

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## EU-27

## Dairy and Products Semi-annual

## 2013

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**Report Highlights:**

In 2013, EU-27 milk deliveries are expected to increase only slightly despite favorable world market conditions for dairy products due to higher production costs and unfavorable weather conditions. The 3 percent decline in milk deliveries recorded early in 2013 is expected to reverse itself as the feed situation improves. Any increase in milk production will mostly go into production of cheese which remains high in demand both domestically and internationally. Because of limited supplies of raw milk, production of Whole Dry Milk should decrease slightly while that of butter and Non Fat Dried Milk should remain level with last year. In 2013, strong demand from Russia will drive EU-27 exports of cheeses and butter while limited stocks of NFDM will crimp its availability for export.

## **Executive Summary:**

### **Production:**

In 2013, milk deliveries in the EU-27 are expected to increase only slightly (0.1 percent) in comparison to 2012. The increase will be lower than predicted in the Annual Report (October 2012) because of increased production costs, a long and severe winter in Europe and a delayed spring which moderated milk production. The increase in prices on the international dairy market in the last quarter of 2012 and beginning of 2013 resulted in higher export demand for dairy commodities and an increase of average EU-27 farm-gate milk prices. The improved world market situation, positive forecast of crops in 2013 and discontinuation of dairy quota system scheduled for April 1, 2015 are expected to stimulate EU-27 dairy production towards the end of 2013 into 2014. The slight increase in milk production expected in 2013 will be mostly directed to the production of cheese, which remains high in demand both domestically and internationally. For 2013, production of Non-Fat Dry Milk (NFDM) and butter, are expected to remain at the 2012 levels as production and exports of cheese remain more profitable. In 2013, manufacturing of Whole Dry Milk (WDM) is expected to decrease mostly due to international competition on the world market and limited supplies of raw milk for processing. The trend of the EU-27 dairy herd contraction is expected to continue in 2013. However, higher output per cow is expected to result in increased milk production.

### **Market Intervention:**

Remaining intervention stocks of NFDM, built up in 2009, were totally consumed under EU food assistance programs in 2012. As of May 5, 2013, 34,530 MT of butter were accumulated under the Private Storage Scheme (PSA), which started on March 1, 2013. The amount of PSA built in the period of March 1 to May 5, 2013, is 43 percent lower than in the same period of 2012, which indicates strong demand for butter on the domestic and international markets. Higher PSA stocks built in 2012 were used for increased domestic consumption and exported. Butter stocks are expected to remain at low levels at the end of 2013.

### **Trade:**

It is expected that in 2013, exports of milk powders (WDM and NFDM) will decrease in comparison to 2012 levels while exports of cheese and butter are expected to increase. During the first two months of 2013 exports of cheese, the main dairy product exported by the EU-27, was 14 percent higher in comparison to the same period of 2012. In the first two months of 2013, EU-27 exports of NFDM were reduced by almost 30 percent with most of the decrease in exports to China and Vietnam. However, exports of NFDM to Algeria, a major export destination for the EU-27 NFDM, showed a 75 percent increase in comparison to the same period of 2012, which may indicate a recovery after the 2012 decrease of exports to this destination. EU-27 exports of WDM in the first two months of 2013 declined by seven percent mainly because of lower imports by Algeria, Egypt and China. In the first two months of 2013, exports of butter increased by 16 percent in line with a seven percent increase of butter oil sales in comparison to the same period of 2012. The increase in exports of butter to Russia was followed by higher sales to Singapore and Iran.

As of April 1, 2013, the Custom Union (CU) of Russia, Kazakhstan and Belarus increased tariffs for certain dairy products for a period of three months. The tariff for butter was increased from 15 percent to 18.3 percent but not less than 0.4 Euro per kilogram and for cheese from 15 percent to 20 percent (25

percent for Feta cheese). The temporary increase in tariffs for dairy products is scheduled to remain in effect until June 30, 2013, with a possibility of further extension. Although the increase of tariffs by the CU is expected to adversely affect trade, Russia is expected to remain a major export market for EU-27 dairy products in 2013 importing mainly hard cheese 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 EU-27.**

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**Commodities:**

## Dairy, Milk, Fluid

### Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid EU-27	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	23,122	23,122	22,877	22,844	22,700	22,700
Cows Milk Production	138,219	138,220	140,000	139,000	140,700	139,200
Other Milk Production	4,700	4,700	4,750	4,750	4,750	4,750
Total Production	142,919	142,920	144,750	143,750	145,450	143,950
Other Imports	7	7	5	5	5	5
Total Imports	7	7	5	5	5	5
Total Supply	142,926	142,927	144,755	143,755	145,455	143,955
Other Exports	282	283	350	403	350	400
Total Exports	282	283	350	403	350	400
Fluid Use Dom. Consum.	33,870	33,870	33,950	33,950	33,950	33,950
Factory Use Consum.	108,774	108,774	110,455	109,402	111,155	109,605
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	142,644	142,644	144,405	143,352	145,105	143,555
Total Distribution	142,926	142,927	144,755	143,755	145,455	143,955

1000 HEAD, 1000 MT

### Production:

#### 2013

It is estimated that milk deliveries in 2013 will be only 0.1 percent higher than in 2012. The increase will be lower than previously predicted because of increased production costs, a long and severe winter in Europe and a delayed spring which negatively impacted on pasture conditions and thus milk production. The increase in prices on the international dairy market in the last quarter of 2012 and beginning of 2013 resulted in higher export demand for dairy commodities and led to an increase of EU-27 farm-gate milk prices. However, higher producer prices were not immediately reflected in an increase of production, which indicates a lagging effect of higher prices on increase of output.

Domestic and export demand for dairy products is expected to remain firm towards the end of 2013. The 2013 increase of milk deliveries is expected to be highest in France and Germany, however, the increase of milk deliveries in 2013 will be limited because some member states were close to or slightly exceeded their MY 2012/2013 (April-March) milk production quota ceiling and farmers were afraid of paying fines. Although the one percent increase of milk quota in MY 2013/2014 will allow for further increases of milk production, high costs of feed, energy and the economic downturn in Europe are expected to limit further expansion of milk output. The trend of declining cow numbers is expected to continue in 2013 but it will be offset by increasing productivity per cow is due to availability of better genetics and less efficient farmers exiting production.

#### 2012

In the first half of 2012 the decrease of international prices for dairy products led to a slower pace of milk production increase in the EU-27 in comparison to 2011. Although world dairy market prices started to recover from July 2012 the increase of EU-27 milk output in the second half of the year was slower than expected because of growing feed costs and farmer's fears of exceeding the production quotas. As a result, the EU-27 milk production estimate for 2012 was corrected down in comparison to the 2012 Annual Dairy and Products Report (October 2012).

### **Consumption:**

In 2013, fluid consumption is forecast to remain at the 2012 level due to the lingering effects of the economic downturn in Europe with higher milk output used by the processing industry.

In March and April 2013, Bulgarian and Romanian authorities reported aflatoxin incidents in raw milk tested by regulators. The "aflatoxin" issue led to consumers' reaction to refrain from consuming milk for several weeks in March/April. Consequently farm milk acquisition prices dropped to the discontent of the farmers, but in the same time, retailers made an attempt to prevent further sales from dropping by selling the milk at significant discounts.

### **Trade:**

In the first two months of 2013, extra EU-27 exports increased by over 60 percent due to continued demand by China for UHT milk satisfied mainly by France and Germany. However, overall external exports in 2013 are expected to remain at the 2012 level due to limited availability of raw milk.

### **Commodities:**

Dairy, Cheese

## Production, Supply and Demand Data Statistics:

Dairy, Cheese EU-27	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	9,035	8,981	9,130	9,080	9,180	9,130
Other Imports	74	74	80	77	80	70
Total Imports	74	74	80	77	80	70
Total Supply	9,109	9,055	9,210	9,157	9,260	9,200
Other Exports	683	682	755	776	770	800
Total Exports	683	682	755	776	770	800
Human Dom. Consumption	8,426	8,373	8,455	8,381	8,490	8,400
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	8,426	8,373	8,455	8,381	8,490	8,400
Total Use	9,109	9,055	9,210	9,157	9,260	9,200
Ending Stocks	0	0	0	0	0	0
Total Distribution	9,109	9,055	9,210	9,157	9,260	9,200
1000 MT						

**Please note:** As of October 2012 a new definition is used for reporting on cheese. The new definition includes the following categories of cheese: soft cheese, medium soft cheese, medium hard cheese, hard cheese, extra hard cheese and fresh cheese produced out of cows, ewes, goats, buffalo's and mixed milk. It does not include processed cheese. The "New" production data for 2011 were revised down in order to reflect recent EU production data.

### Production:

It is estimated that EU-27 cheese production increased by one percent in 2012 due to higher output of milk, continuing domestic demand and growing exports. Strong world market prices for cheese are expected to further stimulate an increase of output in 2013. Dairy industries in Germany, France, and Italy remain the driving forces behind EU-27 cheese production, supplying over 55 percent of the total output.

### Consumption:

In 2012, increased cheese output was mainly exported while domestic consumption remained at the high level of the previous year. In 2013, the increase of domestic cheese consumption within the EU-27 is expected to be limited by the economic downturn and growing exports. In several EU-27 member states the economic downturn has led to changes in the consumption pattern of cheese. Although the volume of consumed cheese is growing, consumers have switched to less expensive brands of hard cheese or substituted it with fresh cheese, while higher quality and more expensive brands of European cheeses are mainly exported.

### Trade:

EU-27 export of cheeses is forecast to continue to grow in 2013, mainly due to higher import demand from Russia. In the first two months of 2013, EU-27 cheese exports to Russia increased by 23 percent,

supplied mostly by Germany and Lithuania. The increase of EU-27 cheese exports in 2013 is expected to be limited by the domestic availability of cheese. Major external markets for EU-27 cheeses include Russia, the United States, Switzerland, Japan, and Algeria. Cheese imports are projected to remain within the established import quotas due to growing domestic supplies.

**Policy:**

EU-27 policy on common food names (i.e. generic terms), like parmesan and feta, are raising concern of the U.S. dairy industry. Over the last few years dairy industries have observed more monitoring by the EU regarding these terms within its borders. For example, within the EU-27 “feta” cheese can only come from Greece. Increasingly, the EU is preventing the use of these names in other countries through its Free Trade Agreement negotiations.

**Commodities:**

Dairy, Butter

**Production, Supply and Demand Data Statistics:**

Dairy, Butter EU-27	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	36	36	29	29	40	33
Production	2,055	2,055	2,100	2,100	2,110	2,100
Other Imports	44	44	61	52	50	50
Total Imports	44	44	61	52	50	50
Total Supply	2,135	2,135	2,190	2,181	2,200	2,183
Other Exports	124	124	130	122	150	140
Total Exports	124	124	130	122	150	140
Domestic Consumption	1,982	1,982	2,020	2,026	2,020	2,015
Total Use	2,106	2,106	2,150	2,148	2,170	2,155
Ending Stocks	29	29	40	33	30	28
Total Distribution	2,135	2,135	2,190	2,181	2,200	2,183

1000 MT

### Production:

In 2013, butter output in the EU-27 is projected to remain at the previous year's level due to limited supplies of raw milk. The forecast has been revised downward to reflect the lower availability of dairy commodities in 2013. Growing world prices for butter in the second half of 2012 and beginning of 2013 and higher export demand are expected to result in decreased participation in the 2013 Private Storage Scheme (PSA).

### Consumption:

In 2013, EU-27 domestic consumption of butter is expected to decline in comparison to 2012 due to stable production and higher exports. Although health concerns are still a factor limiting butter consumption, economic considerations are playing a greater role in consumer buying decisions.

### Trade:

In the first two months of 2013, EU exports of butter increased by 16 percent in comparison to the same period of 2012. Higher exports of butter mainly to Russia were accompanied by a seven percent increase in exports of butter oil, mainly to Saudi Arabia. Exports of butter are forecast to remain strong in the first half of 2013 as world market prices for butter are boosted by lower supplies from Oceania. Imports under the EU-27 quota of 77,400 MT set aside for New Zealand are expected to decrease because of increased prices. In the first two months of 2013 imports from New Zealand amounted to 5,624 MT, over 70 percent less than in the same period of 2012.

### Stocks:

The 2013 PSA program started on March 1 and will last until August 15, 2013. Stocks under the PSA built from March 1 till May 5, 2013 amounted to 34,530 MT, down 43 percent from last year's figure, which is indicative of the strong existing demand for butter on the international and domestic markets. Stock levels at the end of 2013 are expected to be lower than those recorded at the beginning of the year.

**Policy:**

On April 14, 2013, butter's weighted average price stood at 371 Euros per 100 kilograms, well above the EU intervention price set at 221.75 Euros per 100 kilograms and the U.S. price of US\$ 287.6 per 100 kilograms.

**Commodities:**

Dairy, Milk, Nonfat Dry

**Production, Supply and Demand Data Statistics:**

Dairy, Milk, Nonfat Dry EU-27	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

<b>Beginning Stocks</b>	195	195	50	50	0	0
<b>Production</b>	1,180	1,180	1,270	1,270	1,290	1,270
<b>Other Imports</b>	0	0	0	2	0	0
<b>Total Imports</b>	0	0	0	2	0	0
<b>Total Supply</b>	1,375	1,375	1,320	1,322	1,290	1,270
<b>Other Exports</b>	518	518	585	523	555	500
<b>Total Exports</b>	518	518	585	523	555	500
<b>Human Dom. Consumption</b>	807	807	735	799	735	770
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	807	807	735	799	735	770
<b>Total Use</b>	1,325	1,325	1,320	1,322	1,290	1,270
<b>Ending Stocks</b>	50	50	0	0	0	0
<b>Total Distribution</b>	1,375	1,375	1,320	1,322	1,290	1,270
1000 MT						

### **Production:**

In 2013, NFDM output is forecast to stabilize because of limited supplies of raw milk and reduced exports. The forecast has been revised downward to reflect the protein balance of dairy commodities in 2013. Although strong world market prices make production of skim milk more attractive, production and export of cheese remains more profitable than processing milk into NFDM and butter.

### **Consumption:**

In 2013, consumption of NFDM is expected to return to lower historical levels. In 2011 and 2012 the high levels of consumption resulted from use of intervention stocks built up in 2009 for domestic assistance programs.

### **Trade:**

In 2013, exports of NFDM are expected to decrease due to lower availability of product in comparison to 2012 resulting from reduced stocks. In the first two months of 2013, exports of NFDM were 29 percent lower than in the same period of 2012.

### **Stocks:**

The use of NFDM intervention stocks committed for 2012 food assistance programs reduced intervention stocks to zero by the end of 2012.

### **Policy:**

On April 14, 2013, the weighted average EU-27 price for NFDM amounted to 297 Euros per hundred kilograms, well above the EU-27 intervention price set at Euros 170/100 kg.

**Commodities:**

Dairy, Dry Whole Milk Powder

**Production, Supply and Demand Data Statistics:**

Dairy, Dry Whole Milk Powder EU-27	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0

<b>Production</b>	685	685	660	660	660	630
<b>Other Imports</b>	2	2	2	3	2	2
<b>Total Imports</b>	2	2	2	3	2	2
<b>Total Supply</b>	687	687	662	663	662	632
<b>Other Exports</b>	390	390	385	387	380	365
<b>Total Exports</b>	390	390	385	387	380	365
<b>Human Dom. Consumption</b>	297	297	277	276	282	267
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	297	297	277	276	282	267
<b>Total Use</b>	687	687	662	663	662	632
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	687	687	662	663	662	632
1000 MT						

### **Production:**

In 2013, WDM production is expected to decrease as limited supplies of raw milk will favor manufacturing of cheese over production of milk powders and butter. Strong competition for raw milk supplies in the beginning of 2013 as a result of delayed spring flush and a very competitive export markets limited the increase of WDM production in early 2013. This situation is expected to persist through the balance of the year.

### **Consumption:**

In 2013, domestic disappearance of WDM is expected to decrease in response to reduced availability.

### **Trade:**

In 2013, lower production coupled with strong competition from Oceania in the Asian markets is expected to result in reduced EU-27 exports. In the first two months of 2013, EU-27 exports of WDM were seven percent below the previous year's level, mainly due to lower shipments to Middle East markets and Nigeria, despite higher exports to Algeria.

In the first two months of 2013 exports of infant formula from the EU-27 increased by 23 percent in comparison to the same period of previous year. However, exports of infant formula to China increased in the first two months of 2013 by 114 percent following almost 50 percent increase in 2012 compared to 2011. The Netherlands is the major supplier of infant formula to China and Hong Kong. The increase of exports from the EU resulted in a shortage of baby formula on the domestic market, especially in the Netherlands, Germany and Great Britain. The exports of infant formula are not included in the EU-27 export refund programs, so the product has to compete on the world market on the equal basis with other suppliers.

### **General EU-27 Policy:**

*European Common Agricultural Policy (CAP) Debate Entering Final Stage as the Three EU Institutions Hold Trialogue Negotiations.*

The debate on the new EU CAP has gained new traction after the European Council agreed to the Multi-annual Financial Framework (MFF), which fixes the EU-27 budget for 2014-2020. Negotiations between the three EU institutions (European Commission, European Council of Ministers and European Parliament), the so-called triad, are now entering final discussions.

The European Parliament (EP) voted a negotiating mandate for the triad that includes a [report](#) [1] by French Member of Parliament Michel Dantin who proposed new systems for supply management in case of a market downturn. For dairy, this would entail dairy farmers reducing their production on a voluntary basis and in turn they would be compensated, while farmers who increased milk production would have to pay a penalty to cover the compensations. In the Council, few Member States (MS) are supportive of the Dantin report, with a likely majority opposed to the proposed mechanism. The Irish EU Presidency hopes to finalize an agreement in triad meetings between the Commission, the Council, and the Parliament by the end of its mandate in June 2013.

The European Dairy Association, in a [report](#) [2] on its March 20, 2013 Policy conference, spoke out against the Dantin report as the suggested supply control mechanism would discourage new investments by young dairy farmers at the time that new entrants into dairying are badly needed because of the high average age of European dairy farmers. The European Dairy Trade Association EUCOLAIT holds a similar view in its [position paper](#) [3] on the new CAP proposals. The whole European dairy industry holds the view that, at a time when world dairy markets are vastly expanding, any European measures stifling increased productivity would only benefit global competitors.

### *Dairy Package Showing Mixed Result*

The [Dairy Package](#) [4], which introduced new tools to the EU-27 dairy sector as the quota system is nearing its expiration date in March 2015, was implemented on October 3, 2012. Early reports indicate that up to half of the MS may introduce compulsory contracts between farmers and dairy processors, with France, Spain and Italy on the forefront of this development. However, cooperative processors were already operating under a contractual basis. All MS seem to have created the possibility for the creation of producer organizations, while several MS also provide for the creation of inter-branch organizations.

The main impact from the Dairy Package so far seems to be that all parties in the EU dairy market are finally realizing that the post-quota market will be a different game than they had anticipated.

### *Croatia set to become the 28<sup>th</sup> EU Member State on July 1, 2013.*

On December 9, 2011, Croatia signed its Treaty of Accession to become the twenty-eighth member of the EU. Croatia plans to accede to the EU on July 1, 2013, following ratification by current MS. Croatia negotiated a milk production quota of 765,000 MT for the two remaining quota years 2013/14 and 2014/15. Exceptional measures for the marketing on the domestic market of milk produced not in compliance with EU standards have been agreed through December 31, 2015. [Commission Implementing Regulation \(EU\) No 286/2013](#) [5] details the transitional measures that will apply to the trade in agricultural products.

[1]

[http://www.europarl.europa.eu/RegData/commissions/agri/projet\\_rapport/2012/485843/AGRI\\_PR\(2012\)485843\\_EN.pdf](http://www.europarl.europa.eu/RegData/commissions/agri/projet_rapport/2012/485843/AGRI_PR(2012)485843_EN.pdf)

[2] <http://www.euromilk.org/upload/docs/EDA/EDA%20Policy%20Conference%202013-%20Summary%20Report.pdf>

<sup>[3]</sup> <http://www.eucolait.be/positions-a-letters/cap/14310-eucolait-position-single-cmo-trilogue-april-2013>

<sup>[4]</sup> [http://ec.europa.eu/agriculture/milk/milk-package/index\\_en.htm](http://ec.europa.eu/agriculture/milk/milk-package/index_en.htm)

<sup>[5]</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:086:0007:0011:EN:PDF>