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Approved by:

Elizabeth Berry

U.S. Embassy

Prepared by:

Franco Regini

Report Highlights: Industry sector estimates set Italian milk production in 1999 at 10.44 million tons, 477,000 tons over quota. However, in 2000 Italian milk production should decline to about 10.35 million tons (or approximately at the same level as the Italian milk quota) to avoid EU penalties and recuperate from several years of intensive production. During 2000, total Italian cheese production is forecast to increase by 3% and return to around 1 million tons after a decline reported in 1999, due to a stagnant demand. Italian cheese exports have increased over 10% in the last 2 years for both the EU market (67% of total Italian cheese exports) and to third countries.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SITUATION AND OUTLOOK

DAIRY MILK FLUID

Official estimates for Italian bovine milk production for 1999 have not yet been officially set due ongoing discussions between producers and the Italian government on penalties for Italy's overproduction of milk. According to a preliminary calculation made by the Ministry of Agriculture, Italian producers exceeded their milk quota by 477,000 tons during the 1999-2000 production year. The Italian milk production quota is still set at 9.9 million tons although Italy obtained a 600,000 ton quota increase to be implemented in two steps: 400,000 tons in the 2000/01 production year and 200,000 tons in 2001/02 resulting in a final quota of 10.53 million tons of bovine milk. The superlevy to be paid by Italian farmers for 1999/00 overproduction is preliminarily set at about 170 million euros. Approximately 200-220 million euros per year are still to be payed by Italian producers for milk overproduction dating back through to 1995.

Because the official milk production figures can often be "adjusted" in order to affect the final levy to be paid, AgRome has traditionally based production figures on data from the Italian Dairy Industry Association. According to this association, Italian milk production in 1999 was 10.44 million tons and should decline slightly in 2000 to about 10.35 million tons, or approximately the same level as the Italian milk quota. In addition to trying to reduce production to avoid the levies, the dairy sector is also adjusting to several years of high production. Milk production continues to be profitable in Italy with the milk price being one of the highest in Europe due to strong demand for fresh, high quality milk to be used for cheese production. While the profit potential remains, the dairies cannot continue the high level of production of the past several years without upgrading or expanding their herds, an expense they don't want to undertake until the additional quotas go into effect.

The average price for milk, set by an agreement between producers and processor for 2000/01, is 0.33 euros per liter at the farm, only slightly over levels of 1999/00. Moreover, the price of milk used to produce typical Italian cheese such as Parmigiano Reggiano is usually much higher, reaching as high as 0.55 euros per liter. According to the Agenda 2000 reform, the milk price will decline by 15% in 2005 to 25.72 euros/100 Kg. A direct subsidy will be supplied to farmers in order to compensate them for reduced incomes.

Italian milk imports increased 4% in 1999 and are forecast to further increase in 2000 in order to compensate for the reduced domestic production. Imported milk is mainly used for non traditional cheese production and UHT (Ultra High Temperature) milk consumption whereas domestically produced milk is mainly used for typical Italian cheeses, such as Parmigiano Reggiano and Grana Padano.

Domestic consumption of fluid milk declined slightly in 1999 and is expected to fall further in 2000 due to an increase in retail prices.

Beginning with 1999, a separate category for Feed Use Milk Consumption is provided in the PS&D table. This consumption had previously been reported in Fluid Use Consumption. Milk consumed in the processing sector (factory use) declined slightly in 1999 due to a reduction in cheese production but is forecast to recover somewhat in 2000.

DAIRY CHEESE

In 2000, total Italian cheese production is forecast to increase by 3%, returning to around 1 million tons, following a decline in 1999, due to a stagnant demand. The expected increase is due to a more favorable market situation with increased consumer demand leading to higher prices for producers.

Production of both Grana Padano and Parmigiano Reggiano declined in 1999 as consumers moved more to fresh cheeses, such as mozzarella type cheeses whose production increased. Grana Padano and Parmigiano account for 25% of total Italian output whereas fresh cheeses account for 26%. Production of Pecorino cheese (7% of total Italian cheeses) and Gorgonzola cheese (4.5% of total) remained stable in 1999.

Prices of all major Italian cheese increased significantly in 2000. The wholesale price for Parmigiano Reggiano was set at 7.9 Euro/Kg in August 2000, or up 3.6 % from August 1999. The wholesale price for Grana Padano was set at 6.0 Euro/Kg in August 2000, or up 2% from August 1999.

Italian cheese consumption increased in 2000 by approximately 1%. Demand for Italian cheese is growing in both the European market and in third countries leading to increased exports in 1999 and 2000. Italy's cheese exports increased over 10% in the last 2 years to both the EU market (67% of total Italian cheese exports) and third countries.

The U.S. is the second largest market for Italian cheese exports, after Germany. Italian cheese exports to the U.S. continue to increase despite a reduction in export subsidies as the high dollar makes the product less expensive for U.S. consumers.

Italian cheese imports increased in 1999 due to growing demand from the food industry for industrial cheese for food products such as confectionary products (sweets and cakes) and pizza.

SELECTED ITALIAN CHEESE EXPORTS IN 1998/1999 BY TYPE (MT)

	TOTAL		TO EU		TO U.S.	
	1998	1999	1998	1999	1998	1999
Pecorino	21,228	23,431	1,666	1,974	18,972	20,800
Grana and Parmesan	23,825	27,402	11,440	13,999	3,610	4,424
Gorgonzola	13,225	10,563	11,159	8,977	225	231
Provolone	3,010	2,978	1,453	1,500	876	720
TOTAL	61,288	64,374	25,718	26,450	18,972	25,224

DAIRY BUTTER

In 1999 and 2000, Italian butter production data shown in the PS&D table show a strong increase due to a revision made by ISTAT (the National Statistics Institute) and the Dairy Industry Association (ASSOLATTE) to account for what is considered to be a trend in under-reporting production. As a result, these organizations have increased butter production numbers approximately 20%. Based on AgOffice estimates, a slight increase in butter output is justified by increased consumption from the food industry for use in ice-cream and confectionary production. However, butter consumption in the home remains stagnant due to consumers' concern about cholesterol. Consequently, we are also increasing AgOffice estimates for butter production from 1999 to 2001, but at a slower rate than by ISTAT and ASSOLATTE. We will continue to evaluate the production levels over the coming year to see if further increases are justified.

In 1999, Italian butter imports remained stable, however, exports dropped due to an exceptionally large supply of butter on the EU market. The main reason for the large supplies was a drop in Russian butter imports due to that country's poor economic situation. Strong competition from Australia and New Zealand in the third country markets, including Russia, also limited the export potential of EU butter. As a result of the large supplies, stocks increased and prices declined significantly in 1999 reaching a low of about 2.25 Euros per Kg in August of 1999.

In 2000, the situation of the international butter market has improved, mainly due to a recovery in Russian imports resulting in Italian butter exports forecast to increase significantly in 2000. In addition, the butter price increased 6.08 % in August 2000 compared to the same time period the previous year.

DAIRY MILK NON FAT DRY

Italian production of non-fat dry milk is negligible. Because Italian imports, mainly used for animals, are very price dependent, imports declined in 1999 due to higher prices on the EU market. The price increase was due to reduced stock levels in Europe as overall exports of non-fat dry milk to increased because of the low value of euro. The use of non-fat dry milk in Italy is relatively stable because the EU requires a minimum SMP (skimmed milk powder) level in milk replacers for calf feeding as a requisite for granting certain subsidies.

DRY MILK

Italian production of dry whole milk powder is negligible. Dry milk is used for human consumption, particularly in infant formula and by the food industry. Dry milk is also sometimes used illegally in the production of low quality cheeses. Italian imports of dry milk declined in 1999 due to poor demand from the food industry and increased prices on the international market.

PSD TABLES

DAIRY MILK FLUID

PSD Table						
Country	Italy					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Cows In Milk	2100	2116	2100	2135	0	2135
Cows Milk Production	10870	10444	10870	10350	0	10350
Other Milk Production	830	861	830	870	0	875
TOTAL Production	11700	11305	11700	11220	0	11225
Intra EC Imports	2255	2271	2255	2350	0	2350
Other Imports	15	15	15	15	0	15
TOTAL Imports	2270	2286	2270	2365	0	2365
TOTAL SUPPLY	13970	13591	13970	13585	0	13590
Intra EC Exports	10	16	10	14	0	14
Other Exports	2	2	0	2	0	2
TOTAL Exports	12	18	10	16	0	16
Fluid Use Dom. Consum.	3628	2991	3630	2910	0	2910
Factory Use Consum.	10330	10078	10330	10159	0	10164
Feed Use Dom. Consum.	0	500	0	500	0	500
TOTAL Dom. Consumption	13958	13569	13960	13569	0	13574
TOTAL DISTRIBUTION	13970	13587	13970	13585	0	13590
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

DAIRY BUTTER

PSD Table						
Country	Italy					
Commodity	Dairy, Butter				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	46	46	42	56	37	54
Production	91	96	90	101	0	105
Intra EC Imports	27	28	27	24	0	23
Other Imports	1	0	1	0	0	0
TOTAL Imports	28	28	28	24	0	23
TOTAL SUPPLY	165	170	160	181	37	182
Intra EC Exports	22	11	22	22	0	23
Other Exports	2	2	3	3	0	3
TOTAL Exports	24	13	25	25	0	26
Domestic Consumption	99	101	98	102	0	102
TOTAL Use	123	114	123	127	0	128
Ending Stocks	42	56	37	54	0	54
TOTAL DISTRIBUTION	165	170	160	181	0	182
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

DAIRY CHEESE

PSD Table						
Country	Italy					
Commodity	Dairy, Cheese				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	784	784	764	742	739	702
Production	1005	969	1005	1000	0	1000
Intra EC Imports	282	302	282	302	0	302
Other Imports	18	18	18	18	0	18
TOTAL Imports	300	320	300	320	0	320
TOTAL SUPPLY	2089	2073	2069	2062	739	2022
Intra EC Exports	105	108	108	125	0	130
Other Exports	50	53	52	55	0	55
TOTAL Exports	155	161	160	180	0	185
Human Dom. Consumption	1020	1020	1020	1030	0	1030
Other Use, Losses	150	150	150	150	0	150
Total Dom. Consumption	1170	1170	1170	1180	0	1180
TOTAL Use	1325	1331	1330	1360	0	1365
Ending Stocks	764	742	739	702	0	657
TOTAL DISTRIBUTION	2089	2073	2069	2062	0	2022
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

DAIRY MILK NONFAT DRY

PSD Table						
Country	Italy					
Commodity	Dairy, Milk, Nonfat Dry			(1000 MT)		
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Intra EC Imports	126	121	126	120	0	120
Other Imports	0	0	0	0	0	0
TOTAL Imports	126	121	126	120	0	120
TOTAL SUPPLY	126	121	126	120	0	120
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	0	0	0	0	0	0
Other Use, Losses	126	121	126	120	0	120
Total Dom. Consumption	126	121	126	120	0	120
TOTAL Use	126	121	126	120	0	120
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	126	121	126	120	0	120
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

DAIRY DRY WHOLE MILK POWDER

PSD Table						
Country	Italy					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Intra EC Imports	25	19	25	19	0	19
Other Imports	0	0	0	0	0	0
TOTAL Imports	25	19	25	19	0	19
TOTAL SUPPLY	25	19	25	19	0	19
Intra EC Exports	2	1	2	1	0	1
Other Exports	0	0	0	0	0	0
TOTAL Exports	2	1	2	1	0	1
Human Dom. Consumption	10	10	10	10	0	10
Other Use, Losses	13	8	13	8	0	8
Total Dom. Consumption	23	18	23	18	0	18
TOTAL Use	25	19	25	19	0	19
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	25	19	25	19	0	19
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

TRADE MATRIXES

MILK

Exports

Export Trade Matrix			
Country	Italy		
Commodity	Dairy, Milk, Fluid		
Time period		Units:	Metric Tons
Exports for:	1998		1999
U.S.		U.S.	
Others		Others	
Other EU	3177	Other EU	4096
France	7102	France	11409
Total for Others	10279		15505
Others not Listed	1765		2096
Grand Total	12044		17601

Imports

Import Trade Matrix			
Country	Italy		
Commodity	Dairy, Milk, Fluid		
Time period		Units:	Metric Tons
Imports for:	1998		1999
U.S.		U.S.	
Others		Others	
Germany	1436144	Germany	1476976
France	388739	France	377958
Austria	318040	Austria	393777
Bel-Lux	27680	Belgium	14398
Total for Others	2170603		2263109
Others not Listed	17715		18629
Grand Total	2188318		2281738

CHEESE

Exports

Export Trade Matrix			
Country	Italy		
Commodity	Dairy, Cheese		
Time period		Units:	Metric Tons
Exports for:	1998		1999
U.S.	25795	U.S.	28565
Others		Others	
U.K.	12803	U.K.	14010
Germany	34519	Germany	37728
France	25797	France	27683
Bel-Lux	7806	Belgium	8792
Netherlands	2933	Netherlands	3094
Switzerland	14576	Switzerland	14682
Canada	1779	Canada	2023
Japan	1699	Japan	2263
Total for Others	101912		110275
Others not Listed	19781		21890
Grand Total	147488		160730

Imports

Import Trade Matrix			
Country	Italy		
Commodity	Dairy, Cheese		
Time period		Units:	Metric Tons
Imports for:	1998		1999
U.S.		U.S.	
Others		Others	
Germany	156321	Germany	166248
France	46223	France	52148
Bel-Lux	26928	Belgium	22674
Netherlands	20109	Netherlands	24640
Switzerland	17460	Switzerland	17606
Total for Others	267041		283316
Others not Listed	35457		36759
Grand Total	302498		320075

BUTTER

Exports

Export Trade Matrix			
Country	Italy		
Commodity	Dairy, Butter		
Time period		Units:	Metric Tons
Exports for:	1998		1999
U.S.		U.S.	
Others		Others	
Germany	3468	Germany	2540
France	11634	France	3692
Bel-Lux	5450	Belgium	3362
Netherlands	1179	Netherlands	725
Total for Others	21731		10319
Others not Listed	1640		2857
Grand Total	23371		13176

Imports

Import Trade Matrix			
Country	Italy		
Commodity	Dairy, Butter		
Time period		Units:	Metric Tons
Imports for:	1998		1999
U.S.		U.S.	
Others		Others	
Germany	7646	Germany	9820
France	8651	France	5928
Bel-Lux	2553	Belgium	2582
Netherlands	3801	Netherlands	4382
Total for Others	22651		22712
Others not Listed	5069		5253
Grand Total	27720		27965

MILK NON FAT DRY

Exports

Export Trade Matrix			
Country	Italy		
Commodity	Dairy, Milk, Nonfat Dry		
Time period		Units:	Metric Tons
Exports for:	1998		1999
U.S.		U.S.	
Others		Others	
Total for Others	0		0
Others not Listed			
Grand Total	0		0

Imports

Import Trade Matrix			
Country	Italy		
Commodity	Dairy, Milk, Nonfat Dry		
Time period		Units:	Metric Tons
Imports for:	1998		1999
U.S.		U.S.	
Others		Others	
Germany	83267	Germany	85410
France	20780	France	17117
Other EU	22373		
Total for Others	126420		102527
Others not Listed			19945
Grand Total	126420		122472

DRY MILK

Exports

Export Trade Matrix			
Country	Italy		
Commodity	Dairy, Dry Whole Milk Powder		
Time period		Units:	Metric Tons
Exports for:	1998		1999
U.S.		U.S.	
Others		Others	
Other	1735	Other	626
Total for Others	1735		626
Others not Listed			
Grand Total	1735		626

Imports

Import Trade Matrix			
Country	Italy		
Commodity	Dairy, Dry Whole Milk Powder		
Time period		Units:	Metric Tons
Imports for:	1998		1999
U.S.		U.S.	
Others		Others	
France	7034	Germany	5809
Germany	6955	Other EU	4909
Other EU	10652		
Total for Others	24641		10718
Others not Listed			8012
Grand Total	24641		18730