

Required Report: Required - Public Distribution

Date: June 23, 2022

Report Number: E42022-0041

Report Name: Dairy and Products Semi-Annual

Country: European Union

Post: Brussels USEU

Report Category: Dairy and Products

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Report Highlights:

EU environmental restrictions are stagnating milk production in Northwestern European Member States (MS). As a result, EU27 peak milk production was likely reached in 2020 and cow milk production in the EU27 is forecast at 144.6 million MT (MMT) for 2022, a decrease of 434,000 MT compared to 2021 and 836,000 MT down from 2020. The increase in production of non-cow milk remains strong driven by consumers' appreciation for goat and ewe derived dairy products. EU27 cheese production for 2022 is forecast to increase to 10.6 MMT as consumption continues to increase year after year. This comes at the expense of the production of butter, non-fat dry milk (NFDM), and whole milk powder (WMP) for lack of additional milk production, which translates into decreased exports and domestic consumption for butter, NFDM and WMP, and increasing prices in the EU market.

Executive Summary:

Note: Effective January 1, 2021, the United Kingdom (UK) completed its departure from the European Union (EU), including trade between both entities. In this report if it is not indicated otherwise, the EU means the current EU27 (without the UK).

Cow numbers in the EU27 have decreased by more than 1.4 million head since 2016, including a loss of 800,000 head since 2019. Continued year on year increases in milk productivity are unable to compensate for this loss of dairy cows and the EU27 cow milk production forecast for 2022 is now 144.6 million MT (MMT), a decrease of 434,000 MT compared to 2021 and 836,000 MT down from 2020. EU dairy industry experts expect EU milk production to decline further in 2023 and after, when the new Common Agricultural Policy (CAP) and the accompanying Farm to Fork Strategy (F2F) conditionalities require EU dairy farmers to adjust their production systems. The increase in production of non-cow milk remains strong as consumers' appreciation for goat and ewe derived dairy products, mainly cheeses, continues to increase. Drinking milk consumption in the EU may decrease again in 2022 as people drink less liquid milk in the working place, after a spike in 2020 and 2021 when COVID-19 kept people home. This should allow additional milk for dairy processing to marginally recover after a decrease in 2021 because of the reduced milk production.

Cheese production is the preferred EU27 milk factory use, and this trend is expected to continue as several new cheese plants have emerged in recent years, mainly to produce industrial mozzarella for the food processing industry. EU27 cheese production for 2022 is forecast to increase to 10.6 MMT, an increase of 50,000 MT over 2021 and almost 240,000 MT higher than production in 2020. EU cheese consumption continues to increase year after year and this should continue through 2022, but at a slowing pace due to increasing prices. The consumer appetite for Geographical Indicator (GI) and local cheeses, including goat cheeses, is growing more strongly, with higher returns for processors and local farmers alike. The slowing increase in cheese production led to lower EU27 cheese exports in 2021, but the forecast is that exports should mostly recover in 2022.

The EU butter market is growing more slowly and may well start to contract in 2022, as the aging population is looking for healthier eating patterns. Butter production decreased by 2 percent in 2021 compared to 2020 and is forecast to decrease slightly further in 2022. After a decrease at the onset of the COVID-19 crisis in 2020, EU27 domestic consumption partly recovered in 2021, to continue its decreasing trend in 2022. EU27 butter exports for 2022 is now forecast to further decrease in response to the surge in prices, after a 16 percent decrease in 2021 compared to 2020.

Non-Fat Dry Milk (NFD) or Skimmed Milk Powder (SMP) production in the EU is the residual product from EU butter and cream production. Consequently, its production follows butter production. Therefore, EU27 2022 NFD production is forecast to further decrease after a 4 percent dip in 2021, compared to 2020. More than half of EU NFD production is exported. The proximity of Northern Africa and the Middle East make this region top export destinations for EU NFD, but exports to South-Asian countries increased significantly in 2021 as a result of high demand and decreased exports

from Oceania. Domestic consumption is led by feed consumption for veal production, but commercial stocks may conceal actual consumption.

Whole Milk Powder (WMP) production is usually the residual EU milk processing use and a lack of milk is forecast to further decrease production in 2022, after a 10 percent decrease in 2021 compared to 2020. The decrease in production led to a decreased consumption by the EU food industry in 2021 and is expected to continue in 2022. Similarly, EU WMP exports decreased in 2021, with a further decrease in 2022 anticipated.

From a policy perspective, as the impact of Brexit and COVID-19 on European dairy markets are mostly behind us, the implementation of the new CAP and F2F initiatives in 2023 will dominate the EU dairy sectors' concerns. Strengthening EU environmental and climate mitigation policies will only deepen those concerns. As dairy experts anticipate a new wave of dairy farmers potentially quitting the sector, the major industry players are already adapting their corporate plans and strategies, as they adjust to these new EU policy realities. Available milk supplies are redirected towards their most profitable and strategic domestic and export market interests.

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.

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

Country:	EU-27					
Commodity:	Dairy, Milk (1000 Head / 1000 MT)					
	2020		2021		2022	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2020		01/2021		01/2022	
Cows In Milk	20,766	20,766	20,565	20,536	20,300	20,219
Cows Milk Deliveries to Dairies	145,415	145,436	145,700	145,034	146,700	144,600
Other Milk Production	4,260	4,296	4,350	4,350	4,450	4,400
Total Milk Production	149,675	149,732	150,050	149,384	151,150	149,000
Extra EU27 Imports	718	719	660	590	630	600
TOTAL SUPPLY	150,393	150,451	150,710	149,974	151,780	149,600
Extra EU27 Exports	1,477	1,483	1,560	1,563	1,560	1,500
Fluid Use Dom. Consumption	23,912	24,106	23,900	23,937	23,950	23,550
Factory Use Consumption	125,004	124,862	125,250	124,474	126,270	124,550
Feed Use Dom. Consumption	0	0	0	0	0	0
Total Dom. Consumption	148,916	148,968	149,150	148,411	150,220	148,100
TOTAL DISTRIBUTION	150,393	150,451	150,710	149,974	151,780	149,600

Production:

In the past decade, milk production in the EU27 has become increasingly constrained by environmental and animal welfare regulations. While EU27 dairy cow numbers have stagnated since 2014, their numbers have decreased by more than 1.4 million head since 2016, because lots of farmers are quitting dairying as they choose not to make the needed investments to meet the new requirements. EU27 milk production peaked in 2020 and cow milk production has been decreasing since. This is despite further year-on-year increases in milk productivity as it is the least productive farmers and cows that leave the sector. However, this productivity gain has also come under pressure as significantly higher input costs for feed and fodder production, energy, and labor, are limiting further intensification of production. Non-cow milk production, mostly concentrated in Mediterranean member states continues to increase, driven by consumer demand for dairy products, like goat cheeses or mozzarella buffalo, as well as local milk production for niche products protected by a Geographical Indication (GI).

New CAP and the enhanced environmental and animal welfare constraints enshrined in member states' national strategic plans (NSP), start in 2023 under F2F and the EU's Green Deal to reach climate neutrality by 2050. This is expected to lead to further consolidation of dairy farms as small and less efficient farmers may choose not to make the necessary investments to upgrade their barns and production equipment to the new F2F standards. The remaining dairy farmers can be expected to continue to improve the genetics and feeding techniques of their herds, not only for higher productivity, but also lower environmental footprints, especially methane emissions. This may well lead to further

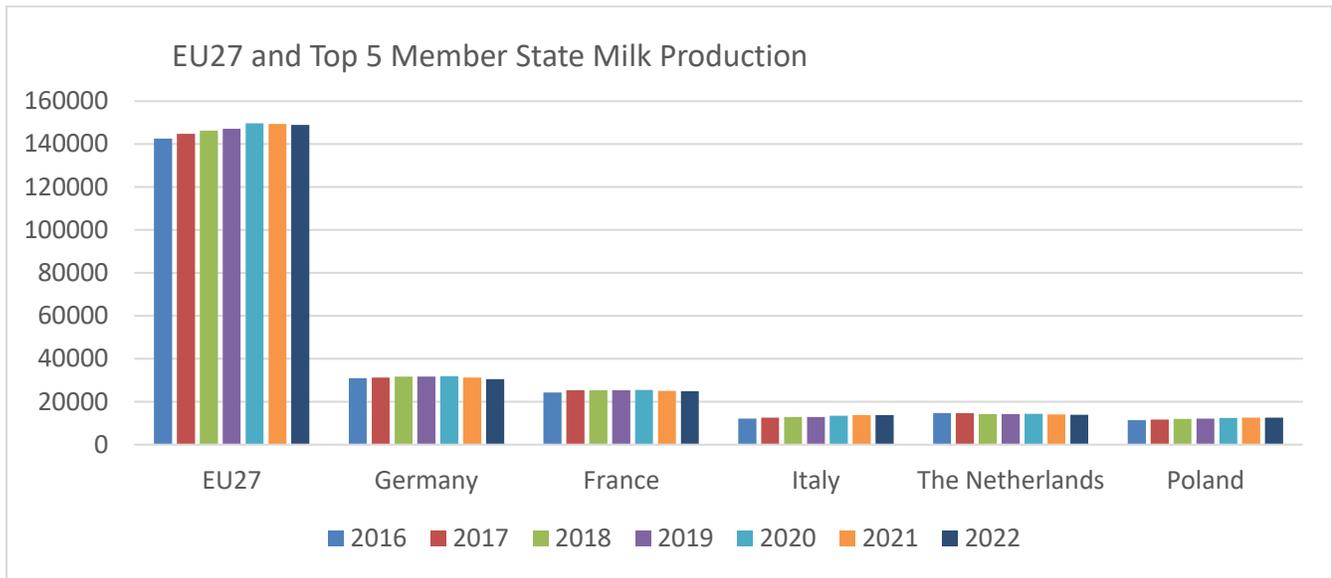
geographical concentration of milk production. Several MS may face difficulties with a faltering dairy industry that fails to keep up the competition with Western European countries, like Germany and the Netherlands. Smaller farms in the East, but also Portugal, have also switched to beef cattle, which require less investments and have good export opportunities for live beef cattle. Environmental restrictions have already brought the dairying intensification process to a halt before new F2F restrictions kick in. The 1992 Nitrate Directive has dampened further expansion in most of the Northern and Western MS, from Denmark and Ireland over France and Germany to the north of Italy. More recently, limits to phosphate emissions increased the pressure. Last year, governments in [the Netherlands](#)¹ and Belgium introduced legislation to ban nitrogen emission deposits on natural habitats that are part of the EU's Natura 2000 zones, halting new barn permits in the process. Other limiting factors to further EU milk production is the trend towards more extensive dairying programs like organic production, hay milk, and other practices, but because demand is not following increased production, the price premium in compensation for the higher production cost has been under pressure.

At the end of 2021, EU milk production declined by 0.3 percent compared to 2020, despite good fodder supplies and high export demand in the second half of the year. Farm gate milk prices increased significantly over the past year in about all MS, but reportedly are falling short of compensating for increased production costs in several MS. While MS around the North Sea had cool and wet weather during 2021, driving grass growth, MS to the south and the east of the EU were facing high production costs because of high feed prices. However, as Graph 2 shows, it is the North Sea countries that saw decreases in milk production in 2021. COVID-19 is not hampering dairy processors anymore as vaccination campaigns are successful in keeping COVID-19 infections under control and processing and logistics no longer face problems with infections in the workforce.

In 2020, milk production in the EU was still increasing 1.6 percent compared to 2019, with the biggest increases in Belgium, Ireland, Italy, Poland, and Spain.

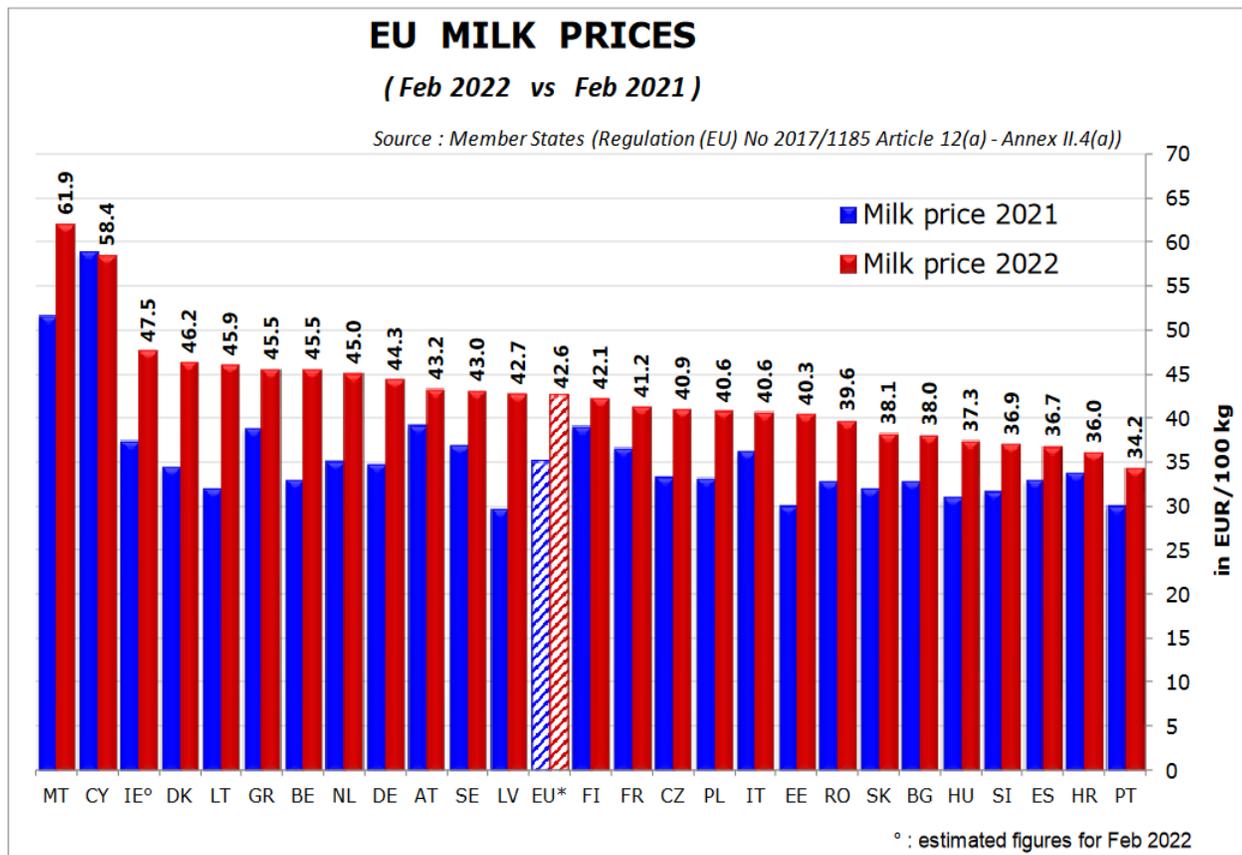
¹ In October 2020, Wageningen University published a report "[Dutch Dairy Farming in 2030](#)" for FrieslandCampina, modeling different policy scenarios for the Netherlands, which suggest a reduction in dairy farms by a third or even half by 2030 depending on the scenario.

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



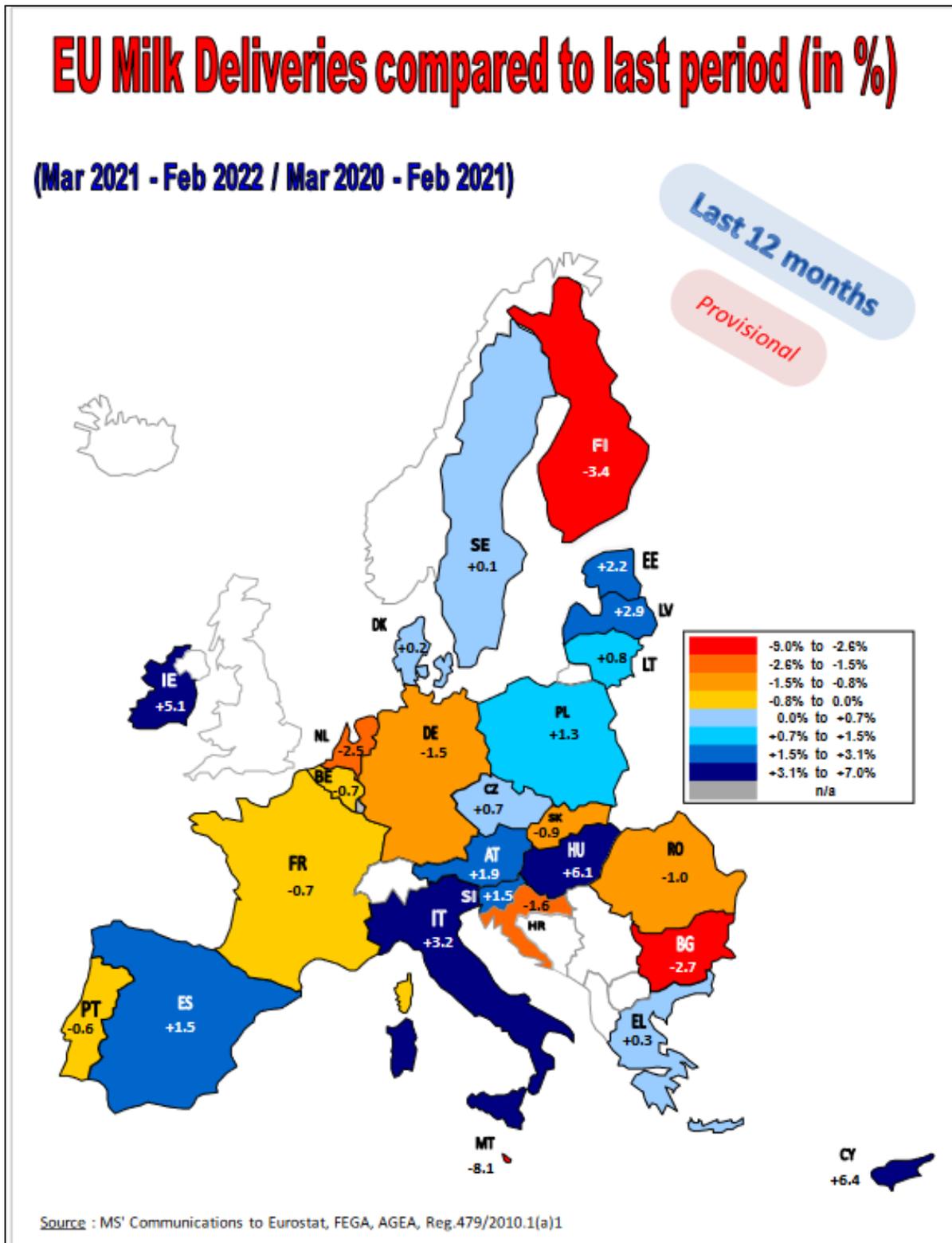
Source: USDA/FAS PSD Online and FAS EU Posts

Graph 2: European Milk Prices at Farm Gate



Source: European Commission

Graph 3: Evolution of EU Milk Deliveries



Source: European Commission

Trade:

Trade outside of the EU is very minimal. Most trade of fluid milk occurs within the EU as the major dairy companies' source and process fresh milk across MS borders. Extra-EU import or trade outside the EU is mostly limited to Ireland that processes most Northern Irish milk. Exports, almost exclusively of pasteurized milk in small end-consumer packages, are historically to the UK, North Africa, and Middle Eastern countries, but China has become the dominant export destination for EU milk in recent years, accounting for half of EU liquid milk exports or about 0.5 percent of EU production.

Domestic Consumption:

Domestic consumption of drinking milk received a boost from the COVID-19 crisis in 2020 and was mostly maintained in 2021, as the switch to teleworking led to higher household milk consumption. The same was seen for fresh dairy products and ice cream during the hot 2020 summer. More milk and other dairy products were also used for home cooking. However, milk consumption in 2022 is expected to wane as the COVID-19 situation has improved and much of the workforce has returned to the workplace. The influx of millions of Ukrainian refugees as they flee the war with Russia, may reverse this decrease again.

Factory Use Consumption:

After a decrease in EU factory use in 2021, a result of the milk production slowdown, factory use consumption is expected to recover only marginally in 2022, despite the decrease in fluid milk consumption. The expected further decrease in milk deliveries will force dairy processors to carefully assess for which products they will use the available milk.

Table 2: Cheese Production, Supply, and Distribution:

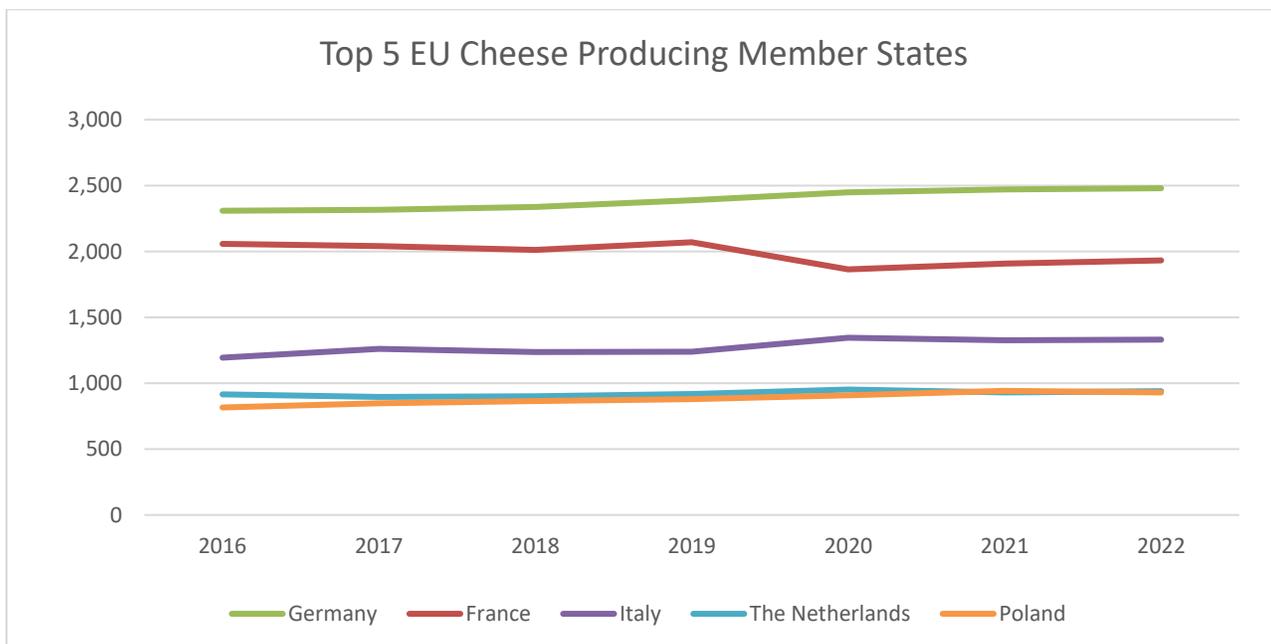
Country:	EU27					
	Dairy, Cheese (1000 MT)					
Commodity:	2020		2021		2022	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2020		01/2021		01/2022	
Beginning Stocks	0	0	0	0	0	0
Production	10,232	10,362	10,350	10,550	10,400	10,600
Extra EU27 Imports	222	223	195	196	200	200
TOTAL SUPPLY	10,454	10,585	10,545	10,746	10,600	10,800
Extra EU27 Exports	1,402	1,402	1,410	1,385	1,420	1,400
Domestic Consumption	9,052	9,183	9,135	9,361	9,180	9,400
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	9,052	9,183	9,135	9,361	9,180	9,400
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	10,454	10,585	10,545	10,746	10,600	10,800

Production:

Cheese production continues to be the primary output goal of the European dairy processing industry. Several new cheese processing plants have emerged in the Netherlands, Belgium, Germany, and France, mostly to produce industrial mozzarella for the food processing industry. Cheese production is given priority over other dairy commodities. The increase in EU27 cheese production is forecast to continue in 2022, but at a slower pace because the decrease in milk deliveries means that it comes at the expense of other products. In 2021, the increase in cheese production was almost 2 percent, after the production increase in 2020 was hampered because the industry had to adapt production, packaging, and labeling in response to the COVID-19 crisis. A revision of cheese production numbers for 2020 show that the disruption because of COVID-19 affected production numbers less than originally estimated. After the outbreak COVID-19 in 2020, the EC set up a [Private Storage Aid \(PSA\) scheme](#) to support the EU dairy sector, including for cheese. The PSA scheme attracted 43,669 MT of cheese, from mainly Italy, the Netherlands, France, Spain, and the UK. All PSA contracts expired before the end of 2020, leaving no cheese in official storage.

The popularity of cheeses under Geographical Indicator status (GI) continues to drive the EU cheese sector, as this usually small-scale production increases the return on milk for local milk producers. However, as the hotel, restaurant, and institutional sector (HRI) sector and tourism are driving GI cheese consumption, GI cheese producers suffered from the COVID-19 crisis. This was particularly true in France, Greece, Italy, Spain, and Portugal, which feature most of the GI cheeses and heavily depend on tourism.

Graph 4: Top 5 EU Cheese Producing Member States (in 1,000 MT)



Source: Eurostat, complemented with contributions from FAS EU Posts

Trade:

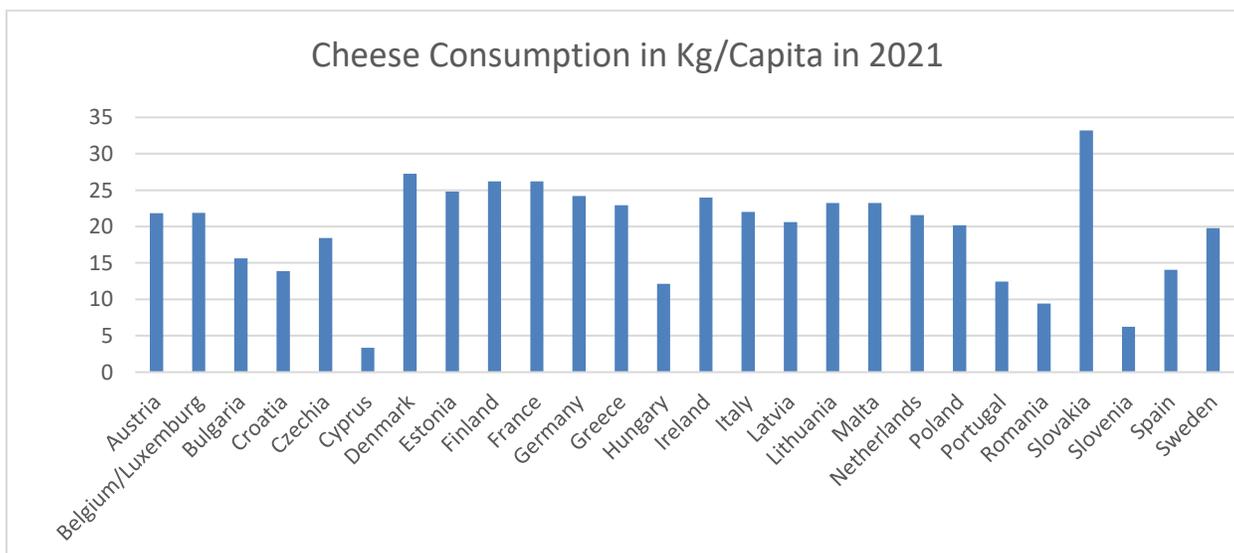
Cheese imports into the EU are limited and mainly originate from Switzerland and the UK. Imports from the UK are decreasing in 2021 as UK exporters face customs checks after Brexit. Imports from Switzerland increased by 9 percent in 2021.

EU27 cheese exports continue to increase from year to year by 1-3 percent, amounting to 13 percent of production. However, in 2021, a plunge in EU cheese exports to the UK reversed this trend. While this increasing export trend is expected to continue, albeit from a new lower level (to the UK), the slowing increase in cheese production is affecting EU27 cheese exports negatively, as increasing prices are eroding the competitiveness of EU cheeses on international markets. Except, this is not the case for GI cheeses, which continue their marketing success with increasing exports. The UK remains the first export destination by far, followed by the United States and Japan. Exports to Switzerland, Ukraine, and China increased in 2021, with the highest increase to China at 43 percent compared to 2020. The main EU cheese exporting MS are Germany, Ireland, France, the Netherlands, Italy, and Denmark.

Domestic Consumption:

The COVID-19 crisis drove household demand for cheese up, replacing demand from the HRI sector. As a result, EU27 domestic cheese consumption increased in 2020 and 2021, but the increase in 2020 is forecast to slow because supply limitations are driving up prices. The popularity and demand for cheese from non-cow origin also continues to grow, as consumers crave for craft products and stronger tastes. The top cheese consuming MS are Germany, France, Italy, Poland, and Spain. Denmark had the highest cheese consumption in 2020 with 29 kg per capita, while Cyprus and Romania were the only MS with less than 10 kg of cheese consumption per capita.

Graph 5: EU MS Cheese Consumption per Capita



Source: Calculated FAS EU Post consumption data and Eurostat population data for 2021.

Table 3: Butter Production, Supply, and Distribution:

Country:	EU27					
Commodity:	Dairy, Butter (1000 MT)					
	2020		2021		2022	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2020		01/2021		01/2022	
Beginning Stocks	0	0	0	0	0	0
Production	2,153	2,173	2,134	2,141	2,145	2,130
Extra EU27 Imports	52	52	55	51	45	45
TOTAL SUPPLY	2,205	2,225	2,189	2,192	2,190	2,175
Extra EU27 Exports	316	316	250	265	255	260
Domestic Consumption	1,889	1,909	1,939	1,927	1,935	1,915
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	1,889	1,909	1,939	1,927	1,935	1,915
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2,205	2,225	2,189	2,192	2,190	2,175

Production:

The EU27 butter production forecast for 2022 is decreased from lack of milk deliveries. The butter production outlook was decreased compared to the original forecast for France, Germany, Ireland, Italy, Poland, and Spain, while the Netherlands is the exception with production forecast to increase in response to high butter prices. EU27 butter production decreased in 2021 compared to 2020, as milk deliveries were directed to cheese instead of butter and skimmed milk powder (SMP). The final EU27 butter production number for 2020 was reviewed higher. EU27 butter production may also well have peaked in 2020, just like cow milk production. The main EU butter producing MS are Germany, France, Ireland, Poland, and the Netherlands.

In May 2020, the EC opened a PSA scheme to support the EU butter market in the early months of the COVID-19 crisis. The PSA scheme attracted 65,019 MT of butter, with the Netherlands, Ireland, Germany, France, and Belgium the main users. All PSA contracts expired before the end of 2020, leaving no butter in official storage.

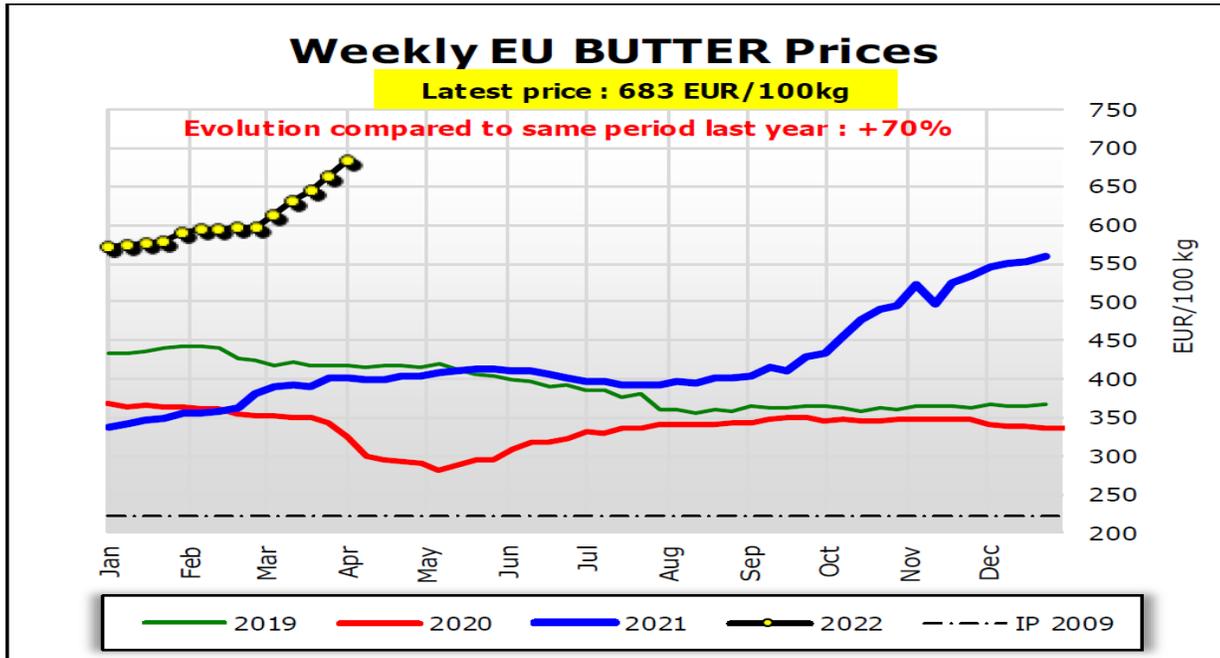
Trade:

EU27 butter imports are limited and stable as they are practically limited to imports from the UK, while EU27 imports into the GATT WTO tariff rate quota (TRQ) for butter from New Zealand have been limited after Brexit.

EU27 butter exports for 2022 are forecast to decreased slightly further, after decreasing by 16 percent in 2021 compared to 2019, with exports to the UK and Middle East countries decreasing, while exports to the United States continued to increase. The decrease in production led EU butter prices to increase after

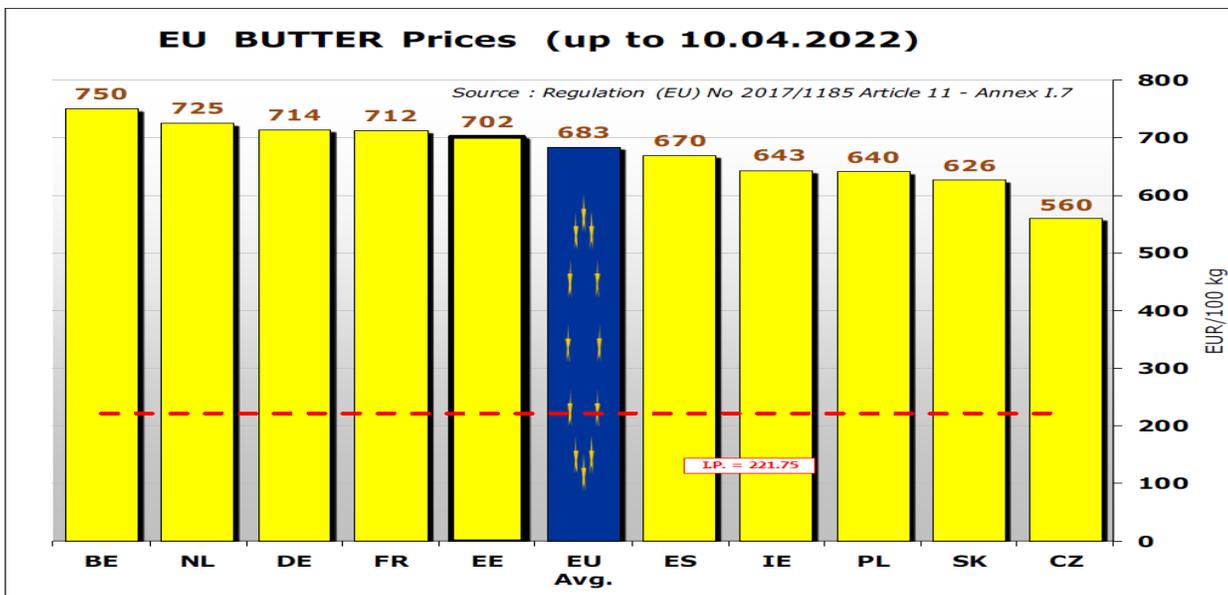
the summer of 2021, in response to continued world market demand. Exports to South Korea and China also significantly increased during the same period compared to the previous year. Ireland is the top EU butter exporting MS, followed by France, the Netherlands, and Belgium.

Graph 6: EU Butter Price Evolution



Source: European Commission

Graph 7: Butter Prices in MS

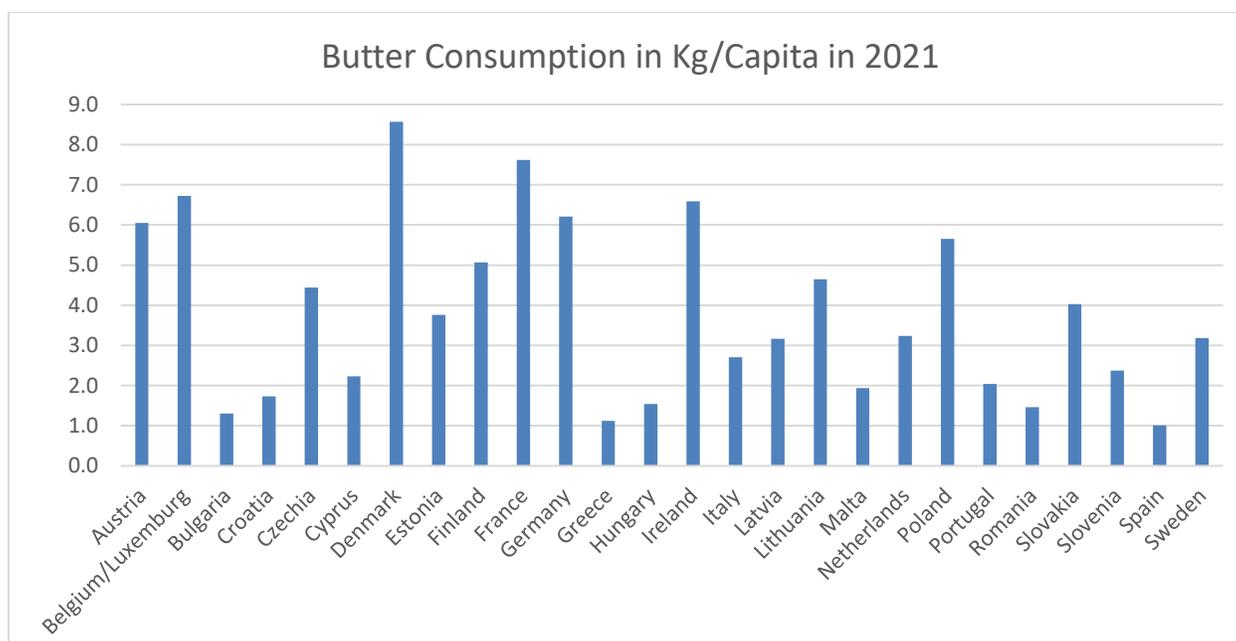


Source: European Commission

Domestic Consumption:

The COVID-19 crisis also led to a shift in EU27 butter consumption from the HRI sector to households. EU27 butter consumption in 2022 is forecast to slightly decrease compared to 2021, which was higher than in 2020. However, consumption numbers need to be interpreted with care as they include commercial stocks. Butter consumption in the EU is stable to slightly declining in the long term as consumers pursue healthier diets. In 2021, Denmark and France had the highest per capita butter consumption, followed by Belgium/Luxembourg, Ireland, and Germany. MS around the Mediterranean Sea typically consume less butter as cooking is mostly done using olive oil, while MS in the Central East of the EU consume more plant-based spreads because of the lower price.

Graph 8: EU MS Butter Consumption per Capita



Source: Calculated FAS EU Post consumption data and Eurostat population data for 2020.

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

Country:	EU27					
Commodity:	Non-Fat Dried Milk (1000 MT)					
	2020		2021		2022	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2020		01/2021		01/2022	
Beginning Stocks	0	0	0	0	0	0
Production	1,590	1,590	1,550	1,526	1,560	1,500
Intra EU27 Imports	36	36	25	32	20	35
TOTAL SUPPLY	1,626	1,626	1,575	1,558	1,580	1,535
Extra EU27 Exports	831	831	820	789	825	785
Domestic Consumption	795	795	755	769	755	750
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	795	795	755	769	755	750
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1,626	1,626	1,575	1,558	1,580	1,535

Production:

NFDM production in the EU27 is closely tied to butter production and is usually not a production goal on its own. Weather during the grass season and cost of feed ratios influenced the milkfat to protein content of milk. The EU27 NFDM production forecast for 2022 is decreased further compared to 2021, in line with decreasing butter production. NFDM production in 2021 was also decreased in line with decreased butter production.

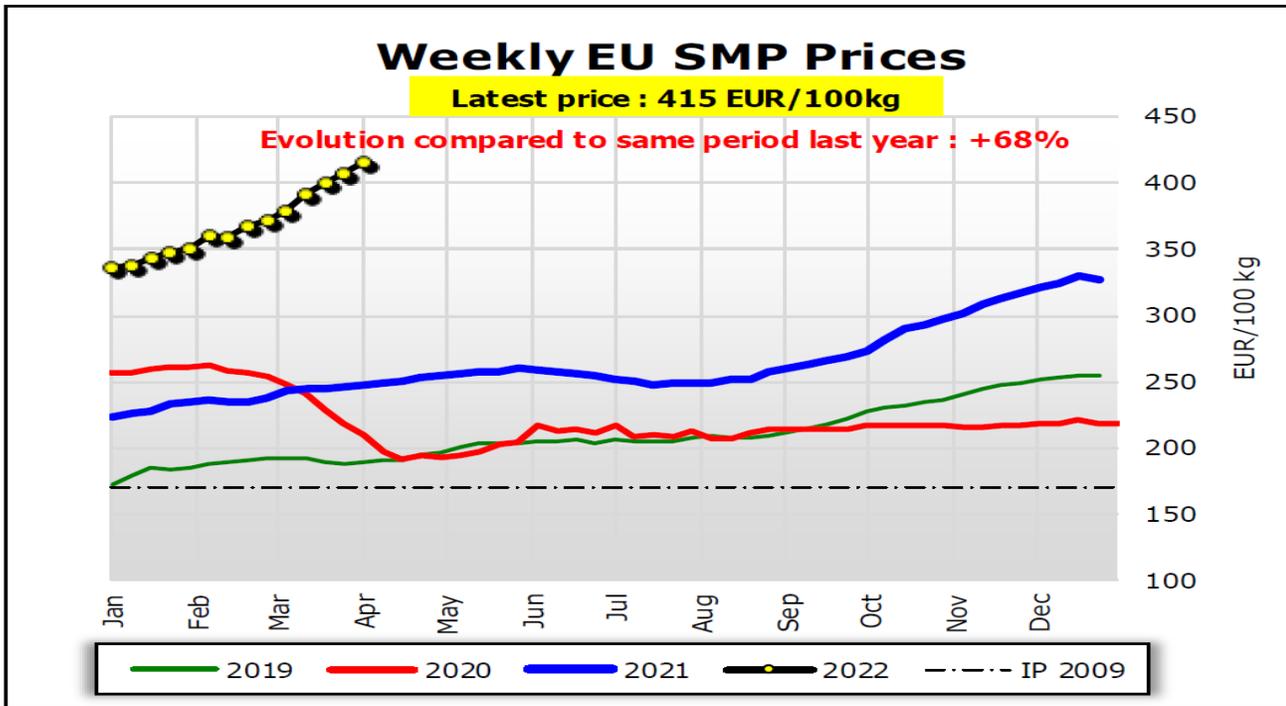
In May 2020, a PSA scheme was also opened to support NFDM prices in the early months of the COVID-19 crisis, but the scheme only attracted 18,300 MT of NFDM, mainly from Germany and the Netherlands. The higher NFDM production in 2020 benefitted from increased prices after EU NFDM intervention stocks, built in 2015 and 2016 after the end of the milk production quota system, were sold out. The main NFDM producing MS are France, Germany, Ireland, Poland, and Belgium.

Trade:

The EU27 imports little NFDM, and imports from the UK are also declining because of Brexit. EU27 NFDM exports compete heavily with NFDM exports from mainly the United States and New Zealand, with the EUR/USD exchange an important factor. EU27 NFDM exports in 2022 are forecast to shrink slightly compared to 2021 because of limited production. Despite a 5 percent decrease in NFDM exports in 2021 compared to 2020, China (+3 percent) and Algeria (-24 percent) remained the leading buyers in 2021, followed by Indonesia (+43 percent), Philippines (+21 percent), Nigeria (+4 percent), Malaysia (-2 percent), and Egypt (-18 percent). NFDM exports to the UK halved in 2021 compared to 2020. More

than half of EU NFDM production is exported. The main NFDM exporting EU MS are Germany, France, Belgium, Ireland, the Netherlands, and Poland.

Graph 9: Evolution of EU Skimmed Milk Powder (SMP) Prices



Source: European Commission

Domestic Consumption:

Domestic consumption of NFDM in the EU is mainly for calf feed for veal production. The EU food industry is the other main outlet on the domestic market. NFDM blending in feed used to be much higher as it was supported through the CAP under the EU milk production quota regime, but this support disappeared with the quota regime in 2015. EU27 consumption of NFDM in 2022 is forecast to decrease further, after limited production and increasing prices already suppressed consumption in 2021 compared to 2020.

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

Country:	EU27					
Commodity:	Dairy, Whole Milk Powder (1000 MT)					
	2020		2021		2022	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2020		01/2021		01/2022	
Beginning Stocks	0	0	0	0	0	0
Production	708	736	630	663	590	640
Extra EU27 Imports	27	27	10	11	5	10
TOTAL SUPPLY	735	763	640	674	595	650
Extra EU27 Exports	345	345	310	298	280	290
Domestic Consumption	390	418	330	376	315	360
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	390	418	330	376	315	360
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	735	763	640	674	595	650

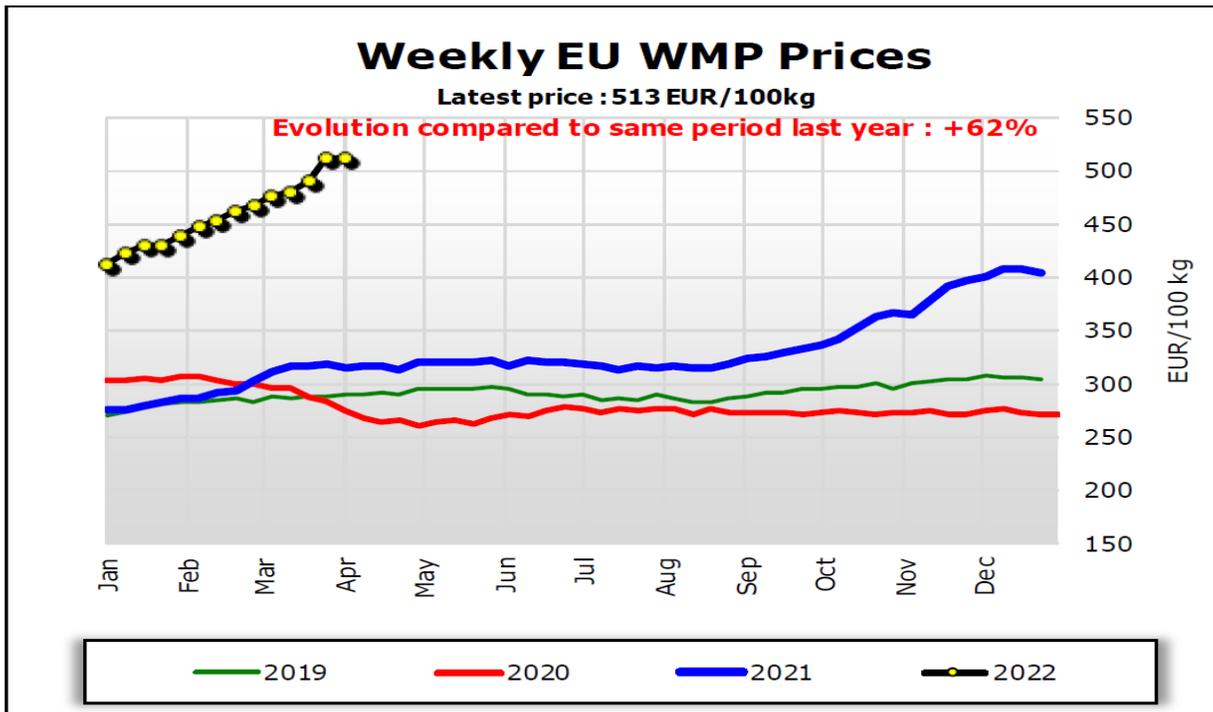
Production:

EU27 WMP production is forecast to decrease further in 2022, after a 12 percent decrease in 2021 compared to 2020, because of limited milk supplies. WMP usually generates the lowest processing margins, but that depends on the various dairy commodity prices. EU processors generally prioritize cheese production, which offers the most stable long-term returns.

Trade:

EU27 WMP imports are negligible, with imports from the UK declining after Brexit. EU27 WMP exports are decreasing for lack of supplies and export competitiveness. EU WMP exports to mainly North Africa and the Middle East decreased in 2021 and are forecast to further decrease in 2022. WMP exports to China (+39 percent) and Nigeria (+21 percent) were exceptions to this decreasing trend. WMP exports to the UK are also declining as a result of Brexit.

Graph 10: Evolution of EU Whole Milk Powder (WMP) Prices



Source: European Commission

Domestic Consumption:

EU27 WMP domestic consumption is mainly in the food industry, which usually is stable. However, WMP consumption showed a decline in 2021 compared to 2020, which is forecast to continue in 2022 because of the decrease in production and increasing prices.

EU Policy Update:

New CAP, Green Deal, Farm to Fork and Biodiversity Strategies

After [Brexit](#) became a reality at the end of January 2020, the new Von der Leyen Commission approved an extension of the old CAP, which expired at the end of 2020, and prepared a new multiannual financial framework 2021-2027 (MFF) proposal (€1074.3 billion), in combination with an extraordinary recovery effort for the COVID-19 crisis, known as the Next Generation EU (€750 billion). The [€1.8 billion package](#), which gained EU Council approval on July 21, 2020, aims at helping the EU to rebuild after the COVID-19 pandemic and support investment in the green and digital transitions. The new MFF proposal received final approval on December 17, 2020, and includes €356.4 billion for the new CAP and Fisheries policy, of which €270 billion for direct payments and market measures (together Pillar I) and €85.4 billion for rural development (Pillar II) for the 2021-2027 period. On June 25, 2021, the Parliament, Council, and Commission reached a provisional [political agreement](#) on the new [CAP 2023-](#)

[2027](#), which will enter into force in 2023. The European Parliament granted final approval on November 23, 2021, and the European Council provided final approval on December 2, 2021. More details on this new CAP are available in GAIN report - [EU Common Agricultural Policy Reform](#).

On May 20, 2020, the European Commission announced both the [Farm to Fork](#) (F2F) Strategy and the EU [Biodiversity Strategy](#) for 2030 as roadmaps for enhancing food and agricultural sustainability by 2030 under the European [Green Deal](#). 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 for MS to tailor their new CAP programs towards achieving and enforcing the different strategy targets through [enhanced conditionality measures](#). 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 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. Additionally, increased animal welfare and limitations in veterinary drug use, especially antimicrobial use, goals are stated. For the implementation of the new CAP 2023-2027, MS were requested to submit so-called [National Strategic Plans](#) (NSPs) by the end of 2021. The Commission is scrutinizing the MS NSPs against the CAP agreement and F2F, incorporating MS specific goals and initiatives. As part of their NSP, several MS are maintaining the voluntary coupled supports (VCS) from the previous CAP, including for dairying. The Commission is expected to approve most NSPs by summer of 2022, giving MS only a few months to implement them before the new CAP starts on January 1, 2023. The new CAP will impact how dairy farmers grow their fodder and silage for their dairy cows, but also the management of cow holding, with additional measures to reduce methane and ammonia emissions from the cows and their manure. This can be expected to further increase the cost of milk production in the EU.

The EU sees its [Green Deal](#) and accompanying strategies as its way of achieving its [Paris Climate Agreement](#) and other [UN Sustainable Development Goal](#) commitments. Both legislative bodies have requested that impact assessments must be available before legislative initiatives are proposed.

Brexit Update

The UK formally left the European Union on January 31, 2020, and the one-year transition period ended on December 31, 2020, in which it continued to fully comply with EU rules and legislation. During this transition period, both parties negotiated a [Trade and Cooperation Agreement](#) (TCA) on their future relationship, which was only concluded on December 24, 2020 avoiding a no deal outcome (hard Brexit). Early trade problems occurred because of the Brexit impact of the [rules of origin](#), for which the EU also provides specific [guidance](#). The EC also published a specific [guide](#) on the use of EU Tariff Rate Quotas (TRQ). The UK government published its post-Brexit [tariff schedule](#) that applies as of January 1, 2021. Info on the TRQs that UK operate is available [online](#).

While the EU immediately applied full customs checks on January 1, 2021, the UK extended the grace period for the implementation of full customs inspections on imports from the EU to January 1, 2022, but the implementation at UK border posts has been further postponed.

Veterinary Medicinal Products 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. EMA published its [Advised list](#) in March 2022 and the EC opened a public feedback period on its [draft implementing regulation](#) on April 19, 2022. This list is expected to be ready for final approval in the summer of 2022. A draft Delegated Act for the Implementation of Article 118 imposing limitations on the use of antibiotics for animals in the EU that will also apply to operators in third countries is yet to be proposed.

New EU Animal Welfare 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 European 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 aim is to have a draft animal welfare regulation approved by the end of 2023. The proposal will likely expand existing regulations for animal welfare during transport, at the farm level and at slaughter. 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. The Commission was also asked by the European Parliament and the Council to conduct a study on "[the feasibility of applying EU health and environmental standards on imported agricultural and agri-food products](#)" to be published in June 2022.

Acknowledgements:

The numbers in this report result from analysis and input by FAS offices across the EU and are a consolidation of data from EUROSTAT and info from FAS colleagues in EU MS. Sincere gratitude is expressed to each colleague who contributed:

Ornella Bettini from FAS Rome covering Italy
Mila Boshnakova from FAS Sofia covering Bulgaria
Monica Dobrescu from FAS Bucharest covering Romania
Dimosthenis Faniadis from FAS Rome covering Greece
Jana Fischer from FAS Prague covering the Czech Republic and Slovak Republic
Bob Flach from FAS The Hague covering the Netherlands, Finland, Denmark, and Sweden
Anna Galica from FAS Warsaw covering Poland, Estonia, Lithuania, and Latvia
Gellert Golya from FAS Budapest covering Hungary and Slovenia
Roswitha Krautgartner from FAS Vienna covering Austria
Sabine Lieberz from FAS Berlin covering Germany
Andreja Misir from FAS Zagreb covering Croatia
Marie-Anne Omnes from FAS Paris covering France
Yvan Polet from FAS USEU covering Belgium, Luxemburg, and EC policies
Carmen Valverde from FAS Madrid covering Portugal and Spain

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European Union	EU Common Agricultural Policy Reform	02/16/2022
European Union	European Food Safety Authority Opens Public Consultation on Animal Welfare Guidance Methodology	02/16/2022
European Union	Dairy and Products Annual	11/12/2021
United Kingdom	EU-UK Trade Agreement - Potential Impacts of Rules of Origin	01/11/2021
Netherlands	Dutch Parliament Approves Law to Reduce Nitrogen Emissions	01/07/2021

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

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

Attachments:

[Dairy- Butter European Union.docx](#)

[Dairy- Cheese European Union .docx](#)

[Dairy- Dry Whole Milk Powder European Union.docx](#)

[Dairy- Milk, Fluid European Union.docx](#)

[Dairy- Milk, Nonfat Dry European Union.docx](#)