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Global Agricultural Information Network

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Dairy and Products Annual

Stabilization on the EU Dairy Market.

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Report Highlights:

It is expected that in 2016 milk deliveries in the European Union will increase by 1.1 percent and stabilize in 2017. In 2016 increased milk production is expected to be mainly processed into cheese and butter which remain in demand on the world market and non-fat dried milk (NFDM) used by the EU in the market intervention programs. The European Commission (EC) continued intervention on the dairy market in 2016 through subsidizing public stocks of NFDM, and private storage of NFDM, butter and cheese. In addition the EC allocated U.S. \$168 million for voluntary reduction of milk production and U.S. \$392 million as aid envelopes to member states for use in programs supporting dairy industry.

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 EU-28 member states.

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Executive Summary:

Production

2016

In 2016 EU-28 milk production is expected to increase by 1.1 percent as a result of higher inventories of dairy cows and growing milk yield per cow. After a 2.5 percent increase of milk deliveries in 2015 the pace of increase of milk deliveries is expected to slow down in 2016. In the first half of 2016 production of milk in the EU continued to increase but in the third quarter of the year milk output declined because of the low level of farm-gate milk prices and EU's intervention on the market. In July 2016 average price for raw milk amounted to Euro 25 per 100 kilograms and was 10 percent lower than in the same month of 2015. In the last quarter of 2016 the EC implemented a voluntary milk production reduction scheme in which farmers will be compensated for producing less milk. According to the estimate of the EC the voluntary milk reduction scheme will result in reduction of milk deliveries in the last quarter of 2016 by 1 million MT. The low level of milk prices is expected to result in higher culling rate of dairy cows which will have positive impact on the average milk yield of cows in 2016 and 2017, as farmers will keep their best cows and get rid of lower producing animals. The supplies of roughages in 2016 are expected to be at average level.

Higher milk production in 2016 is expected to result in higher output of cheese, butter and Non Fat Dried Milk (NFDM) in comparison to 2015. The output of Whole Dry Milk (WDM) is expected to remain at the same level as in 2015. Production of fluid milk is expected to decline reflecting a trend in the reduction of consumption in the EU. The Russian import ban on EU dairy products seems to have limited impact on the production of dairy commodities in 2016 because the majority of producers have already been able to find alternative markets for their products.

2017

It is forecast that in 2017 milk deliveries will grow by 0.3 percent, mainly because of higher yields of cows which will offset reduction in dairy cow inventories. The low level of farm-gate milk prices is expected to reduce milk production in the first half of 2017. However, the recovery of world market prices for dairy commodities, which started in the second half of 2016, is forecast to stimulate milk production in the second half of the year resulting in a slight overall increase of milk output in the entire year. Higher milk production in 2017 is forecast to be directed mostly towards cheese and WDM production, while NFDM and butter output is forecast to decline due to high stocks built in 2015 and 2016 as a result of EU's market intervention programs.

Consumption

In 2016 the higher output of dairy products will be directed mainly to export. The remaining part of production will be used for domestic consumption or/and intervention, private storage aid (PSA) and commercial stocks. Higher production of milk in 2016 is expected to result in increased domestic consumption of cheese while consumption of NFDM, butter, WDM and fluid milk is expected to decline. Consumption of NFDM is expected to decline mainly because of the transfer of commercial stocks built in 2015 into the intervention stocks.

Trade

2015

In response to growing import demand from Egypt, Philippines and Vietnam, 2015 exports of NFDM increased by almost 7 percent over the already high level of 2014. Exports of fluid milk, butter, and WDM increased by 27, 18, and 3 percent, respectively. Higher exports of cheese to the U.S. and Japan did not offset reduction of exports to Russia resulting in a slight decrease of cheese exports in comparison to 2014.

2016

During the first seven months of 2016 exports of cheese were 13 percent higher compared to the same period of 2015. Exports of cheese are expected to continue in the second half of 2016 due to increased sales to the United States, Japan, Saudi Arabia and South Korea. Exports of butter are expected to grow in 2016 because of competitive prices on the world market and stocks built in 2015. In the first seven months of 2016 exports of butter grew by 35 percent. Saudi Arabia, Egypt and the U.S. remain the major export markets for butter from the EU. Exports of butter are accompanied by higher exports of butter oil mainly to China. In the first seven months of 2016 exports of NFDM dropped by 17 percent mainly because of lower purchases by Algeria, China and Egypt. Lower demand for exports of NFDM and an opportunity to sell NFDM into the EU's intervention stocks are expected to adversely affect overall exports in 2016. In the first seven months of 2016 exports of WDM were reduced by 1 percent. Oman, Algeria and China are the main export destinations for export of WDM from the EU.

Market Intervention

The principle of the market intervention of the European Commission (EC) is to pay processors to keep butter and NFDM in storage off the market for an agreed period of time within the Private Storage Aid (PSA) and/or when the market price falls below the intervention level purchase and store NFDM and butter for public stocks. The drop of prices for dairy commodities in 2015 and first half of 2016 forced the EC to open a public intervention period for NFDM and PSA for butter, NFDM and cheese to stabilize the European dairy market. On April 19, 2016, the EC closed the usual public intervention purchases of NFDM opened for the 2016 intervention program and announced an additional intervention program which started as of April 20, 2016. Within the additional program the EC increased the 2016 volume limits for the intervention, with the NFDM limit doubled from 109,000 MT to 218,000 MT and that for butter from 50,000 MT to 100,000MT. The public intervention storage and PSA for NFDM were originally scheduled to end at the end of September 2016. However in August 2016 the EC further extended public intervention and PSA for NFDM until the end of February 2017. The upper limit to which NFDM will be purchased into intervention stocks at a fixed price will stay at 350,000 MT until the end of December 2016. In 2017 the limit will revert back to the usual limit of 109,000 MT. According to the data published by the Milk Market Observatory (MMO)* of the EC, until the end of September 2016, 334,419 MT of NFDM have been purchased by the EC within the public intervention scheme, out of which 255,894 MT at fixed price and 78,525 MT within the buying-in via three tenders (one in April and two in June 2016). In the first nine months of 2016, 69,233 MT of NFDM have been offered to PSA. However, out of this 4,928 MT have been offered until the end of May 2016 under the 210 days maximum storage period and will have to be released from PSA before the end of 2016. Total public intervention and PSA stocks of NFDM at the end of September 2016 are estimated at 398,000 MT which includes 334,000 MT of public intervention stocks and 64,000 MT of PSA stocks. As a result of an increase in the prices of NFDM in August and September 2016 above the intervention threshold it is expected that purchases for public stocks of NFDM will not further increase

towards the end of the year. Introduction of the voluntary reduction of milk production in the EU is expected to limit the deliveries of milk in the last quarter of 2016 and in effect reduce pressure to store NFDM under the PSA scheme. During the first nine months of 2016 141,291 MT of butter was offered for PSA stocks. The EC did not purchase butter for public intervention because the price of butter remained above the intervention threshold during the first nine months of the year. In October 2015 the EC opened the PSA program for 100,000 MT of cheese and storable cheese products. According to the data of MMO from October 19, 2015 until September 25, 2016, 83,751 MT of cheese was offered for PSA stocks.

**The MMO is an advisory group of experts/organizations created by the European Commission to monitor EU and world dairy market after the termination of milk quota system.*

Commodities:

Dairy, Milk, Fluid

Dairy, Milk, Fluid Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	23,559	23,559	23,624	23,595	0	23,475
Cows Milk Production	149,600	150,200	151,600	152,000	0	152,500
Other Milk Production	4,350	4,350	4,350	4,400	0	4,425
Total Production	153,950	154,550	155,950	156,400	0	156,925
Other Imports	3	3	3	4	0	4
Total Imports	3	3	3	4	0	4
Total Supply	153,953	154,553	155,953	156,404	0	156,929
Other Exports	709	709	720	950	0	1,000
Total Exports	709	709	720	950	0	1,000
Fluid Use Dom. Consum.	34,000	33,800	34,000	33,600	0	33,600
Factory Use Consum.	119,244	120,044	121,233	121,854	0	122,329
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	153,244	153,844	155,233	155,454	0	155,929
Total Distribution	153,953	154,553	155,953	156,404	0	156,929
(1000 HEAD) ,(1000 MT)						

Please note: The figures of milk deliveries to dairies in 2015 and 2016 are based on the data received from the analysts in the EU FAS Offices and the protein-fat balance calculated on the basis of dairy products obtained from the delivered milk.

Production:

2015

Data for production in 2015 were revised up in comparison to the Semi-Annual Dairy and Products Report (Published in May 2016) because of the adjustment of the official production data for Belgium.

2016

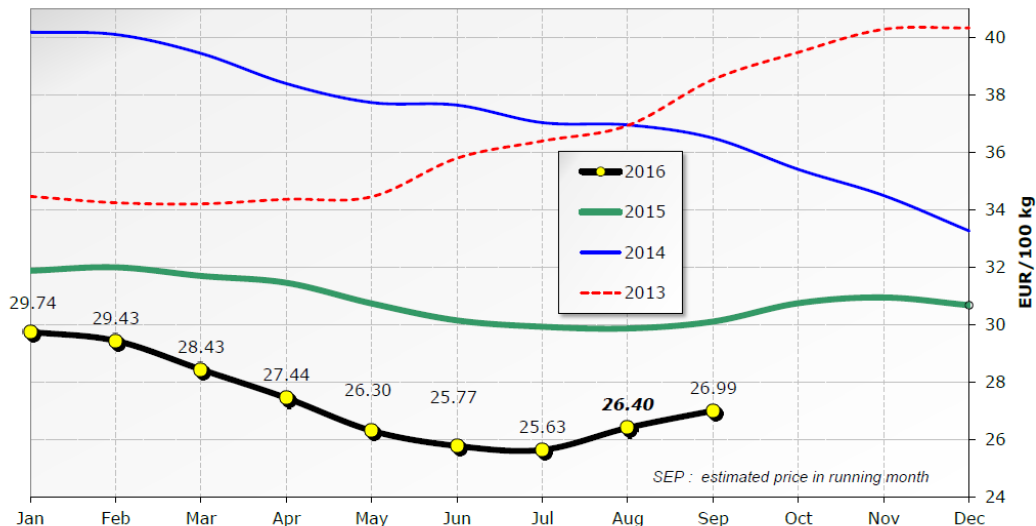
It is estimated that EU milk production in 2016 will increase by 1.1 percent from the previous year as a result of higher inventories of dairy cows and growing milk yields. In the first half of 2016 EU28 dairy market continued to suffer from decreasing farm-gate prices for milk which generated strong disappointment of farmers and pressure on the EC to introduce measures which will improve market

situation. The EC expanded market intervention and introduced a program of voluntary milk reduction by farmers with a budget of Euro 150 million (U.S. \$168 million) to compensate dairy farmers for reduction of milk output. In addition the EC offered to member states aid envelopes totaling Euro 350 million (U.S. \$392 million) for use in programs supporting the dairy industry. After growth of milk production in the first half of 2016, deliveries of milk in the EU-28 started to decrease in the third quarter of the year. In July 2016 milk deliveries were already 1.4 percent lower than in July 2015. It is expected that this trend will continue through the end of the year. The change of milk production trend in the EU stems from low level of farm-gate milk prices in 2015 and in the first half of 2016 and voluntary milk reduction scheme introduced by the EC. The largest milk delivery decrease in 2016 is expected in the UK, Sweden, Portugal and Lithuania. However, some EU farmers continue to increase production despite low prices because they invested in 2014 during the better market situation then and with knowledge of the coming termination of the milk quota system and now are forced to produce to ensure liquidity in order to pay back their loans. It is estimated that the decrease of milk output in the second half of 2016 will not offset the increase which occurred in the first half of the year resulting in over one percent overall increase of milk output in 2016. The increase of milk deliveries in 2016 might be also partly attributed to EU market intervention programs which allowed stock building of NFDMM and butter. In response to the improving world market situation farm-gate milk prices started to grow in the EU. In August the average farm-gate milk price increased for the first time after seven months of continued decreases in 2016.

There is much difference between the member states on the level of the dairy crisis. In Ireland, the Netherlands, Bulgaria, and Romania, production in the first seven months of 2016 was up by 9, 11, 6 and 6 percent respectively. Dutch farmers seem to be the European leaders in coping with dairy sector difficulties. They expand production and, despite the record low milk prices, they continue to increase volumes of production at lower margins. However, reportedly 10-20 percent of them operate at a loss. Recently, a new processing plant was opened in the Netherlands which is expected to process annually up to 350,000 MT of milk. Dutch milk deliveries are expected to continue to increase through the remainder of 2016 and the first half of 2017. To prevent environmental issues, and limit phosphate production in line with EU regulations, the Dutch Government proposed a plan based on phosphate emissions. The plan entails that as of July 1, 2017, farmers will receive phosphate rights based on their herd in July 2015. As from January 2018 these rights will be cut by 10 percent. The Dutch Government expects that the dairy herd will shrink by 4 to 8 percent. The Dutch processors are also extensively using the EU's NFDMM public and PSA intervention, which is one of the main factors allowing them to maintain positive margins. The Netherlands might be a good example of changes in the European dairy sector after termination of dairy quota in April 2015. Production of bigger volumes at reduced margins and flexible dairy processing industry might be the key for the future development of the EU's dairy sector. In Germany, which is the largest EU milk producer, milk deliveries increased by 2.5 percent in the first half of 2016, but went down by 0.9 percent in July 2016 in comparison to July 2015. It is expected that overall milk deliveries in Germany will be 0.4 percent higher than in 2015. Milk production in France, the second largest producer in the EU, is expected to decrease by 1.5 - 2.0 percent in 2016 because since March it has been below the level of 2015. On the other hand in the UK, Portugal, Slovenia and Slovakia milk deliveries were respectively 2, 4, 3 and 4 percent lower than a year ago. In the UK there is a sharp increase of cow slaughter and the 9 percent reduction of production in July 2016 compared to July 2015 was the highest among the member states.

There is growing interest of producers and consumers in organic and hay milk. Austria is the leader among the member states in developing this type of production. Price for organic and hay milk received by farmers is twice as high than “regular” milk, reflecting strong domestic and export demand.

Milk Prices paid to the Producers EU (weight. avg.)



2017

In 2017 milk deliveries are expected to increase by only 0.3 percent in comparison to 2016. It is expected that in 2017 farmers will hold with decisions on production expansion and herd enlargement until the farm-gate milk price grows to a level securing profitable production. It is expected that inventories of dairy cows in 2017 will decline in comparison to 2016 leading to the enhancement of genetics in national herds and generate higher per cow milk yield averages in 2017.

Consumption

It is expected that in 2016 fluid milk consumption will decline in comparison to the previous year. There is a trend of reduction in consumption of fluid milk in the EU and a shift to other dairy products. Consumption is expected to remain at the same level in 2017. Higher milk output in 2016 will be mostly directed to the production of cheese, NFD and butter.

Trade

It is expected that in 2016 exports of fluid milk will increase by over 30 percent in comparison to 2015 driven by strong demand from China for UHT milk. It is expected that exports will continue in 2017.

Commodities:

Dairy, Cheese

Dairy, Cheese Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	32	32	27	27	0	10
Production	9,690	9,740	9,790	9,850	0	9,875

Other Imports	61	61	65	65	0	65
Total Imports	61	61	65	65	0	65
Total Supply	9,783	9,833	9,882	9,942	0	9,950
Other Exports	719	719	790	790	0	810
Total Exports	719	719	790	790	0	810
Human Dom. Consumption	9,037	9,087	9,062	9,142	0	9,140
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	9,037	9,087	9,062	9,142	0	9,140
Total Use	9,756	9,806	9,852	9,932	0	9,950
Ending Stocks	27	27	30	10	0	0
Total Distribution	9,783	9,833	9,882	9,942	0	9,950
(1000 MT)						

Production

In 2016 EU-28 cheese production is expected to increase by one percent. It is projected that most of the increase in milk production in the EU28 in 2016 will be directed for manufacturing of cheese. It is expected that higher production of cheese will be directed mostly to growing exports and partly for domestic consumption. In the first seven months of 2016 cheese production was 2.3 percent higher than in the same period of 2015. However, production is expected to slow down towards the end of the year because of lower availability of raw milk. It is forecast that production of cheese in 2017 will continue to grow in 2017 but with a slower pace than in 2016 because of limited milk supplies.

Consumption

It is expected that in 2016 the consumption of cheese will grow almost across the EU but the highest increase is expected in Ireland and Romania. Growing supplies and improving economic situations in some member states are expected to stimulate cheese consumption further leading to a one percent increase in overall consumption relative to 2015. It is forecast that in 2017 consumption will remain flat in comparison to the 2016 level mainly because of higher exports.

Trade

Exports of cheese in 2016 are expected to increase by almost 10 percent, mainly because of diversification of export destinations. The overall level of exports in 2016 is expected to exceed the pre-Russian export ban level. It is expected that the United States will remain the major export destination, followed by Japan, Switzerland and Saudi Arabia. It is forecast that in 2017 exports of cheese will grow as a result of increased production, stable domestic consumption and decrease of PSA stocks. Cheese imports are projected to remain within established import quotas.

Stocks

In September 2015 the EC opened a PSA for 100,000 MT of cheese and all storable cheese products. National allocations of PSA for cheese were based on the last three years production. As of September 25, 2016, 51,874 MT of cheese was offered for PSA stocks. Italy, the UK and the Netherlands are the major users of the program. According to the September 2015 MMO report, at the end of July 2016 the remaining PSA stocks of cheese amounted to 24,544 MT. It is expected that PSA stocks will decline towards the end of 2016 because the program applies to cheese stored for 60 - 210 days. The PSA for cheese amounts to Euro 15.57/MT of cheese plus Euro 0.4/MT/day.

Commodities:

Dairy, Butter

Dairy, Butter Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	22	22	51	51	0	60
Production	2,335	2,335	2,380	2,370	0	2,365
Other Imports	27	27	20	8	0	8
Total Imports	27	27	20	8	0	8
Total Supply	2,384	2,384	2,451	2,429	0	2,433
Other Exports	192	192	240	230	0	240
Total Exports	192	192	240	230	0	240
Domestic Consumption	2,141	2,141	2,151	2,139	0	2,143
Total Use	2,333	2,333	2,391	2,369	0	2,383
Ending Stocks	51	51	60	60	0	50
Total Distribution	2,384	2,384	2,451	2,429	0	2,433
(1000 MT)						

Production

In 2016 butter production is expected to increase by 1.5 percent as a result of higher availability of milk, continuing export demand, PSA intervention program and higher output of NFD, for which butter is a residual product. Higher export demand stems from competitive prices for European butter on the world market. The re-opening of PSA for butter in April 2016 by the EC created an opportunity for processors to take advantage of this program and produce butter destined for PSA or transfer commercial stocks into the PSA stocks.

Consumption

It is estimated that in 2016 the butter consumption will be slightly lower than in 2015 because the increased output will be directed to exports and PSA stocks.

Trade

In 2016 exports of butter are expected to increase in comparison to the previous year's level due to higher output and competitive export prices. In the first seven months of 2016 butter exports increased by 35 percent. EU butter remains competitive on the U.S. market. In the first seven months of 2016, the EU28 exported 10,000 MT of butter to the United States, 13 percent more than in the same period of 2015. Other export destinations for EU butter are Saudi Arabia and Egypt, while butter oil is mainly exported to China. It is forecast that exports of butter and butter oil will continue to grow in 2017 because of reduction of PSA stocks and stable domestic consumption. In the first seven months of 2016 imports within the EU import quota set aside for New Zealand amounted to only 2,000 MT, 67 percent less than in the same period of 2015.

Stocks

According to the MMO data, at the end of July 2016 PSA stocks of butter amounted to 102,218 MT (mainly used by the Netherlands, Germany, France, Ireland and the UK). For butter, EU aid is Euro 18.93 per MT of storage for fixed storage costs, plus Euro 0.28 per MT per day of contractual storage. There is no ceiling on the volumes that can be stored. It is expected that towards the end of 2016 PSA stocks of butter will decrease in the same manner as in 2015 as a result of continuing export demand.

As of September 25, 2016, no butter has been sold to public intervention stocks because the EU market price was higher than the butter buying-in price, which is set at Euro 221.75/100 kilograms. Although on April 20, 2016, the EC increased the amount of public intervention stocks for butter to 100,000MT, it is unlikely that the price for butter will drop below the intervention price until the end of 2016. Stable milk deliveries and expected increase of exports in 2017 are expected to result in a reduction of PSA stocks of butter.

Commodities:

Dairy, Milk, Nonfat Dry

Dairy, Milk, Nonfat Dry Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	17	17	62	62	0	400
Production	1,710	1,715	1,800	1,785	0	1,775
Other Imports	3	3	3	4	0	3
Total Imports	3	3	3	4	0	3
Total Supply	1,730	1,735	1,865	1,851	0	2,178
Other Exports	686	686	650	615	0	750
Total Exports	686	686	650	615	0	750
Human Dom. Consumption	982	987	900	836	0	978
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	982	987	900	836	0	978
Total Use	1,668	1,673	1,550	1,451	0	1,728
Ending Stocks	62	62	315	400	0	450
Total Distribution	1,730	1,735	1,865	1,851	0	2,178

(1000 MT)

Please note: The estimate of NFDM production in 2016 is based on the fat-protein balance of milk deliveries and output of dairy products.

Production

Output of NFDM is expected to grow by 4 percent in 2016 resulting from higher supplies of milk and increased drying capacity mainly in Germany and France. The PSA program available since September 2014 and public intervention purchases opened in 2015 by the EC allowed to direct growing supplies of milk into production of NFDM and butter. It is forecast that output in 2017 will decline because large stocks of NFDM accumulated in 2015 and 2016 will inhibit expansion of production.

Consumption

Higher NFDM production in the first three quarters of 2016 was directed mainly into public intervention and PSA stocks. Domestic consumption (which in this report includes commercial stocks) is expected to decrease in 2016 because part of commercial stocks accumulated in 2015 was transferred into the PSA stocks.

Trade

It is expected that exports of NFDM in 2016 will decrease by 10 percent in comparison to 2015. On September 11, 2016, EU prices for NFDM in the EU were 2 percent above the world price and 7 percent higher than U.S. export price making EU's NFDM less competitive. It is expected that in 2017 exports of NFDM will recover because of the high level of stocks which are expected to be partly destined for

export. Major export destinations for NFDN exported from the EU are Algeria, Egypt, China, Indonesia, Philippines and Saudi Arabia.

Stocks

According to data published by MMO, until the end of September 2016, 334,419 MT of NFDN have been purchased by the EC within the public intervention scheme, out of which 255,894 MT at fixed price and 78,525 MT within the buying-in via 3 tenders (one in April and two in June 2016). In the first nine months of 2016 some 69,233 MT of NFDN has been offered to PSA. However, out of this, 4,928 MT has been offered until the end of May 2016 under the 210 days maximum storage period and will have to be released from PSA before the end of 2016. Total public intervention and PSA stocks of NFDN at the end of September 2016 are estimated at 398,000 MT, which includes 334,000 MT of public intervention stocks and 64,000 MT of PSA stocks. As a result of increase of prices for NFDN above the intervention threshold in August and September 2016, (on September 11, 2016 EU prices for NFDN were 12 percent above the intervention price) public stocks NFDN are expected to remain at the same level towards the end of the year. Introduction of voluntary reduction of milk production in the EU is expected to limit milk deliveries in the last quarter of 2016 and in effect reduce pressure to store NFDN under the PSA scheme. If the current trend of price increase for raw milk and dairy commodities continues in the last quarter of 2016, the public intervention stocks at the end of the year are expected to amount to 400,000 MT.

Commodities:

Dairy, Dry Whole Milk Powder

Dairy, Dry Whole Milk Powder Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	0	0	0	0	0	0
Production	710	710	720	710	0	720
Other Imports	4	4	5	6	0	6
Total Imports	4	4	5	6	0	6
Total Supply	714	714	725	716	0	726
Other Exports	391	392	400	400	0	410
Total Exports	391	392	400	400	0	410
Human Dom. Consumption	323	322	325	316	0	316
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	323	322	325	316	0	316
Total Use	714	714	725	716	0	726
Ending Stocks	0	0	0	0	0	0
Total Distribution	714	714	725	716	0	726

(1000 MT)

Production

In 2016 WDM production is expected to remain at the level of previous year because higher milk availability will be mostly directed towards manufacturing of cheese, butter and NFDN. It is forecast that in 2017 production will increase in response to expected growing export demand.

Consumption

In 2016 domestic use of WDM is expected to decline because of higher exports and remain stable in 2017.

Trade

It is estimated that in 2016 and 2017 exports of WDM will increase because of growing export demand from China.

Policy:

EU Dairy Crisis About to End?

During 2016 the EC has been under strong pressure from member states and farmer's organizations demanding the implementation of quick and effective measures which would stop the falling farm-gate milk prices. As a result several measures have been implemented by the EC in reaction to the so called "dairy crisis". The opening of public intervention and PSA for NFD, butter and cheese allowed processors to cope with the growing deliveries of milk in the first half of 2016 and stabilized the market. However, stocks of NFD, butter and cheese are expected to influence the EU dairy market in 2017 and probably also in 2018. In the last quarter of 2016 the EC also implemented a voluntary milk production reduction scheme in which farmers will be compensated for producing less milk.

Voluntary Milk Production Reduction Scheme

As of September 27, 2016, over 52,101 dairy farmers from 27 member states (except Greece) participated in the first round of an EU milk production reduction scheme. It is expected that as a result of subsidies paid to producers for reducing production in the three-month period from October to December 2016 compared to the same period of 2015, the decrease of milk production in the EU will amount to over 1 million MT. The biggest reductions of milk production within this program are expected in Germany, France, the UK and the Netherlands. Farmers deciding to decrease production will receive Euro 14 (U.S. \$16) per 100 kilograms of reduced milk production. As the overall volume offered for the first period was just short of 1.1 percent, a second round will run for November 2016 to January 2017 for the final 1.1 percent (11,407 MT). This second round will only be open to those who did not apply for participation in the first round, with October 12 the deadline for submission of applications. At the end of December farmers who declared participation in milk reduction scheme will have 45 days to provide proof that they reduced production in order to receive the EU payment.

Subsidies for public and private stocks, which directed the growing output of milk in 2015 and in the first three quarters of 2016 into high stocks of NFD and butter, and the introduction of the Voluntary Milk Production Reduction Scheme in the last quarter of 2016, resulted in an increase of farm-gate EU milk prices in August and September 2016. The increase of farm-gate prices for milk combined with an increase of world market prices for dairy commodities may be the first sign of the end of the "dairy crisis" in the EU.

New EU Country of Origin Labeling (COOL) Undermining EU Single Market

The European Commission, against the advice from EU food industry associations, gave the green light for new French COOL legislation for dairy and meat products. Italy was fast to move to agree to similar legislation. This is the latest in a series of EU MS initiatives to protect domestic food

producers. In 2011 the European Commission the Food Information to Consumers (FIC) legislation ([Regulation 1169/2011](#)) allowing EU Member States to introduce additional mandatory labelling for specific food categories, including on indication of origin. A whole cascade of MS COOL legislation resulted from this framework regulations, with MS like Sweden, Lithuania, Portugal, Romania and others launching COOL initiatives. Other MS engage in other initiatives, but mainly with the same goal as Poland, such as introducing a retail tax on retailers. The latest Romanian legislative initiative takes things even a step further by mandating that retailers preserve 51 percent of retail shelves for “local” products. EU food industry associations are concerned with these initiatives as they undermine the EU principle of the single market. Some experts believe that these legislative initiatives violate European Treaties.

End of the report.