

Required Report: Required - Public Distribution

Date: May 15,2020

Report Number: E42020-0015

Report Name: Dairy and Products Semi-annual

Country: European Union

Post: Warsaw

Report Category: Dairy and Products

Prepared By: Piotr Rucinski

Approved By: Jonn Slette

Report Highlights:

Post estimates that 2020 European Union (EU) milk deliveries will remain stagnant relative to 2019 due to an overall reduction in the herd population and global market disruptions following the COVID-19 pandemic. In its response to the market volatility caused by COVID-19, the European Commission (EC) authorized its Private Storage Aid (PSA) scheme to subsidize cheese, non-fat dried milk (NFDM), and butter storage for up to six months. Post expects NFDM and butter production will increase, given the longer shelf life of those products and eligibility under the new PSA scheme. 2020 cheese production will decline from 2019 levels because of reduced exports. Post forecasts that whole dry milk (WDM) production will plateau in 2020.

DISCLAIMER

Unless otherwise noted, "EU" in this report refers to EU27+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 (MS).

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

Ornella Bettini from FAS Rome covering Italy

Mila Boshnakova from FAS Sofia covering Bulgaria

Faniadis Dimosthenis from FAS Rome covering Greece

Monica Dobrescu from FAS Bucharest covering Romania

Bob Flach from FAS the Hague covering the Netherlands, Finland, Denmark, and Sweden

Golya Gellert from FAS Budapest covering Hungary and Slovenia

Carmen Valverde from FAS Madrid covering Portugal and Spain

Steve Knight from FAS London covering the United Kingdom and Ireland

Roswitha Krautgartner from FAS Vienna covering Austria

Lucile Lefebvre from FAS Paris covering France

Sabine Lieberz from FAS Berlin covering Germany

Jana Mikulasova from FAS Prague covering the Czech Republic and Slovak Republic

Andreja Misir from FAS Zagreb covering Croatia

Yvan Polet from FAS USEU covering Belgium, Luxemburg, and EC policies

Piotr Rucinski from FAS Warsaw covering Estonia, Latvia, Lithuania, and Poland

Executive Summary:

Post estimates that 2020 EU dairy production will be stagnant relative to 2019 due to global market volatility and lower demand for dairy products following the COVID-19 pandemic, particularly during the spring and summer months. Production growth will be moderated due to reduced dairy herd inventories and ongoing feed shortages following consecutive summer droughts in 2018 and 2019. Post expects higher production in the fall of 2020, assuming feed stocks return to normal following the summer and fall harvests. Post expects dairy processors to increase NFDM and butter production in 2020 due to the longer shelf life of those products and their eligibility under the EC's new PSA market intervention program. 2020 cheese production will decline from 2019 levels, due to lower exports. Post forecasts that whole dry milk (WDM) production will plateau in 2020. Fluid milk production will decline, reflecting a general downward trend in fluid-milk consumption throughout the EU.

Dairy cow inventories will continue to decline through 2020, following a general trend toward smaller herds and more productive animals. Herd sizes are also smaller due to ongoing feed and forage shortages caused by consecutive summer droughts in 2018 and 2019. However, milk output will not

be negatively affected, as better herd management, including high-quality genetics, has increased milk yields and can compensate for the reduction in the overall herd size.

Post estimates that domestic consumption of butter, cheese, WDM, and NFDM in 2020 will grow in parallel with the reduction of exports. Domestic consumption of NFDM and butter will also grow in 2020 along with higher production. Fluid milk consumption in 2020 will decrease, as consumers continue to shift away from fluid milk consumption toward other dairy products and milk substitutes. According to Milk Market Observatory (MMO)* in May 2020, EU dairy prices continued to fall, although lower May prices were more moderate than the price drops which occurred in March and April. As of May 3, 2020, butter, cheese (cheddar), NFDM, and WDM prices were, respectively, 30, two, two, and 11 percent below May 2019 prices.

Post estimates that after higher cheese exports in 2019, cheese exports will decline in 2020 due to lower global demand and supply chain issues after the COVID-19 outbreak. Lower global demand from the food service sector will adversely affect cheese international shipments. 2020 butter exports will also decline due to reduced global demand. Post estimates that 2020 NFDM exports will drop below 2019's record level due to the depletion of the EU's public stocks, which were released in 2019, as well as anticipated lower demand from China, Algeria, and Southeast Asia. Post estimates that 2020 exports of WDM and fluid-milk will also decline from 2019 due to lower demand from China and Middle East.

Following the domestic and global dairy market volatility in the wake of COVID-19 pandemic, on April 30, 2020, the EC authorized new subsidies under its PSA market intervention program to pay for increased private storage for NFDM, butter, and cheese. Interested stakeholders are eligible to apply through June 30, 2020. Recipients will receive subsidies to help pay for 60 to 180 days of private storage through December 26, 2020. The EC established a total limit of 100,000 metric tons (MT) for cheese under the PSA scheme, which will be allocated per MS based on their respective cheese production levels.

The EC also opened its public intervention scheme for butter and NFDM from March 1 to September 30, 2020. In this public intervention program, the EC can procure butter at €2,217.50/MT and NFDM at €1,698.00/MT. The program has established limits of 50,000 MT for butter and 109,000 MT for NFDM. Beyond those limits, any additional procurements can take place under a tendering process. As of May 15, 2020, prices for butter and NFDM were above intervention prices, and according to the MMO, public stocks of butter and NFDM were depleted. The UK is still eligible to make use of these market intervention programs during the Brexit transition period.

**The 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

Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
EU						
Cows In Milk	23,311	23,311	22,909	22,908	22,820	22,628
Cow's Milk Production	154,575	154,575	155,300	155,200	155,900	155,200
Other Milk Production	4,680	4,680	4,700	4,700	4,750	4,620
Total Production	159,255	159,255	160,000	159,900	160,650	159,820
Other Imports	12	9	10	11	12	10
Total Imports	12	9	10	11	12	10
Total Supply	159,267	159,264	160,010	159,911	160,662	169,830
Other Exports	783	784	955	933	960	830
Total Exports	783	784	955	933	960	830
Fluid Use Dom. Consum.	33,500	33,500	33,400	33,300	33,260	33,100
Factory Use Consum.	124,984	124,980	125,655	125,678	126,442	125,900
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	158,484	158,480	159,055	158,978	159,702	159,000
Total Distribution	159,267	159,264	160,010	159,911	160,662	159,830
(1000 HEAD) ,(1000 MT)						

Please note: The forecast of milk deliveries to dairies in 2020 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 after 2019's 0.4 percent production increase, total 2020 EU milk deliveries will remain stagnant relative to last year. Germany, France, Italy, the UK, and Ireland, which are the EU's major milk producers and processors, are among the most negatively affected by COVID-19 in Europe. According to MMO data, milk production increased by 3.3 percent in the EU during the first two months of 2020, as compared to the same period in 2019. Post estimates lower domestic and global demand for dairy products, along with supply chain disruptions caused by the COVID-19 outbreak, will decrease milk production during 2020's spring and summer months. Post further estimates that if the COVID-19 situation improves, milk production will recover in the fall of 2020 and the spring of 2021.

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 although dairy cow inventories will continue to shrink in 2020, better herd management, including the use of high-quality bovine genetics, will keep overall milk production levels stable because of increasing yields per cow.

According to MMO, on April 20, 2020, the average EU price for raw milk was €34.2 per 100 kilograms, one percent below April 2019, and four percent below December 2019. The COVID-19 pandemic coincided with the seasonal uptick of milk production in the spring, which also 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 MSs. Post estimates, that German exports of dairy products in 2020 will decline from last year's levels because of the economic impact of COVID-19 and the subsequent lower demand. The actual effects of COVID-19 on the German dairy industry depends on how companies manage production and end-user profiles. Companies selling to the hotel, restaurant, and institutional sectors (HRI) and those reliant on exports will be hit the hardest, while those focused on consumer products or retail may even benefit from the ongoing COVID-19 crisis.

France is the EU's second-largest dairy producer. Post estimates French dairy exports, which typically represent 37 percent of total sales, will also decrease in 2020. Lower exports will be accompanied by a 25-percent sales reduction to the food processing industry and an 85-percent sales reduction to HRI. Domestic French dairy sales to the food processing industry and HRI sectors represent 16 and five percent, respectively, of total sales. These decreases will be partially offset by higher dairy sales to the retail sector, which usually accounts for 42 percent of total sales in France. France's newly-lost export markets are driving lower demand and overproduction of dairy products. Like France, neighboring countries tend to favor domestic dairy products. Although previously signed contracts for exports remain in place, there have been few, if any, new orders. Although borders remain open for trade, increased health controls at borders limit movements of goods, and some transport companies are struggling to find truck drivers.

Most UK milk is sold under contract with producers either supplying the retail or hospitality sectors. The sudden closure of the hospitality sector in the UK was initially disruptive to the UK producers, for whom this was their primary market, with some milk going uncollected from farms. However, the sector responded quickly and milk collections have now resumed. Some milk is being

redirected into the retail sector due to increased home consumption of dairy products, albeit the mix of products required by consumers at home is slightly different to that consumed eating out or even purchased from retailers for out of home consumption. Post expects that in the UK there will be increased production of dairy products for commercial stocks and even some redirecting of the skim component of the milk to anaerobic digesters to help generate energy. Some price reductions are expected, with this forecast to lead to a slight year-on-year reduction in milk output in the UK, be that through reduced yield due to producers altering their feed mix balance or, possibly, the culling out their less efficient animals.

In Ireland, there were no such disruptions to milk deliveries to dairies. Unlike the UK, Irish milk production is more cyclical due to the animals being mostly grass fed. Not only did the HRI closures come before the annual upswing in domestic production, the importance the domestic hospitality sector is less significant in Ireland, where there is a stronger focus on production and storage for export. Indeed, the processing sector has excess capacity and is well placed to handle disruptions at both ends of the supply chain. Concerns previously focused on Brexit have now turned to COVID-19 and the likelihood of reduced exports due to the closed hospitality sector in the UK and other traditional markets within the EU and beyond. Like in the UK, this is forecast to lead to negative price pressure. This may see some slowing of the ongoing expansion in the Irish dairy herd which, again like the UK, will not be fully felt until 2021.

In the Netherlands, the herd size bounced back from 2019 with 38,000 additional cows added to the national herd of 1.6 million at the end of 2019. Dutch farmers are holding on to their cows, but generally, do not plan to expand their herds. The reduced demand for dairy products is forecast to have a limited effect on milk production, as farmers will continue to produce to cover their expenses and debts to banks. Post estimates that, due to the reduced demand for butter, cheese, and other high-value dairy products, processors will produce more longer shelf life products, mainly WDM, NFDM, and butter.

The Polish dairy sector continues to operate normally. Some dairy plants lowered raw milk prices paid to farmers, mostly because of higher seasonal spring milk production and the subsequent uptick in milk deliveries. Higher milk production may put additional downward price pressure on farm-gate milk prices in coming weeks, as dairy plants face lower demand from other EU markets and logistical problems. However, those dairy plants which produce fluid UHT milk and cream for exporting to China are struggling to fulfill the demand and face difficulties sourcing raw milk for processing. The Polish Federation of Milk Producers and Cattle Breeders announced that it will resume its milk recording program in dairy herds, which was suspended due to COVID-19 restrictions.

Consumption

Post expects that fluid milk consumption in 2020 will decrease from 2019, following current consumer trends away from fluid milk toward cheese and other processed dairy products, as well as non-dairy milk substitutes. Due to the COVID-19 movement restrictions and social distancing, most consumers are eating at home rather than HRI establishments. Early in the pandemic, consumers stockpiled cheese, butter, and UHT milk. Consequently, retail sales of products (250g butter packages, cheese

packets) increased to the detriment of larger units for HRI and food industry. Post expects that because of the pandemic, sales of milk, butter, cream, yogurt, cheeses used as ingredients, and processed cheeses will increase, while sales of high-value cheeses, like protected designation of origin (PDO) cheeses, which are often sold in restaurants, will decrease. In the retail sector, as consumers cook more at home and seek to reduce time spent inside stores, they will buy more staples and storable products. Consumers will seek to shop less often and therefore buy larger quantities of dairy products than usual. Post estimates, that high-value dairy, including PDO cheeses, will remain at a low in 2020 and 2021 because of the projected economic fallout from COVID-19.

Trade

Fluid milk exports in 2019 increased over 2018, mainly driven by a 56-percent increase in exports to China. Post estimates that 2020 fluid milk exports will decrease, in line with lower exports of butter, cheese and milk powders. Export demand will fall, which will particularly negatively affect milk powders. The expected decline in trade will be due to the global economic fallout following the COVID-19 pandemic, but also because lower demand in the Middle East and other economies which are dependent on petroleum production.

Table 2: Dairy, Cheese

Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
EU						
Beginning Stocks	0	0	0	0	0	0
Production	10,160	10,160	10,275	10,210	10,350	10,190
Other Imports	59	59	63	63	63	50
Total Imports	59	59	63	63	63	50
Total Supply	10,219	10,219	10,338	10,273	10,413	10,240
Other Exports	832	842	880	886	900	830
Total Exports	832	842	880	886	900	830
Human Dom. Consumption	9,387	9,377	9,458	9,387	9,513	9,410

Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	9,387	9,377	9,458	9,387	9,513	9,410
Total Use	10,219	10,219	10,338	10,273	10,413	10,240
Ending Stocks	0	0	0	0	0	0
Total Distribution	10,219	10,219	10,338	10,273	10,413	10,240
(1000 MT)						

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

Production

Post estimates that 2020 cheese production will decrease by 0.2 percent from 2019. This slight decline stems from reduced export demand and more competition from NFD and butter processors for raw milk, especially given those products' eligibility under the new PSA scheme. Germany, France, and Italy are the largest producers of cheese in the EU and cumulatively, manufacture almost 60 percent of total cheese output.

Consumption

Post estimates that domestic 2020 cheese consumption will increase as a result of reduced exports. Despite the possible economic recession caused by COVID-19, Post expects cheese consumption will increase, although many consumers will likely switch from higher quality cheeses to less costly ones. 2020 mozzarella and processed cheese consumption will decline because of the drop in demand from HRI. According to MMO, cheddar prices remained relatively stable. On May 3, cheddar cheese was priced at €304 per 100 kilograms, versus €303 in the last week of April. The May 3 cheddar price was two percent below the May 2019 price. Cheddar, gouda, and edam prices have been relatively stable over recent weeks.

Trade

2019 cheese exports were six percent higher than in 2018, because of higher production and strong global demand. The United States remained the EU's largest export market, followed by Japan, Switzerland, and South Korea. Post estimates that in 2020, cheese exports will decrease below 2019 because of lower production, reduced global demand, and supply chain difficulties because of COVID-19. In January 2020, cheese exports increased by 18 percent due to higher shipments to the United States and South Korea. 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. Interested

stakeholders can apply for PSA subsidies until June 30, 2020. The PSA will subsidize private storage costs for between 60 and 180 days and will expire before the end of 2020. As a result, this report's ending stocks do not account for PSA stocks. However, they may in part contribute to higher consumption as commercial stocks. The EC established a 100,000 MT limit for cheese, which will be allocated to MSs based on the total volume of cheese produced in respective MSs (Table 3). Subsidy payouts will be fixed at €15.57/MT for fixed storage costs and €0.40/MT per day of contractual storage.

Table 3: Cheese, Private storage allocation per MS

Member State	Maximum quantities (MT)	Member State	Maximum quantities (MT)
Belgium	1,130	Luxembourg	27
Bulgaria	889	Hungary	809
Czech Republic	1,265	Malta	28
Denmark	4,373	Netherlands	8,726
Germany	21,726	Austria	1,959
Estonia	434	Poland	8,277
Ireland	2,180	Portugal	775
Greece	2,121	Romania	931
Spain	4,592	Slovenia	157
France	18,394	Slovakia	413
Croatia	300	Finland	843
Italy	12,654	Sweden	792
Cyprus	270	UK	4,499
Latvia	459	Total	100,000
Lithuania	978		

Source: Commission Delegated Regulation (EU) 2020/591

Table 4: Dairy, Butter

Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
EU						
Beginning Stocks	0	0	0	0	0	0
Production	2,345	2,345	2,425	2,375	2,410	2,400
Other Imports	22	22	20	16	25	15
Total Imports	22	22	20	16	25	15
Total Supply	2,367	2,367	2,445	2,391	2,435	2,415

Other Exports	161	161	210	218	195	175
Total Exports	161	161	210	218	195	175
Domestic Consumption	2,206	2,206	2,235	2,173	2,240	2,240
Total Use	2,367	2,367	2,445	2,391	2,435	2,415
Ending Stocks	0	0	0	0	0	0
Total Distribution	2,367	2,367	2,445	2,391	2,435	2,415
(1000 MT)						

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

Production

Post estimates that 2020 butter production will increase by one percent over 2019 due to strong domestic demand. The 2020 butter production uptick will also result from higher NFDM output. Butter and NFDM private storage are eligible to receive subsidies under the EC's PSA scheme.

Consumption

Post estimates that domestic 2020 EU butter consumption in 2020 will increase by three percent over 2019, due to growing production and lower exports. According to the MMO, butter prices on May 3 averaged €291 per 100 kilograms, compared to €292 one week earlier. Within the last four weeks, average butter prices decreased by over four percent. However, within last 12 months, butter prices dropped by about 30 percent. EU consumers and food manufacturers perceive butter as a healthful product and more natural than margarine. In some instances, the food industry also uses butter as a substitute for vegetable oil.

Trade

In 2019, the United States and the United Arab Emirates were the main export markets for EU butter. Post estimates lower butter and butter oil exports in 2020 because higher production will be mainly consumed domestically. January 2020 butter exports to the United States were up by 18 percent.

Stocks

On April 30, 2020, EC also issued Commission Implementing Regulation (EU) 2020/597, authorizing private storage subsidies for butter under the PSA scheme. Interested parties can apply for subsidies under PSA until June 30, 2020. The PSA will subsidize private storage costs for 60 to 180 days and not longer than the end of 2020. Subsidy payouts will be fixed at €9.83/MT for fixed storage costs and €0.43/MT per day of contractual storage.

In 2020, EC public intervention for butter opened for its usual period from March 1 to September 30. The UK remains eligible to use the intervention program during the Brexit transition period. Within public stocks intervention scheme, the EC will procure butter at €2,217.50/MT and up to no more than 50,000 MT of butter. Beyond this limit, any procurement will take place under a tendering process. As of May 15, butter prices were beyond the intervention price and according to MMO, public stocks of butter are depleted.

Table 5: Dairy, Milk, Nonfat Dry

Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
EU						
Beginning Stocks	380	380	175	175	0	0
Production	1,735	1,735	1,760	1,740	1,775	1,780
Other Imports	3	3	6	6	5	5
Total Imports	3	3	6	6	5	5
Total Supply	2,118	2,118	1,941	1,921	1,780	1,785
Other Exports	821	821	1,010	962	925	820
Total Exports	821	821	1,010	962	925	820
Human Dom. Consumption	1,122	1,122	931	959	855	965
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1,122	1,122	931	959	855	965
Total Use	1,943	1,943	1,941	1,921	1,780	1,785
Ending Stocks	175	175	0	0	0	0
Total Distribution	2,118	2,118	1,941	1,921	1,780	1,785
(1000 MT)						

Please note: The estimate of NFDN production in 2020 is based on the data received from the analysts in the EU FAS Offices and the fat-protein balance of milk deliveries and output of dairy products. Trade data source: Trade Data Monitor, LLC and EU FAS Offices estimates.

Production

Post estimates that 2020 NFDM production will increase by 2.3 percent over 2019 due to continuing domestic demand and NFDM's eligibility under the EC's new PSA program.

Consumption

Post estimates that 2020 NFDM consumption will be slightly higher than 2019 because of increased production and lower exports. 2019 NFDM consumption was artificially "inflated" because of the public stock liquidation. High NFDM consumption in 2018 and 2019 were due to the release of public stocks by the EU-28, which were partly converted into commercial stocks. (NOTE: Domestic consumption in this report includes commercial stocks.) According to MMO, on May 3, NFDM prices were €193 per 100 kilograms, 2.5 percent lower than average prices during the last four weeks. The pandemic clearly lowered NFDM prices, as price were still €254 per 100 kilograms of early March.

Trade

Post estimates that 2020 NFDM exports will decrease by 17 percent and return to 2018 levels. The EC's reduction of public NFDM stocks in early 2019 put downward pressure on NFDM prices, which led to an 18-percent increase in exports in 2019. Major export markets included China, Indonesia, and the Philippines. In January 2020, NFDM exports dropped by almost 30 percent from January 2019 prices due to reduced shipments to China and Algeria.

Stocks

On April 30, 2020 EC issued Commission Implementing Regulation (EU) 2020/598 authorizing skimmed milk powder as eligible under the PSA scheme. Interested parties can apply for subsidies for private storage of skim milk powder until June 30, 2020. The PSA will subsidize private storage costs for 60 to 180 days and not longer than the end of 2020. Subsidy payouts will be fixed at €5.11/MT for fixed storage costs and €0.13 per MT per day of contractual storage.

In 2020, the EC opened its public stocks intervention scheme for NFDM from March 1 to September 30. The UK remains eligible to use the program during the Brexit transition period. Within public stocks intervention scheme, the EC will procure NFDM at €1,698.00/MT and up to no more than 109,000 MT of NFDM. Beyond this limit, procurement will take place under a tendering process. As of May 15, NFDM prices were beyond the intervention price and according to MMO, public stocks of NFDM are depleted.

Table 6: Dairy, Dry Whole Milk Powder

Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
EU						
Beginning Stocks	0	0	0	0	0	0
Production	730	730	730	740	725	740
Other Imports	2	2	2	5	1	1
Total Imports	2	2	2	5	1	1
Total Supply	732	732	732	745	726	741
Other Exports	334	334	290	298	300	275
Total Exports	334	334	290	298	300	275
Human Dom. Consumption	398	398	442	447	426	466
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	398	398	442	447	426	466
Total Use	732	732	732	745	726	741
Ending Stocks	0	0	0	0	0	0
Total Distribution	732	733	732	745	726	741
(1000 MT)						

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

Production

Post estimates that 2020 WDM production will remain stagnant relative to 2019. In 2020 lower exports will result in higher domestic consumption.

Consumption

Post estimates that in 2020, domestic consumption of WDM will increase over 2019 levels. Domestic consumption remains strong because of continued demand from the domestic food processors. According to MMO, WDM prices on May 3 fell from €266 to €261 per 100 kg (a 2.6-percent decline) compared to the previous week. Within last 12 months, WDM prices decreased by 11 percent. WDM's downward price trend began in early February 2020 when it reached €307.

Trade

Post estimates that 2020 WDM exports will decrease from 2019 levels, mainly due to reduced demand from China.

EU Policy

COVID-19

The COVID-19 pandemic forced all EU MSs to mostly shutter their HRI sectors. Agricultural and food exports were also severely affected by closed international borders and the widespread supply chain disruptions. For the EU dairy sector, spring 2020 sees milk processors converting surplus liquid milk into butter and NFDM, as market prices rapidly decline across dairy commodities. Although the EC has intervened in the dairy market via its PSA subsidy scheme to store stocks of cheese, NFDM, and butter, these programs are slated to end before the current calendar year. Moreover, current NFDM and butter market prices are above public stocks intervention levels, preventing intervention buying for the time being. As a result, this report forecasts 2020 ending stocks for dairy commodities at zero, based on the current legislative landscape, as well as production, consumption, and stock estimates.

New Common Agricultural Policy (CAP) and Brexit

The EC's new Green Deal, which aims to make the EU climate neutral by 2050, in compliance with the EU's commitments under the 2015 Paris Climate Agreement, will put heavy pressure on agriculture. As a result, the EC announced an additional Farm to Fork2 (F2F) program. While details for the Green Deal and F2F remain scant, the EC is not likely to take previous CAP proposals forward without serious amendments, which has alarmed farmers and the agricultural sectors throughout the EU.

In the meantime, the COVID-19 pandemic has taken central stage, hampering negotiations between the EU and the UK on a post-Brexit agreement and between EU institutions on a new Multi-annual Financial Framework (MFF) 2021-2027 and a new CAP. All these negotiations are intertwined as the Brexit agreement will influence the EU's budget. Under the current situation, the UK's contribution to EU coffers ends with the end of the Brexit transition period on December 31, 2020.

EC Allows Temporary Agreements on Planning Dairy Production

On April 30, 2020, the EC issued Commission Implementing Regulation (EU) 2020/599 authorizing agreements and decisions on the planning of production in the milk and milk product sectors. In response to the market volatility caused by COVID-19, the EC allowed for agreements and collective production decisions by farmers, farmers' associations, recognized producer organizations, and recognized interbranch organizations. Such agreements and decisions could include a collective effort to plan production levels of raw milk in accordance with the changing demand patterns. Any agreements or decisions about production should be temporarily authorized for a six-month period, starting on April 1, 2020, coinciding with spring and summer, which is the peak production season in the dairy sector and should therefore have the most significant impact.

Attachments:

No Attachments