

Required Report: Required - Public Distribution

Date: October 23, 2023

Report Number: E42023-0044

Report Name: Dairy and Products Annual

Country: European Union

Post: Warsaw

Report Category: Dairy and Products

Prepared By: Anna Galica

Approved By: Levin Flake

Report Highlights:

EU milk production in 2024 is forecast to fall slightly to 149.5 million metric tons (MMT), returning to similar levels of 2022 as a result of declining cow numbers and lower milk production profitability. With stable demand from domestic and export markets in 2024, the forecast minimal decrease of EU milk production is expected to cause a slight drop in EU factory use – 160,000 metric tons (MT) below the 2023 estimated volume. This will require dairy processors to carefully decide for which products they will use the available milk. Cheese production is forecast to remain the primary output goal of the EU dairy processing industry, supported by the solid domestic cheese consumption and continued strong export demand. EU27 cheese production in 2024 is forecast to increase by 0.29 percent over 2023 levels, reaching 10.42 MMT. This comes at the expense of the production of butter, non-fat dry milk (NFDM), and whole milk powder (WMP).

Table of Contents

Executive Summary	2
Fluid Milk	5
Production	5
Trade.....	9
Domestic Consumption	10
Organic milk.....	10
Factory Use Consumption.....	11
Cheese	12
Production	12
Trade.....	13
Domestic Consumption	15
Butter.....	16
Production	16
Trade	17
Domestic Consumption	18
Non-Fat Dry Milk	20
Production	20
Trade.....	21
Domestic Consumption	22
Whole Milk Powder.....	23
Production	23
Trade.....	23
Domestic Consumption	24
EU Policy	25
Common Agricultural Policy (CAP)	25
The Green Deal	25
Deforestation-free Supply Chains	25
Industrial Emissions Proposal	26
Trade Policy	26
EU Free Trade Agreements (FTAs)	26
EU Policy Response to the War in Ukraine	27
Veterinary Medicine Legislation	27
New EU Animal Welfare (AW) Legislative Roadmap.....	27
Acknowledgements	28
Related reports from FAS Posts in the European Union:	28

Executive Summary

Note: Effective January 1, 2021, the United Kingdom (UK) completed its exit from the European Union (EU), including trade between both entities. If not indicated otherwise in this report, the EU refers to the current EU27, and excludes the UK.

EU milk production in 2024 is forecast to fall slightly and return to similar levels of 2022 as a result of declining cow numbers and lower milk production profitability. In 2024, EU all milk deliveries are forecast to amount to 149.5 million metric tons (MMT), 0.14 percent below 2023, when milk deliveries are estimated to have marginally increased by 0.13 percent. After the growth in profitability of milk production in 2022, since the beginning of 2023, farmers in the EU have had to cope with consistently declining farm-gate prices of milk combined with still elevated production costs. This trend is expected to weigh on their margins in 2023 and 2024, resulting in the elimination of smaller and less efficient farms, and negatively affecting EU27 cow herd numbers. Declining cow inventories are expected to be only partially offset by increasing cow productivity, leading to marginally lower cows' milk deliveries in 2024. Fluid milk domestic consumption is expected to remain relatively stable at the level of 23.65 MMT in 2024. With stable demand from domestic and export markets in 2024, the forecast minimal decrease of EU milk production is expected to cause a slight drop in EU factory use – 160,000 metric tons (MT) below the 2023 estimated volume. This will require dairy processors to carefully decide for which products they will use the available milk.

Cheese production continues to be the primary output goal of the EU dairy processing industry, supported by the solid domestic cheese consumption and continued strong export demand. EU27 cheese production in 2024 is forecast to increase by 0.29 percent over 2023 levels, reaching 10.42 MMT, despite less milk available. With cheese prices stabilizing at a relatively high level in 2023 compared to butter and milk powders, this trend is anticipated to continue through 2024, supporting production growth. After three years of declining EU cheese exports, these are expected to recover in 2023 by 0.3 percent and continue to grow in 2024 by 0.75 percent, reaching 1.35 MMT. Domestic consumption of cheese is forecast to return to the long-term increasing trend in 2023 and 2024, stimulated by economic recovery, as well as the hospitality and tourism sectors returning to pre-COVID levels.

EU27 butter production in 2024 is forecast to amount to 2.08 MMT, 0.95 percent below the estimated 2023 level, as smaller milk supply will favor cheese production over butter and non-fat dry milk (NFDM). Domestic consumption is forecast to stagnate at the level of 1.9 MMT. Despite an expected recovery of the economy in 2024, consumers' health concerns might continue to weigh on their demand for butter, preventing growth in consumption. EU27 exports of butter are expected to decline in 2024, as analysts believe there will be greater competition from New Zealand in butter exports.

EU27 NFDM production in 2024 is forecast at 1.48 MMT, down by 2.6 percent from 2023, following butter production patterns. 2024 NFDM production might be affected by lower milk availability, as well as reduced export demand, resulting from competition from Oceania in global markets. In 2023 purchases increased from traditional buyers in North Africa and South-East Asia, benefitting from lower NFDM prices, and this is boosting EU27 exports of NFDM in 2023 by an estimated 14 percent. However, the situation might change in 2024, as New Zealand's search for markets outside of China is anticipated to negatively influence EU27 exports of NFDM, down by a forecast 40,000 MT from 2023 levels. Domestic consumption is forecast to remain stable at a low level.

EU27 whole milk powder (WMP) production has been on a declining trend since 2020. In 2024 it is forecast to decline by 1.6 percent from 2023 levels to 610,000 MT, with lower milk availability and cheese production favored over other dairy products. In 2024, EU27 WMP exports are expected to marginally decrease from 2023 levels, which are estimated up eight percent following increased purchase by North African countries and the UK. In 2024, consumption is forecast to continue a slightly downward trend. EU27 WMP domestic consumption is mainly in the food processing industry, which usually is stable, however in the times of economy slowdown, cheaper alternatives such as fat-filled milk powders (FFMP) are sought.

From a policy perspective, the EU dairy sector continues to have concerns connected to the implementation of the new Common Agricultural Policy (CAP) and the Green Deal initiatives, however, the sector is more optimistic about including farmers' voices in the work on the new legislative proposals. Strengthening EU environmental and climate mitigation policies would require additional non-productive investments and further erode dairy farming profitability, but with listening to farmers' concerns, new provisions are being watered down or their implementation delayed. In 2024, the impact of the war in Ukraine on production costs is forecast to weaken. However, the EU continues to support Ukraine and tariff and quota-free access for Ukrainian agricultural products to the EU market was extended until June 5, 2024, but with no significant impact on the EU dairy sector.

Notes to the Reader:

The dairy products covered in this report are:

- Fluid Milk, which includes milk produced from cows and other milk production (from sheep, goats, and buffalo), but excluding milk suckled by young animals.
- Cheese covered by HTS Code: 0406 Cheese.
- Butter covered by HTS Codes: 040510 Butter and 040590 Butterfat/Anhydrous Milk Fat (AMF). A conversion factor of 1.25 is used for Butterfat/AMF.
- Non-Fat Dry Milk (NFDM) covered by HTS Code: 040210.
- Whole Milk Powder (WMP) covered by HTS Codes: 040221 and 040229.

Fluid Milk

Table 1: Fluid Milk Production, Supply, and Distribution:

Country:	EU-27					
Commodity:	Dairy, Milk (1000 Head / 1000 MT)					
	2022		2023		2024	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2022		01/2023		01/2024	
Cows In Milk	20,213	20,213	20,100	20,088	0	20,000
Cows' Milk Deliveries to Dairies	144,378	145,298	144,000	145,500	0	145,300
Other Milk Production	4,150	4,210	4,200	4,200	0	4,195
Total Milk Production	148,528	149,508	148,200	149,700	0	149,495
Extra EU27 Imports	674	674	700	735	0	725
TOTAL SUPPLY	149,202	150,182	148,900	150,435	0	150,220
Extra EU27 Exports	1,339	1,339	1,275	1,275	0	1,270
Fluid Use Dom. Consum.	23,800	23,780	23,650	23,700	0	23,650
Factory Use Consum.	124,063	125,063	123,975	125,460	0	125,300
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	147,863	148,843	147,625	149,160	0	148,950
TOTAL DISTRIBUTION	149,202	150,182	148,900	150,435	0	150,220

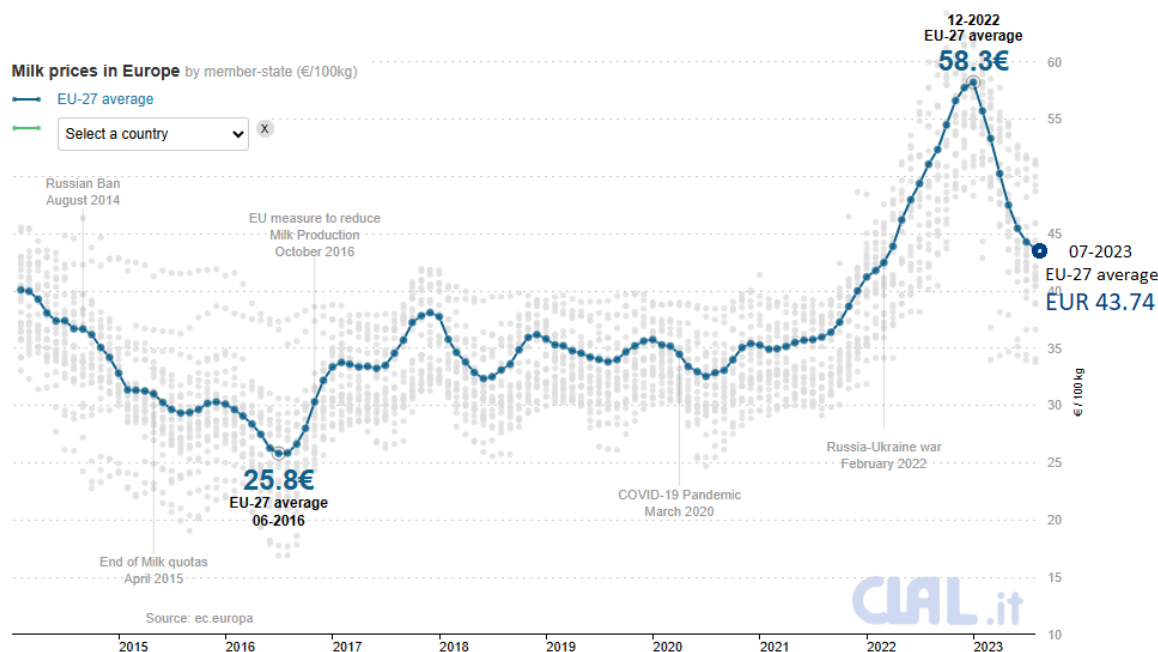
Production

A further decline in dairy cow numbers is estimated in 2023, resulting in 20 million cows in milk at the beginning of 2024. After growth in milk production profitability in 2022, since the beginning of 2023 farmers in the EU had to cope with falling farm-gate prices of milk combined with still elevated production costs (feed, energy, labor). As a result, the number of dairy farmers continues to decrease in 2023 in Germany, France, Spain, and Poland, as well as in other Central and Eastern European countries. However, the losses are noted mainly in smaller and less efficient farms, or in countries where the producers are not well organized and their negotiation power versus that of processors is weaker, which is the case in the Baltic States. Additionally, environmental restrictions, like Dutch government plans to cut nitrogen emissions, are forecast to negatively influence the dairy cow herd numbers in the longer term. These factors will likely lead to further market consolidation and farm closures also in 2024; however, expectations are that bigger and more professional farms will largely maintain their herd numbers, slowing the pace of the reduction in cow numbers than in previous years. 2023 beginning cow numbers were at 20.09 million head, which is 0.6 percent down from the start of 2022. Lower cow slaughter so far in 2023 is also supporting cow numbers, and, as a result, beginning cow numbers for 2024 are expected to be only marginally lower than for 2023.

Consistent growth in cow productivity is not expected to fully compensate for declining cow inventories in 2024, as had been the case in previous years. As a result, EU27 cow milk production is forecast to shrink by 0.14 percent, caused primarily by declining profitability of milk production. In addition, the recent outbreaks of cattle diseases in France (epizootic hemorrhagic disease) and the Netherlands (bluetongue) might negatively affect 2024 milk production in those countries.

The increase in cows' milk deliveries to dairies in 2022 and 2023 was stimulated by record-high EU average farm gate milk prices throughout 2022, peaking in December 2022. From May through July 2023, the average EU prices offered to milk producers were below the levels of the same period a year ago, but still above the 5-year average.

Graph 1. EU Average Farm Gate Milk Prices



Source: clal.it

These strong milk prices, combined with improving feed costs, encouraged farmers in the EU to increase production in 2022 and in 2023. Although feed prices have declined, green feed availability and pasture conditions vary throughout Europe. As assessed by the European Commission's Joint Research Centre, in August 2023, much awaited rainfall left grasslands in a good state in many northern and central European regions but caused damage in eastern Alpine areas. Simultaneously, grasslands in large parts of southern Europe were exposed to very dry and hot summer conditions, negatively affecting feed availability particularly in the eastern parts of Bulgaria and in Romania.

Although feed availability and pricing improved in many EU Members States in the second half of 2023, still high costs of energy and fertilizers negatively weigh on farmers' margins. As estimated by the European Commission, at the beginning of October 2023 EU average feed costs were 1.2 percent lower than a month ago, while energy costs were two percent higher.

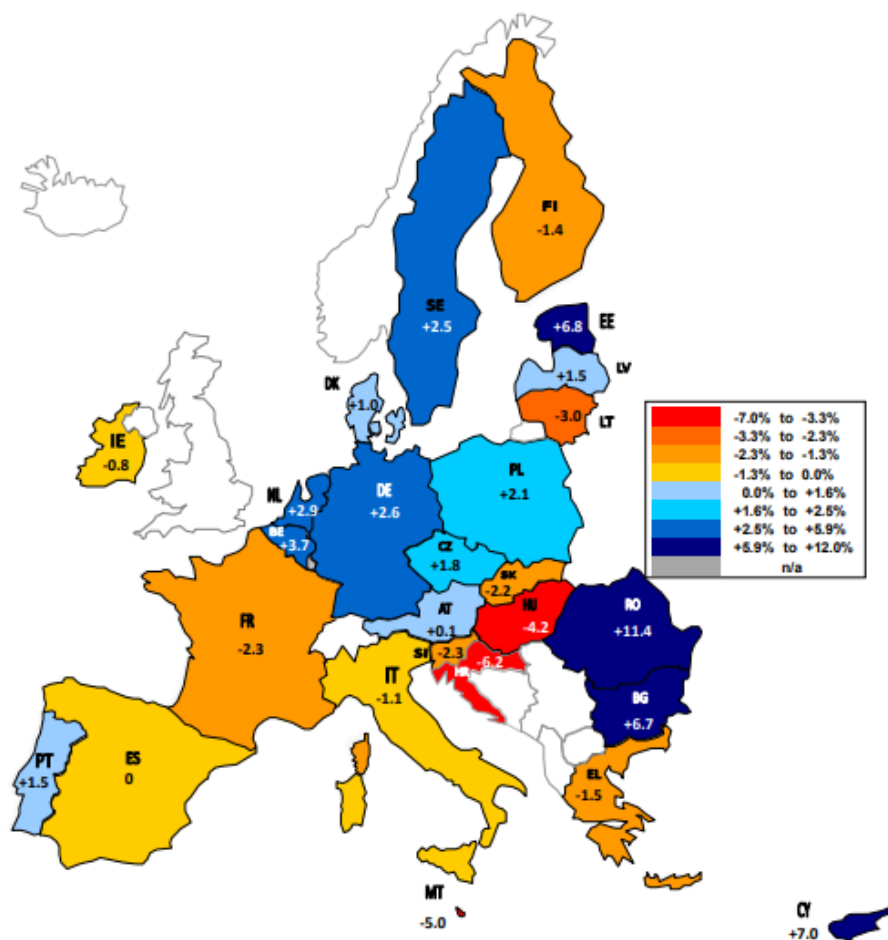
In January-July 2023 EU27 milk deliveries grew by 0.65 percent, with a 2.6-percent increase noted by the largest producer, Germany, but also in the Netherlands and Poland (both top-five producers). These increases compensated for a fall in production in the remaining top-five producers of France and Italy. However, reduced product prices recorded on global markets are expected to continue to negatively affect producer prices in the second half of 2023 and 2024. As a result, in 2023, cows' milk deliveries

are expected to surpass deliveries of 2022 only by 0.14 percent and then marginally decline in 2024 to return to around 2022 levels of 145.3 million metric tons (MMT).

Map 1. EU Cow's Milk Deliveries by Members States in January-July 2023 Compared to the Same Period of 2022

EU Milk Deliveries compared to last period (in %)

(Jan - Jul 2023 / Jan - Jul 2022)



Source : MS' Communications to Eurostat, FEGA, AGEA, Reg.479/2010.1(a)1

The designations employed and the presentation of material on the map do not imply the expression of any opinion whatsoever on the part of the European Union concerning the legal status of any country, territory or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

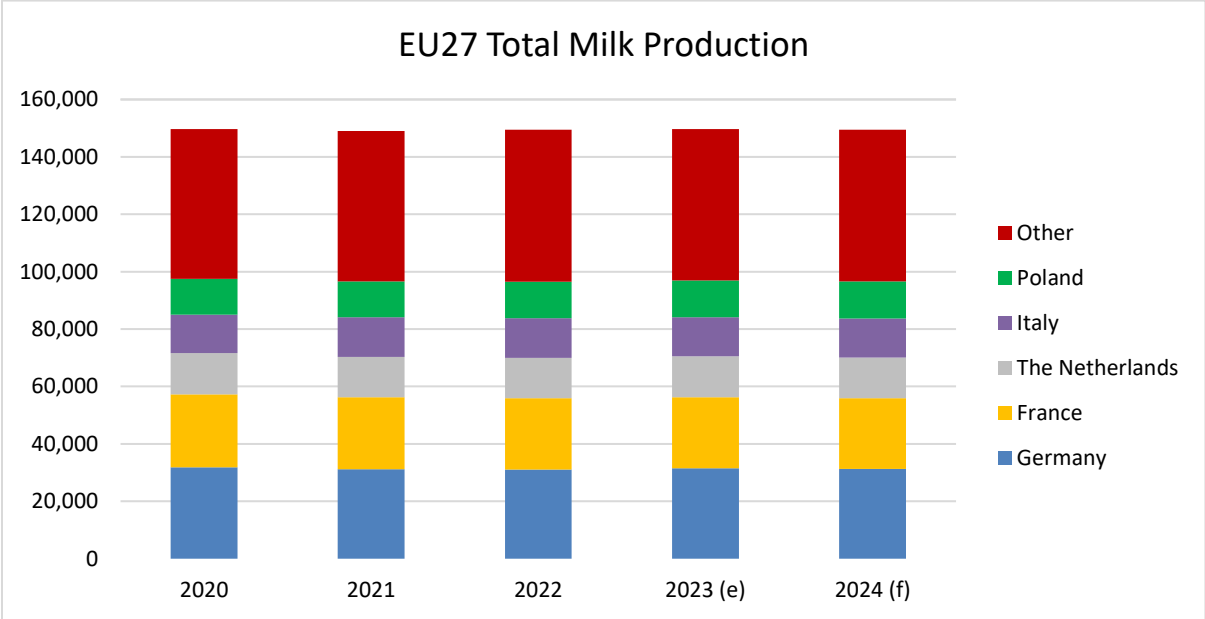
Source: European Commission

Non-cow milk production in 2023 and 2024 is forecast to remain relatively stable. The sheep and goat industry is a vulnerable sector prone to be affected by the economic situation, as the sector mainly

produces high-value cheeses and mixed cheeses from cow, sheep, and goat milk. Confronted with inflation, EU consumers are reducing their purchases of fresh products, organic food, and premium products, which is resulting in an expected drop in milk deliveries in 2023 and 2024. Additionally, the main sheep and goat milk producing Members States experienced high input costs and drought in 2022 and 2023. In Spain, in order to alleviate the critical situation for domestic dairy producers, the Spanish Government in May 2023 allocated EUR 355 million to ranchers, including EUR 17.4 million for dairy cow producers and EUR 23.2 million for sheep and goat milk producers. This step is expected to maintain the viability of sheep and goat farms even if they may have to decrease their production. With weakening EU consumer demand, exports of sheep and goat milk powders from Spain to China are expected to continue in 2023 and 2024.

After the rise in 2023 resulting from higher cows’ milk deliveries, total EU27 milk production in 2024 is expected to decline slightly. In 2024, EU all milk deliveries are forecast to amount to 149.5 MMT, 0.14 percent below the previous year.

Graph 2: EU27 and Top 5 Member State Milk Production (in 1,000 MT)

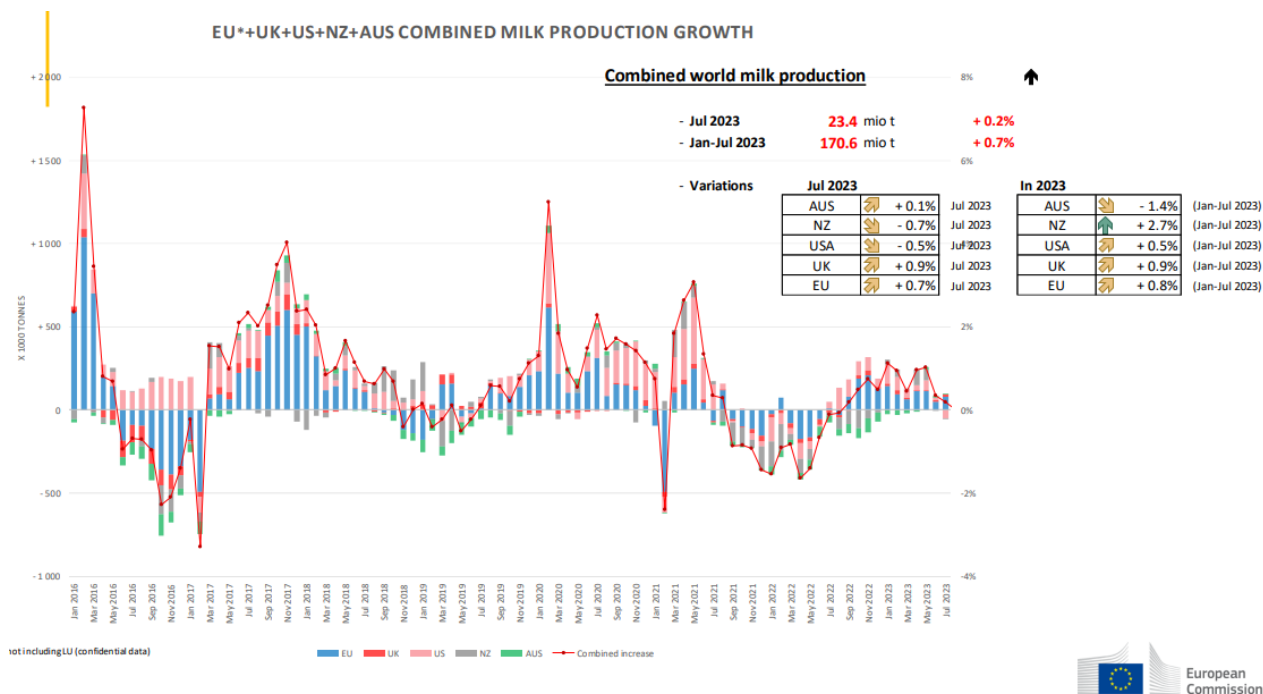


Source: USDA/FAS PSD Online and FAS EU Posts

Good prices during the second half of 2022 pushed farmers to produce more, but in 2023 prices have fallen. The EU average farm gate price of milk has been on a downward trend since January 2023, leading even to farmer protests in Romania and Lithuania, as well as to several calls from the most affected Members States and the industry representatives for EU-level intervention on the market. However, no such decision has been taken by the European Commission yet. Nevertheless, intervention purchases of non-fat dry milk (NFDm) and butter are possible between March 1 and September 30 each year, but intervention prices of EUR 221.75 per 100 kg of butter and EUR 169.80 per 100 kg of NFDm are below current market prices. Therefore, national governments have introduced measures to support the local dairy sectors, like Spanish support from the state budget, or the distribution of the EU crisis reserve to dairy farmers in Lithuania and Latvia.

One of the main reasons for the decline in farm gate milk prices is the increase in milk production among the world's largest exporters of dairy products. As reported by the European Commission, in the first seven months of 2023, milk collection in the main exporting countries/regions (Australia, the EU, the United States, the UK, New Zealand, Argentina, and Uruguay) globally increased by 0.2 percent. However, production growth has been slowing down in June-July, especially in New Zealand and the United States, and further contractions are expected by the EU dairy industry in the coming months as producers are facing reduced milk prices and still elevated input costs.

Graph 3: World Milk Deliveries Growth by Major Exporters



Source: European Commission

Trade

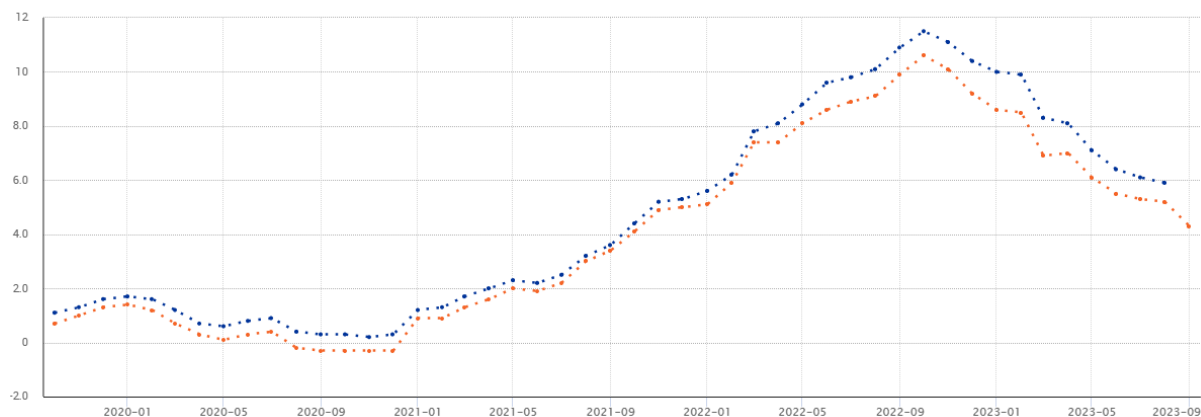
Imports of fluid milk from outside of the EU is minimal and over 98 percent is imported from the UK (Northern Ireland) for processing in Ireland. After record-low 2021 import volumes resulting from lower milk production in the UK, imports were recovering in the second half of 2022 and in 2023. They are forecast to slightly decrease in 2024, down by 1.36 percent from the 2023 level, in line with analysts expectations for lower UK production.

Stable EU27 fluid milk exports are forecast in 2024, as anticipated recovering demand from China is expected to support exports, after an expected drop in 2023. In January-July 2023, extra-EU exports of fluid milk declined by eight percent, mostly to the main recipients in China (-17 percent) and the UK (-20 percent), which were only partially offset by higher demand from other Asian countries, like South Korea, Vietnam, Singapore, and Hong Kong. EU27 supplied almost a half of Chinese imports of fluid milk, led by ultra-high temperature (UHT) milk, mostly from Germany, Poland, and France. However, China decreased their total imports, negatively affecting EU27 exports.

Domestic Consumption

Fluid milk domestic consumption is expected to continue a downward trend throughout 2023 and 2024. In August 2023 the average EU27 inflation rate was 5.9 percent, down from a peak level of 11.5 percent in October 2022, but still higher than in the previous years.

Graph 4: EU Average Monthly Inflation Rate



Blue line – EU27 average inflation rate

Red line – Euro Area average inflation rate (20 EU Member States)

Source: Eurostat

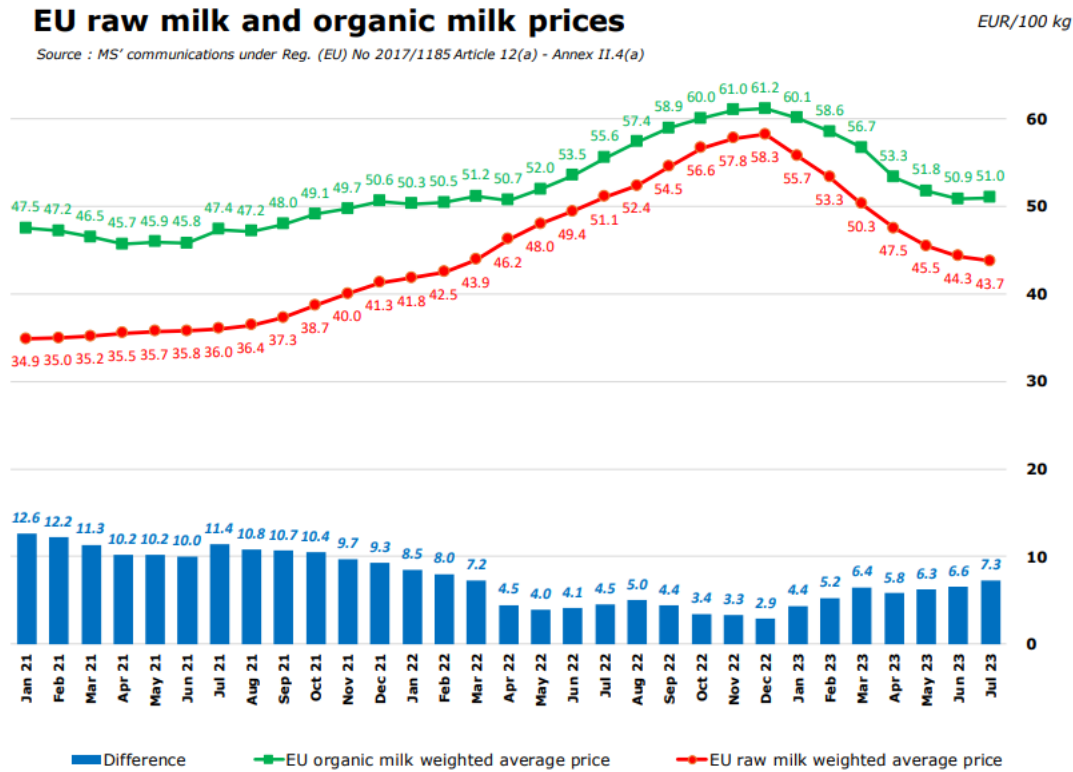
Since January 2023, a decline in the average inflation rate for milk and dairy products has been noted in the EU27, however it is still higher than the all-products inflation rate, reaching 10.5 percent in August 2023. Milk and dairy consumer prices also differ across the EU, with the highest increases noted in August 2023 in Belgium (17.8 percent), France, Slovakia, Bulgaria, Hungary, Romania, and Poland. Confronted with higher prices on the shelves, EU consumers are reducing their purchases of fresh products, organic food, and premium products, leading to a drop in consumption of fluid milk. However, the decline is slowed down by the recovery in tourism and travel, resulting in the expected consumer demand for fluid milk of 23.7 MMT in 2023 and 23.65 MMT in 2024. Additionally, a number of measures were introduced in 2023 by some MS governments to alleviate food inflation pressure on consumers. For example, there has been a VAT reduction for basic food products introduced in Poland and Portugal, and an emergency ordinance was put in place in Romania urging food suppliers to curb their margins for three months. In 2024 fluid milk domestic consumption is forecast to be stimulated somewhat by economic recovery in the EU27, with consumption forecast only marginally down from the 2023 level.

Organic milk

Organic cow milk production accounts for approximately four percent of the total EU27 raw milk production. The main producing Member States remain Germany, France, Denmark, and Austria. However, in the 2022 the largest share of organic milk as a percentage of total milk deliveries was recorded in Austria (18 percent), Sweden (17 percent), and Denmark (13 percent). In past years, consumption of milk and other fresh products from organic production or other production methods – perceived as more natural and healthier – had grown in popularity among EU consumers. However, this trend appears to have come to a halt in 2021. Additionally, with the high inflation rate throughout the

EU depressing purchasing power of the citizens, fewer consumers were willing to pay a higher price to get premium products – although Germany remained an important market for organic milk. With lowering consumption as well as higher production costs, production was on a decline in the first half of 2023, decreasing by two percent from 2022 levels over the same time period. Organic milk prices peaked in December 2022, similar to conventional milk prices, and have been on a declining trend ever since. However, the price premium for organics has been expanding on average in the EU. These trends are expected to continue throughout 2023 and in 2024.

Graph 5: Average EU Cow Milk and Organic Cow Milk Prices



Source: European Commission

Factory Use Consumption

With higher milk production, factory use consumption in 2023 is estimated to be increasing by 0.32 percent over 2022 levels, facilitated by decreasing fluid milk domestic consumption and declining exports. However, the forecast for lower EU milk production in 2024 is expected to cause a slight drop in EU factory use, 0.16 MMT (-0.13 percent) below the 2023 volume. This will drive the dairy processors' decisions for which products they will use the available milk.

Cheese

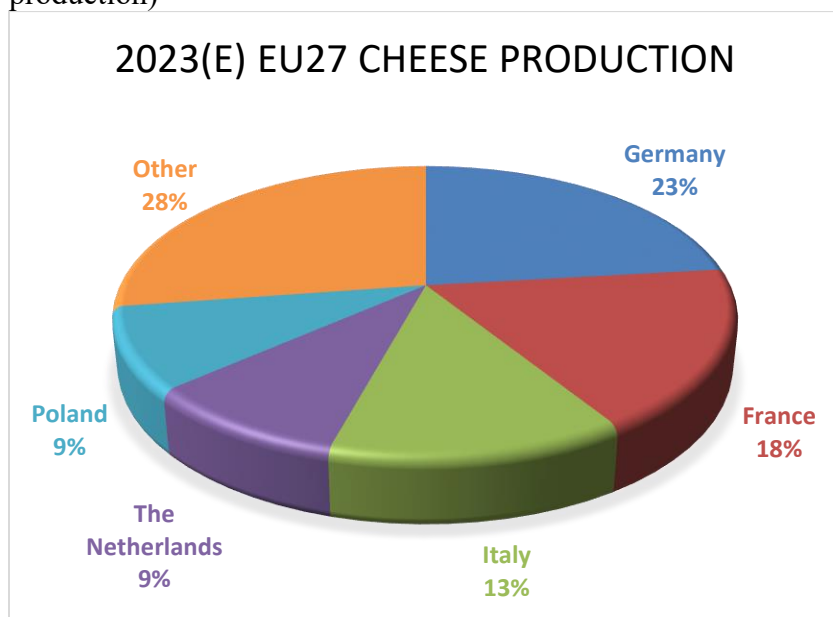
Table 2: Cheese Production, Supply, and Distribution:

Country:	EU27					
Commodity:	Dairy, Cheese (1000 MT)					
	2022		2023		2024	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2022		01/2023		01/2024	
Beginning Stocks	0	0	0	0	0	0
Production	10,500	10,374	10,600	10,390	0	10,420
Extra EU27 Imports	187	187	165	180	0	190
TOTAL SUPPLY	10,687	10,561	10,765	10,570	0	10,610
Extra EU27 Exports	1,336	1,336	1,350	1,340	0	1,350
Domestic Consumption	9,351	9,225	9,415	9,230	0	9,260
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	9,351	9,225	9,415	9,230	0	9,260
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	10,687	10,561	10,765	10,570	0	10,610

Production

Cheese production continues to be the primary output goal of the European dairy processing industry, supported by the solid domestic consumption of this product and continued strong export demand. Germany, France, Italy, the Netherlands, and Poland remain the major producers, accounting for approximately 73 percent of the total EU27 cheese production.

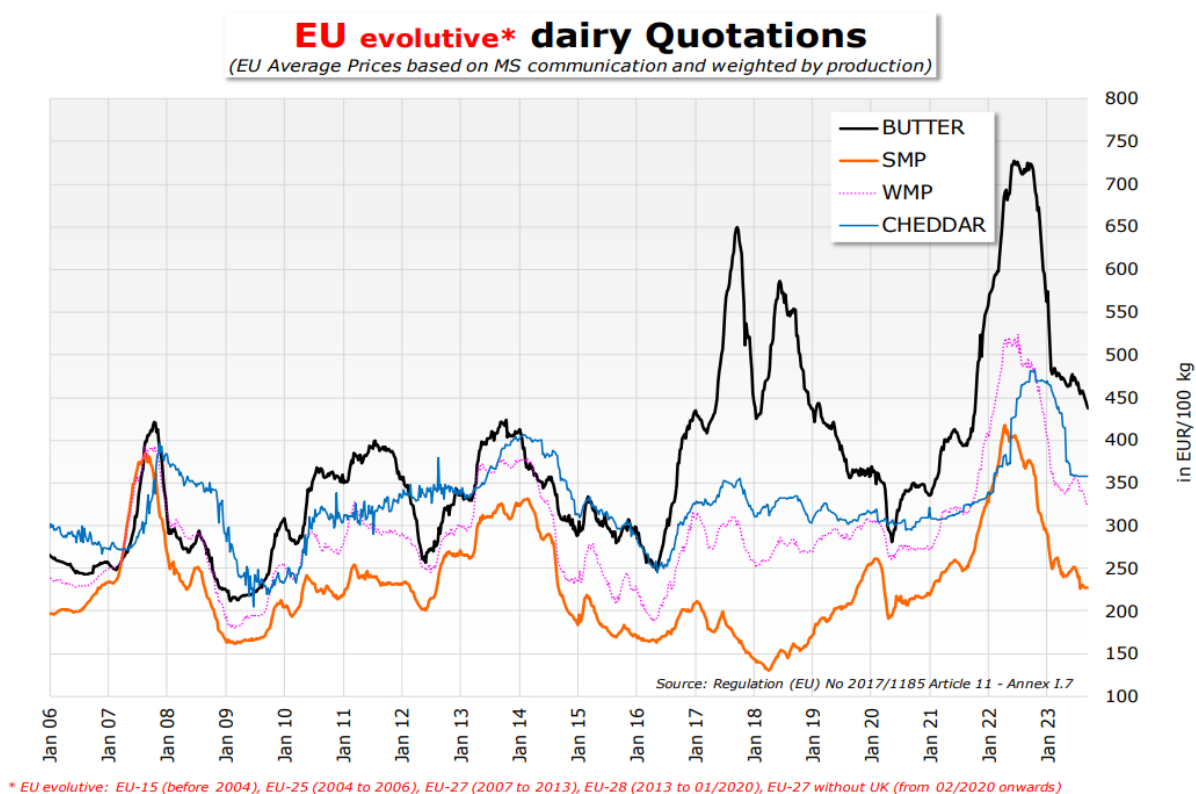
Graph 6: Top Five EU Cheese Producing Member States in 2023 (in percentage of the EU27 total production)



Source: FAS EU Posts

In 2023, with higher milk availability, the industry is expected to release 0.15 percent more cheese to the market. Cheese prices are still at a relatively high level compared to butter and milk powders and this trend is anticipated to continue in 2024, supporting an increase in EU27 cheese production by 0.29 percent. With less milk available for processing, the industry is expected to allocate a larger portion of the milk pool to cheese production over other dairy products. Moreover, lower demand from China for milk powders could prompt European producers to focus more on cheese production, resulting in increases in exports and domestic consumption. Increasing consumption could also be boosted by the expected development of the hospitality and tourism sectors and the recovery of the EU economy, while exports could be boosted by the EU's current price competitiveness.

Graph 7: EU Dairy Products Quotations



SMP – Skimmed Milk Powder or Non-Fat Dry Milk

WMP – Whole Milk Powder

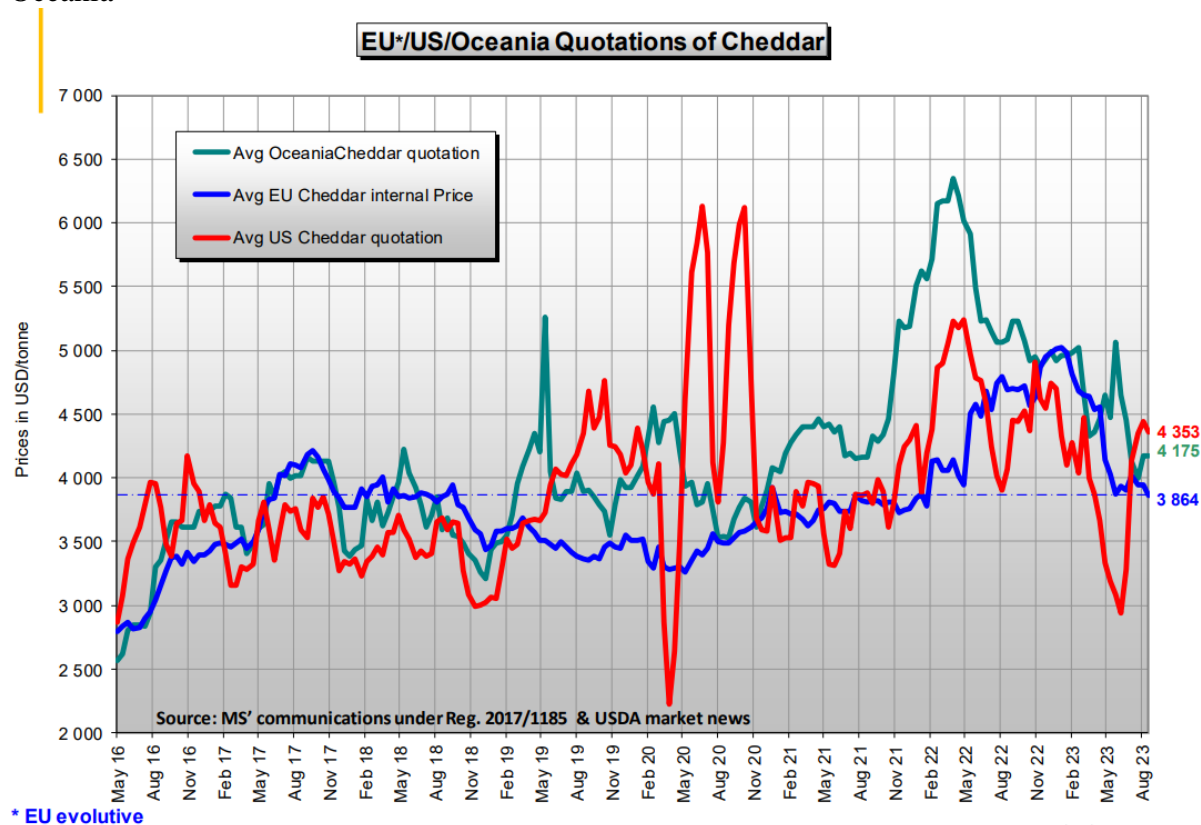
Source: European Commission

Trade

Cheese imports into the EU are negligible and mainly originate from the UK and Switzerland. With increasing EU production, imports weakened in the first seven months of 2023 down by 8.4 percent from the UK and by 4.7 percent from Switzerland. This negative trend is expected to slow down slightly in the second half of the year, resulting in a four-percent total import decrease. In 2024, EU27 cheese imports are forecast to increase by 10,000 MT in light of growing domestic consumption.

About 13 percent of EU27 cheese production is exported, with the UK, the United States, and Japan being the top-three destinations. The EU remains the largest world cheese exporter. After three years of declining cheese exports, EU exports are estimated to rise slightly in 2023 by 0.3 percent and are forecast to expand by 0.75 percent in 2024, reaching 1.35 MMT, in 2024. In January-July 2023, lower demand from the United States and Japan was offset by increased exports to the UK, where approximately one-third of export volume is traditionally directed. In August 2023 EU cheddar was price competitive on the global markets against the main competitors, supporting growing EU cheese exports.

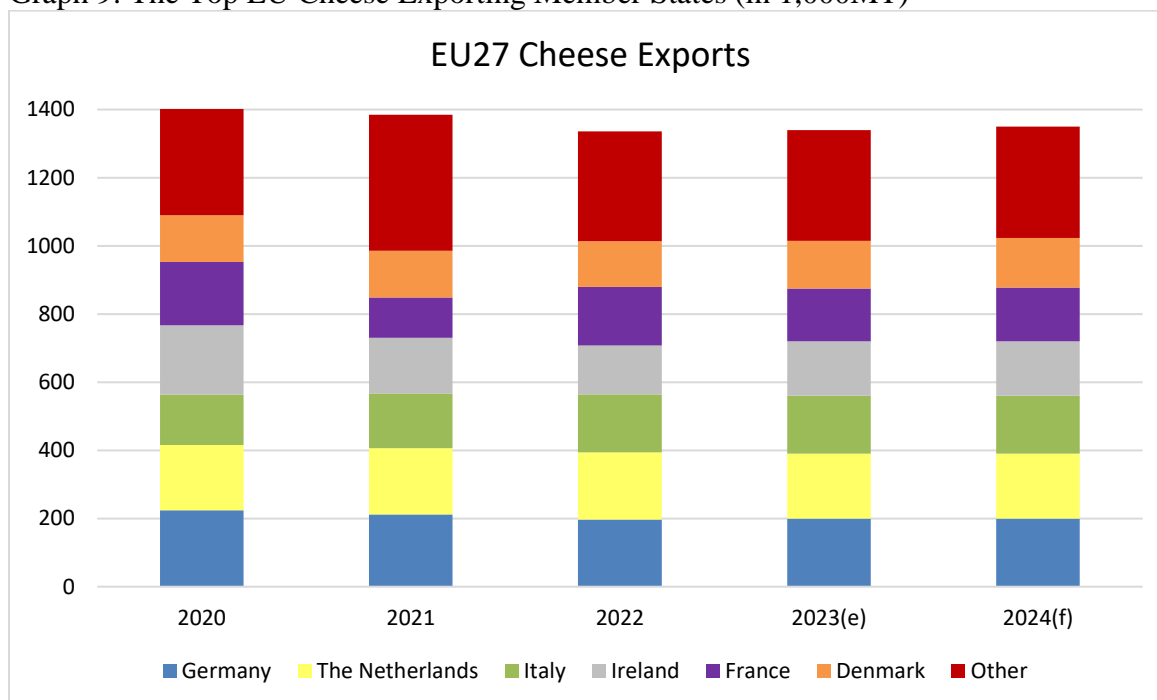
Graph 8: Comparison of Cheddar Quotations of the EU European Union, the United States, and Oceania



Source: European Commission

Global demand for cheese is expected to increase as global economic conditions slowly recover from the COVID-19 pandemic, supporting exports from Europe. Simultaneously, UK importers are currently seeking cheaper EU products to help compensate for their domestic cheese production exported abroad. This trend is forecast to continue throughout 2024, as the UK cheesemakers turn to the export markets to receive better margins for their products. Specialty cheeses remain popular on the global markets and are expected to support growing exports in 2023 and 2024. In general, those premium cheeses are primarily exported to mature and affluent markets such as the United States, Japan, Australia or Canada, but also to Middle East/North Africa.

Graph 9: The Top EU Cheese Exporting Member States (in 1,000MT)



Source: TDM Ltd. and FAS EU Posts (internal EU27 trade is excluded)

Domestic Consumption

After a moderate fall in 2022, caused by lower purchasing power of consumers, EU27 domestic cheese consumption is expected to return to its long-term increasing trend in 2023 and 2024. In the first half of 2023, confronted with inflation, EU consumers were reducing their purchase of fresh products, organic food, and premium products, and also choosing cheaper substitutes and actively seeking product discounts. For cheese, the volume of consumption was only moderately affected, due to consumers having a choice of cheaper products to substitute expensive specialty cheeses. As a result, for 2023, as inflationary pressure is forecast to stabilize in the second half of the year, consumption is anticipated to rise by 0.05 percent over 2022. In 2024 consumer demand is expected to be stimulated by growing incomes and economic recovery, as well as the hospitality sector and tourism returning to pre-COVID levels.

The top cheese-consuming Member States are Germany, France, Italy, Poland, and Spain.

Butter

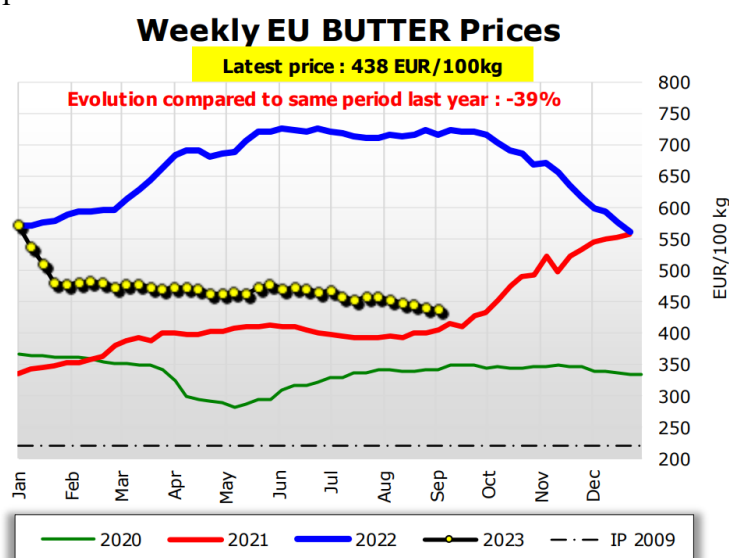
Table 3: Butter Production, Supply, and Distribution:

Country:	EU27					
Commodity:	Dairy, Butter (1000 MT)					
	2022		2023		2024	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2022		01/2023		01/2024	
Beginning Stocks	0	0	0	0	0	0
Production	2,073	2,090	2,060	2,100	0	2,080
Extra EU27 Imports	78	72	75	60	0	60
TOTAL SUPPLY	2,151	2,162	2,135	2,160	0	2,140
Extra EU27 Exports	257	250	270	260	0	240
Domestic Consumption	1,894	1,912	1,865	1,900	0	1,900
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	1,894	1,912	1,865	1,900	0	1,900
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2,151	2,162	2,135	2,160	0	2,140

Production

EU27 butter production in 2024 is forecast to decrease by 0.95 percent from 2023, as a smaller milk supply will favor cheese production over butter and NFDM. This production decline is expected to reduce export volumes in 2024. In January-July 2023 EU27 butter production increased by 1.9 percent, stimulated by higher milk availability, despite a price decrease by 38 percent year-on-year. This production trend is expected to continue in the second half of 2023 but at a slower pace, resulting in a production rise by 10,000 MT (+0.48 percent) over 2022 levels.

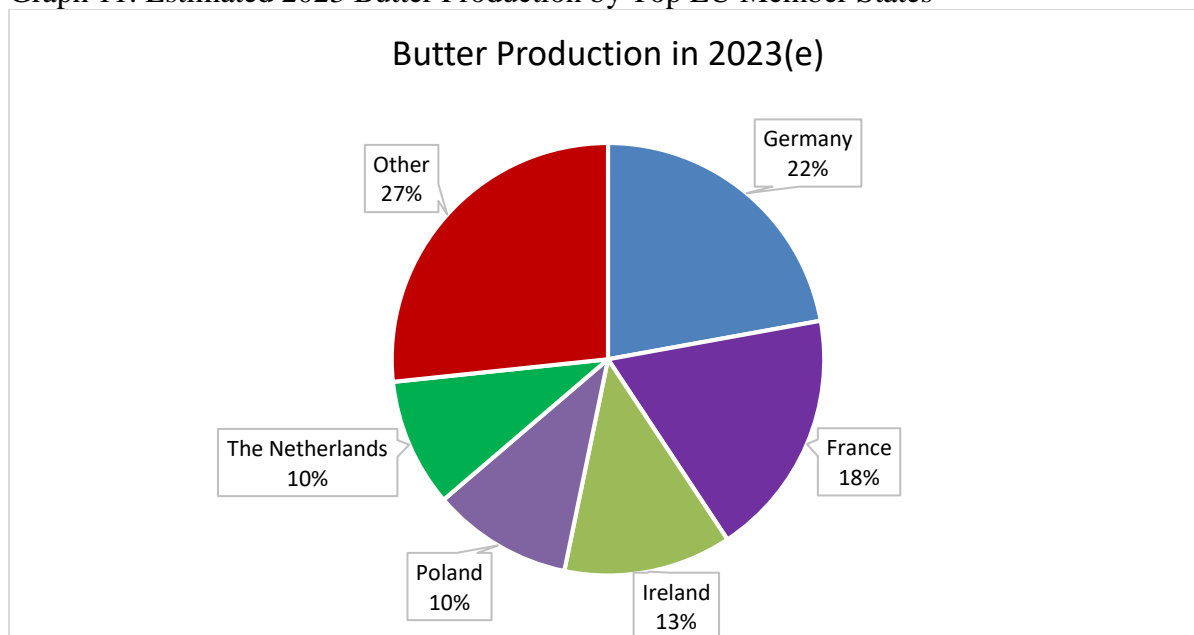
Graph 10: Butter Prices in EU Member States



Source: European Commission

Germany, France, Ireland, Poland, and the Netherlands are the largest butter producers in the EU. Together they provide around three-quarters of EU27 butter supply.

Graph 11: Estimated 2023 Butter Production by Top EU Member States



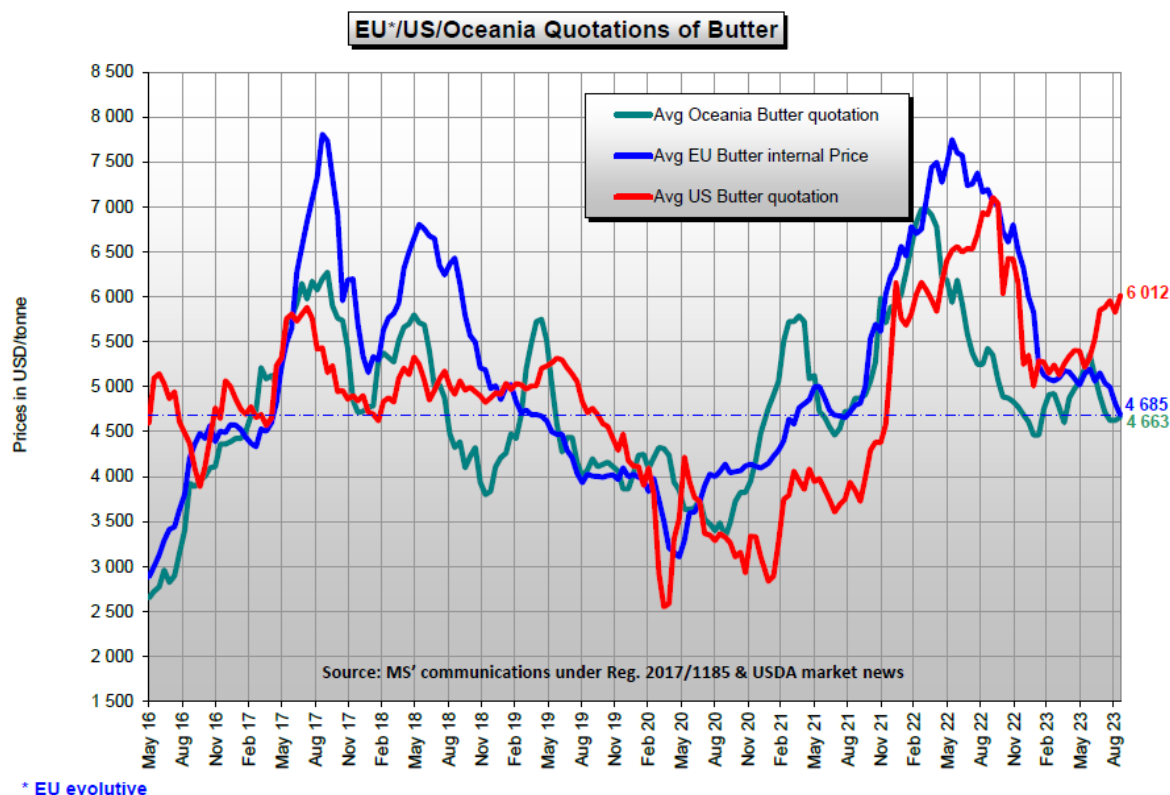
Source: FAS EU Posts

Trade

EU27 butter imports are very small compared to overall production and are dominated by imports from the UK. In January-July 2023, with EU production increases, demand for imported products was down by eight percent compared to the same period of 2022, driven by significantly lower imports from the UK and Ukraine. This was only partially offset by increased shipments from New Zealand, offering better prices as a result of higher butter availability. EU butter imports are estimated at 60,000 MT, 17 percent down from 2022 levels. With stable consumer demand, the 2024 forecast for butter imports is at a similar level to 2023.

EU27 butter exports are forecast to decline in 2024 because of lower production and strong competition from other exporters. However, 2023 has seen a rise in exports. In January-July 2023, the EU exported seven percent more butter than in the same period of 2022, mostly to the UK, the United States, China, Saudi Arabia, and South Korea. The 21 percent export decrease to the UK was more than offset by increased butter exports to other markets, as a result of a price decline in Europe. In July 2023, EU27 was able to offer the most competitive prices for butter on par with Oceania.

Graph 12: Comparison of Butter Quotations of European Union, the United States, and Oceania



Source: European Commission

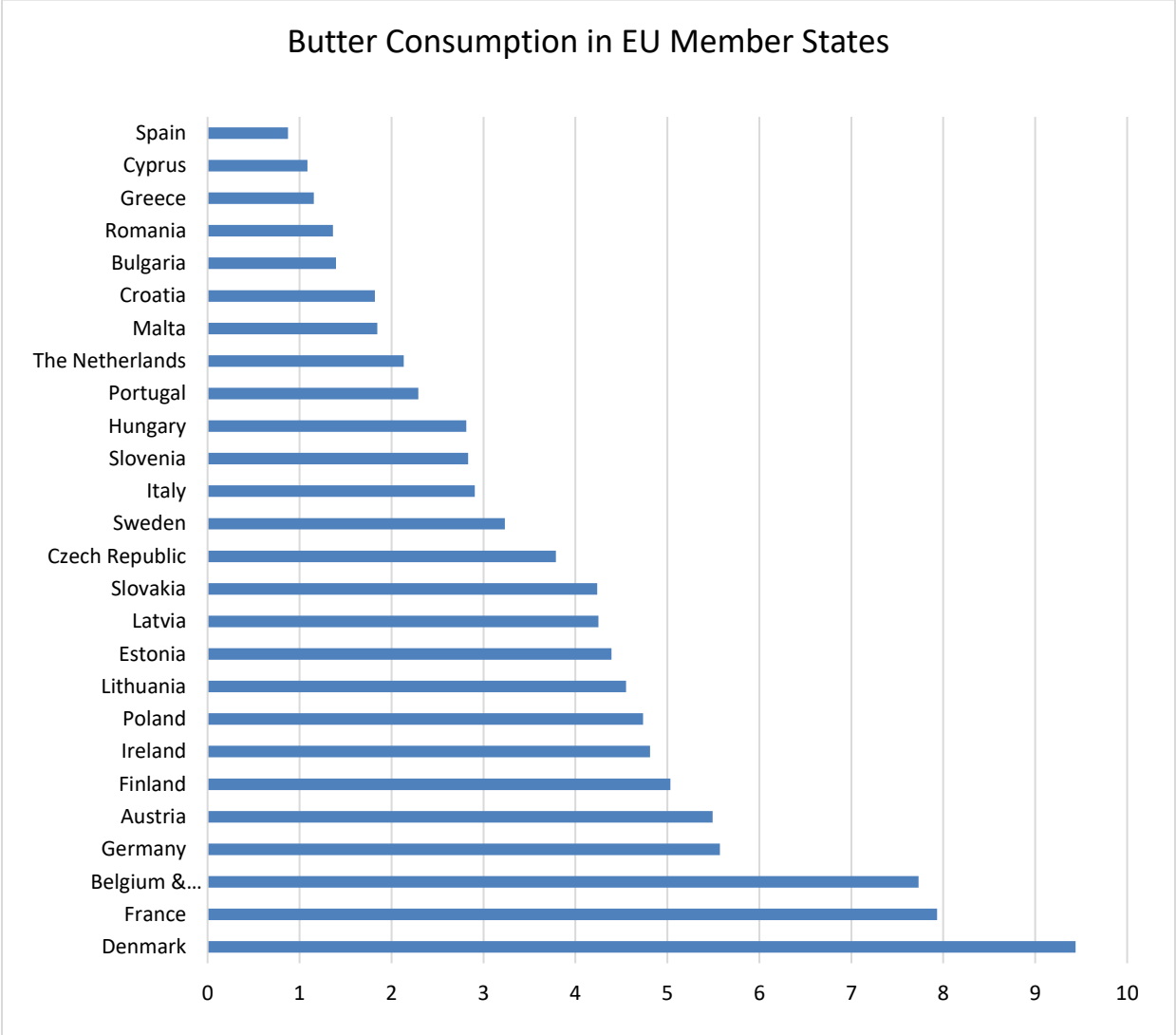
Analysts expect New Zealand to become more price competitive over the EU in 2024 for butter. This, plus shrinking EU butter production, is resulting in EU27 exports forecast at 240,000 MT, eight percent below 2023 levels.

Domestic Consumption

EU27 butter consumption in 2024 is forecast to be stable with 2023 levels. The previous declining trend of butter consumption prompted by health concerns paused in 2022. However, in 2023, EU27 butter consumption is forecast to revert to its declining trend, with stagnating demand from hotels, restaurants, and institutions (HRI). Also, despite the expected recovery of the economy in 2024 and increasing purchasing power, consumer health concerns might weigh on the demand for butter, preventing growth in butter consumption. Therefore, 2024 butter consumption is forecast to remain at the 2023 levels.

It must be noted, however, that butter consumption patterns vary across the EU, driven by local cooking and eating habits. Member States around the Mediterranean Sea typically consume less butter, as cooking mostly involves olive oil, while Member States in the central and eastern parts of the EU consume more plant-based spreads because of the lower price. In 2023, Denmark, France, and Belgium/Luxembourg are estimated to have the highest butter consumption in relation to the size of population, while Spain, Cyprus, and Greece consume the least.

Graph 13: EU Member States Butter Consumption (in Kilograms) by Size of Population



Source: Calculated FAS EU Post consumption data for 2023 and Eurostat population data for January 2023.

Non-Fat Dry Milk

Table 4: Non-Fat Dry Milk (NFDM) Powder Production, Supply, and Distribution:

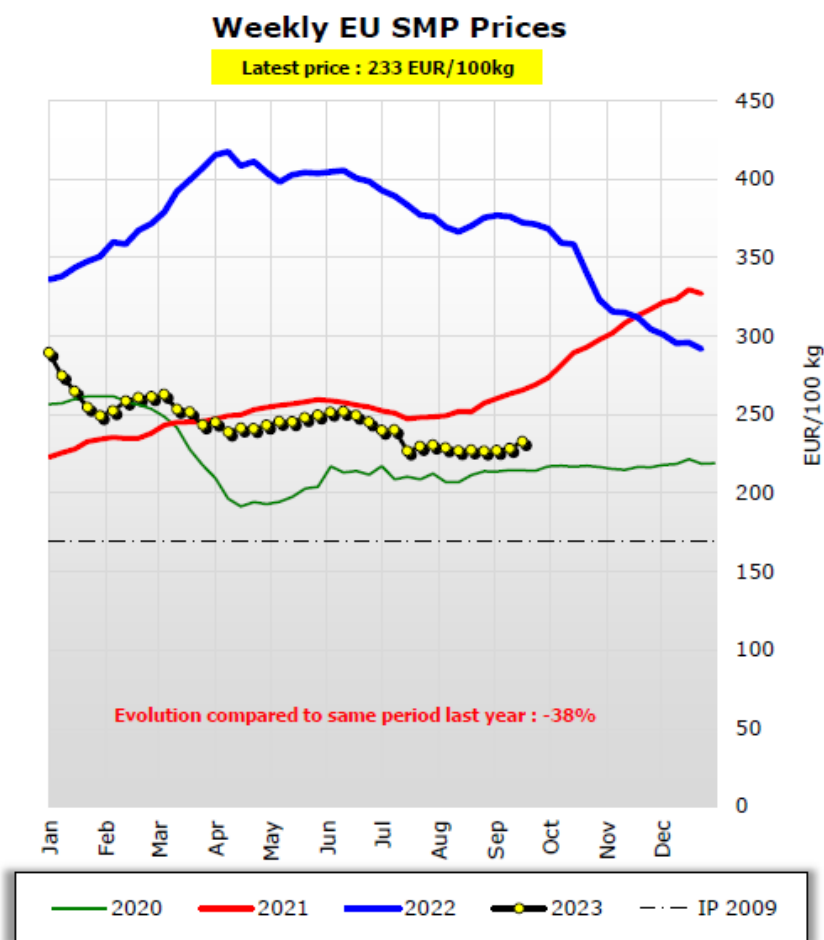
Country:	EU27					
Commodity:	Dairy, Non-Fat Dry Milk (1000 MT)					
	2022		2023		2024	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2022		01/2023		01/2024	
Beginning Stocks	0	0	0	0	0	0
Production	1,514	1,517	1,500	1,520	0	1,480
Extra EU27 Imports	37	37	40	40	0	40
TOTAL SUPPLY	1,551	1,554	1,540	1,560	0	1,520
Extra EU27 Exports	711	711	800	810	0	770
Domestic Consumption	840	843	740	750	0	750
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	840	843	740	750	0	750
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1,551	1,554	1,540	1,560	0	1,520

Production

In 2024, NFDM production is forecast to be affected by lower milk availability, as well as reduced export demand, resulting from competition from Oceania on global markets. Overall production is forecast down by 2.6 percent in 2024. Among the top EU NFDM producers, Germany and the Netherlands forecast production declines, Poland is stagnant at low levels, while France and Ireland expect a slight increase in production in 2024.

NFDM production in the EU27 is closely tied to butter production and is usually not a production goal on its own. EU27 NFDM production for 2023 is estimated to be similar to 2022 levels. In January-July 2023 EU production was 2.3 percent below levels recorded in the same period of 2022, in response to declining prices and higher stocks from 2022 production. However, NFDM price decline was stopped in August 2023 and production levels might rebound in the second half of the year, following increasing butter production.

Graph 14: Average NFDM Prices at the EU Market



Source: European Commission

Trade

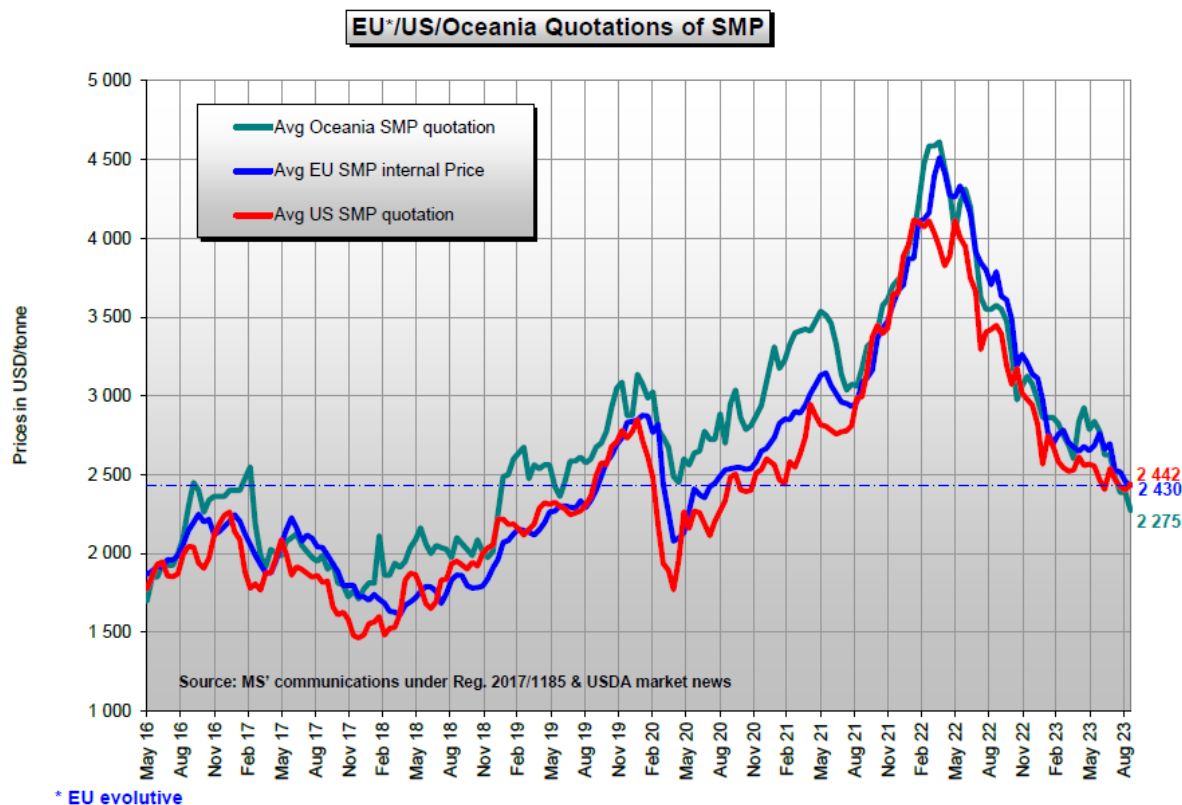
Although the EU27 imports little NFDM, imports are rising in 2023 and forecast to remain at the elevated level in 2024 due to shrinking EU production. Until 2021, most of that was sourced from the UK. However, after Brexit, UK imports were on decline, but from 2022 were supplemented by increasing imports from Ukraine, as a result of quota and tariff-free access to the EU market granted to Ukraine on June 4, 2022.

In 2024, lower EU production and New Zealand's search for markets outside of China are forecast to negatively influence EU27 exports of NFDM. Oceania's competition in markets that traditionally lean more towards European suppliers for NFDM and fat-filled milk powders (FFMP) is expected to result in EU's exports declining by six percent from 2023 levels. EU27 NFDM exports compete heavily with NFDM exports from the United States and New Zealand, with the EUR/USD exchange rate an important factor. In 2023, another factor is the high transport costs. However, in January-July 2023 EU27 exports of NFDM benefited from increased purchases from traditional buyers in North Africa (Algeria +96 percent, Egypt +12 percent, Morocco +49 percent) and South-East Asia (Malaysia +29 percent, Vietnam +51 percent, Thailand +36 percent), resulting from global prices dropping even below 2021 levels. Chinese imports from the EU also increased by four percent, benefiting mostly France,

Germany, Sweden, Ireland, and Poland. Therefore, EU27 exports of NFDM in 2023 are estimated up by 14 percent in 2023 from 2022 levels.

Around half of EU NFDM production is exported, but it fluctuates depending on the EU competitiveness on the global markets. The main NFDM exporting EU Member States are France, Belgium, Germany, the Netherlands, Ireland, and Poland.

Graph 15: Comparison of Skimmed Milk Powder (SMP) Quotations of European Union, the United States, and Oceania



Source: European Commission

Domestic Consumption

Domestic consumption of NFDM in the EU is mainly for the food industry, where it is used in recombined dairy products such as UHT milk, yogurts, or cheeses, but also as non-fat milk solids in chocolate or in bakery. Calf feed for veal production is another outlet on the domestic market. After a plunge in 2023, when the purchasing power of consumers was depressed by high inflation and costs of living, EU27 consumption of NFDM is forecast to be stable in 2024, supported by demand from the price-sensitive food processing sector and a recovering economy.

Whole Milk Powder

Table 5: Whole Milk Powder (WMP) Production, Supply, and Distribution:

Country:	EU27					
Commodity:	Dairy, Whole Milk Powder (1000 MT)					
	2022		2023		2024	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2022		01/2023		01/2024	
Beginning Stocks	0	0	0	0	0	0
Production	616	616	600	620	0	610
Extra EU27 Imports	20	20	10	20	0	20
TOTAL SUPPLY	636	636	610	640	0	630
Extra EU27 Exports	236	236	255	255	0	250
Domestic Consumption	400	400	355	385	0	380
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	400	400	355	385	0	370
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	636	636	610	640	0	630

Production

WMP production usually generates the lowest processing margins, and EU processors generally prioritize cheese production, which offers the most stable long-term returns. In 2024, EU27 WMP production is forecast to decline by 1.6 percent from 2023 levels with lower milk availability and cheese production favored over other dairy products.

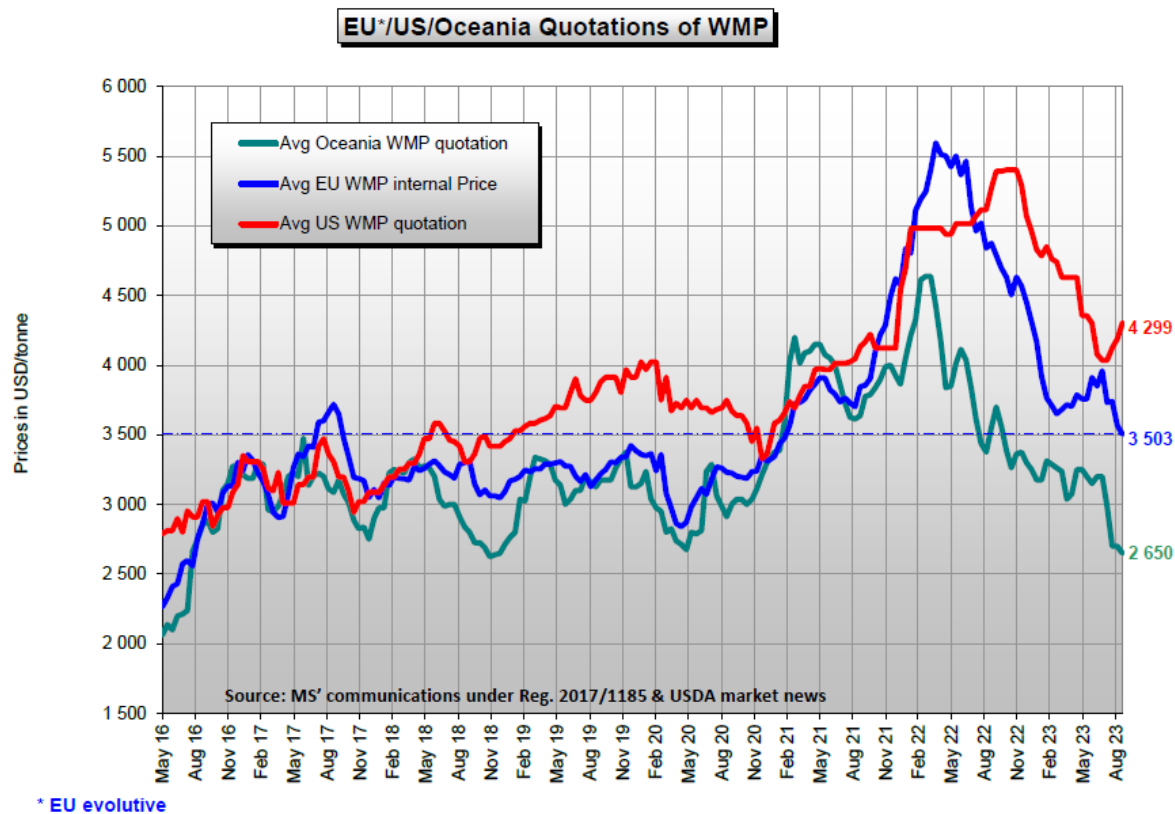
This trend has been observed for several years, as neither domestic consumption nor exports support significant production growth. For the food industry WMP also faces competition from fat-filled milk powders (FFMPs), which are produced by blending palm or coconut vegetable fat with high quality NFDM. FFMP is used to replace full cream milk powder while being more economical than WMP.

Trade

EU27 WMP imports are negligible, sourced mostly from the UK. In January-July 2023 lower imports from the UK were largely substituted by increased supplies from New Zealand. As a result, EU27 WMP imports for 2023 and 2024 are forecast to be stable.

In 2024 EU27 WMP exports are expected to slightly decrease from 2023 levels, when exports are estimated up by eight percent following increased purchase by North African countries and the UK. In January-July 2023 EU WMP exports were up by 14 percent, however, reduced Chinese imports from New Zealand could result in more competition from that supplier on the global markets at the end of the year. Since 2021, EU WMP prices have not been competitive against other major exporters.

Graph 16: Comparison of Whole Milk Powder (WMP) Quotations of European Union, the United States, and Oceania



Source: European Commission

Domestic Consumption

EU27 WMP domestic consumption is mainly in the food processing industry, which usually is stable. However in the times of economy slowdown, cheaper alternatives, like FFMP, are sought. In 2024, consumption is forecast to continue a slightly downward trend.

EU Policy

Common Agricultural Policy (CAP)

The new CAP for 2023-2027 was [adopted](#) on December 2, 2021, and published in the Official Journal on December 6, 2021:

- [EU Regulation 2021/2116](#), repealing EU Regulation 1306/2013 on the financing, management and monitoring of the CAP;
- [EU Regulation 2021/2115](#), establishing rules on support for national CAP strategic plans, and repealing EU Regulations 1305/2013 and 1307/2013;
- [EU Regulation 2021/2117](#), amending EU Regulations 1308/2013 on the common organization of the agricultural markets; 1151/2012 on quality schemes for agricultural products; 251/2014 on geographical indications for aromatized wine products; and 228/2013 laying down measures for agriculture in the outermost regions of the EU.

EU MS were requested to submit so-called [Strategic Plans](#), incorporating MS specific goals and initiatives, by the end of 2021. By December 2022, all national strategic plans were approved by the European Commission (EC). The new CAP started to be implemented on January 1, 2023. For more information, please see GAIN Report: [EU Common Agricultural Policy Reform](#).

The Green Deal

On December 11, 2019, the EC announced the [European Green Deal](#). The EC sees the Green Deal and accompanying strategies as a way of achieving the [Paris Climate Agreement](#) and [UN Sustainable Development Goal](#) commitments. For the food and agriculture sector, the Commission adopted the [Farm to Fork \(F2F\) Strategy](#) and the [Biodiversity Strategy](#) for 2030. The strategy targets: a 50 percent reduction in pesticide use; a 20 percent reduction in fertilizer use; a 50 percent reduction in nutrient leakage in groundwater; 25 percent of agricultural land being used for organic farming; 10 percent of land being set aside for environmental areas; and an increase in nature conservation areas by 30 percent. Additionally, increased animal welfare goals and use limitations for veterinary drugs – particularly antimicrobials – are planned.

Because the EU livestock sector is specifically identified as critical for the EU to reach its Green House Gas (GHG) emission reduction targets, the EC commissioned an external [Study on the Future of EU Livestock](#) that was published in October 2020.

Deforestation-free Supply Chains

As part of the Green Deal, the EC adopted [Regulation 2023/1115](#) aimed to prevent products causing deforestation entering the EU market. The proposal targets products which are identified by the EC as the main drivers of deforestation including cattle, raw hides, and skins of cattle and leather. To sell any of the covered products in the EU or to export them from the EU, business operators will be required to provide extensive information about the product's origins, including the precise location(s) and general time of production. The requirements for economic operators will start on December 30, 2024. The regulation establishes a country benchmarking system through which the EC will assess the risk that each country, or parts thereof, produces relevant commodities and products that contribute to deforestation. Products sourced from standard- or high-risk origins must comply with additional risk

assessment and mitigation procedures. For more information, please see GAIN Report: [European Institutions Finalize Deforestation-Free Supply Chain Regulation](#).

Industrial Emissions Proposal

In April 2022, the EC published a [proposal](#) on industrial emissions. This proposal amends Directive 2010/75/EU which regulates the environmental impacts around Europe's large-scale, high-pollution-risk industrial installations, and extends the scope to include the largest livestock farms in Europe, considered "agro-industrial installations." The proposed text would cover all industrial farms with more than 150 livestock units or 150 adult cows/375 calves/10,000 laying hens/500 pigs/300 sows. The text is currently going through the legislative process and an agreement is expected by the end of 2023.

Trade Policy

EU Free Trade Agreements (FTAs)

The EU is negotiating and has implemented several FTAs with other countries and regions, which include concessions on dairy. Additional information is available on the website of the EC at: <https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/>. The EU finalized an FTA with New Zealand as well as the update of the FTAs with Mexico, while negotiations on an FTA with Australia and the update of the Chile FTA continue.

On June 30, 2022, the EU concluded negotiations on an FTA with [New Zealand](#), eliminating all duties on exports of EU dairy products. The agreement is currently being ratified by the EU. It was signed on July 9, 2023, by the European Council. Following signature, the text was transmitted to the European Parliament. Once the European Parliament has given its consent, and once the agreement has been ratified by New Zealand, it can then enter into force. The EU opens a tariff-rate quota (TRQ) of 15,000 MT for NFDM at 20 percent duty, a new butter TRQ for 15,000 MT at 5 percent duty, on top of the existing 47,177 MT WTO butter TRQ, for which 21,000 MT will also see the duty gradually reduced to 5 percent, a 25,000 MT duty-free TRQ for cheese, on top of the existing WTO TRQ for 6,031 MT, for which the duty will gradually also be eliminated, and a 3,500 MT TRQ for high protein whey at zero duty. New Zealand will further protect EU geographical indications (GIs).

In April 2018, the EU concluded an [agreement in principle](#) with Mexico. After ratification, the agreement will offer free access for EU blue cheese, with further TRQs of 5,000 MT for fresh and processed cheese and 20,000 MT for other cheeses. Mexico has also agreed to protect European GIs. The EU-Mexico Agreement is undergoing the necessary internal procedures on both sides to be ratified.

On June 28, 2019, the EU reached a trade [agreement in principle](#) with the four member countries of Mercosur (Argentina, Brazil, Paraguay, and Uruguay). The details of this agreement, in which the EU will receive TRQ's for 38,000 MT of cheese and 10,000 MT of milk powder, still need to be worked out and its implementation, on a provisional basis, is years away. Nevertheless, intensifying discussions on climate change mitigations and environmental restrictions continue as the EU advances its Green Deal and F2F proposals, and criticism from EU farmers, MSs, and European Parliament have put into question the future of this FTA. Several MSs continue to criticize the EU-Mercosur agreement as well.

EU Policy Response to the War in Ukraine

In February 2022, Russia launched an invasion in Ukraine. The war is putting pressure on global food security mainly due to the high level of exports of feed and grains products from these two countries.

On June 3, 2022, the EU adopted a [regulation](#) allowing for temporary trade liberalization for certain Ukrainian products for one year. The trade-liberalization measures established by this regulation took the following form: the full removal of import duties (preferential customs duties) on the importation of industrial products from Ukraine; the suspension of the application of the entry price system to fruit and vegetables; the suspension of tariff-rate quotas and the full removal of import duties. After the expiration of EU Regulation 2022/870, quota and tariff-free access to the EU market was extended to Ukraine for another year, until June 5, 2024, by [EU Regulation 2023/1077](#).

For more information about the impact of the war in Ukraine on feed availability and price in the EU, please see: [2023 Grain and Feed Annual Report](#).

Veterinary Medicine Legislation

On January 28, 2022, the EU implemented the new framework for [veterinary medicine regulation](#). On October 8, 2021, the official controls, [Regulation \(EU\) 2021/1756](#), were published to ensure compliance with the prohibition of certain uses for antimicrobials. On October 6, 2021, [Commission Delegated Regulation \(EU\) 2021/1760](#) was published, establishing the criteria for antimicrobials to be reserved for use by humans.

The European Medicines Agency (EMA) was [mandated](#) to draft a proposal for a list of antibiotics reserved for human medicine based on these criteria. In February 2023, the Commission published [Delegated Act 2023/905](#) implementing Article 118 of the Regulation imposing limitations on the use of antibiotics for animals in the EU, that will also apply to operators in third countries. For more information, please see GAIN Report: [Delegated Act Published for Article 118 of the EU Veterinary Medicinal Products Regulation](#).

New EU Animal Welfare (AW) Legislative Roadmap

On July 5, 2021, the European Parliament's Committee of Inquiry on the Protection of Animals during Transport (ANIT), published a [report](#) about livestock transport in the EU and to third countries. The report describes patterns in the EU transport of animals and possible avenues for improved animal welfare. On January 21, 2022, the public consultation ended on the EU's [Animal Welfare Inception Impact Assessment](#). This impact assessment marks the beginning of an EU revision of its animal welfare legislation, which is one of the goals of the EU's F2F strategy. The proposal for animal welfare rules was expected to be released in September 2023 and initially consisted of four pillars. However, the Commission will only propose a reduced version that focuses on the protection of animals during transport and is scheduled to come out in December 2023. A renewed [Animal Welfare Platform](#) was installed in May 2021 as an advisory body to inform the EC on these proposals. New initiatives for animal welfare labeling are also being discussed by the subgroup on animal welfare labeling.

Acknowledgements

The numbers in this report are the result of analysis and input by FAS offices across the EU and a consolidation of data from EUROSTAT and info from FAS colleagues in EU Member States. Sincere gratitude goes out to all colleagues who contributed:

Ornella Bettini, FAS Rome covering Italy
Mila Boshnakova, FAS Sofia covering Bulgaria
Monica Dobrescu, FAS Bucharest covering Romania
Dimosthenis Faniadis, FAS Rome covering Greece
Jana Fischer, FAS Prague covering the Czech Republic and Slovak Republic
Bob Flach, FAS The Hague covering the Netherlands, Finland, Denmark, and Sweden
Gellert Golya, FAS Budapest covering Hungary and Slovenia
Roswitha Krautgartner, FAS Vienna covering Austria
Sabine Lieberz, FAS Berlin covering Germany
Andreja Misir, FAS Zagreb covering Croatia
Marie-Anne Omnes, FAS Paris covering France
Tania De Belder, FAS USEU covering Belgium, Luxembourg, and EU policies
Carmen Valverde, FAS Madrid covering Portugal and Spain

Related reports from FAS Posts in the European Union:

Country	Title	Date
European Union	Delegated Act Published for Article 118 of the EU Veterinary Medicinal Products Regulation	6/7/2023
European Union	Dairy and Products Semi-annual	5/22/2023
European Union	2023 Grain and Feed Annual Report	4/19/2023
European Union	European Institutions Finalize Deforestation-Free Supply Chain Regulation	1/12/2023
Bulgaria	Dairy and Products Annual	11/16/2022
European Union	Dairy and Products Annual	10/21/2022
The Netherlands	Nitrogen Report Delivered to the Dutch Government	10/14/2022

The GAIN Reports can be downloaded from the following FAS website:

<http://gain.fas.usda.gov/Pages/Default.aspx>

Attachments:

No Attachments