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Report Highlights:

Post estimates that 2020 European Union (EU) milk deliveries will increase by one percent over 2019 due to continued global demand for dairy products, stable domestic demand, and market interventions introduced by the European Commission (EC) in June 2020. Milk deliveries will continue to grow in 2021, albeit more moderately, due to a reduction in the overall herd population and global market disruptions following the COVID-19 pandemic. Post expects cheese, butter, whole dry milk (WDM), and non-fat dry milk (NFDM) production will increase in 2020 due to higher milk deliveries. Post forecasts that production of dairy products will continue to grow in 2021, except for WDM production, which will plateau.

DISCLAIMER

Unless otherwise noted, "EU" in this report refers to EU27+United Kingdom (UK), the current EU Customs Union. The following numbers result from analysis and input by FAS offices across the EU and are a consolidation of PS&Ds from all EU Member States. 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:

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Executive Summary:

Post estimates that 2020 EU milk deliveries will grow by one percent over 2019 due to continuing export demand for dairy products, stable domestic demand, and market interventions introduced by the EC in June 2020. Production growth will be limited due to lower dairy herd inventories. Post expects that dairy processors will increase production of cheese, butter, WDM, and NFDM because of higher milk deliveries. 2020 cheese production will increase over 2019 levels due to higher export demand.

Dairy cow inventories will continue to decline through 2020 and 2021, following a general trend toward smaller herds and more productive animals. 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.

Post estimates that in 2020, domestic consumption of butter, cheese, and WDM will remain about the same as 2019 levels, while NFDM consumption will decrease from 2019 and return to historic average levels. In 2018 and 2019, domestic NFDM consumption was artificially high following the EC's release of public intervention stocks on to the market. Fluid milk consumption in 2020 will increase because COVID-19 will temporarily change consumer consumption trends. Post forecasts that fluid milk consumption will decline in 2021, as the long-term shift away from fluid milk toward other dairy products and milk substitutes will resume. Post forecasts that 2021 cheese and butter consumption will increase with higher production. 2021 WDM and NFDM consumption will plateau.

According to Milk Market Observatory* (MMO) in August 2020, the EU farmgate price for raw milk was €32.7 (\$38.6) per 100 kilograms, three percent below August 2019. Although farmgate milk prices declined from January to June 2020, prices have rebounded since July. As of October 4, 2020, the EU27+UK cheese (cheddar) price was three percent above the October 2019 price, while WDM, butter, and NFDM prices were eight, five, and five percent, respectively, lower than October 2019 prices.

Post estimates that 2020 cheese exports will continue to grow due to strong global demand. Despite supply chain issues and temporary drop in demand from the food service sector following COVID-19, cheese, butter, WDM, and fluid-milk exports will increase from 2019. Post estimates that 2020 NFDM exports will decline from 2019 due lower anticipated demand from China and Southeast Asia and the EU's decision to release its NFDM public intervention stocks in 2019.

In June 2020, the EC introduced the Private Storage Aid (PSA) program in response to COVID-19 market volatility. PSA subsidizes private storage for cheese, NFDM, and butter for up to six months. Post expects this program to terminate before the end of 2020. According to MMO, as of August 2020, PSA cheese, NFDM, and butter stocks amounted to 33,794 metric tons (MT), 18,120 MT, and 63,691 MT, respectively. The EC also opened its public intervention scheme for butter and NFDM from March 1 to September 30, 2020. As butter and NFDM market prices were above intervention prices, butter and NFD were not eligible for intervention storage.

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

General Information:

Table 1: Dairy, Milk, Fluid (000 Head, 000 MT)

Dairy, Milk, Fluid Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	22,908	22,908	22,628	22,627	0	22,550
Cows Milk Production	155,200	155,200	156,700	156,700	0	157,300
Other Milk Production	4,700	4,700	4,620	4,710	0	4,720
Total Production	159,900	159,900	161,320	161,410	0	162,020
Other Imports	11	11	10	13	0	13
Total Imports	11	11	10	13	0	13
Total Supply	159,911	159,911	161,330	161,423	0	162,033
Other Exports	931	932	940	950	0	950
Total Exports	931	932	940	950	0	950
Fluid Use Dom. Consum.	33,300	33,300	33,260	33,400	0	33,350
Factory Use Consum.	125,680	125,679	127,130	127,073	0	127,733
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	158,980	158,979	160,390	160,473	0	161,083
Total Distribution	159,911	159,911	161,330	161,423	0	162,033

Please note: The forecast of milk deliveries to dairies in 2020 and 2021 is 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 2020 EU milk deliveries will increase by one percent over 2019. According to MMO data, EU milk production during the first seven months of 2020 increased by 1.8 percent over the same period in 2019. Post estimates that changes in domestic and international demand for dairy products, along with possible supply chain disruptions during the second wave of COVID-19 will moderate the pace of milk production growth during fall 2020. Post forecasts that 2021 milk production will increase an additional 0.4 percent if the COVID-19 situation improves.

As of January 2020, the total EU dairy cow herd declined by 280,000 head, a 1.2-percent decrease from January 2019. Post estimates that dairy cow inventories will also continue to decrease in 2021. Despite the overall herd decline, Post estimates that better herd management, including the use of high-quality bovine genetics, will keep milk production levels stable because of higher yields.

According to MMO, the average August 2020 EU raw milk price was €32.7 (\$38.6) per 100 kilograms, three percent below August 2019 and four percent below December 2019. Farmgate milk prices declined from January to June 2020, although they have rebounded since July 2020. The COVID-19 pandemic coincided with the seasonal spring and summer milk production uptick, which put additional downward pressure on milk prices.

In Germany, the EU's largest dairy producer, the dairy industry is heavily dependent on exports, mainly to other EU Member States. In the first half of 2020, German milk deliveries increased by one percent. However, many regions reported a forage product shortage (hay/silage) due to dry conditions during the spring and early summer. This may result in lower milk deliveries during the second half of 2020. Although Post estimates that 2021 German milk deliveries will increase moderately if winter precipitation levels return to normal, growth will be limited by the lower herd size and by nitrogen fertilizer restrictions in some regions, which limit farmers' ability to spread dairy manure in fields.

Post forecasts that in 2020 and 2021, the Dutch dairy herd will increase after significant reductions of over 100,000 animals in 2017 and 2018. These reductions were due to new phosphate regulations which forced farmers to reduce herds to the sizes reported in July 2015. While Dutch farmers are rebuilding their herds, many uncertainties around nitrogen policies in the Netherlands, as well as the COVID-19 crisis, persist. As a result, significant expansions are not expected. Dutch milk deliveries increased by 2.4 percent during the first six months of 2020. Despite dairy market conditions, farmers continue to produce to manage debt and to pay creditors.

Post estimates that Italian milk production in 2020 will decrease slightly due to the lower herd size, despite better overall cow productivity. The COVID-19 pandemic led some factories to temporarily shift from fresh milk production to UHT milk production. According to industry sources, domestic UHT consumption increased 12 percent during the first three months of 2020 over the same period in 2019.

The UK dairy herd remains in long-term decline, with 2021 forecast to see yet another year-on-year fall. COVID-19 saw a temporary reduction in milk deliveries during the second quarter of 2020, as the sector adapted to changes in the consumption supply chain. Consequently, year-on-year milk deliveries are forecast down. Generally, increases in per cow production support milk deliveries. This year, COVID-19 likely incentivized some producers to slaughter unproductive cows. 2021 UK milk production is currently forecast unchanged, despite the slightly smaller herd. The impact of COVID-19 on total fluid

and factory use has been limited and, with production forecast unchanged in 2021, is currently forecast to remain so in 2021. Despite COVID-19, the other uncertainty hanging over the UK market is Brexit. The UK is set to end its transitional relationship with the EU27 on December 31, 2020. No agreements regarding the future trading relationship have been reached, so forecasts assume that any disruptions to existing trade patterns will be minimal. For fluid milk, the UK is effectively self-sufficient. Any increased trade friction with the EU will likely affect UK dairy products.

Unlike the UK, Irish milk production is more cyclical in nature due to the prominence of grass feeding. The importance of the domestic hospitality sector is less significant in Ireland and Irish milk producers focus more on production and storage for export. The Irish processing sector has excess capacity and is well placed to handle supply chain disruptions. If anything, COVID-19 has slightly increased home consumption of fluid milk due to consumers being homebound for extended periods of time. Concerns previously focused on Brexit have now turned to COVID-19 and the likelihood of reduced exports due to hospitality sector disruptions in the UK and other traditional markets within the EU and beyond. Like the UK, this is forecast to lead to negative price pressure. This may lead to a slowdown of the Irish dairy herd expansion

In Austria, demand for dairy products declined with the COVID-19 outbreak. Despite overall lower sales, UHT milk saw an uptick in demand. In response to changing consumer trends, some Austrian processors also switched their production lines to longer shelf-life products. Organic milk and “hay milk” (cows not fed with silage) remain as important products in Austria. In 2019, organic milk accounted for over 18 percent of total cow milk deliveries in Austria. Major export destinations for organic milk and dairy products were Germany and Italy.

In Hungary, the overall dairy cow population has not changed much in recent years and milk production has therefore been relatively stable. Post estimates that 2020 and 2021, Hungarian milk production will remain flat. Domestic milk consumption is also relatively stable, although COVID-19 stimulated a 57-percent sales increase for UHT milk in March and April.

Over the last four years, the restructuring of the Spanish dairy industry significantly increased efficiency in domestic production. Spanish dairy farmers have also become more business-oriented, with improved agronomic practices and increased focus on non-EU export markets. Spanish household consumption of fluid milk, yoghurt, butter, milk cream, and low-cost cheese increased during the COVID-19 lockdown. According to the Spanish dairy industry, domestic dairy consumption may continue to rise in the coming years. However, increased home consumption did not offset the substantial sales losses to the hotel, restaurant, and institutional (HRI) channels, which market high-value cheeses and other dairy products. In 2020, Spanish sheep and goat milk production is expected to decline due to lower high-value cheese consumption due to the COVID-19 crisis. Instead, due to increased production efficiencies and rainy spring 2020 conditions, 2020 cow milk production may increase slightly to 7.3 million metric tons. Due to a slight expected decline in the 2021 Spanish dairy herd, 2021 Spanish cow milk production may remain flat. Additionally, the Portuguese dairy industry is looking to expand exports. However, because of the COVID-related movement restrictions and suspension of HRI sectors, Portuguese dairy production and exports are expected lower.

The Polish dairy sector continues to operate normally. During the first six months of 2020, milk deliveries increased by 2.8 percent over to the first half of 2019. So far, the Polish dairy industry has not

been adversely affected by COVID-19. Despite some initial uncertainty during the spring months, especially regarding foreign trade, the Polish dairy sector reports that most regular functions are back on track. The COVID-19 pandemic did not dramatically affect milk deliveries. Although the fallout from COVID-19 continues to impact Poland’s HRI sectors, Polish dairy farmers have been more immediately affected by lower farmgate milk prices due to seasonal production increases and lower butter prices.

Consumption

Post estimates that domestic 2020 fluid milk consumption will grow in conjunction with higher production. 2020 fluid milk consumption will increase because consumer trends temporarily changed because of the COVID-19 quarantine restrictions. Post forecast that fluid milk consumption in 2021 will decline and return to the long-term shift away from fluid milk toward other dairy products and milk substitutes. According to MMO, the EU farm-gate price for raw milk in August 2020 was €32.7 (\$38.6) per 100 kilograms, three percent below August 2019. Although farm-gate milk prices declined from January to June 2020, they have rebounded since July 2020. Because of COVID-19 movement restrictions and social distancing, many consumers are choosing to eat at home instead of HRI establishments. Consumers stockpiled cheese, butter, and UHT milk early in the pandemic, which drove retail sales of these products. Meanwhile, sales of larger dairy product units bound for HRI and food industry channels declined significantly.

Post expects that because of COVID-19, sales of milk, butter, cream, yogurt, lower-cost cheeses, and processed cheeses will increase. Conversely, high-value cheese sales, which are often sold in restaurants, will decrease. Consumers are cooking more at home, reducing time inside stores, buying more in bulk, and focusing more on staples and shelf-stable products. Consumers will seek to shop less often and therefore will tend to buy larger volumes. There is also a notable ‘buy local’ trend aimed at supporting domestic economies, which is supported by local media and governments. While most lockdown measures were lifted during the summer, social distancing has generally continued and many consumers are still working from home. Although most restaurants and other HRI outlets reopened during the summer months, many consumers are hesitant to resume old habits. Many HRI businesses have not survived the pandemic and those that remain open are typically operating on tight margins.

Trade

Post estimates that 2020 fluid milk exports will increase by five percent over 2019, mainly because of higher demand from China. During first half of 2020, fluid milk exports to China increased by 15 percent. The increase of exports will be limited due to the global economic fallout following the COVID-19 pandemic, but also because lower demand in the Middle East and other petrol-based economies (e.g. during first six months of 2020 fluid milk exports to Libya dropped 26 percent). Post forecasts that 2021 fluid milk exports will remain on par with 2020 exports.

Table 2: Dairy, Cheese (000 MT)

Dairy, Cheese	2019	2020	2021
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Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	0	0	0	0	0	0
Production	10,210	10,210	10,450	10,280	0	10,330
Other Imports	63	63	53	60	0	55
Total Imports	63	63	53	60	0	55
Total Supply	10,273	10,273	10,503	10,340	0	10,385
Other Exports	880	886	925	950	0	960
Total Exports	880	886	925	950	0	960
Human Dom. Consumption	9,393	9,387	9,578	9,390	0	9,425
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	9,393	9,387	9,578	9,390	0	9,425
Total Use	10,273	10,273	10,503	10,340	0	10,385
Ending Stocks	0	0	0	0	0	0
Total Distribution	10,273	10,273	10,503	10,340	0	10,385

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

Production

Post estimates that 2020 cheese production will increase by 0.7 percent over 2019 due to higher raw milk production and growing export demand. Post forecasts that 2021 cheese production will continue to grow, but more slowly than in 2020 because of lower milk availability. Germany, France, and Italy are the EU's largest cheese producers and together account for almost 60 percent of total cheese output.

Consumption

Post estimates that 2020 cheese consumption will remain about the same as 2019, with consumption growth moderated by higher exports. Post forecast that cheese consumption in 2021 will grow in line with higher production. The economic recession caused by COVID-19 will change cheese consumption patterns, as consumers will likely switch from higher priced specialty cheeses to lower cost alternatives. Mozzarella and processed cheese consumption in 2020 will decline because of the drop in demand from HRI end users. According to MMO, cheddar, gouda, and edam prices have been relatively stable recently. On October 4, cheddar cheese was priced at €305 (\$360) per 100 kilograms, versus €299 (\$353) in the last week of September. The October 3 cheddar price was three percent above the October 2019 price.

Trade

Post estimates that 2020 cheese exports will be seven percent higher than in 2019, because of higher production and continued global demand. The United States remains the EU's largest export market, followed by Japan, Switzerland, and South Korea. 2021 export growth will be slower than in 2020 due to the economic downturn and possible supply chain difficulties caused by COVID-19. In the first six months of 2020, EU cheese exports increased by eight percent in compared to the first half of 2019, due to higher shipments to Japan, Switzerland, and South Korea. In the first half of 2020, cheese shipments to the United States declined by 13 percent from the same period of 2019. In 2020, cheese imports are projected to remain within established import quotas.

Stocks

On April 30, 2020, the EU issued Commission Delegated Regulation (EU) 2020/591 authorizing a temporary exceptional PSA scheme for certain varieties and amounts of cheeses. The PSA subsidize

private storage costs for between 60 and 180 days and will expire before the end of 2020. The EC established a 100,000 MT limit for cheese, which was allocated based on the total volume of cheese produced in respective Member States. Subsidy payouts are fixed at €15.57/MT (\$18.37) for fixed storage costs and €0.40/MT (\$0.47) per day of contractual storage. According to MMO, as of August 2020, PSA stocks of cheese amounted to 33,794 MT. Italy, the Netherlands, and France were the major users of the 2020 PSA intervention program.

Table 3: Dairy, Butter (000 MT)

Dairy, Butter Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	0	0	0	0	0	0
Production	2,375	2,375	2,410	2,400	0	2,410
Other Imports	16	16	3	10	0	5
Total Imports	16	16	3	10	0	5
Total Supply	2,391	2,391	2,413	2,410	0	2,415
Other Exports	218	218	265	240	0	240
Total Exports	218	218	265	240	0	240
Domestic Consumption	2,173	2,173	2,148	2,170	0	2,175
Total Use	2,391	2,391	2,413	2,410	0	2,415
Ending Stocks	0	0	0	0	0	0
Total Distribution	2,391	2,391	2,413	2,410	0	2,415

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

Production

Post estimates that 2020 butter production will increase by 1.1 percent over 2019 due to strong domestic and world market demand. Butter production will also continue to grow in 2021 due to higher milk production but with a slower pace. Butter private storage is eligible to receive subsidies under the EC's 2020 PSA scheme.

Consumption

Post estimates that domestic EU butter consumption in 2020 will remain almost stagnant versus 2019, due to growing exports. According to the MMO, butter prices on October 4 averaged €345 (\$407) per 100 kilograms, compared to €350 (\$413) one week earlier. Over the last four weeks, average butter prices have been relatively stable. However, within the last five months, butter prices increased by 23 percent, making EU butter less competitive on the world market. EU consumers and food manufacturers perceive butter as a more healthful and natural product than margarine.

Trade

Post estimates that in 2020, the United States, Saudi Arabia, and the United Arab Emirates will remain the EU's main export markets for butter. Post estimates that butter and butter oil exports in 2020 will increase because of higher production and continued U.S. and Middle Eastern demand. During first six months of 2020, butter exports increased by 64 percent over the same period of 2019. Exports to the United States increased by 33 percent and contributed significantly to the EU's overall growth in butter exports. Post estimates, that growing prices for EU butter, coupled with strong domestic demand, will limit EU butter exports during the second half of 2020 and keep it flat in 2021.

Stocks

On April 30, 2020, the EC issued Commission Implementing Regulation (EU) 2020/597 making private storage for butter eligible for subsidies under the PSA scheme. PSA will subsidize private storage costs from 60 to 180 days and not longer than the end of 2020. Subsidy payouts are fixed at €9.83/MT (\$11.6) for fixed storage costs and €0.43/MT (\$0.51) per day of contractual storage. According to MMO, as of October 4, PSA butter stocks were 63,691 MT. The Netherlands, Ireland, and Germany were the major users of PSA. In 2020, EC public intervention for butter opened for its usual period from March 1 to September 30. Because butter prices were above the intervention price public, public butter stocks remain depleted.

Table 4: Dairy, Milk, Nonfat Dry (000 MT)

Dairy, Milk, Nonfat Dry Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	175	175	0	0	0	0
Production	1,760	1,760	1,790	1,810	0	1,820
Other Imports	6	6	3	3	0	3
Total Imports	6	6	3	3	0	3
Total Supply	1,941	1,941	1,793	1,813	0	1,823
Other Exports	962	962	880	850	0	860
Total Exports	962	962	880	850	0	860
Human Dom. Consumption	979	979	913	963	0	963
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	979	979	913	963	0	963
Total Use	1,941	1,941	1,793	1,813	0	1,823
Ending Stocks	0	0	0	0	0	0
Total Distribution	1,941	1,941	1,793	1,813	0	1,823

Please note: The estimate of NFDM production in 2020 and 2021 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 2020 NFDM production will increase by 2.8 percent over 2019 due to continuing domestic demand and NFDM's eligibility under the EC's PSA program. Post forecasts a moderate NFDM production increase in 2021 due to higher milk production.

Consumption

Post estimates that 2020 NFDM consumption will be two percent lower than 2019. 2018 and 2019 NFDM consumption was artificially "inflated" due to the release of public intervention stocks by the EU-28, which were partly converted into commercial stocks. (NOTE: Domestic consumption in this report includes commercial stocks.) According to MMO, on October 4, NFDM prices were €217 (\$256) per 100 kilograms, compared to €215 (\$254) one week earlier. Within the last four weeks, average NFDM prices have been relatively stable. However, within last 12 months, NFDM prices declined by five percent. Post forecasts that in 2021 NFDM consumption will remain at the previous year's level.

Trade

Post estimates that 2020 NFDM exports will decrease by 12 percent. The 2019 public stock release put downward pressure on NFDM prices, which led to an 18-percent increase in exports in 2019. Major markets for NFDM exports include China, Algeria, Indonesia, and the Philippines. During first six

months of 2020, NFDM exports dropped 18 percent compared to the first half of 2019, due to reduced shipments to China. However, in the same period shipments to Algeria increased by 58 percent. Post forecasts that 2021 NFDM exports will increase due to higher production and stable consumption.

Stocks

On April 30, 2020, the EC issued Commission Implementing Regulation (EU) 2020/598 authorizing skimmed milk powder as eligible under PSA. The PSA subsidizes private storage costs for 60 to 180 days and not longer than the end of 2020. Subsidy payouts are fixed at €5.11/MT (\$6.03) for fixed storage costs and €0.13 (\$0.15) per MT per day for contractual storage. According to MMO, as of October 4, NFDM stocks under PSA were 18,120 MT. Germany, the Netherlands, and Portugal were the major users of PSA. In 2020, the EC NFDM public intervention opened for its usual period from March 1 to September 30. As NFDM market prices were beyond the intervention price, NFDM public stocks remain depleted.

Table 5: Dairy, Dry Whole Milk Powder (000 MT)

Dairy, Dry Whole Milk Powder Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	0	0	0	0	0	0
Production	740	740	795	770	0	770
Other Imports	5	5	1	1	0	1
Total Imports	5	5	1	1	0	1
Total Supply	745	745	796	771	0	771
Other Exports	298	298	320	320	0	320
Total Exports	298	298	320	320	0	320
Human Dom. Consumption	447	447	476	451	0	451
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	447	447	476	451	0	451
Total Use	745	745	796	771	0	771
Ending Stocks	0	0	0	0	0	0
Total Distribution	745	745	796	771	0	771

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

Production

Post estimates that 2020 WDM production will grow by four percent relative to 2019, mainly due to higher export demand. Post forecasts that in 2021 WDM production will remain flat relative to 2020.

Consumption

Post estimates that in 2020, domestic WDM consumption will increase slightly over 2019 levels and remain flat in 2021. Domestic consumption remains strong because of demand from food processors. According to MMO, WDM prices on October 4 decreased from €273 (\$322) to €270 (\$319) per 100 kg from the previous week. Within last 12 months, WDM prices decreased by eight percent. WDM's prices remained relatively stagnant over the last four weeks.

Trade

Post estimates that 2020 WDM exports will increase from 2019 levels, mainly due to continuing demand from Oman and higher shipments to Algeria and Nigeria, which will offset reduced exports to China. During first six months of 2020, WDM exports increased by 15 percent compared to the first half of 2019. Post forecasts that in 2021 WDM exports will remain at the 2020 level.

EU Policy

COVID-19 Update

Following the COVID-19 outbreak in March 2020, EU Member States reacted with border closings and shuttering HRI businesses. This created disruptions throughout the value chain and EU milk processors converted surplus liquid milk into butter and NFDM, as dairy market prices dropped. In response to this market volatility, the EC introduced abovementioned PSA [measures](#) for cheese, NFDM, and butter.

New Common Agricultural Policy (CAP)

Uncertainty about [Brexit](#)¹ and the EU's future budgetary situation prevented the outgoing Juncker Commission from fully preparing the next CAP, which should have started from 2021, as the current CAP expires at the end of 2020. The EC published its new [CAP proposals](#)² on June 1, 2018, but it was evident from the start that, given the European elections in May 2019, it would be up to the incoming institutions to finalize the agreement and that an extension of the current CAP would be needed to bridge the gap. As Brexit occurred at the end of January 2020, the new Von der Leyen Commission prepared a new multiannual financial framework 2021-2027 (MFF) proposal (€1,074 or \$1,268 billion), in combination with an extraordinary recovery effort known as the Next Generation EU (€750 or \$885 billion). The [€1.8 billion package](#)³ (\$2.2 billion) which gained EU Council approval on July 21, 2020, aims to help the EU rebuild after the COVID-19 pandemic and support investments in the green and digital transitions. The new MFF proposal includes €356.4 billion (\$420.5 billion) for the new CAP and Fisheries policy, including €239.9 billion (\$283 billion) for direct payments, €19.7 billion (\$23.2 billion) for market measures (together Pillar I), and €77.9 billion (\$91.9 billion) for rural development (Pillar II) for the 2021-2027 period.

Green Deal, Farm to Fork (F2F) and Biodiversity Strategies

On May 20, 2020, the EC announced the [Farm to Fork](#)⁴ (F2F) Strategy and the EU [Biodiversity Strategy](#)⁵ for 2030 as roadmaps for enhancing food and agricultural sustainability by 2030 under the European [Green Deal](#)⁶. The strategies mark the beginning of a multi-step legislative development process that aims to fundamentally change the way EU agriculture operates and food is produced for, and provided to, EU consumers. The goal is that Member States tailor their new CAP programs towards achieving and enforcing the different strategy targets through [enhanced conditionality measures](#)⁷. The stated goal is that 40 percent of CAP funding goes towards climate change mitigation measures. Specific goals are a 50 percent reduction in pesticide use, a 50 percent reduction of nutrient leakage in

¹ https://ec.europa.eu/commission/brexit-negotiations_en

² https://ec.europa.eu/info/news/european-commission-communicates-new-cap-proposals-ground-2018-jul-16_en

³ <https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf>

⁴ https://ec.europa.eu/food/farm2fork_en

⁵ https://ec.europa.eu/environment/nature/biodiversity/strategy/index_en.htm

⁶ https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

⁷ https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key_policies/documents/cap-post-2020-environment-benefits-simplification_en.pdf

groundwater through a 20 percent reduction in fertilizer use, an increase in nature conservation areas to 30 percent, 10 percent of environmental set-aside, and 25 percent of land for organic farming. Additional goals include increased animal welfare and limitations in veterinary drug use, especially antimicrobial use. Some EU politicians openly talk about 30 percent decreases in farm animal numbers.

The EU sees its Green Deal and accompanying strategies as its way of achieving its [Paris Climate Agreement](#)⁸ and other [UN Sustainable Development Goal](#)⁹ commitments. No legislative proposals to convert the above strategies have been made yet to the EC and the EP, which will need to approve them through joint compromises. Both legislative bodies have already requested that impact assessments must be available before legislative initiatives are proposed. Given the level of ambition in the strategies, the EU legislative process can be expected to be arduous and lengthy, especially as the number of implementing acts specifying the details of the different policies will likely run into the tens, if not hundreds of specific acts. Therefore, the EC has proposed a one-year extension to the current CAP, but both the EC and EP requested a two-year transition as they are not confident that such a massive legislative undertaking can be finalized within one year, especially as finalizing and approving the COVID-19 Next Generation EU mitigation package takes precedence.

Brexit

The UK formally left the EU on January 31, 2020 and entered into a transition period until December 31, during which it continues to fully comply with EU rules and legislation. During this transition period, it is negotiating an [agreement](#)¹⁰ with the remaining EU-27 on its future relationship and particularly on trade. Because the UK notified the EU that it will not extend the transition period, it remains uncertain if an agreement will be concluded. If the UK and the EU cannot reach a negotiated deal (hard Brexit), the UK-EU trade relationship will revert to World Trade Organization rules, with full border controls, including on the Irish island and on the border between Spain and Gibraltar.

Veterinary Medicine Legislation

The EU approved its new framework for veterinary medicine [regulation](#) on December 11, 2018. The final implementation date will be January 28, 2022. Drafts for [implementing legislation](#)¹¹, including the list of antibiotics that will be exclusively preserved for human medicine and the modalities of use for permissible products, are being discussed as part of the approval procedure, but the installation of the new Commission and EP in 2019 have slowed the approval process, as well as the COVID-19 crisis. Consequently, it remains unclear what impact this regulation could have on imports of animal products.

Attachments:

No Attachments

⁸ https://ec.europa.eu/clima/policies/eccp_en

⁹ https://ec.europa.eu/info/strategy/international-strategies/sustainable-development-goals/eu-approach-sustainable-development-0_en

¹⁰ https://ec.europa.eu/commission/brexit-negotiations_en

¹¹ https://ec.europa.eu/food/animals/health/veterinary-medicines-and-medicated-feed/imp-regs-2019_en