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## **European Union**

### **Dairy and Products**

### **2000 EU Dairy Report**

Approved by:

**Office of Agricultural Affairs**

**U.S. Mission to the EU**

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#### **Report Highlights:**

**EU dairy production slightly increased in 1999 and more milk was processed into cheese, given more favorable market conditions. EU dairy exports, particularly cheese and SMP, improved as of the second half of 1999.**

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Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

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## EXECUTIVE SUMMARY

EU dairy production in 1999 was slightly higher than expected, with growing exports in the second half of the year and good consumption levels for cheese and SMP. Production will likely increase somewhat in 2000 as a consequence of additional quota granted to four member states under Agenda 2000 provisions. Cheese production is likely to increase in 2000 thanks to improved exports and favorable EU consumption levels. SMP production will be boosted by export and domestic feed mixers demand. Butter production, burdened by increasing intervention stocks, is expected to stagnate.

Consumption of dairy products continued to grow slowly in 1999. Cheese consumption grew slightly more than expected. Surprisingly, the dioxin crisis attracted EU consumers towards cheese and away from butter. Butter consumption remains sluggish, but new products, such as spreadable butter, are quite successful on the EU domestic market. Large quantities of SMP were bought in 1999 and 2000 by feed compounders for calf fattening, after the termination of EU early marketing schemes for calves.

Dairy exports started growing as of the summer of 1999, following improved demand on world markets and a weak euro. This improvement started with SMP, which benefited from high export refunds until October 1999. These refunds were later gradually decreased by 20 pct. EU SMP exports also filled in for short supplies of other world producers. Later in the year, cheese exports grew, with additional quantities going to the U.S. and limited volumes to Russia. Butter exports keep stagnating.

Dairy imports grew slowly in 1999 and will continue to do so in 2000, as GATT quotas still leave some room for import expansion, mostly for cheese.

EU dairy policy developments in 1999 were marked by several unfavorable reports by EU institutions on the EU dairy regime triggering minor adjustments to intervention and export refund systems. Protein standardization is being approached from several angles but has not been implemented yet. Enlargement threatens to raise fundamental concerns to the EU dairy industry and will likely make more acute the need to carry out dairy reform before 2005, as originally scheduled in Agenda 2000.

#### NOTES:

Sources of information for this report include: European Commission DG Agriculture (dairy unit) and long-term forecasts, Eurostat (Jan-July 1999 figures), European Dairy Association, Irish Dairy Board, Danish Dairy Board, ATLA, ZMP, Agra Europe, Dairy Industry Newsletter, Agra Focus.

Unless otherwise specified, trade figures represent extra-EU exports and imports.

For practical Agenda 2000 dairy measures, please refer to the 1999 EU dairy annual report (E29052)

### Dairy production

PSD Table						
Country:	European Union					
Commodity:	Dairy, Milk, Fluid					

	1998		1999		2000	
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1998		01/1999		01/2000
Cows In Milk	21271	21767	20899	21516	0	21157
Cows Milk Production	120902	120700	120300	120732	0	121200
Other Milk Production	3300	3300	3300	3300	0	3300
TOTAL Production	124202	124000	123600	124032	0	124500
Intra EC Imports	6736	5400	6750	5510	0	6750
Other Imports	18	15	20	18	0	10
TOTAL Imports	6754	5415	6770	5528	0	6760
TOTAL SUPPLY	130956	129415	130370	129560	0	131260
Intra EC Exports	6837	5400	6850	5510	0	6750
Other Exports	196	145	200	150	0	130
TOTAL Exports	7033	5545	7050	5660	0	6880
Fluid Use Dom. Consum.	91323	91300	91270	90412	0	90380
Factory Use Consum.	24000	24000	23500	24500	0	25000
Feed Use Dom. Consum.	8600	8570	8550	8988	0	9000
TOTAL Dom. Consumption	123923	123870	123320	123900	0	124380
TOTAL DISTRIBUTION	130956	129415	130370	129560	0	131260
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

EU milk production variations are traditionally limited by production quotas. Milk production in the EU nevertheless unexpectedly experienced a slight increase in 1999, mostly due to better export prospects in the second half of the year helped by a weak euro and recovering demand on world markets. Domestic demand also turned out to be more favorable than expected for cheese and SMP for feed.

Approximately 96 pct of EU milk is still delivered to dairies. Milk production is becoming more efficient as milk yields are expected to progress by 1.7 pct every year, while the number of dairy cows decreases by a slightly lower average on a yearly basis.

The EU dairy market in 1999 was a mirror image of the previous year: while 1998 had a booming first six months and a second semester collapse due to the Russian crisis, 1999 started very sluggishly and recovered strongly in the second half. The common factor between the two years was the influence of the Russian market.

In 2000, milk production will likely increase further as additional quota allocations enter into force: Greece, Spain, Italy, Ireland and Northern Ireland will be granted an additional 139,000mt. Actual production growth will likely be less than actual quota increases, as additional quantities might not increase deliveries but only reduce superlevy-taxed overproduction. Furthermore, production will be encouraged by continuing favorable export forecasts, as exports have traditionally worked as a disposal system for EU surplus production. However, any increase will remain modest as shrinking dairy herds and increasing fat content offset improving yields.

000mt	Reference quantities 1999/2000		
	Reference deliveries	Reference direct sales	Production 1999
Total EU	115,886	1,616	119,918
Germany	27,767	98	28,500
France	23,793	111	24,700
UK	14,373	442	14,575
Netherlands	10,991	83	10,895
Italy	9,698	231	10,800
Spain	5,457	109	5,600
Ireland	5,236	9	5,398
Denmark	4,454	0.7	4,600
Sweden	3,300	3	3,300
Belgium	3,140	169	3,455 (incl. Lux.)
Austria	2,543	205	3,145
Finland	2,394	10	2,450
Portugal	1,835	37	1,750
Greece	629	0.6	750
Luxembourg	268	1	

Source: European Commission, Dairy Markets Weekly. Production figures have not been adjusted for butterfat.

Estimates show that the most significant 1999 increases in production took place in the UK and Spain while output in France, Italy and Austria also grew. On the other hand, milk deliveries in Germany and Denmark decreased.

The first half of 1999 saw the continuation of a trend triggered in 1998 towards SMP and butter production as a reaction to poor cheese exports. This trend was somewhat reversed in the last months of 1999 with increased production of cheese for which internal demand is strong and export prospects improving. SMP production was nevertheless sustained by equally favorable export prospects and decreasing intervention stocks. This trend should continue throughout 2000. Again EU dairy production options were oriented by export opportunities, although domestic consumption levels influenced processing choices.

Germany and France still produce almost half of EU milk. Five member states (Germany, France, UK, the Netherlands and Italy) represent 75 pct of EU dairy production.

Nine member states faced superlevy bills in 1998/99 on account of 762,698mt of over-quota production. The total supervely bill amounts to 272 million euro (versus 205 million euro in 1998). Italy will again be the main contributor to the superlevy fund, with a 105 million euro fine, while Germany accounts for 66 million euro, Austria for 38 million, the Netherlands for 20 million. Further smaller penalties have also been triggered in the Netherlands and the United Kingdom for exceeding quotas for direct sales. "Traditional" superlevy contributors such as Italy, Germany and the UK reduced their overproduction in 98/99 while Austria, who was producing under quota until 96/97 is now ranking third for overproduction.

#### Milk use in the EU (million tons)

	1998	1999	2000
Farm used milk	22.7	22.5	22.4
of which feed	17.7	17.7	17.7
Deliveries	115.9	115.3	116
Available milk	120.9	120.1	120.7
Cheese	37.6	37.5	38.1
Butter	37.4	37	36.6
Fresh products	26	25.7	25.9
Cream	11.2	11.2	11.2
Other	8.7	8.7	8.9

Source: European Commission

## Dairy consumption

EU dairy consumption has generally stabilized over the past years. Increasing rates can still be observed for fresh products and, more surprisingly, for cheese, which has experienced an unexpected albeit modest boom on the domestic market in the second half of 1999. Part of this increase can be explained by the effects of the dioxin crisis, which led EU consumers to turn to sources of protein other than meat.

Consumption aid schemes are unique to the dairy regime in the Common Agricultural Policy. Besides specific schemes subsidizing SMP and butter consumption (see separate sections), skim fluid milk for casein production also benefits from EU aid programs, at a cost of 290 million euro for 4.46 million tons subsidized. The school milk program also subsidizes a yearly 310,000mt of milk equivalent at 95% of the target price, although discussions are underway to reduce EU financial participation to 50% of the program. The scheme subsidizing skim fluid milk for feed use (which represented 320,000mt at 58 euro/ton in 1999) was discontinued in December 1999. This termination was motivated by the difficulty to control the scheme and to avoid fraud.

## Dairy trade

**Milk exports**

Export Trade Matrix	Units:MT
Country:	
Commodity:	
Time period:	
Exports for	1999
U.S.	3700
Others	
Switzerland	25000
Ceuta&Melilla	20100
Saudi Arabia	16900
Andorra	7800
Mauritania	3900
Russia	3800
Senegal	3600
Ivory Coast	3400
UAE	3400
Nl Antilles	1900
Total for Others	89800
Others not listed	56500
Grand Total	150000

Source: Eurostat

**Milk 1999 exports by member state (MT)**

	Extra-EU	Intra-EU
Total EU	150002	5510000
France	61500	754900
Spain	26100	375200
Netherlands	20200	413500
Germany	18600	699800
Denmark	9800	14800
Austria	3600	6600
Finland	3300	500
Italy	2100	2004600

Belgium	2100	787900
UK	1400	198400
Portugal	900	44100
Greece	300	55100
Sweden	100	700
Luxembourg	2	27500
Ireland	0	126700

Source: Eurostat

Export profiles for 1999 were clearly differentiated between first and second semester. The first six months were basically the continuation of the second half of 1998, with major crises hitting main EU export markets, particularly Russia and Asia. EU dairy exports were low, which depressed the domestic market, as EU dairy exports are a traditional outlet for EU production surpluses. In the summer of 1999, prospects dramatically improved thanks to the weakness of the euro versus the dollar, helped by the (delayed) effect of export refund increases. Growing demand from traditional importers due to economic improvement in Russia and Asia favored the export boost, as well as tight supplies, i.e. for SMP, for some world producers (New Zealand, for instance, reportedly reoriented its production towards cheese).

### Milk imports

Import Trade Matrix	Units:MT
Country:	
Commodity:	
Time period:	
Imports for	1999
U.S.	0
Others	
Slovenia	16300
Switzerland	1300
Total for Others	17600
Others not listed	400
Grand Total	18000

Source: Eurostat

### Milk 1999 imports by member state (MT)

Total EU	18020
Italy	10800



Austria	6800
Spain	200
Germany	150
France	50
Belgium	20
Other member states	0

Source: Eurostat

Dairy imports are expected to increase constantly until all Uruguay Round access quotas are filled up. Above quota imports are likely to remain stable and limited. However, Agenda 2000 measures, which are supposed to reduce dairy prices, will make imports proportionately less competitive because of tariffs remaining at their high level. This could slow down import growth.

#### EU Tariff Quotas under the Uruguay Round (mt)

Product	2000 TRQ Quantity	MY 1997/98 Imports
SMP	62,480 (1999/2000) 68,000 (2000/01)	50,893
Butter and other fats	8,000 (1999/2000) 10,000 (2000/01)	3,961
Butter (New Zealand)	76,667	76,667 (estimate)
Pizza cheese	4,462 (1999/2000) 5,300 (2000/01)	2,785
Cheese for processing	16,800 (1999/2000) 20,000 (2000/01)	10,345
Cheese for processing	4,500	4,400 (CY 98)
Cheddar	14,250	13,345 (CY 98)
Cheddar	12,600 (1999/2000) 15,000 (2000/01)	7,726
Cheese (other)	35,913 (1999/2000) 43,100 (2000/01)	21,350

Source: WTO notifications

#### EU Dairy quota from Eastern Europe (mt)

Country	Product	1999 quota	Estimated fulfillment
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Poland	Butter	2038	2038
	Cheese	4900	2940
	Powders	5875	5875
Lithuania	Butter	1410	1410
	Cheese	1744	1744
	Powders	4113	4113
	Concent.	400	0
Bulgaria	Cheese	7700	847
Estonia	Butter	1911	1873
	Cheese	1400	0
	Powders	3525	3525
Latvia	Butter	1058	1047
	Cheese	1510	1495
	Powders	2938	2938
Czech Rep.	Butter	1175	1175
	Cheese	1039	1039
	Powders	2705	2678
Slovakia	Butter	705	705
	Cheese	1682	1665
	Powders	1413	1413
Hungary	Cheese	2351	2351
	Kashkaval	300	0
	SMP	353	353
Romania	Cheese	2559	640
Slovenia	Cheese	363	359
	Yogurt 900	0	
	Powders	1233	1196
TOTAL		57650	43419

Source: European Commission

A Commission proposal setting up a mandatory 3% rate of physical checks on all preferential dairy imports is likely to get adopted soon and enter into force in July 2000. This type of measure, which exists for almost all other types of animal products imports, is estimated to standardize and harmonize a practice commonly carried out by individual member states. This measure was initially devised to fight suspected fraud on New Zealand butter quality (See butter trade) denounced in an 1998 EU Court of Auditors report, but will now be extended to all preferential imports, including GATT quotas.

## Dairy policy

EU dairy policy discussions in 1999 focused on whether putting off major regime reforms until 2005 would have positive or negative effects on EU dairy markets. Most specialists are now wondering whether the 2003 mid-term review would not offer a last chance to trigger the implementation of Agenda 2000 earlier than foreseen. Delaying these

measures until 2005 is most likely to lead to increased use of intervention and create massive stocks of butter and SMP, while putting strong pressure on EU milk prices, without any compensation to EU dairy farmers, as otherwise foreseen in Agenda 2000. The balance of EU dairy markets will also be determined by 2000 production levels of member states with additional quota allocations.

Unexpectedly, three reports published in 1999 criticizing various chapters of the dairy regime triggered policy proposals and a fierce exchange of ideas. Two of the reports originated from the EU Court of Auditors: one concerns the aid for the use of skimmed milk and SMP as animal feed and the other on the EU internal support measures for surplus butter production. A third one, mandated by the DG Agriculture, reviews the 95% funded school milk scheme.

These reports are supporting unavoidable budgetary cuts in various dairy schemes. The one on SMP aid probably helped trigger the general debate on protein standardization and on intervention rules. The report on butter, by questioning its current justification, jeopardizes the future of the crucial scheme of subsidized butter sold to ice-cream and cake manufacturers and by extension, casts doubts on consumption aid schemes. The study on school milk unexpectedly managed to unite industry representatives in all member states against the proposed halving of EU funding for the scheme and restored some form of cohesion within the EU dairy industry after the 'London Club' (UK, Sweden, Italy, Denmark) split.

In addition to reactions to the reports mentioned above, the general impression of 1999 was that no section of the EU dairy regime was left unscanned for possible fraud prevention and mainly cost savings. Various proposals were drafted by the Commission towards that purpose, focusing mostly on areas of the dairy regime traditionally vulnerable to fraudulent activities, i.e. export refunds and intervention. There was also a clear attempt to simplify complicated regulations and make others more flexible for traders.

### Enlargement

The accession to the EU of Central and Eastern European Countries (CEECs) will have a considerable impact on the EU dairy regime. The first phase towards membership for five of these countries (Poland, Hungary, the Czech Republic, Slovenia, Estonia + Cyprus) is targeted for 2003 although realistic accession dates are expected beyond that point. The accession of second wave of countries (Romania, Bulgaria, Lithuania, Slovakia, Latvia, Malta) would follow. Given needed restructuring in those countries and budgetary implications for the EU, it is likely that a transition period will be needed for these countries to apply the 'acquis communautaire'. From a dairy perspective, two major questions will have to be answered before full accession: will delivery quotas be applied in the new member states, and if so, before the expiration of the quota system in 2008, and will dairy farmers in those countries benefit from the new compensatory payment system which the EU intends to apply from 2005 onwards. Also, will those countries have to be granted a share of limited subsidized export quantities?

The current dairy situation of the first wave of applicant countries is summarized in the position paper these countries submitted late 1999 on the agricultural chapter of membership talks: the Czech Republic requests a 3.1 million ton quota, equivalent to 127% of their 1998 production. Poland requests a 11.2 million ton quota for 2003, going up to 13.7 million ton in 2008. Hungary requests a 2.8 million ton quota, and Estonia 900,000mt. Slovenia wants to avoid quotas and requests a transition period until 2012. Slovenia argues that the implementation of individual quotas will delay the ongoing process of structural change. Cyprus has had a quota system since 1990, currently amounting to 130 million litres. Most of the first wave countries require transition periods to reach EU hygiene standards and production

norms (mainly for fat content), during which milk meeting existing national standards could be marketed on the domestic market.

EU forecasts expect CEECs dairy production to go up from 29 million tons in 1998 to 31.7 million tons in 2006, given significant yield increases overcompensating for diminishing dairy cow numbers. The Commission also expects internal consumption in the CEECs to increase, although at a slower rate than production, which should absorb some of the surplus. This forecast is somewhat surprising as Eastern European consumption is already more or less equal to EU consumption levels and could even be negatively affected by a possible increase in dairy prices following EU accession. Based on these trends in production and consumption, CEECs are expected to increase quantities available for export from 2.3 million tons in 1998 to 2.8 million tons in 2006. This increase will mainly arise in the Czech Republic and Hungary. However, it is hard to conceive that current EU export subsidies conditions could be extended to products originating from those countries.

This increased and imminent pressure will exacerbate the importance of the 2003 mid-term assessment of the dairy program mandated in Agenda 2000. According to some sources, failure to impose strict quotas on the CEECs and to cut EU dairy support prices in 2003 would add 500 million euro to the EU dairy budget as cost of disposing of the production surplus.

#### Situation of the milk market in the CEECs in 1999

	Dairy Cows (000)	Production (000mt)	Domestic Use (000mt)
Poland	3417	12472	11852
Romania	1735	5173	5187
Czech Republic	552	2804	2151
Hungary	407	2110	2116
Lithuania	510	1734	692
Bulgaria	400	1240	1185
Slovakia	265	1162	995
Latvia	260	946	897
Estonia	159	703	703
Slovenia	182	595	485
CEEC-10 total	7887	28939	26263

Source: European Commission long-term forecasts

#### Veterinary Equivalency Agreement

The Veterinary Equivalency Agreement (VEA) between the United States and the European Union was signed in

Brussels on July 20, 1999. The EU Council of Agriculture ministers had approved the VEA in March 1998 contingent on U.S. publication of a proposed final rule on the EU's animal disease status. In March 1999, the United States presented its revised risk assessment on hog cholera to EU officials and proceeded to draft and publish the proposed rule. Publication of the final rule on the EU's animal disease status is expected in mid-2000.

### Lists

The official list of EU approved dairy establishments in the United States can be found on the USEU homepage (<http://www.useu.be/AGRI/estab.html>) Establishments on this list are guaranteed to meet EU animal and public health requirements. This list, which is compiled by FDA, is submitted to the EU for approval several times a year.

### BST

Council Decision 99/879 of December 17, 1999 indefinitely bans the use and marketing of bovine somatotropin (BST) in the EU.

The ban, which makes permanent moratoria decided in 1990 and 1994, follows the opinion of the Scientific Committee on Animal Health and Animal Welfare adopted in March 1999. Following the committee's report that BST increases the risk and duration of mastitis, the Commission decided to base the ban on animal health considerations. The Commission also followed the provisions of Directive 98/58 on animal welfare, stating that substances given to animals should be therapeutic and not detrimental to the animal's health of welfare.

As under the previous moratorium, imports from third countries using BST on their dairy cows will still be allowed into the EU.

Following a July 1999 decision of the European Medicine Evaluation Agency Committee, the Commission proposed to classify BST as a substance for which no Maximum Residue Limit (MRL) is required. This decision clearly confirms the assumption that there are no detrimental effects of BST to human health. However, this proposal was rejected by the Commission's Standing Committee on Veterinary Medicinal Products in February 2000. The issue will now have to be voted on by the EU Council.

### Dioxin

On May 27, 1999, Belgium informed the European Commission of a case of contamination of animal feed with cancer-causing dioxin. The exact source of the contamination came from the use of fats containing dioxin in the production of animal feed. The list of potentially contaminated products included milk and milk products, meats and meat preparations, poultry and eggs. All farms suspected of having used contaminated feed, among which dairy farms, were sequestered. All exported animal products were required by EU authorities to be submitted to systematic dioxin testing. However, dairy products were the first product category for which restrictions were lifted by the Standing Veterinary Committee in July 1999.

In June, the United States placed a hold on all imports of pork, poultry, eggs and egg-containing products from EU member states as well as Belgian dairy products. These products were prevented from entering the United States until EU member states could provide assurances, based on analytical results, that their products were not affected by the

dioxin contamination. No EU dairy products are any longer being held by U.S. authorities.

The only measures taken by the EU on dairy products to help traders hit by the dioxin crisis is the July 1999 extension of the period of incorporation for the butter manufacture scheme by one month if traders are able to prove that they were affected by the dioxin crisis, as well as an extension of intervention conditions for butter.

### Protein Standardization

Since it was approved by Codex Alimentarius, protein standardization has been an issue supported by the EU industry and some departments in the EU Commission and cautiously kept away by other Commission departments. The issue has been tackled from different angles in the last months:

- preserved milks internal market regulation: in August 1999, the Commission proposed to pay aid for skimmed milk and SMP by kg of protein instead of kg of product. The proposal was rejected by member states, who favored a tranche-based minimum protein content.
- trade regulation: by changing the customs nomenclature and imposing 34% of non-fat content in exports and imports. EU SMP with lower protein content would be eligible for lower refunds.
- intervention rules: by setting up a fixed protein content for SMP eligible for intervention. However, in February 2000, the latest draft of SMP intervention rules foresaw a continuation of the existing range between 31.4 and 36 pct of protein content while the EU industry pushed for a unique 34 pct rate as a way to harmonize and standardize SMP rules.

The Agriculture DG's concerns with standardization are that:

- protein standardization applied to imports will be difficult to implement since it would involve increased testing.
- standardization applied to SMP would lead to unsellable stocks of low-quality SMP, which for instance could be a problem for Ireland.
- powders standardization could be later extended to liquid milk, creating a surplus of unused protein on the domestic market. This could be an additional burden to an expected overproduction of milk in the next few years.

The Agriculture DG is expected to issue a comprehensive report in the course of the year 2000 on the economic and health impact of the introduction of standardization in Europe.

### Budget

Under Agenda 2000 provisions, the EU agricultural budget will be frozen from 2000 to 2006. The postponement of the dairy reform until 2005 was motivated by the need to save money on the EAGGF budget.

For FY 2000, the EU dairy budget amounts to 2,788 million euro, or 6.7 pct of the total 41,324 million euro agricultural budget. Even though the dairy share of the EAGGF budget is constantly shrinking, it still represents its third largest chapter, after arable crops and beef.

Dairy budget allocations for 2000 show a reinforcement of the already dominating position of export refunds. They would represent 60 pct of the 2000 dairy budget. This increase is motivated by upward revised figures for EU dairy

exports, indicating the EU's willingness to offer the same level of export refunds on a larger quantity of products. On the other hand, EU dairy aid schemes such as intervention, private storage and consumption aid schemes are all reduced, through lower aid rates or lower quantities accepted under the various schemes. The EU is thus inclined to think that the EU dairy markets will be balanced next year and that prices will generally stay above intervention levels.

## CHEESE

### Cheese production

PSD Table						
Country:	European Union					
Commodity:	Dairy, Cheese					
		1998		1999		2000
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	0	129	120	133	100	130
Production	6436	6673	6450	6647	0	6700
Intra EC Imports	1811	1670	1820	1700	0	1700
Other Imports	134	127	150	145	0	150
TOTAL Imports	1945	1797	1970	1845	0	1850
TOTAL SUPPLY	8381	8599	8540	8625	100	8680
Intra EC Exports	1820	1670	1820	1700	0	1700
Other Exports	450	448	470	390	0	570
TOTAL Exports	2270	2118	2290	2090	0	2270
Human Dom. Consumption	6121	6150	6150	6225	0	6250
Other Use, Losses	0	198	0	180	0	30
Total Dom. Consumption	6121	6348	6150	6405	0	6280
TOTAL Use	8391	8466	8440	8495	0	8550
Ending Stocks	120	133	100	130	0	130
TOTAL DISTRIBUTION	8511	8599	8540	8625	0	8680
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Cheese production was sluggish in the first six months of 1999 as more milk was processed into butter and SMP which offered more favorable prospects. The situation unexpectedly changed in the summer of 1999 with a simultaneous revival of domestic consumption and positive signals from export markets, particularly Russia.

EU cheese producers traditionally exercise caution in their production volume decisions, as they are not, unlike SMP and butter for instance, protected by a safety net system in the form of intervention of extended private storage aid. That is why EU producers only started increasing cheese production in the last months of 1999, too late to push up production above 1998 levels, and should continue to do so in 2000, as the EU market offers room for expansion and

improved exports are expected in Russia and Asia.

#### Cheese production by member state 1999 (000mt)

Total EU	6647
France	1690
Germany	1571
Italy	961
Netherlands	649
UK	384
Spain	308
Denmark	293
Greece	204
Sweden	126
Austria	112
Ireland	108
Finland	91
Belgium	74
Portugal	72
Luxembourg	4

Source: European Commission

France and Germany remain the two largest EU cheese producers with almost half of EU cheese production. Spain, which represented 4 pct of EU cheese production in 1998, increased its share to 4.6 pct in 1999. Germany reduced its production in the first part of the year, directly affected by low exports to Russia, but a later surge in domestic consumption made the overall production decrease rate quite modest. The Netherlands significantly reduced cheese production in 1999, following weaker export prospects.

### Cheese consumption

Cheese experienced a larger than expected growth in domestic consumption in 1999. Reasons include the dioxin crisis which led some European consumers away from traditional protein sources, i.e. meat. This incidental cause reinforces a well-known trend towards convenience foods which use massive quantities of cheese. The largest increase in consumption took place in Germany.



## Cheese consumption by member state 1999 (000mt)

Total EU	6225
Germany	1567
France	1428
Italy	1092
UK	575
Spain	350
Netherlands	260
Greece	220
Belgium	173
Sweden	145
Austria	125
Denmark	85
Finland	83
Portugal	82
Ireland	34
Luxembourg	6

Source: European Commission

**Cheese trade**

Export Trade Matrix	Units:MT
Country:	
Commodity:	
Time period:	
Exports for	1999
U.S.	97000
Others	
Russia	40000
Japan	36700
Saudi Arabia	36300
Switzerland	32000
Lebanon	10900

Libya	10800
Canada	10100
Egypt	7800
UAE	7400
Total for Others	192000
Others not listed	101000
Grand Total	390000

Source: Eurostat,ZMP

#### Cheese 1999 exports by member state (MT)

	Extra-EU	Intra-EU
Total EU	390354	1700000
France	99900	147300
Denmark	69400	34600
Germany	61700	453700
Netherlands	56700	103200
Italy	55300	264600
Finland	13100	15400
UK	10300	242600
Austria	5600	48600
Spain	4100	94600
Ireland	4000	20400
Greece	3900	53700
Belgium	3600	157400
Sweden	2100	38400
Portugal	350	18700
Luxembourg	4	6800

Source: Eurostat

Exports to the U.S. and exports of processed cheese are the two bright areas for the EU, confirming a trend which was already present last year. EU cheese exports to the U.S. were very successful in 1999, with a share of almost 25 pct (compared to 16 pct in 1998). Exports are divided into 66,000mt of quota exports (versus 54,000mt in 1998) and

consequently 31,000mt outside quota. Whereas Japan declined as an export market, Saudi Arabia and Lebanon progressed in the Middle East region, reaching a 27 pct share in EU cheese markets. This is an unexpected result, as the Middle East reacted most aggressively to the dioxin crisis by blocking EU imports. Exports to Switzerland grew as well, and are likely to continue to do so until the newly signed trade agreement implementing 0/0 conditions on cheese enters into force in 2001. In 1999, cheese exports to Russia were half of what they were in 1998 and about one fourth of their best 1990s levels.

Even though 1999 EU exports were definitely better than the year before over the whole year, recovery levels are only marginal. Furthermore, subsidized exports are still constrained by WTO commitments and non-subsidized exports are unlikely to expand considerably.

Export refunds were changed several times in the course of last year: they were increased by approximately 15 pct in April 1999, supposedly to take full advantage of underused GATT volumes. They were increased (on processed cheese and other cheeses) on exports to Russia in February and August 1999 in an effort to boost poor export levels and reduced on cheese to the United States in December 1999 for the opposite reason, i.e. following increased export levels. In order to help EU exporters, the EU Commission also decided in July 1999 to extend the validity of cheese export licenses from two to four months.

Suffering from the loss of the very important Russian market, Germany only ranked third in 1999 EU cheese exporters. France mostly benefited from this situation, while Denmark ranked second, by merely stabilizing export volumes, mainly to Japan and the Middle East. On the other hand, the Netherlands maintained its share of the export market, while reducing volumes.

#### WTO export subsidies commitments and use

CHEESE						
000mt million euro	1995/96	1996/1997	1997/98	1998/99	1999/2000	2000/2001
volume ceiling	426.5	405.4	384.4	363.3	342.3	321.3
volume used	422.3	401.9	324.1	226.3	300*	
value ceiling	594.1	543.6	493.1	442.6	392.1	341.7
value used	437.6	271.3	176	149.1		

Source: WTO notifications

\*estimates from July-Dec 1999

Import Trade Matrix	Units:MT
Country:	
Commodity:	
Time period:	
Imports for	1999

U.S.	430
Others	
Switzerland	51800
New Zealand	46000
Australia	20600
Canada	5900
Total for Others	124300
Others not listed	20270
Grand Total	145000

Source: Eurostat

#### Cheese 1999 imports by member state (MT)

Total EU	145000
UK	37500
Netherlands	34200
Germany	22700
Italy	19400
France	17600
Belgium	5200
Austria	2200
Spain	1700
Denmark	1200
Sweden	750
Greece	700
Finland	650
Ireland	650
Luxembourg	350
Portugal	145

Source: Eurostat

Cheese imports grew in 1999 and are expected to keep growing, as the WTO cheese quota still leaves room for increased imports. Switzerland and Australia both saw their share of imports progress in 1999. This increase mainly took place in the Netherlands, as well as in Germany and France.

**BUTTER****Butter production**

PSD Table						
Country:	European Union					
Commodity:	Dairy, Butter					
		1998		1999		2000
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	0	38	40	80	70	129
Production	1867	1865	1900	1864	0	1855
Intra EC Imports	544	535	550	493	0	430
Other Imports	83	93	85	96	0	100
TOTAL Imports	627	628	635	589	0	530
TOTAL SUPPLY	2494	2531	2575	2533	70	2514
Intra EC Exports	550	535	550	493	0	430
Other Exports	160	170	175	170	0	180
TOTAL Exports	710	705	725	663	0	610
Domestic Consumption	1794	1746	1780	1741	0	1754
TOTAL Use	2504	2451	2505	2404	0	2364
Ending Stocks	40	80	70	129	0	150
TOTAL DISTRIBUTION	2544	2531	2575	2533	0	2514
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Butter production naturally followed the slight upward trend of SMP production in the first part of 1999, especially in the Southern European countries, the UK and Finland. The processing reorientation towards butter and SMP, which was mainly motivated by catastrophic market conditions for cheese, had to be reconsidered as cheese export and demand levels started to improve. Furthermore, butter products did not experience the same success on export markets as SMP and demand for butter did not match vast quantities of SMP absorbed by feed compounders. These two factors, combined with the depressing effect of unusually large intervention stocks, led to a subsequent decrease of butter production in the second half of 1999. In spite of lagging export opportunities, butter production, which stabilized in 1999, should remain again at its current level in 2000, reflecting increased milk deliveries and fat availability, with limited scope for use in the manufacturing of other dairy products. Furthermore, EU dairy producers are influenced in their processing decisions by existing EU schemes, i.e. intervention, which guarantee minimum prices for butter and SMP, as opposed to cheese.

A characteristic of the EU butter sector in 1999 and beginning 2000 was undoubtedly an extended resort to intervention schemes. Butter stocks have kept growing since the middle of 1998, coping with the devastating effects of increased production, dwindling exports and low consumption. Sales into intervention, which had disappeared since

mid-1998, resumed in 1999, and about 60,000mt were placed into intervention in 1999. Spain and Ireland are the largest user of intervention, followed by Germany. Recourse to intervention continues in 2000 but quantities accepted are more limited.

Private storage aid (PSA) continued to be an important management tool in the EU butter market in 1999. It was opened two weeks early in March 1999 and was particularly favored by producers. The main reasons were producers' optimism for upcoming improved market conditions, or at least the assumption that market prices could not possibly be lower than levels upon PSA entry. Private butter stocks were about 15,000mt higher at the end of 1999 than at the end of 1998.

Butter production by member state 1999 (000mt)

Total EU	1864
France	468
Germany	430
Netherlands	189
UK	145
Ireland	143
Belgium	111
Italy	101
Denmark	74
Finland	53
Sweden	51
Austria	38
Spain	34
Portugal	20
Luxembourg	4
Greece	3

Source: European Commission

Member states butter production did not differ very much from the 1998 pattern, except for Spain who considerably increased production and Denmark which reduced it.

## Butter consumption

Butter consumption is continuing its downward trend on the EU domestic market, due to consumers' distrust towards a product viewed as 'unhealthy', even though this perception is slowly changing in the EU. However, better consumption levels were predicted in 2000 thanks to increased use of butter and butteroil by industrial manufacturers taking advantage of reduced prices sales measures. Furthermore, butter consumption statistics do not take into account new spreadable butters, which are selling well throughout the EU.

The butter for food manufacture scheme (2571/97) absorbed 459,000mt in 1999, the highest aggregate for more than 5 years. Quantities could have been much larger, in view of poor market conditions, if the Commission had not decided to reduce the aid available in January 1999 (to 95 euro/100 kg for 82 pct butter) and the period for incorporating the butter into the final product (from 5 to 4 months) in February 1999. The rate of aid for the other much smaller consumption scheme (429/90 on butter for concentration) was reduced from 134 to 129 euro/100 kg. The quantities accepted under this scheme in 1999 amounted to 11,900mt, versus 15,000mt in 1998 .

Consumption aid schemes for butter, which are almost unique to dairy products in the CAP, absorb about one fourth of EU production for a yearly budget of 600 million euro. They were heavily criticized in a Court of Auditors report (see dairy policy) as not contributing to a real increase of butter consumption and leading to massive fraud in the quality and quantities of products accepted. Tracers (thymol, eugenol and capsaicin) used in butter destined to the consumption schemes were also suspected of being public health hazards and promptly banned.

Butter is probably the dairy product which suffered most from the dioxin food scare. At the beginning of the crisis, it was the only dairy product to be taken off the shelves of Belgian supermarkets. It was also the only dairy product to benefit from alleviating measures (see policy section on dioxin) by the Commission.

Butter consumption by member state 1999 (000mt)

Total EU	1731
Germany	528
France	500
UK	250
Italy	150
Belgium	59
Netherlands	48
Austria	37
Spain	36
Sweden	35
Denmark	25

Finland	22
Portugal	16
Ireland	13
Greece	10
Luxembourg	2

Source: European Commission

## Butter trade

Export Trade Matrix	Units:MT
Country:	
Commodity:	
Time period:	
Exports for	1999
U.S.	1000
Others	
Russia	24800
Saudi Arabia	18900
Egypt	16000
Mexico	11600
Singapore	6800
Lebanon	5700
Syria	5600
Turkey	4900
Morocco	4800
Uzbekistan	4600
Total for Others	103700
Others not listed	65300
Grand Total	170000

Source: Eurostat

### Butter 1999 exports by member state (MT)

	Extra-EU	Intra-EU
Total EU	170022	493000
Netherlands	44000	67100
France	33000	105100



Denmark	18100	11500
Finland	18000	500
Germany	13700	108100
Belgium	13000	77500
Ireland	12600	4300
UK	7500	58800
Sweden	5000	100
Italy	2300	36600
Spain	2200	6500
Portugal	350	3400
Austria	250	3100
Greece	20	7400
Luxembourg	2	1000

Source: Eurostat

In 1999, EU butter exports stabilized at a low level. A further decrease was nevertheless prevented by good export levels of butteroil. Exports to Russia have not reached their pre-crisis levels but are not as far from these levels as is the case for cheese. In 1999, EU exports of butter slightly increased to Saudi Arabia, Egypt, Syria and Turkey, while diminishing to Morocco and Lebanon. Overall, butter exports decreased in two traditional markets, i.e. Russia and Eastern Europe whose share went down from 33 to 23 pct (with lost markets in Russia and Uzbekistan), and in the Middle East, going down from 27 to 25 pct. Mexico appeared among major outlet markets, with a share of almost 7 pct (from 2.7 pct in 1998). Member states maintained their 1998 ranking order, except for the UK, who went down from a 13 pct share of EU butter export markets to 4 pct.

Butter export refunds were left unchanged in 1999, as EU butter prices are deemed to be competitive on world markets and the EU Commission rather resorts to consumption schemes to balance the domestic markets.

Butter exports are unlikely to grow in future years, as developing markets will probably be supplied by more competitive world suppliers (New Zealand, Australia). Moreover, Russia is not expected to resume importing large quantities of EU butter in the next years.

#### WTO export subsidies commitments and use

BUTTER						
000mt million euro	1995/96	1996/1997	1997/98	1998/99	1999/2000	2000/2001

volume ceiling	487.8	470.1	452.4	434.7	417	399.3
volume used	146.4	276	169	165.3	205*	
value ceiling	1392.1	1303.3	1214.4	1125.6	1036.7	947.8
value used	256.2	551.8	310.5	285.7		

Source: WTO notifications

\*estimates from July-December 1999

Import Trade Matrix	Units:MT
Country:	
Commodity:	
Time period:	
Imports for	1998
U.S.	40
Others	
New Zealand	82600
Australia	2200
Czech Rep.	2000
Poland	1900
Total for Others	88700
Others not listed	7260
Grand Total	96000

Butter 1999 imports by member state (MT)

Total EU	96000
UK	53700
Netherlands	32600
Germany	2900
Spain	2500
Denmark	1800
France	1700
Belgium	350
Italy	300
Austria	150

Other member states	0
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Source: Eurostat

Butter imports are still mainly going to the UK, while the Netherlands remain second, albeit with smaller quantities accepted in 1998. Other member states only import limited volumes, but it is interesting to notice that Germany appears fifth on the list of EU butter importers, with extra-EU imports growing in line with stable production and increased exports.

Butter imports are expected to grow more slowly than other dairy products, as the largest butter quota, allocated to New Zealand, is constantly filled up.

Rules for administering preferential imports of butter from New Zealand were amended to take into account the mutual agreement between the EU and New Zealand stating that spreadable butter is eligible for preferential import quantities. Recent drafts include the introduction of an 8-month period of validity for licenses and the introduction of stricter controls on the fat content to be carried out partly by the New Zealand Ministry of Agriculture.

## SMP

### SMP production

PSD Table						
Country:	European Union					
Commodity:	Dairy, Milk, Nonfat Dry					
		1998		1999		2000
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	0	131	300	204	370	180
Production	1190	1140	1200	1160	0	1160
Intra EC Imports	353	450	360	486	0	500
Other Imports	61	73	80	71	0	80
TOTAL Imports	414	523	440	557	0	580
TOTAL SUPPLY	1604	1794	1940	1921	370	1920
Intra EC Exports	360	450	360	486	0	500
Other Exports	185	176	210	250	250	250
TOTAL Exports	545	626	570	736	250	750
Human Dom. Consumption	456	335	470	330	339	350
Other Use, Losses	503	629	530	675	625	670
Total Dom. Consumption	959	964	1000	1005	964	1020
TOTAL Use	1504	1590	1570	1741	1214	1770
Ending Stocks	300	204	370	180	216	150

TOTAL DISTRIBUTION	1804	1794	1940	1921	1430	1920
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Against all odds, SMP production increased in 1999 and thus temporarily interrupted its downward production trend. Some member states had already taken the decision to process more milk into butter and SMP at the end of 1998. After a difficult spring, the first signs of firming for EU SMP were noticed at the beginning of the summer season of 1999, as a consequence of more favorable export prospects and improved domestic consumption. In 2000, a balanced market is foreseen, with stable production levels, decreasing intervention stocks and good export forecasts.

Alarmist forecasts on the quantity of SMP accepted into intervention in 1999 turned out to be vastly exaggerated: the 109,000mt ceiling was far from reached by the end of the intervention period (in August) with quantities accepted amounting to approximately 95,000mt. The sudden improvement of market conditions for SMP diverted producers away from the scheme. For 2000, intervention quantities are again expected to be lower than the ceiling, with stable market conditions and more purchases out of intervention foreseen for feed mixes.

However, the reduction on aid for skimmed milk for the manufacture of casein by 7 pct decided in October 1999 (from 6.9 to 6.42 euro/100 kg) could lead to SMP overproduction in 2000 and increase intervention stocks.

#### SMP production by member state 1999 (000mt)

Total EU	1140
Germany	345
France	312
UK	113
Ireland	91
Netherlands	73
Belgium	55
Sweden	36
Denmark	35
Finland	33
Austria	15
Spain	14
Portugal	12
Italy	2

Greece	2
Luxembourg	2

Source: European Commission

France and Germany remain major EU SMP producers. However, Germany increased its share to 30 pct (from 28 pct in 1998) while France decreased production, as most member states except Denmark and Finland.

## SMP consumption

Although SMP industrial consumption stagnated, 1999 saw a renewed interest of feed compounders for mostly intervention SMP. This is likely the consequence of the termination of early marketing premia for calves. A good number of calves are being fattened in the EU, which implies increased demand for milk replacers. Low SMP prices at the beginning of 1999 also contributed to drawing feed compounders' interest. Consequently, administrative rules on sales out of intervention (stating that oldest intervention SMP has to be sold first) had to be amended several times to make additional quantities available. Feed mixing has absorbed 91,000mt of intervention SMP between September 99 and March 2000. However, feed consumption is directly price-related and could diminish if subsidization schemes are reduced.

Only 35 pct of the SMP produced annually by the EU is sold on the market without subsidy. About 500,000mt is disposed of via internal schemes, mainly for feed (approximately 480,000mt in 1999) and about 300,000mt is exported with export refunds.

## SMP trade

Export Trade Matrix	Units:MT
Country:	
Commodity:	
Time period:	
Exports for	1999
U.S.	200
Others	
Algeria	39500
India	31000
Mexico	26000
Thailand	16500
Cuba	10500
Egypt	9700
Japan	9300
Indonesia	8700
Saudi Arabia	7000

Libya	6500
Total for Others	164700
Others not listed	85100
Grand Total	250000

Source: Eurostat

#### SMP 1999 exports by member state (MT)

	Extra-EU	Intra-EU
Total EU	250000	486500
Germany	58500	25300
Belgium	43900	21000
Netherlands	41900	222100
France	35150	39900
Ireland	22200	12300
Spain	10900	22500
UK	10700	13700
Finland	9600	200
Denmark	9350	4700
Sweden	6850	3600
Austria	550	3100
Portugal	350	4900
Greece	25	5900
Italy	25	107100
Luxembourg	0	200

Source: Eurostat

SMP exports boomed in the summer of 1999, on the back of a weak euro and tight supplies on other world producers' markets. Extremely high refund levels, after three increases decided between fall 1998 and February 1999, undoubtedly played a major role in this export success, and were later reduced several times (total reduction rate=20 pct) in five months, from November 99 until March 2000. They still currently stand at a higher level than at the beginning of the Russian crisis. It is assumed that the EU is planning to use roll-over quantities in 1999/2000 to justify subsidized quantities exceeding the annual ceiling. Roll-over quantities are estimated at 345,000mt.

The ranking order of the two main EU traditional markets for SMP was switched around in 1999. Mexico saw its share decrease from 18 to 16 pct. On the other hand, Algeria increased its share from 9 to 15 pct, while quantities imported from the EU almost doubled. India appears as second largest importer of EU SMP in 1999, while it was absent in 1998. This outlet market might disappear in the near future, however, as import duties on SMP were recently increased by the Indian government. Thailand, Japan and Indonesia also considerably their SMP imports from the EU.

Germany increased its share of EU SMP exports in 1999 by almost 5 points and remains the largest EU exporter for that product. French exports, on the other hand, decreased in 1999, which pushed them back to fourth place with Belgium and Netherlands going up to second and third place.

SMP exports are unlikely to grow significantly in 2000, due to competition with other world suppliers (New Zealand and Australia). Even though SMP exports are not severely constrained by WTO commitments, they are still moving closer and closer to ceilings. Exports without subsidies are not conceivable.

#### WTO export subsidies commitments and use

SMP						
000mt million euro	1995/96	1996/1997	1997/98	1998/99	1999/2000	2000/2001
volume ceiling	335	322.5	310	297.5	285	272.5
volume used	241.2	269.5	175.5	221.5	400*	
value ceiling	406.2	380.1	354	328	301.9	275.8
value used	140.9	170.1	116.4	191.7		

Source: WTO notifications

\*estimates from July-December 1999

Import Trade Matrix	Units:MT
Country:	
Commodity:	
Time period:	
Imports for	1998
U.S.	140
Others	
Poland	22100
Czech Rep.	10200
Estonia	7000
Lithuania	6500
Slovakia	4100
New Zealand	3100
Total for Others	53000

Others not listed	17860
Grand Total	71000

Source: Eurostat

#### SMP 1999 imports by member state (MT)

Total EU	71000
Netherlands	42450
Germany	20200
France	5050
Belgium	2500
Portugal	450
Finland	200
Spain	65
Austria	50
Denmark	20
Italy	10
Ireland	5
Other member states	0

Source: Eurostat

SMP 1999 imports still originate almost exclusively from Eastern Europe, with, however, a surge of product from New Zealand. Imports of SMP are likely to grow slowly in 2000, as the main SMP Uruguay Round quota is still unfilled.

## WMP

EU WMP production declined in 1999. The fall was most significant in France and Denmark, while Ireland and the UK simultaneously increased output. The depressed state of world dairy markets has had a substantial negative impact on WMP markets, as the EU dairy product most reliant on export markets.

#### WMP production by member state 1999 (000mt)

Total EU	759
France	245
Netherlands	113



UK	99
Germany	92
Denmark	85
Belgium	75
Ireland	32
Portugal	7.2
Spain	4
Austria	4
Finland	2.3
Sweden	1
Italy	0
Greece	0
Luxembourg	0

Source: European Commission

WMP 1999 exports by destination (MT)

Total EU	560000
Algeria	112000
Saudi Arabia	48800
Iraq	24100
Venezuela	22400
Dominican Republic	21900
Oman	21900
Cuba	20800
UAE	17400
Other destinations	270700

Source: Eurostat

Iraq, Oman and Cuba appear as new outlet markets for EU WMP in 1999. Algeria, the main destination for this EU

product, remains fairly stable while Venezuela halves its imports from the EU.

#### WMP 1999 exports by member state (MT)

Total EU	560000
France	166700
Netherlands	164300
Denmark	74600
UK	58300
Belgium	38700
Other member states	57400

Source: Eurostat

WMP exports are unlikely to expand dramatically. As other products in the 'other products' category, it is severely constrained by WTO commitments. WMP imports into the EU are very low, amounting to approximately 5,000mt in 1999.

#### WTO export subsidies commitments and use

OTHER MILK PRODUCTS						
000mt million euro	1995/96	1996/1997	1997/98	1998/99	1999/2000	2000/2001
volume ceiling	1185.4	1140	1094.5	1049	1003.6	958.2
volume used	1156.7	1140	116.9	951.1	1005*	
value ceiling	1024.7	959.3	893.9	828.5	763.1	697.7
value used	727.6	732	756.4	758.9		

Source: WTO notifications

\*estimates from July-December 1999