

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 10/15/2011

GAIN Report Number: PL 1125

EU-27

Dairy and Products Annual

2011

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Report Highlights:

In 2011, EU-27 milk production is expected to increase in response to stronger domestic and international demand. In 2012, EU-27 raw milk output is forecast to continue to increase albeit at a smaller level than in 2011. Rising costs of production, limited consumption in countries struggling under economic hardship and the uncertain world market situation cloud the view for longer-term production planning. The raw milk output increase is expected to be absorbed by the processing industry and reappear as higher production of dairy products, primarily hard cheeses, NFDM, and butter.

DISCLAIMER

The PS&D numbers in this report are not official USDA numbers. The numbers are the result of a group effort by the individual FAS EU offices to consolidate PS&D's from all EU27.

The authors of this report wish to recognize all colleagues that helped with this report, and especially thank those who participated in the report meeting to discuss the numbers and the report content, as well as all who helped with the editing. The collaboration of the following FAS colleagues in the EU member states has been critical for the completion of this report:

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Executive Summary:

Production:

For 2011, EU-27 farmers expect raw milk output to increase by only 2 percent though average farm-gate price should increase 15 percent in response to continuing domestic and international demand for dairy products. Higher milk production is expected to result in increased production of all classes of dairy products with an exception of whole dry milk (WDM). Although world market prices for dairy products dipped during the summer 2011, they remain well above year ago levels (see graph below). EU-27 domestic consumption of dairy products, including fermented product, is expected to increase in 2011 which should stimulate further increase in milk production in 2012.

Raw milk prices are expected to remain high through all of 2011. Ireland and France showed the largest increase in milk production over the first three quarters 2011. With the EU-27 dairy herd on the decline rising yields are attributed for the increased milk production. Milk deliveries are increasing in EU Member States (MS) that export dairy products to external EU destinations, concurrently, regionalization of milk production within the EU-27 is occurring rapidly.

In 2011, the increased raw milk output is expected to be absorbed mostly for production of cheeses, Non Fat Dried Milk (NFDM), and butter. Cheeses remain in high demand on both international and domestic EU markets and are expected to generate higher profits as compared to butter, NFDM and Whole Dry Milk (WDM). WDM production is expected to decline below the 2010 level due to softer demand expected in export markets as Oceania reenters world markets after experience short supplies in recent years.

In 2012, EU-27 raw milk output will continue to increase albeit at a slower rate than in 2011. Rising costs of production, limited consumption in countries struggling under economic hardship and the uncertain world market situation cloud the view for longer-term production planning. The increase in raw milk output is expected to result in higher production of dairy products, mainly hard cheese, and residual manufacturing of NFDM and butter.

Market Intervention:

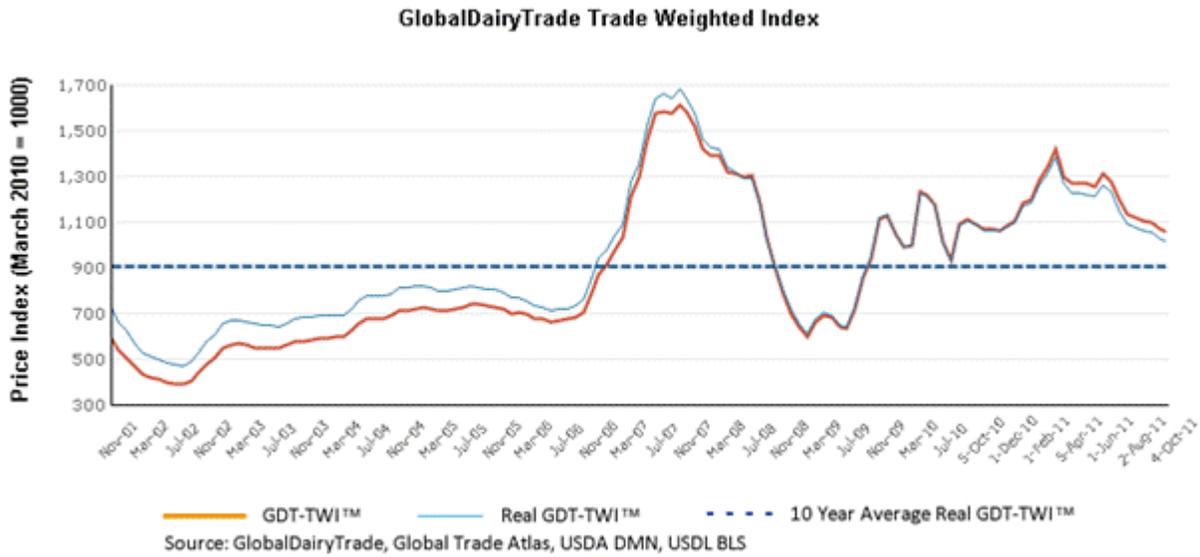
In 2012, European Commission intervention in the butter and NFDM markets appear unlikely given high market prices. Most intervention stocks built up in 2009 have been consumed under EU food assistance programs. Current production along with the Private Storage Scheme (PSA) should ensure butter stocks sufficient to satisfy industry demand for the coming winter season. NFDM intervention stocks should decrease further in 2011 through internal food aid programs and exports.

Trade:

In 2011, exports of all dairy products, except WDM, are expected to increase in comparison to 2010, mainly due to continued demand from Russia and North-African countries. World dairy market conditions during fourth quarter 2011 and first half of 2012 appear favorable for EU-27 products. However, Oceania is expected to provide greater competition in 2012.

Policy:

In October 2011, Denmark passed a tax on food products containing fat as an ingredient. Implications for domestic demand of butter and other dairy products containing fat along with trade of such products are not yet calculated due to the newness of the tax. See Linked reports at close of document for more details.



Commodities:

Dairy, Milk, Fluid

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid EU-27	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	23,653	23,617	23,600	23,072		23,000
Cows Milk Production	135,350	135,435	136,600	137,800		138,950
Other Milk Production	4,020	4,020	4,020	4,020		4,020
Total Production	139,370	139,455	140,620	141,820		142,970
Other Imports	5	5	5	6		5
Total Imports	5	5	0	6		5
Total Supply	139,375	139,460	140,625	141,826		142,975
Other Exports	217	217	225	260		260
Total Exports	217	217	225	260		260
Fluid Use Dom. Consum.	33,950	33,738	34,000	33,870		33,915
Factory Use Consum.	105,208	105,505	106,400	107,696		108,800
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	139,158	139,243	140,400	141,566		142,715
Total Distribution	139,375	139,460	140,625	141,826		142,975
1000 HEAD, 1000 MT						

Production:

Despite a decrease in cow numbers in the EU-27, 2011 milk production is expected to increase due to higher milk yields resulting finally from steady upgrades in genetic stock and broader adoption of technical feed diet management practices. EU-27 milk deliveries, in turn, are expected to increase during the second half of 2011 driven by favorable world dairy market conditions, by higher producer prices and by greater domestic consumption of dairy products in the first half of 2011. Milk deliveries are increasing in countries that export dairy products to external EU markets. Concurrently, regionalization of milk production within the EU-27 is occurring rapidly. Strong demand for raw milk in the Northern and Western EU member states (MS) is manifesting as rising milk deliveries to processors in those States. Weaker demand in the Southern, Scandinavian and certain Eastern MS is manifesting as decreasing growth in milk output in those areas.

In July 2011, average EU-27 farm-gate price for raw milk stood 15 percent higher than a year ago. It is expected that raw milk prices in the EU-27 will continue to rise in the last quarter of 2011. Despite slowing economic growth in the EU, producer prices are likely to remain firm in 2012 due to continuing demand for dairy products in domestic and international markets. Continuing strong demand for raw milk based on world market conditions for dairy products should allow the European Union (EU) to avoid undertaking market intervention measures next year. Despite an increase in production the MY 2011/12 EU-27 dairy quota (April-March) is not expected to be filled.

MS which do not fulfill their quota will have room to expand production in 2011 and 2012. In the first six months of 2011, Germany and France, two major dairy producers in the EU-27, increased their milk deliveries by 2 and 6 percent, respectively, in comparison to the same period of the previous year. Dairy production in both countries is expected to remain high in the second half of 2011. In the first quarter of 2012, i.e., the last months of the 2011/12 milk campaign, French milk producers are likely to have to reduce their milk deliveries in order not to exceed their quota. In 2010, Ireland produced below their milk quota allotment, while in 2011 they may exceed it. Ireland led the increase in the European Union milk deliveries over the first six month of 2011. Portugal, on the other hand, is facing challenges with increasing milk production as the administrative apparatus adopted to implement a new animal welfare regulatory regime actually hinders farmers' ability to obtain required land planning and environmental licenses. In Romania and Bulgaria, local producers are struggling to compete with imports of raw milk from other EU member states.

In the majority of New Member States (NMS) dairy industries operate on a cash basis while in the former EU-15 (i.e., France, Germany) dairy markets operate on the basis of long term contracts. As a result the NMS dairy industry, both production and processing, is more flexible and able to adjust more quickly to changing market conditions than the EU-15 industry.

In the EU-27 the trend is for increasing production of "organic milk" or "hay milk" which is produced according to certain organic production criteria or without use of silage in feeding rations. In Austria "organic milk" production accounts for 14 percent of total output, while in

Germany two percent of milk is produced as "organic milk." In Sweden a voluntary program of "organic milk" accounts for 15 percent of total milk production. The production of "organic milk" is gaining more attention in the mountainous areas of Alps because of use of this milk for production of cheese on the basis of organic standards.

In 2012, milk production is forecast to increase within the boundaries of the expanding EU quota to satisfy continuing demand from external markets. However, the rate of increase in 2012 is expected to slow as compared to 2011. High feed and energy costs and economic constraints on domestic consumption in vulnerable MS, along with a slowdown projected in the global economy are expected to dampen the rate of growth.

Please note: 2010 data for Cows in milk and milk production have been adjusted in line with official data. Fluid milk consumption declined as compared to previous reports to reflect official data released by individual member states.

Consumption:

After recording nominal growth in 2010, fluid milk use across the EU-27 is expected to rise in 2011, pulled by larger stocks and demographic shifts within the European Union. However, strong consumer demand for less expensive fermented and further processed dairy products should divert more raw milk into processing channels in 2011.

Trade:

In 2011, extra EU-27 fluid milk trade is expected to increase due to stronger demand by Croatia, supplied mainly by Hungary, Czech Republic and Germany. While inter EU-27 fluid milk trade is expected to increase to Romania and Bulgaria, supplied mainly from Greece, Hungary, Germany and Poland.

Commodities:

Dairy, Cheese

Production, Supply and Demand Data Statistics:

Dairy, Cheese EU-27	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	6,970	6,970	7,050	7,070		7,120
Other Imports	78	78	80	65		65
Total Imports	78	78	80	65		65
Total Supply	7,048	7,048	7,130	7,135		7,185
Other Exports	603	603	620	620		640
Total Exports	603	603	620	620		640
Human Dom. Consumption	6,445	6,445	6,510	6,515		6,545
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	6,445	6,445	6,510	6,515		6,545
Total Use	7,048	7,048	7,130	7,135		7,185
Ending Stocks	0	0	0	0		0
Total Distribution	7,048	7,048	7,130	7,135		7,185
1000 MT						

Production:

EU-27 cheese production is expected to continue on an upward trend through 2011 and 2012. In 2011, production of cheese is expected to increase by two percent due to higher output of milk, stronger domestic demand (especially in Germany) and growing export demand (specifically for French cheeses). Although weaker at the beginning of fall 2011, cheese prices are expected to remain above last year’s level well into 2012. Use of raw milk for cheese and residual whey production will remain competitive with utilization of milk for manufacturing of NFDM, WDM and butter. Dairy industries in Germany, France, and Italy are the driving forces of European cheese production, supplying over 55 percent of the total output. However, in the first half of 2011, cheese production in Germany declined marginally compared with the same period in 2010. This was partly a result of higher prices for other dairy products and lower export volume to Russia in the second quarter of 2011.

2010 through the first half of 2011 brought high returns on cheese manufacturing in the EU-27. Strong export demand and stable domestic consumption stimulated investments in new production lines in MS specializing in exports and development of new markets. Demand for cheeses in China and other Eastern markets create new opportunities for EU suppliers. In addition, certain NMS, like Romania and Bulgaria, still have unused capacity for cheese production which can be utilized to respond to growth in demand from external EU markets.

The Benelux dairy sector believes that cheese, in particular branded cheese, will be the dairy product most competitive on the world market. Production of Parmigiano Reggiano and Grana Padano Italian cheeses increased five and four percent, respectively, during the second quarter 2011. In 2011, Italian hard cheese production is expected to increase by approximately one percent. Italy's production increase is due mainly to recovering prices and to growing demand in the country's main export markets (United States, Germany, and United Kingdom). Spanish cheese production is expected to grow by two percent in 2011. Romanian cheese production fell during the first half of 2011 by two percent as consumers' incomes continued to deteriorate. Romanian cheese production is expected to stabilize in 2012.

Consumption:

In 2011, domestic cheese consumption within the EU-27 is expected to increase; however, changes in the pattern of consumption are noted in several MS. Economic improvement in some MS the latter half 2010, first half 2011 generated a slight recovery in consumption of hard cheeses. However, with Greece remaining on an economic rollercoaster and with Portugal and Spain appearing less stable economically today the increase in overall cheese consumption in the EU-27 is expected to slow. Higher quality and more expensive European cheese brands (i.e., French, German) are mainly exported. European consumers, meanwhile, are switch more often to lower quality brands or fresh cheese to stretch household budgets. In 2011, French cheese consumption is expected to increase slightly but high retail prices are expected to inhibit further growth in demand of domestic cheeses. Denmark and the Czech Republic are seeing higher domestic consumption of fresh cheese as a means to add a cheaper source of protein into their diets. Since 2010 domestic consumption of cheese in Italy has been stagnant and will likely so in 2011 due to rising prices.

Trade:

In 2011, EU-27 total export of cheeses is forecast to increase by three percent, as compared to an 18 percent increase in 2010. Despite continuing world demand, EU-27 cheese exports in 2011 will be limited by availability of cheese on the EU market. Major external markets for EU cheeses include: United States, Switzerland, Japan, Russia, and Saudi Arabia. Fluctuations in the Euro-US\$ exchange rate have had an impact on foreign demand. During the first half of 2011, French cheese exports increased both to EU and non-EU destinations. The United States remains France's largest non-EU destination for cheeses, with shipments increasing from 7,500 MT in the first half of 2010 to 11,000 MT in the first half of 2011. French exports to Russia are anticipated to rise in the second half of 2011. Main non EU-27 export destinations for German cheese include: Russia, Japan, and Switzerland. German exports to Russia decreased by 20 percent in the first five month of 2011 compared to the exceptionally high level recorded for the same period 2010. In July 2011, Russia rescinded licenses for two German cheese producers. As a result, exports of German cheeses are expected to fall further in the second half of 2011.

Cheese imports are projected to remain within quota in 2011 due to growing domestic supplies. In addition a stronger frank reduces competitiveness of Swiss cheese on the EU-27 market.

Commodities:

Dairy, Butter

Production, Supply and Demand Data Statistics:

Dairy, Butter EU-27	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	103	103	2	36		25
Production	1,980	1,980	2,000	2,025		2,040
Other Imports	41	41	50	50		55
Total Imports	41	41	50	50		55
Total Supply	2,124	2,124	2,052	2,111		2,120
Other Exports	155	155	165	157		160
Total Exports	155	155	165	157		160
Domestic Consumption	1,967	1,933	1,887	1,929		1,935
Total Use	2,122	2,088	2,052	2,086		2,095
Ending Stocks	2	36	0	25		25
Total Distribution	2,124	2,124	2,052	2,111		2,120
1000 MT						

Production:

In 2011, butter production in the EU-27 is projected to increase due to higher supplies of raw milk, higher milk fat content in raw milk, and continuing export demand for milk fat in the first half of the year. In 2010, the EU-27 butter market was distorted by the release of intervention stock built up in 2009. Production of butter in 2011 is expected to return to more typical levels based on demand, supply, and support under the Private Storage scheme (PSA) which is designed to manage stocks during the higher production season (summer) for release during in the winter. Germany, France, and the Netherlands are major producers of butter in the EU, accounting for 65 percent of the total production.

In the first seven months of 2011, EU-27 butter production increased by nearly two percent. Butter production is expected to continue to grow in 2012 subject to stable domestic consumption and Russian demand, the major importer of butter from the EU-27. In the course of the second half of 2011, demand for butter and milk powders decreased when Russia and China retreated slightly from the market causing by their action world market prices to decline in September and October 2011. A rebound in these two export markets will impact butter production decisions within the EU-27.

Production of butter in Germany and France, the two largest European producers, is expected to increase in 2011, as a result of the attractive high domestic market prices. During the first five months of 2011, French butter production increased by more than four percent. As France is a net importer of butter, this increase in production is mainly directed to the domestic market, and is in line with declining imports. In the first half of 2011, butter production in Germany was four percent higher than in the same period of 2010.

Consumption:

In 2011, EU-27 domestic consumption of butter is expected to only slightly decrease in comparison to 2010 when governmental assistance programs for needy people tapped butter from intervention stocks resulting in higher local consumption that year. Although health concerns are still a factor limiting some butter consumption, economic considerations are playing a greater role in consumer buying decisions. France's butter consumption continues to decline due to both health and price concerns. Butter recorded the largest increase in dairy retail prices with 5.3 percent increase during the first five months in 2011. At the same time, household consumption declined by 5.6 percent.

Trade:

In 2011, EU exports of butter are expected to remain constant, year over year, as higher prices in the first six months of the year dampened consumer interest but import demand from Russia, Middle East, and North African countries picked up with falling global prices. During the first seven months 2011 EU-27 exports to Japan and Algeria almost doubled. In 2011, exports of butter from Germany to Iran were on a much lower level than a year ago. Imports are expected to increase based on declared improvements in management of the import quota program. However, imports are expected to remain within the existing 65,000 MT quota.

Stocks:

Most of the EU-27 owned intervention stock built in 2009 has been consumed under EU food assistance programs. As of September 22, 2011, the intervention stock held directly by government entities amounted to 977 MT. It has been allocated for food assistance programs within the EU already. The government's private storage aid program (PSA) for butter ended August 31, 2011, with cumulative stocks reaching 105,668 MT (up 27 percent compared to 2010). Current production and PSA butter stocks are projected to be sufficient to satisfy demand of the processing industry. As of September 22, 2011, 84,577 MT of butter was in storage under the government's PSA scheme, mainly in the Netherlands, Ireland, Germany, and France. (Note: Butter can only be committed under the PSA program from March through August.)

Ending stocks of butter in 2011 and 2012 were adjusted to reflect both intervention and PSA stocks.

Policy:

On September 09, 2011, butter's weighted average price stood at 389 Euros per 100 kilograms. The EU intervention price is set at 221.75 Euros per 100 kilograms. If market prices remain constant in 2012, EU intervention into the butter market would not be expected.

In October 2011, Denmark passed a tax on food products containing fat as an ingredient. Implications on domestic demand for butter and other dairy products containing fat and the trade of such products are not yet calculated due to the newness of the tax. See Linked reports for more details.

Commodities:

Dairy, Milk, Nonfat Dry

Production, Supply and Demand Data Statistics:

Dairy, Milk, Nonfat Dry EU-27	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	259	259	195	195		55
Production	980	1,060	1,010	1,150		1,180
Other Imports	4	4	5	2		2
Total Imports	4	4	5	2		2
Total Supply	1,243	1,323	1,210	1,347		1,237
Other Exports	378	379	450	450		420
Total Exports	378	379	450	450		420
Human Dom. Consumption	670	749	730	842		817
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	670	749	730	842		817
Total Use	1,048	1,128	1,180	1,292		1,237
Ending Stocks	195	195	30	55		0
Total Distribution	1,243	1,323	1,210	1,347		1,237
1000 MT						

Production:

Production and consumption data for Non Fat Dry Milk (NFDM) in 2010 were updated to reflect official statistics. In 2011, EU-27 NFDM production is expected to increase in response to higher output of raw milk and strong export demand in the first half of the year. Since January 2011, the margin (expressed in US\$) from NFDM/butter production has been much higher than for WDM/whey production resulting in 12 percent increase in NFDM output in the first seven months 2011. However, since July 2011 the margin on manufacturing NFDM has declined due to decreasing world market prices and falling export demand, making production of skim milk less profitable. In 2012, NFDM output is forecast to increase on account of expected larger supplies of milk and stronger export demand, albeit at a lower rate of growth than recorded in 2011.

France and Germany are leading NFDM producers in Europe supplying over 55 percent of total output. In 2011, France's NFDM production is receiving a boost by favorable export perspectives (mainly to Algeria, Nigeria, and Pakistan). In Germany, NFDM production increased by nine percent during the first half 2011, as compared to 2010, as a result of good export opportunities (Algeria, Egypt, South Korea, and Russia) and increased milk deliveries to dairies. In 2011, Benelux NFDM production is expected to increase as a result of elevated fluid milk production in Belgium.

Consumption:

Higher levels of domestic consumption expected in 2011 stems from domestic use of intervention stocks within assistance programs for needy people. The EU Management Committee for Common Organization of Agricultural Markets approved national programs of food assistance to needy people for 2011. NFDM allocated for this purpose amounts to 94,000 MT. Italy, Spain, Poland, and France are expected to be the primary beneficiaries of this aid. Consumption is also expected to increase as food

and feed industries emerge from the recent economic downturn. Feed use of NFDM is expected to increase in 2011 as some intervention stocks were re-directed for feed use or partially blended with fresh product. Further, high prices for whey favors the use of NFDM in animal feeding rations.

Trade:

In 2011, NFDM exports are expected to be maintained at a high level driven by the need to clear larger supplies generated in part by release of intervention stocks on the market. During the first seven months 2011, EU-27 exports of NFDM increased by 32 percent with higher trade to North Africa (Algeria, Egypt) and the Far East (China, South Korea, Pakistan). Exports are expected to continue through the first half of 2012 with further release of intervention stocks and continued demand from North African and Asian markets.

During the first six months of 2011, French exports to third countries increased from 32,000 MT to 43,000 MT, mainly due to a jump in shipments to Algeria, Nigeria, and Pakistan. Increased Belgian NFDM production also supported a boost in exports to Algeria. German exports to non-EU markets in the first six months of 2011 increased by 86 percent as compared to the same period 2010, or from 25,000 MT to 47,300 MT. European exchange rates will play an important role for the global market competitiveness of NFDM.

Stocks:

The use of NFDM intervention stocks for feed programs combined with sales through tenders are expected to reduce 2011 stocks by year’s end. On September 22, 2011, intervention stocks of NFDM amounted to 104,018 MT. Although still high, stocks have already been committed to 2011 and 2012 food assistance programs.

Policy:

On September 11, 2011, the weighted average price for NFDM amounted to 232 Euros per hundred kilograms, well above the EU intervention price. If prices for NFDM remain at or near current levels in 2012, EU intervention on the NFDM market would not be expected.

Commodities:

Dairy, Dry Whole Milk Powder

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder EU-27	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0

Production	780	780	785	770		770
Other Imports	2	2	2	1		1
Total Imports	2	2	2	1		1
Total Supply	782	782	787	771		771
Other Exports	444	445	430	430		430
Total Exports	444	445	430	430		430
Human Dom. Consumption	338	337	357	341		341
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	338	337	357	341		341
Total Use	782	782	787	771		771
Ending Stocks	0	0	0	0		0
Total Distribution	782	782	787	771		771
1000 MT						

Production:

In 2011, EU-27 whole milk powder (WMP) production is expected to decline in comparison to 2010. During the first seven months 2011, WDM output declined four percent compared to the same period 2010. During the second quarter 2011, WDM production declined by 12 percent as the dairy industry responded quickly to the drop in world market prices and reduced import demand from China. Stronger competition for raw milk supplies in 2012 across the EU-27 and very competitive export markets should constrain efforts to expand WDM production in 2012.

Consumption:

In 2011, domestic WDM disappearance should increase marginally in response to demand within the food industry.

Trade:

In 2011, lower production coupled with stronger competition from Oceania in the Asian markets is expected to lead to reduced EU-27 exports. During the first seven months 2011 EU-27 exports amounted to 251,000 MT, ten percent below the comparative previous year level. Although EU-27 exports WDM mainly to North African and Middle Eastern markets, competition in the Chinese market may influence direction of trade in early 2012.

In Germany production of WMP increased by nine percent during the first half 2011 as a result of higher demand from Algeria and Russia. However, the strong Euro makes German WMP less

competitive with New Zealand and Australian products, and may adversely affect final export demand the latter half of 2011. In 2011, France’s exports of WMP to non-EU countries remain stable. Smaller shipments to Algeria and Senegal were offset by larger volumes to Iraq and Jordan. All four countries are the leading destinations for the French product.

Author Defined:

EU-27 Policy in Dairy Sector

Dairy package- [COM/2010/728/FINAL](#)

Since the last semi-annual GAIN report, little progress has been made on the Commission's "Dairy package," which is based on the recommendations of the High Level Group (HLG) on Milk in the autumn of 2010. This proposal will amend the "Single CMO" Regulation (EC) No 1234/2007 and is governed by the co-decision procedure. This proposal is the Commission's response to the first three recommendations of the HLG (see also GAIN [E50044](#) [1] and [E50038](#) [2]):

- enhanced contractual relations between milk producers and dairies;
- producers' collective bargaining power; and
- the possible role of inter-branch organizations in the dairy sector,

The proposal provides the possibility for creating Dairy Producer organizations (PO), which will have the right to engage in negotiations on milk delivery contracts with dairy processors on behalf of its member farmers. Volume limitations for these PO's are suggested not to exceed:

- (i) 3.5 percent of total Union production, and
- (ii) 33 percent of the total national production of any particular Member State covered by such negotiations by that producer organization, and
- (iii) 33 percent of the total combined national production of all the Member States covered by such negotiations by that producer organization.

Member States would have the discretion to make such delivery contracts mandatory. The content of the contracts could include volume and price stipulations and could be signed for periods up to five years. The proposal also suggests that contracts and deliveries must be reported to Member States allowing better transparency in the dairy market.

On June 27, 2011, the EP Agricultural Committee (COMAG) approved the [James Nicholson report](#) [3], which heavily amends the Commission proposal. In February, 2011, the COMAG already accepted some 40 amendments to the Commission proposal. In this COMAG version of the proposal, milk supply contracts would be mandatory in all MS and include fixed milk prices for a minimum duration of one year. The European Dairy Association published an [opinion paper](#) [4] highlighting its objections to the EP report, as it would stifle market signals at the expense of the dairy processors. Trialogue discussions are now being scheduled between the Commission, the Council and the EP in an attempt to bridge the different views before formal First Reading votes in the Agricultural Council and the EP plenary later in 2011.

The Dairy Package is meant to be a standalone package; however, with the CAP towards 2020 debate already in full swing, it is hard to keep things separated.

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The Quality Package

A similar gridlock occurred in the approval procedure of the Commission's "Quality Package," which was launched on December 10, 2010. It consists of:

- a proposal for a regulation on agricultural product quality policy ([17672/10](#)); and
- a proposal amending marketing standards in "Single CMO" Regulation No1234/2007 ([17677/10](#)).

The Quality Package includes:

- a proposal for a Regulation of the European Parliament and of the Council on agricultural product quality schemes;
- a proposal to modify Regulation (EC) No 1234/2007 (the single Common Market Organization) concerning marketing standards for agricultural products;
- guidelines setting out best practice for the development and operation of certification schemes relating to agricultural products and foodstuffs, and
- guidelines on the labeling of foodstuffs using Protected Designation of Origin (PDO) and Protected Geographical Indications (PGI) as ingredients

The Quality Package aims to improve the Union legislation in the field of quality, as well as in the operation of national and private certification schemes, in order to make them simpler, more transparent, and easier to understand, adaptable to innovation, and less burdensome for producers and administrations.

While the Quality Package covers all commodity sectors, it is important to the dairy sector because of the importance of the protected designation of origin (PDO) and protected geographical indication (PGI) schemes. The discussion about special support for dairying in Least Favored Areas (LFA) in the Rural Development part of CAP towards 2020 debate touches on this.

Part III and Part IV of Annex 1 of the proposal define the updated marketing standards for dairy products.

Much of the problem for the Council and the European Parliament to find common ground on the Commission proposals is tied to the new power balance and procedures established in the Lisbon Treaty, as all three EU institutions are exploring the limits of their new power.

The CAP towards 2020

In November 2010, the Commission presented its communication *The CAP towards 2020: Meeting the food, natural resources, and territorial challenges of the future* ([16348/10](#)).

The Commission communication identified three strategic goals for the future CAP:

- To guarantee long-term food security for European citizens and to contribute to growing world food demand,

To provide the European citizens with quality, value and diversity of food produced sustainably, in line with our environmental, water, animal health and welfare, plant health and public health requirements.

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- To maintain viable rural communities, for whom farming is an important economic activity creating local employment; this delivers multiple economic, social, environmental, and territorial benefits.

The Commission communication was the first step in the process for the CAP post 2013. However, the new CAP will need to fit in the Budget Review, as well as contribute to the Europe 2020 objectives. Hence, the communication has listed three objectives for the future CAP:

Objective 1: Viable food production

- to contribute to farm incomes and limit farm income variability, recalling that price and income volatility and natural risks are more marked than in most other sectors and farmers' incomes and profitability levels are on average below those in the rest of the economy.
- to improve the competitiveness of the agricultural sector and to enhance its value share in the food chain, because the agricultural sector is highly fragmented compared to other sectors of the food chain which are better organized and have therefore a stronger bargaining power. In addition European farmers face competition from the world market while also having to respect high standards relating to environmental, food safety, quality, and animal welfare objectives requested by European citizens.
- to compensate for production difficulties in areas with specific natural constraints because such regions are at increased risk of land abandonment.

Objective 2: Sustainable management of natural resources and climate action

- to guarantee sustainable production practices and secure the enhanced provision of environmental public goods as many of the public benefits generated through agriculture are not remunerated through the normal functioning of markets.
- to foster green growth through innovation which requires adopting new technologies, developing new products, changing production processes, and supporting new patterns of demand, notably in the context of the emerging bioeconomy.
- to pursue climate change mitigation and adaptation actions thus enabling agriculture to respond to climate change. Because agriculture is particularly vulnerable to the impact of climate change, enabling the sector to better adapt to the effects of extreme weather fluctuations, can also reduce the negative effects of climate change.

Objective 3: Balanced territorial development

- to support rural employment and maintaining the social fabric of rural areas.
- to improve the rural economy and promote diversification to enable local actors to unlock their potential and to optimize the use of additional local resources.
- to allow for structural diversity in the farming systems, improve the conditions for small farms and develop local markets because in Europe, heterogeneous farm structures and production systems contribute to the attractiveness and identity of rural regions.

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These objectives also meet global challenges such as climate change, water management and biodiversity, animal health and welfare, food and feed safety, plant health and public health as well as consumer interests.

In a classical move, the Commission has presented three policy options for the future CAP:

1. A conservative reform, only making slight changes to the existing programs.
2. A major reform, addressing fundamental concerns that have emerged from the sector and from Member States, not in the least greater spending efficiency.
3. A complete policy overhaul, doing away with the market measures and direct payments under Pillar 1 and axing the CAP entirely towards environmental and climate change issues through the Rural Development policy framework taking into account regional strategies.

EU dairy farmers have a lot at stake after the expiration of the milk production quota. They will be much more exposed to market forces and subsequent price volatility. Direct payments for dairy production, which was introduced in the 2008 Mid Term Review, are likely to be significantly cut; however, it seems like dairy support could become coupled again under certain circumstances to protect dairy farming in LFA.

The debate on the future CAP is raging among EU farmer groups, EU food industries, Member States, but also in the European Parliament, which now has equal decision power through the co-decision procedure, but also through its co-decision right on the budget discussion. Because of the financial crisis in the EU, the Member States are pursuing budget cuts for the CAP through the Council, while the European Parliament, as a strong defender of farmer interests, is resisting such cuts.

Agricultural Commissioner Ciolos presented the Commission's formal proposal for the CAP towards 2020 on October 12, 2011, after delaying for several months.

[1]

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/High%20Level%20Group%20makes%207%20recommendations%20for%20EU%20dairy%20sector_Brussels%20USEU_EU-27_6-21-2010.pdf

[2]

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/State%20of%20progress%20of%20the%20High%20Level%20Expert%20Group%20on%20Milk_Brussels%20USEU_EU-27_5-12-2010.pdf

[3] <http://www.europarl.europa.eu/en/pressroom/content/20110627IPR22638/html/Fairer-prices-for-dairy-farmers>

[4]

<http://www.euromilk.org/upload/docs/EDA/PR%20EDA%20Agri%20Committee%20Vote%20Dairy%20Package%20FINAL.pdf>

Links to related reports:

[Danish Fat Tax on Food Stockholm Denmark 10-6-2011](#)

[Greece Dairy Annual 2011 Rome Greece 9-9-2011](#)

[Dairy and Products Semi-annual Warsaw EU-27 5-6-2011](#)

[Greece Dairy 2011 Semi-Annual Rome Greece 4-29-2011](#)