Required Report: Required - Public Distribution **Date:** October 18,2019

Report Number: E42019-0029

Report Name: Dairy and Products Annual

Country: European Union

Post: Warsaw

Report Category: Dairy and Products

Prepared By: Piotr Rucinski

Approved By: Jonn Slette

Report Highlights:

Post estimates that 2019 European Union 28 (EU-28) milk deliveries will increase by 0.3 percent over 2018 and continue to grow an additional 0.4 percent in 2020. Lower overall dairy cattle populations in 2019 and 2020, coupled with feed shortages caused by consecutive summer droughts will moderate production milk growth in 2019 and 2020. If feed supplies become more stable with the 2020 crop, milk production will likely rebound during the second half of 2020. Post expects that moderate 2019 milk production growth will also moderately increase production of cheese, butter, and non-fat dry milk (NFDM). 2019 whole dry milk (WDM) production will decrease from 2018 levels, although Post forecasts that WDM production will stabilize in 2020.

DISCLAIMER
The following numbers result from analysis and input by FAS offices across the EU-28 and are a consolidation of PS&Ds from all EU-28 Member States (MS).

The authors of this report wish to thank contributing colleagues from FAS offices across Europe. This report would not be possible without their analysis and contributions:

Ornella Bettini from FAS Rome covering Italy
Mila Boshnakova from FAS Sofia covering Bulgaria
Faniadis Dimosthenis from FAS Rome covering Greece
Monica Dobrescu from FAS Bucharest covering Romania
Bob Flach from FAS the Hague covering the Netherlands, Finland, Denmark, and Sweden
Golya Gellert from FAS Budapest covering Hungary and Slovenia
Carmen Valverde from FAS Madrid covering Portugal and Spain
Steve Knight from FAS London covering the United Kingdom and Ireland
Roswitha Krautgartner from FAS Vienna covering Austria
Lucile Lefebvre from FAS Paris covering France
Sabine Lieberz from FAS Berlin covering Germany
Jana Mikulasova from FAS Prague covering the Czech Republic and Slovak Republic
Andreja Misir from FAS Zagreb covering Croatia
Yvan Polet from FAS USEU covering Belgium, Luxemburg, and European Commission (EC) policies
Piotr Rucinski from FAS Warsaw covering Estonia, Latvia, Lithuania, and Poland

Executive Summary:

Post estimates that EU-28 dairy production in 2019 and 2020 will increase in response to strong domestic and international demand for dairy products. However, this growth will be limited by declining dairy cow inventories and feed shortages stemming from dry consecutive summer droughts in 2018 and 2019. Post estimates that 2019 EU-28 milk deliveries will increase by 0.3 percent over 2018 and will continue to grow an additional 0.4 percent in 2020. Drought-related feed shortages will moderate milk production growth throughout the rest of 2019 and into the first half of 2020. Post expects higher production during the second half of 2020, assuming feed stocks return to normal following the summer and fall harvests. 2019 and 2020 milk production will also increase because farmers will use more compound feed in dairy rations due to hay and silage shortages. While this will boost milk production per cow, it will cut into farmers' profit margins. The uptick in milk production will raise cheese, butter, and NFDM production, as favorable world market prices, coupled with competitive prices of EU-28 dairy products, will continue to drive exports. In 2019, WDM production will decline from 2018, as cheese, butter, and NFDM remain more profitable. Fluid milk production will decline, reflecting a general reduction in fluid-milk consumption in the EU-28.

Dairy cow inventories will continue to decline through 2019 and 2020, following a general trend toward smaller herds and more productive animals. Cow inventories are also smaller due to ongoing

feed and forage shortages caused by consecutive summer droughts in 2018 and 2019. However, milk output will not be negatively affected, as better herd management, including high-quality genetics, has increased milk-yields and can compensate for the smaller herd size.

Cheese and butter consumption in 2019 and 2020 will continue to grow in conjunction with higher production. NFDM consumption in 2019 will decline in comparison to 2018, however, consumption will still remain relatively robust because of the release of public stocks. Post estimates that 2020 NFDM consumption will decline, as public stocks released in 2018 and early 2019 will be fully consumed or exported. WDM production and consumption will decline in 2019 and remain stable in 2020. Fluid milk consumption in 2019 and 2020 will decrease, as consumers continue to shift from fluid milk consumption toward other dairy products and milk substitutes.

Post estimates that cheese exports will increase in 2019 and grow further in 2020 because of strong global demand. 2019 butter exports will decline and remain at lower levels in 2020 due to growing domestic demand. Post estimates that 2019 NFDM exports will exceed 2018 levels due to higher output, competitive prices, and the depletion of the EU's public stocks. 2020 NFDM exports will decrease, as production increases will not offset the lower public and commercial stocks exported in 2019. Post estimates that 2019 exports of WDM will decline from 2018, due to lower demand from Oman and China. In 2019, fluid-milk exports will grow because of higher demand from China and Libya. On October 2, 2019, the World Trade Organization (WTO) ruled in favor of the United States in its WTO case against EU subsidies to Airbus. The WTO determined that $7.5 billion in damage was caused to the United States each year. As of October 18, 2019 the United States imposed this same amount of compensatory tariffs on EU-28 exports from October 18, 2019 onwards. The Office of the U.S. Trade Representative (USTR) published the list of products that are targeted by these compensatory tariffs, including fresh products (HS 0403), whey (HS 0404 1005), butter (HS 0405) and cheese (HS 0406) from various EU-28 MSs.

According to data published by the EC Milk Market Observatory (MMO)*, the remaining EU-28 public stocks of NFDM were sold in January and February 2019. Since August 2019 public stocks of NFDM are entirely depleted.

**The MMO is an advisory group of experts/organizations created by the EC to monitor EU-28 and world dairy market after the termination of milk quota system.*

General Information:

Table 1: Dairy, Milk, Fluid

Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	23,311	23,311	23,000	22,909	0	22,820
Cow's Milk Production	154,575	154,575	156,000	155,100	0	155,700
Other Milk Production	4,680	4,680	4,700	4,700	0	4,750
Total Production	159,255	159,255	160,700	159,800	0	160,450
Other Imports	9	12	5	10	0	12
Total Imports	9	12	5	10	0	12
Total Supply	159,264	159,267	160,705	159,810	0	160,462
Other Exports	783	962	900	1,080	0	1,080
Total Exports	783	962	900	1,080	0	1,080
Fluid Use Dom. Consum.	33,500	33,500	33,200	33,400	0	33,260
Factory Use Consum.	124,981	124,805	126,605	125,330	0	126,122
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	158,481	158,305	159,805	158,730	0	159,382
Total Distribution	159,264	159,267	160,705	159,810	0	160,462
(1000 HEAD) ,(1000 MT)						

***Please note**: The figures of milk deliveries to dairies in 2019 and 2020 are based on the data received from the analysts in the EU FAS Offices.*

***Trade data source:** Trade Data Monitor, LLC and EU FAS Offices estimates.*

Production

Post estimates that total 2019 milk deliveries will grow by 0.3 percent over 2018 because of continued strong domestic and global demand for dairy products. According to MMO data, during first seven months of 2019, EU-28 milk deliveries increased by 0.2 percent over the same period in 2018. The increase was driven mainly by higher production in Belgium, Ireland, Romania, the UK, Estonia, and Poland. However, short feed stocks, coupled with restrictive environmental regulations, adversely affected milk output in Germany, France, Austria, and the Netherlands. Post estimates that moderate production growth during the second half of 2019 will stem from increased use of compound feeds in dairy rations and higher production of corn silage. The 2019 summer drought forced many farmers to harvest for corn silage instead of grain.

As of January 2019, the total EU-28 dairy cow herd declined by 400,000 head, a two-percent decline from January 2018. Post estimates that dairy cow inventories will continue to shrink in 2019, but better herd management, including the use of high-quality bovine genetics, will maintain overall milk yields and output. The total herd will continue to decline in 2020 due to improved productivity and environmental protection measures regulating herd sizes downward.

In August 2019, the average EU-28 price for raw milk was €33.6 per 100 kilograms, one percent below August 2018. Farm-gate milk prices declined during the first six months of 2019, but rebounded in July 2019 and remained mostly stable in August.

Although 2019 EU-28 milk deliveries are likely to increase, the situation among different MSs varies, depending on weather and economic conditions. Germany is the EU-28's largest dairy producer. During the first six months of 2019, German milk deliveries declined by 0.8 percent from the same period in 2018. Hot and dry summer weather in 2018, especially in Germany's northern and northeastern regions, resulted in a shortage of hay and silage. Reduced cow inventories, lower milk prices, and restrictions on applying nitrogen fertilizers in some regions lowered hay and grass yields and will reduce overall milk production in 2019. Post estimates that 2019 German milk deliveries will decline to 31.5 million metric tons, a 0.7-percent decrease from 2018. If precipitation levels return to normal level over the winter, 2020 milk deliveries in Germany will rebound. However, room for expansion is limited by the smaller dairy herd and restrictions on nitrogen fertilizer. Post estimates that in 2019 French milk deliveries will decline from 2018 levels. In the first six months of 2019, cow milk production declined by 1.1 percent from the same period in 2018. During the second half of 2019, production will remain below 2018 levels due to the summer drought and reduced herd size. Post estimates that in 2020, the number of French dairy cows will further decline, resulting in stable or slightly lower milk deliveries. France's production of organic cow milk increased quickly since 2017 and currently accounts for four percent of total cow milk production. Dutch dairy producers continue to recover following a large-scale herd reduction in 2018 due to new phosphate emission requirements. The overall Dutch milk production in 2019 will decrease in comparison to 2018, because of the smaller herd size and higher forage prices caused by the summer droughts in 2018 and 2019. 2018 Italian milk production increased by 1.4 percent over 2017. However, Post estimates that Italy's milk production will decrease in 2019 and 2020 due to the smaller herd size. Lower milk deliveries during the first six months of 2019 versus the same period of 2018 also occurred in Austria, Latvia, Lithuania, Greece, Hungary, Finland, Portugal, Czech Republic, Slovakia, Slovenia, and Sweden.

Conversely, Ireland saw a 10-percent increase in milk deliveries in the first six months of 2019. After a substantial decline in 2018, Irish dairy incomes are set to rebound in 2019 due to lower feed costs and higher milk production. Ireland's climate and grass-production capacity, combined with its dairying tradition, help make Ireland one of the world's foremost milk producers. The UK enjoys similar milk production advantages, although many British farmers have less access to hay and silage and tend to use more compound feeds to achieve higher milk deliveries. Romanian milk deliveries increased by over four percent during the first six months of 2019. Commercial Romanian dairies are enthusiastically expanding their herds, encouraged by milk prices, relatively low feed prices, and domestic support policies, including a country-of-origin milk labeling law, which was enforced in 2018. The non-commercial sector in Romania remains unprofitable. In the first half of 2019, Polish milk deliveries increased by 2.3 percent over the same period in 2018. Post estimates that rising export opportunities and stronger domestic demand will increase total 2019 Polish milk deliveries by 3.5 percent over the 2018. Belgian milk production started strong in 2018, but slowed due to the hot and dry summer weather. Despite low forage stocks, production has increased in 2019 and will further increase in 2020, albeit at a more modest pace due to environmental restrictions. The Spanish dairy industry has increased production efficiencies and restructured over the last two years. Spanish dairy farmers have taken a more business-oriented approach, improved herd management, and focused on increasing exports to non-EU markets.

Consumption

Post expects that fluid milk consumption in 2019 will decrease from 2018, following current consumer trends away from fluid milk toward cheese and other processed dairy products, as well as non-dairy milk substitutes. In France, fluid milk consumption is decreasing, although consumption of niche products like flavored, vitamin-enriched, lactose-free milk, and plant-based drinks is increasing. According to Spanish industry sources, milk and dairy consumption is trending up. In Austria ESL and UHT production is eclipsing fresh milk production. Organic milk and "hay milk" (cows not fed with silage) are popular in Austria. In 2018, Austrian organic milk accounted for 18 percent of total cow milk deliveries and was increasingly exported to Germany and Italy. Swedish organic milk production reached market saturation levels, and prices started to decrease because of oversupply.

Trade

Fluid milk exports in 2018 declined from the previous year's level, as higher shipments to Libya, Angola, and Philippines did not offset lower demand from China. Post estimates that exports in 2019 will increase over 2018 levels due to higher milk production and rebounding import demand from China. In the first six months of 2019, fluid milk exports increased by 19 percent mainly driven by a 56-percent increase in exports to China. Post forecasts that 2020 fluid milk exports will remain stable.

Table 2: Dairy, Cheese

Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	10,160	10,160	10,300	10,230	0	10,300
Other Imports	59	59	60	60	0	60
Total Imports	59	59	60	60	0	60
Total Supply	10,219	10,219	10,360	10,290	0	10,360
Other Exports	832	832	840	850	0	860
Total Exports	832	832	840	850	0	860
Human Dom. Consumption	9,387	9,387	9,520	9,440	0	9,500
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	9,387	9,387	9,520	9,440	0	9,500
Total Use	10,219	10,219	10,360	10,290	0	10,360
Ending Stocks	0	0	0	0	0	0
Total Distribution	10,219	10,219	10,360	10,290	0	10,360
(1000 MT)						

Trade data source: *Trade Data Monitor, LLC and EU FAS Offices estimates.*

Production

Post estimates that cheese production in 2019 will increase by 0.7 percent over 2018. This increase will stem from higher raw milk availability and continuing domestic and global demand. Post forecasts that higher milk deliveries 2020 will keep cheese production growth on par with 2019 levels. Germany, France, and Italy are the largest producers of cheese in the EU-28 and cumulatively manufacture almost 60 percent of total cheese output. After an increase in 2018, German cheese production will further grow in 2019 due to more production capacity in Bramstedt, Schleswig-Holstein. Higher productivity in Bramstedt will begin to occur towards the end of 2019 and the full impact will be seen in 2020. Italy's cheese production decreased by two percent in 2018 from 2017, but will recover in 2019 and 2020, due to continuing export demand. In 2018, Gorgonzola and Parmigiano Reggiano

productions went up by 2.5 and 1.3 percent, respectively, compared to 2017, while Grana Padano production remained steady. In the first half of 2019, Gorgonzola and Grana Padano productions increased by 4.1 and 1.8 percent, respectively, compared to the same period in 2018, while Parmigiano Reggiano production remained steady. The Dutch cheese sector is still expanding, a plant with a capacity of 10,000 metric tons (MT) of hard cheese started production at the end of 2018, and a plant with a capacity of 45,000 MT of Mozzarella cheese is scheduled to begin production in 2020. Most sheep and goats milk produced in Spain is used to manufacture Spanish mixed cheeses with milk from cow, sheep, and goat. Since January 2019, a dairy facility in northern Spain began processing goat milk powder for export and infant formula manufacturing in China. As a result of this new demand for goat milk, Spanish mixed cheese producers are now competing for domestic raw material and facing higher goat milk prices.

Consumption

Post estimates that higher production and economic growth in some MSs will stimulate domestic demand and cheese consumption in 2019 and 2020, especially mozzarella and processed cheese.

Trade

Cheese exports in 2018 were roughly on par with 2017 levels. The United States remained the EU-28's largest export market, followed by Japan, Switzerland, and South Korea. Post estimates that in 2019, cheese exports will increase by two percent over 2018, because of higher production and strong global demand. During first six months of 2019, cheese exports increased by one percent because of higher shipments to the United States and Japan. Post forecasts that exports will continue to grow in 2020, albeit at a slower pace, as more cheese will be consumed within EU markets. EU-28 cheese exports in 2020 may also be affected by the U.S. compensatory tariffs introduced on October 18, 2019, however, at this point, the magnitude of its impact on trade remains unclear. Cheese imports are projected to remain within established import quotas.

Table 3: Dairy, Butter

Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	2,345	2,345	2,360	2,360	0	2,365
Other Imports	22	22	27	25	0	25
Total Imports	22	22	27	25	0	25
Total Supply	2,367	2,367	2,387	2,385	0	2,390

Other Exports	161	161	155	155	0	155
Total Exports	161	161	155	155	0	155
Domestic Consumption	2,206	2,206	2,232	2,230	0	2,235
Total Use	2,367	2,367	2,387	2,385	0	2,390
Ending Stocks	0	0	0	0	0	0
Total Distribution	2,367	2,367	2,387	2,385	0	2,390
(1000 MT)						

Trade data source: *Trade Data Monitor, LLC and EU FAS Offices estimates.*

Production

Post estimates that 2019 butter production will increase by 0.6 percent over 2018 due to higher availability of milk for processing and continuing domestic and international demand. Continuing domestic and international demand will also drive higher production in 2020.

Consumption

Post estimates that growing domestic butter consumption in the EU-28 will continue in 2019 and 2020. Domestic EU-28 butter consumption in 2019 will increase by one percent over 2018, due to growing production and lower exports. EU-28 consumers and food manufacturers perceive butter as a healthful product and more natural than margarine. In some instances, the food industry also uses butter as a substitute of vegetable oil.

Trade

Post estimates that butter and butter oil exports in 2019 will decrease because higher production will be mainly be consumed domestically. In September 2019, EU-28 butter prices were 35 percent lower than September 2018 levels. In 2019, the United States will remain the main export market for EU-28 butter. During first six months of 2019, butter exports to the United States increased by 42 percent. However, growing exports of butter to the United States and Japan did not offset reduced shipments of butter oil to Saudi Arabia, Indonesia, and Jordan, resulting in an overall decrease of total butter fat exports by one percent during the first half of 2019. At the time of publication, the impact of the 25 percent compensatory tariff introduced by the United States for EU-28 butter remain unclear. 88 percent of EU-28 butter shipped to the United States in 2018 originated from Ireland. In the United States, Irish butter is perceived as a premium product, and its demand may prove to be relatively inelastic. Other important export markets for EU-28 butter include Japan, China, and Middle Eastern countries. Post estimates that exports of butter and butter oil will remain stable in 2020, because higher production will be consumed domestically.

Stocks

Since 2017, EU-28 Private Storage Aid butter stocks were depleted due to strong domestic and international demand.

Table 4: Dairy, Milk, Nonfat Dry

Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	380	380	175	175	0	0
Production	1,735	1,735	1,780	1,765	0	1,775
Other Imports	3	3	3	7	0	5
Total Imports	3	3	3	7	0	5
Total Supply	2,118	2,118	1,958	1,947	0	1,780
Other Exports	821	821	950	1,000	0	900
Total Exports	821	821	950	1,000	0	900
Human Dom. Consumption	1,122	1,122	1,008	947	0	880
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1,122	1,122	1,008	947	0	880
Total Use	1,943	1,943	1,958	1,947	0	1,780
Ending Stocks	175	175	0	0	0	0
Total Distribution	2,118	2,118	1,958	1,947	0	1,780
(1000 MT)						

***Please note**: The estimate of NFDM production in 2019 and 2020 is based on the data received from the analysts in the EU FAS Offices and the fat-protein balance of milk deliveries and output of dairy products.*

***Trade data source:** Trade Data Monitor, LLC and EU FAS Offices estimates.*

Production

Post estimates that 2019 NFDM production will increase by two percent over 2018, due to growing export demand and higher milk production. EU-28 NFDM was more price competitive on the international market versus Oceania and U.S. NFDM, which drove production and exports in the first half of 2019. NFDM production will continue to grow in 2020, although at a more moderate pace, due to more limited raw milk access and higher cheese production.

Consumption

Post estimates that 2019 NFDM consumption will decrease by 16 percent over 2018, as higher exports will offset production growth coupled with the public stock liquidation. High NFDM consumption in 2018 and 2019 were due to the release of public stocks by the EU-28, which were partly converted to commercial stocks. (NOTE: Domestic consumption in this report includes commercial stocks.) Consumption of NFDM in 2020 will return to historical levels because higher production will be mainly destined for export.

Trade

Post estimates that 2019 NFDM exports will increase by 22 percent due to competitive prices of the EU-28 on the world market. The EC's reduction of NFDM stocks in 2018 and early 2019 put downward pressure on NFDM prices, which led to 31-percent increase in exports during the first six months of 2019. Major export markets during this period included China, Indonesia and the Philippines. Post expects that exports will moderate later in the year and into 2020 due to declining stocks and limited production growth.

Stocks

According to MMO data, since August 2019 the EU-28 NFDM stocks were depleted. Since then new NFDM market interventions have not occurred.

Table 5: Dairy, Dry Whole Milk Powder

Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	730	730	730	660	0	660
Other Imports	2	2	4	1	0	1
Total Imports	2	2	4	1	0	1
Total Supply	732	732	734	661	0	661

Other Exports	334	334	310	270	0	270
Total Exports	334	334	310	270	0	270
Human Dom. Consumption	398	398	424	391	0	391
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	398	398	424	391	0	391
Total Use	732	732	734	661	0	661
Ending Stocks	0	0	0	0	0	0
Total Distribution	732	732	734	661	0	661
(1000 MT)						

Trade data source: *Trade Data Monitor, LLC and EU FAS Offices estimates.*

Production

Post forecasts that 2019 WDM production will decrease from 2018 due to lower export demand and higher profitability for cheese, NFDM, and butter production. In 2020, production will remain at 2019 levels because of limited demand from North Africa and Middle East.

Consumption

Post estimates that in 2019 and 2020 domestic consumption of WDM will remain at almost the 2018 level as lower production will be accompanied by reduced exports. Domestic consumption remains strong because of continued demand from the domestic food processors (mainly chocolate manufacturers).

Trade

Post estimates that 2019 WDM exports will decrease from 2018's level, mainly due to lower output and reduced demand from Algeria and China. In 2020, exports will remain relatively unchanged from 2019.

EU Policy

United States Awarded $7.5 Billion in Compensatory Tariffs in WTO Airbus Case against the EU-28

On October 2, 2019, the WTO found that the EU's WTO-inconsistent subsidies to Airbus caused $7.5 billion in annual damage to the United States (see press release). As of October 18, 2019, the United States imposed this same amount of compensatory tariffs on EU-28 exports. USTR published a Notice of Determination and Action with the list of products that will be targeted by these compensatory tariffs. For dairy, targeted products include fresh products (HS 0403), whey (HS 0404 1005), butter (HS 0405) and cheese (HS 0406) from various EU-28 member states. Some dairy products in certain MSs were excluded from the list of compensatory tariffs. If calculated on a 2018 trade volume-basis, 46

percent of cheese and 50 percent of butter and butter oil exported from the EU-28 to the United States will be affected. To date, it is unclear how the compensatory tariffs will affect EU-28 cheese and butter exports to the United States during the last quarter of 2019 and into 2020.

Environmental Restrictions

EU environmental restrictions are limiting milk production in countries with the high density of livestock production. Until 2030, the Dutch agricultural sector must reduce 3.5 megatons of carbon dioxide emissions, the amount required to reach the mandated 49-percent overall reduction of carbon dioxide emissions by 2030. During the next ten years, the Dutch Government will spend €900 million on measures to reduce carbon dioxide emissions in peat-pasture areas, greenhouses and intensive livestock farming. The problem with the peat-pasture areas, mainly in the western part of the Netherlands (Holland), is that water levels must be kept low for dairy farming, which causes carbon dioxide emissions and damages the foundations of buildings, and even cities such as Gouda. Dairy farmers will receive funding for termination or moving their farms, so the water level can rise (and the land will be available for nature and construction). The Dutch dairy sector must also lower its nitrogen emissions, as they are currently above the EU-28 level. A government commissioned committee advised to buy out livestock and dairy farms near nature reserves. While several parties in the Parliament argued to halve the intensive livestock sector. During October thousands of dairy farmers protested against the potential measures. The new German fertilizer regulation, which aims at reducing nitrogen leakage into the ground water by limiting the allowable nitrogen application (in the form of fertilizer or manure) also requires for the construction of special manure silos. Smaller farmers might be prompted to stop production if they are faced with the need for heavy investments to modernize their manure silos.

New Common Agricultural Policy (CAP) and Likely Extension of Current CAP

On June 1, 2018, the EC published its legislative proposals for the new CAP beyond 2020, which are meant to become effective at the beginning of 2021. However, the legislative procedure was interrupted as both EC and European Parliament (EP) were unable to take the final vote before the EU-28 elections in May 2019. Although the new EP already started to operate, it is generally understood that the new CAP will not be finalized for implementation on the foreseen date. One of the main reasons is that it is still unclear what the available budget will be given the fact that the UK's intention to leave the EU-28 (Brexit) has now been postponed until October 31. As a consequence, the odds have increased that this autumn will see the approval of an extension of the current CAP by one or two years. Content wise, the scope of the new proposals remains in line with the current CAP.

Trade Impact of Recent EU-28 Free Trade Agreements (FTA's) on Dairy Trade

1. The EU-28 - Canada Comprehensive and Economic Trade Agreement (CETA) entered into force provisionally on 21 September 2017. As part of the CETA agreement, a range of tariff rate quotas were agreed for animal products including duty-free cheese export quota of 16,000 MT in six equal stages, increased with 1,700 MT duty-free quota for "Industrial cheese" and reallocation to the EU-28 of 800 MT of Canada's cheese WTO quota.

2. The EU and Japan's Economic Partnership Agreement entered into force on February 1, 2019. The agreement provides a complex schedule for tariff reduction for EU-28 beef and pork exports over a 20-year period, as well as for dairy products.
3. Under EU-28 - Vietnam FTA, signed on June 30, 2019, EU exports of dairy products will be duty free after five years.
4. Modernization of EU-28 - Mexico FTA was agreed on April 21, 2018. New quotas for animal products were agreed. Mexico quotas include:
    - Duty-free quota for 200,000 liters of milk and cream and 200 MT of condensed milk after five-year implementation.
    - Duty-free quota for 50,000 MT of milk powder after five-year implementation, as well as 5,000 MT of whey powder.
    - Duty-free quota for 2,500 MT of butter and spreads after seven-year implementation period.
    - Duty-free quota for 5,000 MT of fresh and processing cheese after five-year implementation, as well as 20,000 MT of other cheeses.

5. An agreement in principle for an EU-28 - Mercosur FTA was announced on June 28, 2019. Following quotas for animal products were agreed for Mercosur countries:
    - Duty-free quota for 30,000 MT of cheese in ten equal stages.
    - Duty-free quota for 10,000 MT of milk powders in ten equal stages, as well as 5,000 MT of infant formula.

6. FTA negotiations with Australia and New Zealand started in 2018.

New Country of Origin Labeling (COOL) Rules

Detailed information on COOL is provided in GAIN report and on the FAS/USEU website. The Food Information to Consumers (FIC) regulation required the EC to prepare reports on the feasibility of introducing mandatory COOL for dairy products, "minor" meats, unprocessed products and single ingredient products. The reports on COOL are also available on DG SANTE's website.

Impact of New Veterinary Medicine Regulation

The EU-28 approved its new framework veterinary medicine regulation on December 11, 2018. The final implementation date is January 28, 2022. This should allow time to approve all necessary implementation, of which the list of antibiotics that will be exclusively preserved for human medicine and the modalities of use of allowed products. Drafts for these implementation regulations are being discussed as part of the approval procedure, but these drafts have not been made publicly available. As a consequence, it remains unclear what impact this regulation will have on U.S. exports of animal products.

Attachments:

No Attachments