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Report Highlights:

In 2011, EU-27 milk production is expected to increase in response to growing demand on the domestic and international markets. While raw milk prices continue to entice EU farmers, rising input costs are forcing more efficient production practices with fewer animals. In 2011, the raw milk output increase amount is expected to be consumed for cheese, Non Fat Dried Milk (NFDM) production, and butter manufacturing. Higher market prices should mute calls for intervention in the butter and NFDM markets by the European Commission. .

Executive Summary:

Production:

In 2010, EU farmers increased milk output by an estimated 1.2 percent in response to 15 percent growth in the average farm-gate prices for raw milk. High prices for dairy products on the world market and growing domestic consumption in the European Union (EU) are expected to further stimulate raw milk production in 2011. High raw milk prices continued to the first quarter of 2011. The increase of 2010 milk production was highest in France, Germany, and Ireland, and was mostly achieved through rising milk yields as EU dairy herd inventory numbers continued to decline. In Spain and Portugal, high feed prices and milk imports have limited the profitability of milk production, and subsequently production gains from price increases.

In 2011, increased raw milk output is expected to be used mostly for cheese production, Non Fat Dried Milk (NFDM) production, and butter manufacturing. Cheese remains in high demand on both international and domestic EU markets. In 2011, cheese is expected to generate higher profit margins than butter, NFDM, and whole dry milk (WDM). WDM production in 2011 is expected to remain at the 2010 level due to expected lower demand for exports caused by increased competition from Oceania on the world market.

Market Intervention:

The European Commission's intervening in the butter and NFDM markets is unlikely due to high market prices. Intervention stocks of butter, built in 2009, practically disappeared in 2010 through internal food assistance programs and exports. By the end of 2010 stocks of butter, remaining in private storage (PSA), returned to historical levels. Intervention stocks of NFDM are expected to drop in 2011 through internal food aid programs reflected in higher domestic consumption and exports. Exports of NFDM in 2011 are expected to increase due to strong demand from Russia and China.

Trade:

Strong demand on the world market for cheese, NFDM, butter and WDM continued in the first two months of 2011. The value of exports of such dairy products from the EU-27 during this period amounted to \$1,290 million, 20 percent higher than during the same period in 2010. In comparison, total U.S. dairy exports in January and February of 2011 amounted to \$675 million, which was 52 percent higher than the same period of 2010.

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.

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 Piotr Rucinski from FAS Warsaw covering Estonia, Latvia, Lithuania and Poland
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Related reports

EU27 Dairy and Products 2010 Annual Report	10/15/2010	<u>Dairy and Products Annual Warsaw EU-27 10-12-2010</u>
Italy – dairy Outlook 2010	9/24/2010	<u>Dairy Outlook 2010 Rome Italy 9-24-2010</u>
Greece – Dairy 2010	9/21/2010	<u>Greece Dairy 2010 Rome Greece 9-21-2010</u>
Dairy Sector Update, Sofia, Bulgaria	12/9/2010	<u>Dairy Sector Update Sofia Bulgaria 12-2-2010</u>

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Commodities:

Dairy, Milk, Fluid

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid EU-27	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	24,192	24,192	23,662	23,653	23,500	23,600
Cows Milk Production	133,700	133,700	134,200	135,350	134,700	136,600
Other Milk Production	4,020	4,020	4,020	4,020	4,020	4,020
Total Production	137,720	137,720	138,220	139,370	138,720	140,620
Other Imports	16	16	10	5	10	5
Total Imports	16	16	10	5	0	5
Total Supply	137,736	137,736	138,230	139,375	138,730	140,625
Other Exports	171	171	200	217	200	225
Total Exports	171	171	200	217	200	225
Fluid Use Dom. Consum.	33,700	33,700	33,850	33,950	33,900	34,000
Factory Use Consum.	103,865	103,865	104,180	105,208	104,630	106,400
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	137,565	137,565	138,030	139,158	138,530	140,400
Total Distribution	137,736	137,736	138,230	139,375	138,730	140,625
1000 HEAD, 1000 MT						

Production:

In 2011, milk production in the EU-27 is expected to continue its upward trend, despite fewer producing cows, as a result of increasing milk yields. Average farm-gate prices for milk increased by 15 percent in 2010 and continued to rise in the first quarter of 2011. Producer prices are likely to remain firm towards the end of 2011 due to continuing demand for dairy products on the domestic and international market.

Stronger demand for raw milk spurred by improved world market conditions for dairy products will likely deter the European Union (EU) from undertaking market intervention measures this year. Despite an increase in production the MY 2010/11 EU dairy quota (April-March) was not filled. Until abolishment in 2015, milk production quota will increase one percent per year.

While raw milk production is increasing in the former EU15 countries, mainly France, Germany, and Ireland, it is on the wane in the former EU12 countries. In 2010, French milk deliveries increased by almost 3 percent. During 2010, French farmers benefitted from a two percent increase in production quota (including one percent not used in 2009 and one percent for 2010). To increase milk production, French dairy farmers used more compound feed (compound feed production for dairy cows increased by 8.5 percent from July 2010 to February 2011, compared to the same period of 2009/2010), which resulted in increased milk yield per cow. In Germany, the increase of milk deliveries in 2010 was limited by the ceiling imposed by the production quota; thus amounted to 1.45 percent. The increase was achieved by a combination of greater cow numbers and higher milk yields. In contrast to the situation in France, the latter was not a result of higher compound feed use. Instead, the following factors were the driver behind higher milk yield: genetic progress, culling of less productive animals, less productive farms going out of business, and better quality of forages. In Spain and Portugal, high feed prices and milk imports have limited the profitability of milk production, and subsequently, production gains from price increases. Portugal is self-sufficient in milk production, so other-EU imports have a larger impact on the market relative to Spain.

In New Member States, the sector's consolidation process - further reduction in dairy cow inventories and number of dairy farms, is expected to continue especially in Bulgaria, Romania, and Poland. The downward trend of the Czech and Slovak dairy sector continues – numbers of dairy cows are

decreasing as well as milk output. The same trend also can be seen in output of Czech dairy products, which have difficulty competing on the EU market due to higher prices.

European farm-gate milk prices increased 1.7 percent in January and continued rising through most of February. Towards the end of February the price stabilized as international commodity buyers started to show reluctance to purchase at current price levels.

Consumption:

Fluid milk consumption in the EU-27 increased an estimated 0.7 percent in 2010 due to higher output of raw milk and growing domestic demand in certain EU countries. Increased production of fresh cheeses, yogurts and other fresh dairy products also contributed to the higher consumption of dairy products in 2010. In 2011, fluid milk use in the EU-27 is expected to increase further due to higher output of milk and to continuing recovery of the economy. However, the increased output of raw milk in 2011 is expected to be directed for factory use. MY 2010 has seen increased fluid milk consumption in the UK - the sector has seen significant price promotions by retailers – and a further increase is forecast for MY 2011. However, consumer demand still remains depressed, especially for more expensive dairy products in Bulgaria. Unlike other dairy products, demand for fluid milk production is growing in Romania, supported by increasing consumer awareness regarding the risk of purchasing milk from unknown sources (i.e., street vendors).

Trade:

Dutch milk trader Trigona Dairy Trade plans to start an online trading auction named “Dairy Auctions Online” later this year. The platform will be Europe-wide and will trade butter, cheese, and milk powder. Auctions will be for 22-tonne batches, starting from a minimum price. Major import markets for the EU dairy products are Russia, China, and North Africa. However, Japan may become an emerging market due to shortages caused by tsunami. In mid-April, 16 Polish dairy plants were approved by the veterinary authorities of the Russian Federation for export of dairy products to Russia.

Commodities:

Dairy, Cheese

Production, Supply and Demand Data Statistics:

Dairy, Cheese EU-27	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	6,810	6,810	6,970	6,970	7,040	7,050
Other Imports	81	81	81	78	80	80
Total Imports	81	81	81	78	80	80
Total Supply	6,891	6,891	7,051	7,048	7,120	7,130
Other Exports	510	510	580	603	590	620
Total Exports	510	510	580	603	590	620
Human Dom. Consumption	6,381	6,381	6,471	6,445	6,530	6,510
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	6,381	6,381	6,471	6,445	6,530	6,510
Total Use	6,891	6,891	7,051	7,048	7,120	7,130
Ending Stocks	0	0	0	0	0	0
Total Distribution	6,891	6,891	7,051	7,048	7,120	7,130

1000 MT

Production:

In early 2010, margins for cheese production recovered to previous levels and boosted production towards the end of the year. In 2011, cheese production in the EU-27 is expected to increase by 1.5 percent due to growing availability of raw milk, stronger export demand, and higher domestic consumption. As more milk is being used for the production of cheese, the availability of raw milk for powder production is tightening.

Germany, France, and Italy are European leaders of cheese production supplying over 55 percent of the total output. In Germany and France cheese manufacturing in 2011 is expected to grow due to increasing domestic consumption. The dairy sector in the Benelux countries believes that cheese, in particular branded cheese, will be the main dairy product, which may be competitive on the world market. Italian hard cheese production, driven by Parmigiano Reggiano and Grana Padano, performed very well in 2010 showing an increase of 2.4 percent and 2.8 percent respectively. The production increase was mainly due to recovering prices and to growing demand in main export markets, United States, Germany, and UK. In 2010 UK production increased, although the number belies a shift towards the more mature cheeses. A further rise in production is forecast for 2011. Cheese and butter production is forecast to rise in the Republic of Ireland supported by increased domestic supplies of fluid milk.

Consumption:

In 2011 domestic consumption of cheese in the EU-27 is expected to increase. After declining in 2009 consumption rebounded in 2010 due to improvement of the EU's economy. In 2010 French cheese consumption strengthened as retail prices fell (one percent lower than in 2009) and cheeses used in processed foods increased. Domestic consumption of cheese in Italy stagnated in 2010 and will not

likely increase in 2011 due to rising prices. Intra-EU specialty cheese imports are also on the rise, largely due to the increased popularity of blue vein cheeses in the UK.

Trade:

After an 18 percent increase in 2010, EU-27 exports of cheese are forecast to increase at a slower pace in 2011. Despite continuing world demand, EU-27 cheese exports in 2011 will be limited by limited supply on the EU market. Major export markets outside of the EU are the United States, Switzerland, Japan, Russia, and Saudi Arabia. Export interest will also be influenced by the Euro/US\$ exchange rate. Cheese imports are forecast to remain within the import quota due to growing domestic supplies.

In 2010, increased cheese exports from Germany, the largest European exporter of cheese, was stronger than previously expected. The increase was mostly due to a 70 percent increase in cheese exports to Russia (mainly Gouda, Tilsit, and Edam). The increase in France's cheese exports in 2010 mainly consisted in stronger shipments of processed cheese and low-priced cheese categories. German exports of cheese are expected to continue at the same level in 2011, and French exports of cheese are anticipated to remain strong.

Commodities:

Dairy, Butter

Production, Supply and Demand Data Statistics:

Dairy, Butter EU-27	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	53	53	103	103	53	2
Production	2,030	2,030	1,980	1,980	1,975	2,000
Other Imports	63	63	65	41	65	50
Total Imports	63	63	65	41	65	50
Total Supply	2,146	2,146	2,148	2,124	2,093	2,052
Other Exports	169	169	200	155	165	172
Total Exports	169	169	200	155	165	172
Domestic Consumption	1,874	1,874	1,895	1,967	1,880	1,880
Total Use	2,043	2,043	2,095	2,122	2,045	2,052
Ending Stocks	103	103	53	2	48	0
Total Distribution	2,146	2,146	2,148	2,124	2,093	2,052

1000 MT

Production:

In 2010, EU-27 butter production declined by two percent as the milk processing was directed into manufacturing of cheese. In 2011, butter production is forecast to increase due to higher supplies of raw milk, higher milk fat content in raw milk and continuing export demand. Germany, France, and The Netherlands are the major producers of butter in the EU supplying 65 percent of the total production.

Consumption:

In 2011, EU-27 domestic consumption of butter is expected to decrease in comparison to 2010 when governmental assistance programs for needy people using butter released from intervention stocks resulted in higher local consumption. The European Commission approved these assistance programs implemented by Member States (MS). Consumption patterns are expected to return to the longer-term downward trend of reduced consumption driven by health-related concerns. However, in 2010, in France, retail sales of low-priced butter as a cooking ingredient declined as consumers cooked less at home, purchased more prepared meals, and ate out more as the economy moved towards recovery. On the other hand, in Germany lower butter prices on the domestic market induced food processors to substitute more butter for vegetable oils.

Trade:

Butter is in short supply on the world market. Currently demand in Asia is not serviced adequately by suppliers from the EU-27, the United States, and Oceania. In 2011, EU exports of butter are expected to increase, driven by high world butter prices. Imports are expected to remain within the existing 65,000 MT import quota.

Stocks:

At the end of 2010, EU-27 butter stocks were almost totally used while Private Storage returned to its historical level. By the end of 2010, intervention stocks built mostly in 2009 were consumed under EU food assistance programs. As of April 19, 2011, the remaining intervention stocks amounted to 1,544 MT and had been already allocated for food assistance programs within the EU. As of mid-April 2011, 25,418 MT of butter was in storage under the PSA scheme (mainly in The Netherlands and France). (Note: Butter can only be committed under the PSA program from March through August.)

Policy:

On April 20, 2011, butter's weighted average price stood at 382 Euros per 100 kilograms. The EU intervention price is set at 221.75 Euros per 100 kilograms. If market prices remain constant in 2011, no EU butter intervention should occur this year.

Commodities:

Dairy, Milk, Nonfat Dry

Production, Supply and Demand Data Statistics:

Dairy, Milk, Nonfat Dry EU-27	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	259	259	170	195
Production	1,080	1,080	980	980	970	1,010
Other Imports	6	6	5	4	5	5
Total Imports	6	6	5	4	5	5
Total Supply	1,086	1,086	1,244	1,243	1,145	1,210
Other Exports	231	231	350	378	330	400
Total Exports	231	231	350	378	330	400
Human Dom. Consumption	596	596	724	670	735	780
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	596	596	724	670	735	780
Total Use	827	827	1,074	1,048	1,065	1,180
Ending Stocks	259	259	170	195	80	30
Total Distribution	1,086	1,086	1,244	1,243	1,145	1,210

1000 MT

Production:

In 2011, the EU-27 Non-Fat Dry Milk (NFDM) production is expected to increase in response to higher output of raw milk and growing export demand. Due to the high butter price, the margin from NFDM production is still higher than for WDM production. France and Germany are leaders of the NFDM production in Europe supplying over 55 percent of total output. In 2010, French NFDM production increased by more than seven percent triggered by higher exports to both EU and non-EU countries. In contrast and as was expected, Germany NFDM production decreased by 9 percent in 2010 as other products (mainly cheese) provided better market opportunities and intervention for NDFM was no longer permissible.

Consumption:

In 2011, EU-27 consumption of NFDM is expected to increase due to growing local demand from food and feed industries emerging from the recent economic downturn. Consumption is also expected to increase due to domestic use of intervention stocks within the 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.

Trade:

In 2011, EU-27 exports are projected to increase as a result of higher demand, mainly from Russia and China. In the first two months of 2011 NFDM exports totaled 72,000 MT, an 11 percent increase in comparison to the first two months of 2010. Exports are expected to continue at a higher level during the first half of 2011 with further release of intervention stocks and continued demand from Asian and South African markets.

In 2010, Benelux exports of NFDM increased, mainly to Algeria, Russia, and Nigeria. French exports to non-EU destinations doubled to 65,000 MT, mainly due to higher shipments to Algeria, Russia, Indonesia, the Philippines, Morocco, China, and Nigeria. German exports increased to 50,000 in 2010 from 29,000 MT in 2009, with the largest increases occurring to Russia, Indonesia, China, and Yemen.

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. However, world market prices will determine the EU rate of release of intervention stocks in 2011. European exchange rates will play an important role for the global market competitiveness of NFDM.

Policy:

On April 20, 2011, the weighted average price for NFDM amounted to 237 Euros per hundred kilograms, well above the EU intervention price. If prices for NFDM remain at or near current levels in 2011, no EU intervention of NFDM should occur this year.

Commodities:

Dairy, Dry Whole Milk Powder

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder EU-27	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	790	790	760	780	750	780
Other Imports	1	1	0	2	0	2
Total Imports	1	1	0	2	0	2
Total Supply	791	791	760	782	750	782
Other Exports	463	463	430	444	420	420
Total Exports	463	463	430	444	420	420
Human Dom. Consumption	328	328	330	338	330	362
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	328	328	330	338	330	362
Total Use	791	791	760	782	750	782
Ending Stocks	0	0	0	0	0	0
Total Distribution	791	791	760	782	750	782
1000 MT						

Production:

In 2011, EU-27 whole milk powder (WMP) production is expected to remain at the 2010 level due to competition from manufacturing of cheese. Both products compete for a higher supply of raw milk. In 2010, WMP production turned out to be higher than expected due to higher raw milk production and stronger export demand.

Consumption:

In 2011, domestic consumption of WDM is expected to increase due to stronger demand within the food industry.

Trade:

In 2011, flat production coupled with stiff competition from Oceania in the Asian markets is expected to hamper EU-27 export prospects. WDM is, however, a branded product and produced on contract basis, thus production in general varies less than NFDM. The leading export destinations for EU WMP are Algeria, Nigeria, and Oman.

Policy:

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

Following the report and recommendations of the High Level Group (HLG) on Milk, the Commission tabled on December 13, 2010 a proposal, known as the "Dairy package." 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
- 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 for 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.

Discussions in the European Parliament (EP), which has the same decision power under co-decision, are ongoing on various aspects of the proposal. On February 24, 2011, the Agricultural Committee accepted a [Draft Report](#) tabling 40 amendments to the Commission proposal. Amendments would limit the volume of milk negotiated by any particular PO to 20 percent of production instead of the proposed 33 percent, except in those countries with “insignificant” production, where the market is already highly consolidate, the limitation would be set at 75 percent.

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.

Milk producer prices in France are already negotiated among the government, farmers, and dairies. Since January 2011, these stakeholders agreed on limiting producer price fluctuation as follows: they can freely fluctuate by less than 10 Euros per MT per month and less than 8 Euros per MT per year, but for higher fluctuations, French producer prices will have to follow German milk prices trends.

In Spain, the government has approved Royal Decree (RD) 460/2011 that regulates the functioning of the milk producer organizations and dairy sector inter-professional organizations, and states Spanish decisions on the use of contracts in the dairy sector in accordance with the European norm that will modify Regulation (EC) 1234/2007 for the dairy sector. The initial objectives of the Ministry of Environment, Rural, and Marine Affairs (MARM) were:

- the raw milk supply contracts be mandatory after a 6 month period counting from the beginning of the campaign that started April 1st,
 - the final date and price of the contracts could be negotiated by the Producers Organizations (PO),
 - the Inter-Professional Organizations (IPO) could reach agreements and propose contracts.
- However, the Spanish Competition Authority recommended that these issues be eliminated from the text or be made conditional to the approval of EU legislation that establishes it.

Consequently, the approved Royal Decree has a clause that makes the three above mentioned requirements conditional to what will be set by the future European Union regulation.

The Quality Package

On December 10, 2010, the Commission proposed a "Quality Package" consisting 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 practices 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.

Following the decision of the Permanent Committee for Food Chain and Animal Health adopted on September 15, 2009, the derogation period for deliveries of non-compliant raw milk to processing establishments in Romania was extended with 2 years, until December 31, 2011. This extension concerns both milk quality standards (hygiene) and structural requirements. Non-compliant milk and its derivatives can be traded on the domestic market. It is estimated that out of the total amount of milk delivered to dairy plants in Romania, only 60 percent complies with EU standards, therefore EU approved the two-year extension.

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.
- 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.

EU dairy farmers have a lot at stake after the expiration of the milk production quota in 2015. They will be much more exposed to market forces and subsequent price volatility. Direct payments for dairy production, which were introduced in the 2008 Mid Term Review, are likely to be significantly cut, if not completely ceased. New support instruments will have to emerge to protect dairy farming in Least Favored Areas.

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, it is most likely that the Member States, through the Council, will pursue budget cuts for the CAP, while the European Parliament is a strong defender of farmer interests. Agricultural Commissioner Dacian Cioloș is now scheduled to present the Commission's formal proposal for the CAP towards 2020 in the October/November 2011 time frame, after a several months' delay.

[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