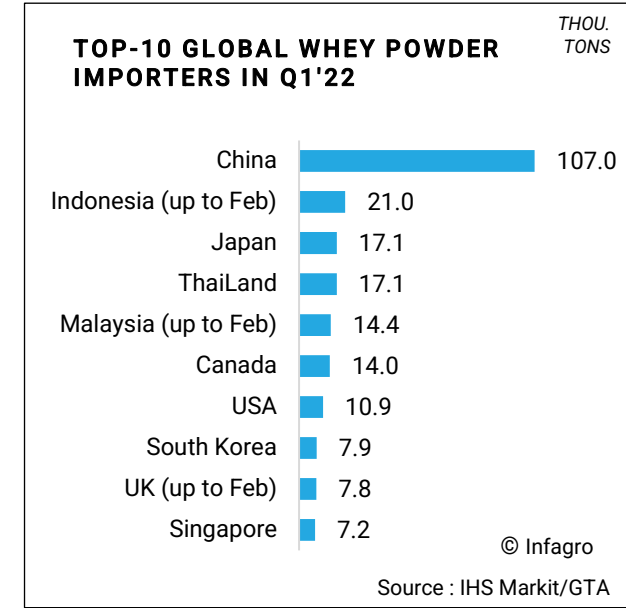
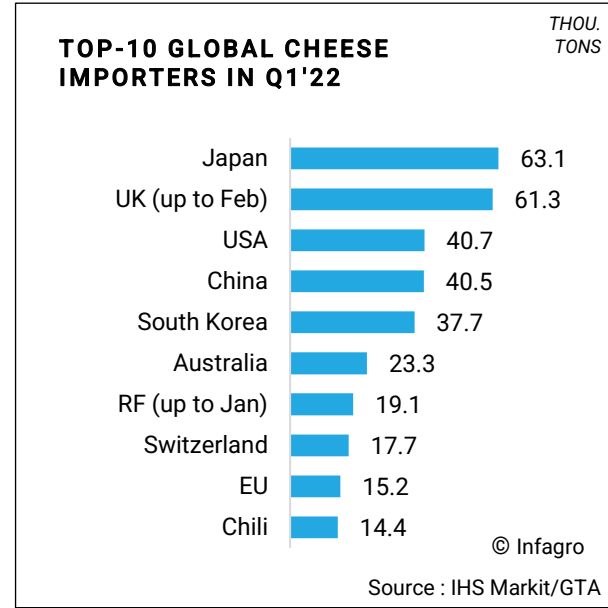
Although the impact of the pandemic is diminishing, it will still have a lasting impact on GDP in many non-OECD countries and per capita income growth will be lower than projected before the COVID-19 pandemic.

According to FAO, the decline in household incomes will reduce consumption, especially in Central Asia, Indonesia and the least developed countries in Africa. As to the demand for dairy products, especially butter and cheese which is closely linked to income growth, the demand for imports into these countries is projected to be lower.

According to the results of last year, there has been a decline in world trade of butter. The decline in imports was typical to the United Kingdom, Mexico, the United States, Egypt, Saudi Arabia, Russia and the EU. Unresolved customs issues continued to hamper smooth trade between the UK and the EU. In other countries, imports declined due to high prices, logistical difficulties and economic downturns.

According to FAO estimates, world cheese trade in 2021 increased by almost 4% to a record level of 3.6 million tons due to a significant increase in imports to China, Russia and the United States. In China, the growth of consumer demand for the year led to an increase in cheese imports by 34%. The growth of domestic consumption also contributed to the increase in cheese imports to the United States. Instead, the United Kingdom, the European Union, Japan and Australia cut imports last year.

In 2021 SMP trade reached record levels due to the high demand from China, Mexico, Vietnam, Peru, Bangladesh and Indonesia. Sales of whole milk powder also grew for the fourth year in a row, mainly due to growing imports by China and significant increase in demand in Indonesia and Bangladesh. At the same time, many countries have reduced purchases due to lower incomes, restrictions in the foreign exchange market, reduced sales in food service and due to market uncertainty regarding new quarantine restrictions. Countries such as Saudi Arabia, Algeria, the United Arab Emirates, Australia and Sri Lanka are significantly reducing WMP imports.



## Prices of dairy commodities

The disappointment of Ukrainian dairy exporters by the limited trade opportunities is exacerbated by awareness of the fact that this year the world prices of many commodities have reached their record highs over many years of observation. If not the Russia and its military invasion, Ukrainian exporters could have made good profits.

Since 2020 and until May of the current year, excluding two months in 2021, world prices for dairy products have been steadily rising. Last month there was a decline, but in June there is a resumption of price growth. However, because of the blocked ports and eastern borders, huge problems of transit logistics across the western borders, high risks of traders and doing business in a war-torn country, importers often pay Ukrainian exporters of dairy commodities the price which is a quarter less than they pay to other countries exporters.

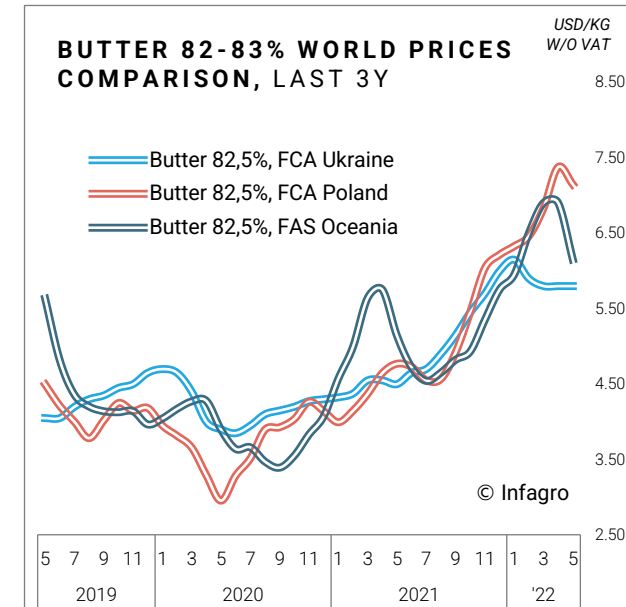
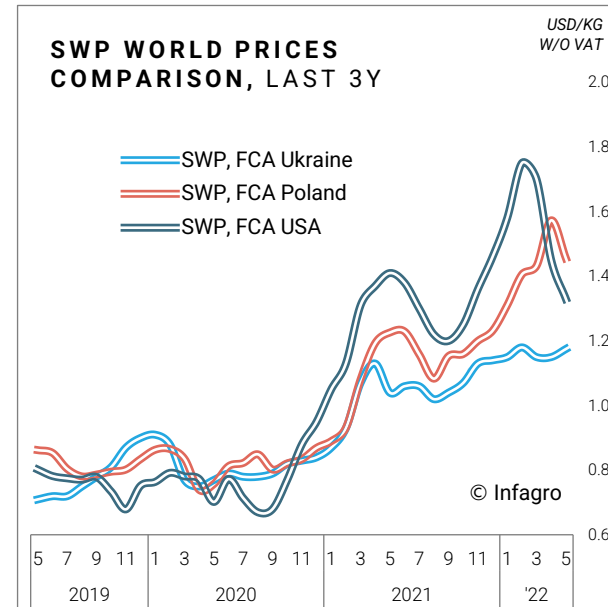
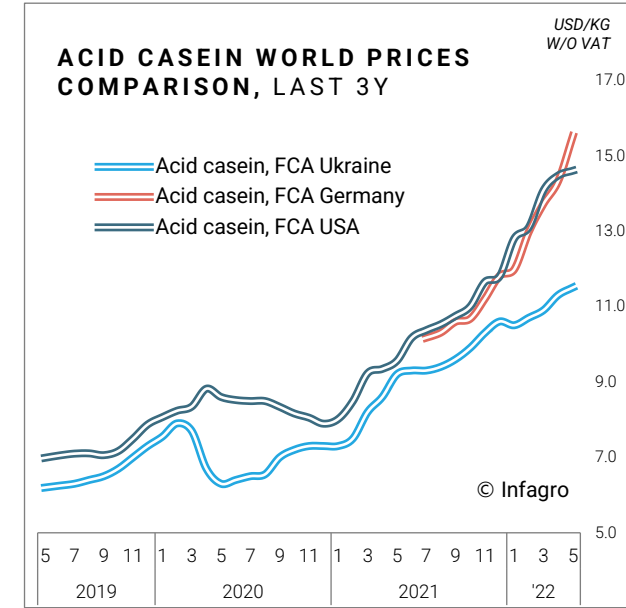
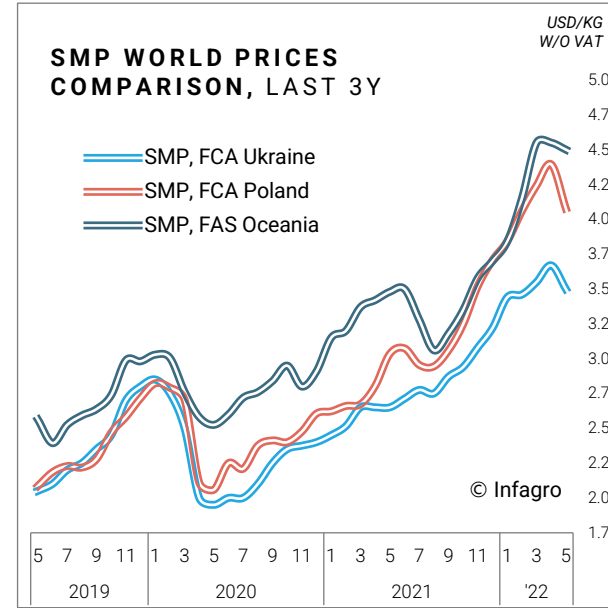
This spring in the EU prices for skimmed milk powder reached a record high since 2007, and now amount to 4200-4400 USD/t. Ukrainians are offered a thousand of dollars less for such goods for further deliveries in Asia and Africa. If there is a possibility to sell it in the EU, Ukrainian exporter can get a maximum of 3700 USD/t FCA.

Comparison of the export price of casein for Ukrainian, French or Irish producers shows that Ukrainian exporters are paid 4,000 USD/t less. Apart from that importers no longer agree to make prepayments although logistics of this product is not a problem, because most deliveries do not depend on the availability of containers. To some extent this is probably the fault of Ukrainian exporters themselves, as they cannot unite and keep a decent price. Many of them put up with the idea of "this way it's also not so bad."

This spring Ukrainian whey was often offered with the price 20% less than that from the US origin.

The difference between the export prices of Ukrainian and European butter has recently been more than 1,500 USD/t. But there are also objective factors, as New Zealand goods are sometimes sold cheaper than Ukrainian ones.

All in all, this year's dairy products in Europe are quite expensive and for Ukrainian exporters it is worth to concentrate their efforts on this market. Moreover, now there are no tariffs for selling to the EU, no quotas, and logistics are not very complicated.

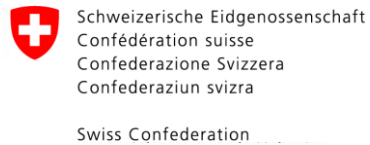




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These activities are carried out jointly with the state institution The Entrepreneurship and Export Promotion Office and the analytical agency Infagro within the framework of the Swiss-Ukrainian Program "Higher Value Added Trade from the Organic and Dairy Sector in Ukraine" implemented by the Research Institute of Organic Agriculture (FiBL, Switzerland) in partnership with SAFOSO AG (Switzerland), [www.qftp.org](http://www.qftp.org).



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