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## **Report Name:** Dairy and Products Semi-annual

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**Prepared By:** Piotr Rucinski

**Approved By:** Jonn Slette

### **Report Highlights:**

Post estimates that 2021 European Union (EU) milk deliveries will increase by 0.3 percent over 2020 due to continued global demand for dairy products and stable domestic demand. The growth rate for milk deliveries in 2021 will be more moderate than 2020, due to a reduction in the overall herd population and ongoing global market disruptions related to the COVID-19 pandemic. Post expects cheese, butter, whole dry milk (WDM), and non-fat dry milk (NFD) production will increase in 2021 due to higher milk deliveries.

## **DISCLAIMER**

Unless otherwise noted, "EU" in this report refers to EU27+United Kingdom (UK). In the EU Dairy and Products Annual scheduled to be published in October 2021, Brexit will be taken into account and the "EU" will refer to the EU27 without the UK.

The following numbers result from analysis and input by FAS offices across the EU and are a result of consolidation of production, supply, and demand (PS&D) tables 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  
Roswitha Krautgartner from FAS Vienna covering Austria  
Xavier Audran from FAS Paris covering France  
Sabine Lieberz from FAS Berlin covering Germany  
Jana Fisher 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  
Jennifer Wilson from FAS London covering Ireland

### **Executive Summary:**

Post estimates that 2021 EU milk deliveries will grow by 0.3 percent over 2020 due to ongoing export demand for dairy products, as well as stable domestic demand. Production growth will be limited due to lower dairy herd inventories. Post expects that dairy processors will increase production of cheese, butter, WDM, and NFDM because of higher milk deliveries. Most additional milk will be used for cheese production.

Dairy cow inventories will continue to decline through 2021, following a general trend toward smaller national herd sizes and more productive animals. However, better herd management, including the use of high-quality genetics, will increase milk yields and compensate for the smaller herd sizes.

Post estimates that in 2021, domestic consumption of cheese and butter will increase due to growing demand and higher production. 2021 fluid milk consumption will remain about the same as in 2020, while 2021 NFDM consumption will decrease from 2020 and return to historic average levels. In 2021, WDM consumption will increase due to higher demand and reduced exports. Fluid milk consumption in the first half of 2021 will remain on par with 2020's elevated level, as the COVID-19 pandemic continues to push consumption. Post forecasts that fluid milk consumption will eventually return to the

previous long-term shift away from fluid milk toward other dairy products and milk substitutes when pandemic restrictions abate.

According to Milk Market Observatory\* (MMO), in March 2021 the farmgate price for raw milk in the EU27 (without the UK) was €35.02 (\$42.4) per 100 kilograms, 1.5 percent above the March 2020 price. EU27 farmgate milk prices have increased slightly since January 2021. As of May 2, 2021, the EU27 internal cheese (cheddar) price was three percent above the May 2020 price, while WDM, butter, and NFDM prices were 20, 40, and 30 percent, respectively, higher than May 2020 prices. In spring 2020, COVID-19 created short-lived disruptions throughout the supply chain. EU milk processors adapted by converting surplus liquid milk into butter and NFDM, with market prices across dairy commodities in free fall. The spring 2021 price jumps for butter, NFDM, and WDM reflect a normalization of markets following last year's market disruptions.

Post estimates that 2021 cheese exports will continue to grow due to strong global demand. Despite higher prices, supply chain disruptions, and the pandemic-related drop in demand from the food service sector in the first half of the year, 2021 butter and NFDM exports will increase over 2020 due to growing world demand. Post estimates that 2021 WDM exports will decline from 2020 due to lower anticipated demand from Nigeria. Fluid-milk exports will remain at the previous year's level.

In response to the dairy market disruptions caused by COVID-19, on May 4, 2020, the EU issued Commission Delegated Regulation (EU) 2020/591 authorizing a temporary exceptional Private Storage Aid (PSA) scheme for cheese, butter, and NFDM. According to MMO, as of December 2020, PSA cheese, NFDM, and butter stocks accumulated from May to November 2020 had sold out. The EC opened its annual public intervention scheme for butter and NFDM from March 1 to September 30, 2021. As March and April 2021 butter and NFDM market prices were above intervention prices, butter and NFDM were not eligible for intervention storage.

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

## General Information

**Table 1: Dairy, Milk, Fluid**

Dairy, Milk, Fluid Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Cows In Milk</b> (1,000 HEAD)	22,908	22,908	22,627	22,633	22,550	22,401
<b>Cow's Milk Production</b> (1,000 MT)	155,200	155,200	157,500	157,500	158,100	158,000
<b>Other Milk Production</b> (1,000 MT)	4,700	4,700	4,710	4,730	4,720	4,750
<b>Total Production</b> (1,000 MT)	159,900	159,900	162,210	162,230	162,820	162,750
<b>Other Imports</b> (1,000 MT)	11	11	13	11	13	10
<b>Total Imports</b> (1,000 MT)	11	11	13	11	13	10
<b>Total Supply</b> (1,000 MT)	159,911	159,911	162,223	162,241	162,833	162,760
<b>Other Exports</b> (1,000 MT)	932	931	950	1057	950	1060
<b>Total Exports</b> (1,000 MT)	932	931	950	1057	950	1060
<b>Fluid Use Dom. Consum.</b> (1,000 MT)	33,300	33,300	33,400	33,500	33,350	33,500
<b>Factory Use Consum.</b> (1,000 MT)	125,679	125,680	127,873	127,684	128,533	128,200
<b>Feed Use Dom. Consum.</b> (1,000 MT)	0	0	0	0	0	0
<b>Total Dom. Consumption</b> (1,000 MT)	158,979	158,980	161,273	161,184	161,883	161,700
<b>Total Distribution</b> (1,000 MT)	159,911	159,911	162,223	162,241	162,833	162,760

Please note: The estimate of milk deliveries to dairies in 2020 and 2021 is based on the data received from the analysts in the EU FAS Offices.

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

## Production

Post estimates that total 2021 EU milk deliveries will increase by 0.3 percent over 2020. According to MMO data, EU27 milk production in January and February 2021 decreased 2.4 percent from the same months in 2020. Post estimates that ongoing hotel and restaurant closures, coupled with supply chain disruptions during the first six months of 2021, will keep milk production at the same or slightly below production levels than during the first half of 2020. Post forecast a moderate growth of milk production during the second half of the year if market restrictions related to COVID-19 are lifted in the summer 2021 and feed availability is not affected by summer drought.

As of January 2021, the total EU dairy herd declined by 232,000 head, a one-percent decrease from January 2020. Despite the overall herd decline, Post estimates that better herd management, including high-quality genetics, will increase milk yields and compensate milk production growth for the smaller overall herd size.

According to MMO, the March 2021 farmgate price for raw milk in the EU27 (without the UK) was €35.02 (\$42.4) per 100 kilograms, 1.5 percent above March 2020. Farmgate milk prices have increased slightly since January 2021.

In Germany, the EU's largest dairy producer, the dairy cow population continued to decline in 2020. At the beginning of 2021, dairy cow inventories were over two percent lower than one year earlier. High feed costs and the dearth of forage following three consecutive years of summer drought reduced German dairy cow inventories. In 2020, German milk deliveries increased by 0.2 percent over 2019. During the first two months of 2021, German milk deliveries were two percent below the same months in 2020.

In France, the EU's second largest dairy producer, 2020 milk deliveries decreased by 0.5 percent from 2019. The decrease of milk deliveries resulted from reduced supplies and high feed costs stemming from unfavorable weather conditions, lower dairy cow inventories, and reduced demand for dairy products due to COVID-19. In response to the lower demand for dairy products, some dairy processors, particularly those which specialize in producing geographical indicator (GI) cheeses, asked milk suppliers to reduce deliveries to prevent overproduction. Post estimates that the reduced pace of milk deliveries growth in France will continue in 2021. According to MMO, during the first two months of 2021, French milk deliveries decreased by three percent in comparison to the same period of 2020.

In 2020, Dutch milk deliveries increased by 1.2 percent. Post estimates that milk deliveries will stabilize in 2021, but milk will be produced by fewer cows. Italy's milk production increased in 2020 despite a reduced cow inventories, because of better cow productivity. Post estimates that Italy's milk production will maintain an upward trend in 2021. During the COVID-19 pandemic, some Italian dairy plants temporarily converted fresh milk to ultra-high temperature (UHT) milk. In Belgium, the increase of dairy cow inventories accompanied by better productivity have led to a three percent increase in milk deliveries in 2020. Post estimates that despite feed shortage caused by 2020 drought and increased feeding costs, 2021 milk deliveries in Belgium will increase by one percent. During the first two months of 2021, milk deliveries in Poland increased by 0.1 percent over the same period of 2020. The COVID-19 pandemic did not affect milk deliveries in 2020 which were 2.3 percent higher than in 2019. Although the fallout from COVID-19 continues to impact Poland's hotels, restaurants, and institutions (HRI) sectors, Polish dairy farmers have been more immediately affected by lower farmgate milk prices due to seasonal production increases. During the first two months of 2021, milk deliveries in Spain decreased by 1.8 percent in comparison to the same period of 2020. In Spain, 2020 dairy cow milk deliveries rose by 2.7 percent in comparison to 2019, due to increased efficiencies and a wet spring, which boosted feed production. Better genetics, nutrition, housing, animal health, and animal welfare significantly enhanced efficiency and yields of dairy cows in Spain, however, the number of dairy farmers continued to decline in 2020.

The UK dairy herd remains in long-term decline. However, milk deliveries continue to rise year-on-year, a combination of producers retaining their more productive animals, an overall improvement in herd genetics, and sustained annual demand for fluid milk. Post estimates that milk deliveries in the UK will continue to rise in 2021 (Please note that in this report the UK is included in overall EU milk production).

### **Consumption**

Post estimates that domestic 2021 fluid milk consumption will remain at the previous year level. In 2020 and in the first half of 2021, fluid milk consumption temporarily changed because of the COVID-19 quarantine restrictions. Post estimates that during the second half of 2021 fluid milk consumption will return to the long-term shift away from fluid milk toward other dairy products and milk substitutes.

Because of COVID-19 movement restrictions and social distancing, many consumers are eating at home instead of HRI establishments. Post estimates that in 2021 sales of milk, butter, cream, yogurt, lower-cost cheeses, and processed cheeses will remain brisk. Conversely, sales of high-value cheeses, which are often sold in restaurants, will decrease. Consumers are cooking more at home, reducing time inside stores, buying more in bulk, and focusing more on staples and shelf-stable products. The 'buy local' trend aimed at supporting domestic economies is supported by local media and governments. Most

restaurants and other HRI outlets remained closed during the second and third wave of COVID-19 in the fall of 2020 and spring of 2021. During first four months of 2021 social distancing has generally continued and many consumers are still working from home. Many HRI businesses have not survived the pandemic and those that remain open are typically operating on tight margins.

## Trade

Post estimates that 2021 fluid milk exports will remain on par with 2020 exports, because of continuing demand from China. In January 2021, fluid milk exports to China increased by 13 percent over January 2020. The increase of exports will be limited by availability of milk and the global economic fallout following the COVID-19 pandemic.

**Table 2: Dairy, Cheese (000 MT)**

Dairy, Cheese Market Year Begins EU	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	10,210	10,210	10,350	10,340	10,450	10,380
Other Imports	63	63	63	63	60	64
Total Imports	63	63	63	63	60	64
Total Supply	10,273	10,273	10,413	10,403	10,510	10,444
Other Exports	879	886	931	936	950	950
Total Exports	879	886	931	936	950	950
Human Dom. Consumption	9,394	9,387	9,482	9,467	9,560	9,494
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	9,394	9,387	9,482	9,467	9,560	9,494
Total Use	10,273	10,273	10,413	10,403	10,510	10,444
Ending Stocks	0	0	0	0	0	0
Total Distribution	10,273	10,273	10,413	10,403	10,510	10,444

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

## Production

Post estimates that 2021 cheese production will increase by 0.4 percent over 2020 due to higher raw milk production and continuing export demand. The pace of cheese production increase in 2021 will be slower than in 2020 because of lower milk availability. Germany, France, and Italy are the EU's largest cheese producers and together account for almost 60 percent of total cheese output.

The 2.5 percent increase in German cheese production in 2020 was partly stimulated by strong demand in export markets. French cheese production declined by almost six percent in 2020. The closure of the HRI sector due to the COVID-19 and the following lockdowns heavily impacted the demand for specialized and GI cheeses which use to be the stronghold of the French cheese sector. Post estimates that Italy's cheese production will slightly increase in 2021, driven by sustained exports (mainly intra-EU), despite a declined demand from the HRI sector caused by COVID-19. In 2020, productions of parmigiano reggiano and grana padano increased by five and two percent, respectively, over 2019.

## Consumption

Post estimates that 2021 cheese consumption will grow in line with higher production by 0.3 percent over 2020 due to continuing strong domestic demand. Consumption growth will be moderated by higher exports. The economic recession caused by COVID-19 changes cheese consumption patterns, as consumers switch from higher priced specialty cheeses to lower cost alternatives. Post estimates that

production and imports of processed cheeses suitable for home cooking will grow in 2021. After a temporary decline of demand for mozzarella cheese at the beginning of pandemic, the demand for and production of mozzarella cheese quickly recovered. The Netherlands, Belgium, Germany, and France have expanded the production capacity for mozzarella during the past years.

According to MMO, cheddar, gouda, and edam prices have been relatively stable recently. On May 2, 2021 cheddar cheese was priced at €312 (\$378) per 100 kilograms. The May 2, 2021 cheddar price was three percent above the May 2020 price.

### **Trade**

Post estimates that 2021 cheese exports will be one percent higher than in 2020, because of higher production and continued global demand. 2021 export growth will be slower than in 2020 due to the economic downturn and supply chain difficulties caused by COVID-19. For several years the United States has been the EU's largest cheese export market. In 2020 Japan became the number one market for EU's cheese followed by the United States, Switzerland, and South Korea. In January 2021, EU cheese exports increased by 16 percent over the same month of 2020, due to higher shipments to Japan, Switzerland, and China. In January 2021, cheese shipments to the United States dropped by 47 percent from the same month of 2020, which may be related to continuing U.S. tariffs for dairy products applied in response to the World Trade Organization (WTO) case against EU aircraft subsidies (see policy section). Post estimates, that higher mozzarella production capacity in the Netherlands, France, Germany, and Belgium in recent years will also stimulate 2021 cheese exports.

Dutch cheese exports increased significantly in 2020, particularly to Japan, South Korea, and Morocco. Germany boosted its cheese production in 2020 due to strong demand from Japan, Ukraine, and North Africa (Algeria, Libya, and Morocco), while exports to the United States and South Africa declined. French 2020 cheese exports plummeted due to the global COVID-19 lockdowns and HRI closures. Post estimates that with ongoing lockdowns in most EU and many third markets until mid-2021, cheese exports in France will not increase in 2021. In 2020, 20 percent of Spanish cheese exports was sold to non-EU markets. The main non-EU destinations for Spanish cheese were the United States, Canada, and Australia. In 2020, Spain's cheese exports to the United States decreased by 17 percent due to the COVID-19 crisis and additional U.S. tariffs imposed in response to the WTO case against EU aircraft subsidies. Spanish dairy sources reported that Spanish and U.S. traders absorbed the cost of the additional tariffs, and that higher prices were not passed to final consumers in the United States. Spanish dairy industry welcomed the announcement of March 2021 regarding the four-month suspension on tariffs related to the WTO aircraft dispute, expecting a rebound of Spanish cheese exports in 2021 ([for more information see GAIN Report](#)).

### **Stocks**

In response to the dairy market disruptions caused by COVID-19, on May 4, 2020, the EU issued Commission Delegated Regulation (EU) 2020/591 authorizing a temporary exceptional PSA scheme for certain varieties and amounts of cheeses. The EC established a 100,000 MT limit for cheese, which was allocated based on the total volume of cheese produced in respective MS. PSA stocks of cheese accumulated in 2020 were totally sold out by December 2020.

**Table 3: Dairy, Butter (000 MT)**

Dairy, Butter Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	EU USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	2,375	2,375	2,425	2,410	2,450	2,415
Other Imports	16	16	4	4	5	5
Total Imports	16	16	4	4	5	5
Total Supply	2,391	2,391	2,429	2,414	2,455	2,420
Other Exports	218	217	260	247	260	250
Total Exports	218	217	260	247	260	250
Domestic Consumption	2,173	2,174	2,169	2,167	2,195	2,170
Total Use	2,391	2,391	2,429	2,414	2,455	2,420
Ending Stocks	0	0	0	0	0	0
Total Distribution	2,391	2,391	2,429	2,414	2,455	2,420

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

### Production

Post estimates that 2021 butter production will be only 0.1 percent above 2020's level. Continuing domestic and global demand keeps butter production high. Increased milk production in 2021 will be used by processors mainly for cheese manufacturing, so butter production growth will be limited by the availability of raw milk.

### Consumption

Post estimates that domestic EU butter consumption in 2021 will increase after 2020's decline caused by higher exports. According to the MMO, butter prices on May 2, 2021, averaged €408 (\$494) per 100 kilograms, 40 percent over May 2020. April 2021 average butter prices remained relatively stable. EU consumers and food manufacturers perceive butter as a more healthful and natural than margarine.

### Trade

EU 2020 butter exports were 14 percent higher than 2019 because of competitive prices on the world market. The United States, Saudi Arabia, and the United Arab Emirates were the EU's main butter export markets in 2020. 2020 EU butter exports to the United States were 11 percent higher than in 2019, despite the 25 percent retaliatory tariff imposed on the EU following the WTO's ruling against EU aircraft subsidies. Post estimates that butter exports in 2021 will increase by one percent over 2020. The butter export growth levels in 2021 will be limited by higher prices in March and April 2021, which made EU butter less competitive globally. The significant increase of butter prices in spring 2021 should be referred to their very low level in spring 2020 because of market disruptions caused by COVID-19. In January 2021, butter exports were 21 percent below January 2020, particularly to the United States and Saudi Arabia. However, lower exports to these markets in January 2021 were partly offset by higher shipments to China. Please note that the retaliatory 25 percent tariffs for the EU dairy products exported to the United States were suspended for four months in March 2021 (see policy section of the report).

### Stocks

In response to the dairy market disruptions caused by COVID-19, on May 4, 2020, the EC issued Commission Implementing Regulation (EU) 2020/597 making private storage for butter eligible for subsidies under the PSA scheme. As of December 2020, all butter PSA stocks were sold out. In 2021,



EC public intervention for butter opened for its usual period from March 1 to September 30. Because in March and April 2021 butter prices were above the intervention price, public stocks remain depleted.

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

Dairy, Milk, Nonfat Dry Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
EU						
Beginning Stocks	175	175	0	0	0	0
Production	1,760	1,760	1,810	1,820	1,830	1,830
Other Imports	6	6	3	2	3	2
Total Imports	6	6	3	2	3	2
Total Supply	1,941	1,941	1,813	1,822	1,833	1,832
Other Exports	962	962	835	826	845	850
Total Exports	962	962	835	826	845	850
Human Dom. Consumption	979	979	978	996	988	982
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	979	979	978	996	988	982
Total Use	1,941	1,941	1,813	1,822	1,833	1,832
Ending Stocks	0	0	0	0	0	0
Total Distribution	1,941	1,941	1,813	1,822	1,833	1,832

*Please note: The estimate of NFDM production in 2020 and 2021 is based on the data received from the analysts in the EU FAS Offices and the fat-protein balance of milk deliveries and output of dairy products.*

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

## Production

Post estimates that 2021 NFDM production will increase by 0.5 percent over 2020 due to continuing export demand. The pace of NFDM production increase in 2021 will be limited by availability of raw milk.

## Consumption

Post estimates that 2021 NFDM consumption will be 1.5 percent lower than 2020 because of higher exports. According to MMO, on May 2, 2021 NFDM prices were €251 (\$304) per 100 kilograms, 30 percent over May 2020. Within the last four weeks of April 2021, average NFDM prices have been relatively stable.

## Trade

Post estimates that 2021 NFDM exports will increase by three percent. Major markets for NFDM exports include China, Algeria, Indonesia, and the Philippines. In January 2021, NFDM exports declined by one percent from January of 2020, due to reduced shipments to Egypt and Nigeria. However, in the same period, shipments to China and Algeria increased by five and 53 percent, respectively.

## Stocks

In response to the dairy market disruptions caused by COVID-19, on May 4, 2020, the EC issued Commission Implementing Regulation (EU) 2020/598 authorizing NFDM as eligible under PSA. As of December 2020, all PSA stocks were sold out. In 2021, the EC NFDM public intervention opened for its usual period from March 1 to September 30. As NFDM market prices were beyond the intervention price, NFDM public stocks remain depleted.

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

Dairy, Dry Whole Milk Powder Market Year Begins	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	EU USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	740	740	760	750	770	755
Other Imports	5	5	1	1	1	1
Total Imports	5	5	1	1	1	1
Total Supply	745	745	761	751	771	756
Other Exports	298	298	340	330	340	320
Total Exports	298	298	340	330	340	320
Human Dom. Consumption	447	447	421	421	431	436
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	447	447	421	421	431	436
Total Use	745	745	761	751	771	756
Ending Stocks	0	0	0	0	0	0
Total Distribution	745	745	761	751	771	756

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

### Production

Post estimates that 2021 WDM production will grow by 0.7 percent relative to 2020, mainly due to growing consumption and export demand driven mainly by Oman and Algeria.

### Consumption

In 2020 WDM consumption decreased because of higher exports and reduced demand during the COVID-19 pandemic. Post estimates that in 2021, domestic WDM consumption will increase along with the growing demand from food processors. According to MMO, WDM prices on May 2, 2021 amounted to €313 (\$379) per 100 kg. Within last 12 months, WDM prices increased by 20 percent. WDM's prices remained relatively stagnant over the last four weeks.

### Trade

Post estimates that 2021 WDM exports will decrease from 2020 levels, mainly due to reduced demand from Nigeria. In January 2021, WDM exports decreased by three percent compared to January 2020.

### EU Policy

#### COVID-19 Update

When the COVID-19 struck Europe in March 2020, EU MS reacted with border closings and shuttering their HRI sectors. This created short-lived supply chain disruptions at production, trade, and retail level. EU milk processors adapted by converting surplus liquid milk into butter and NFD, with market prices across dairy commodities in free fall. Following through on requests for market support from EU dairy processors and MS, the EC published [PSA](#) measures for cheese, NFD, and butter on May 4, 2020. For cheese, a total of 100,000 MT of PSA was made available for MS between May 7 and June 30 for a maximum period of 180 days. In total 47,739 MT of cheese were offered for PSA, of which 43,669 MT were accepted. For butter, out of the 67,694 MT offered, 65,019 MT were accepted and for NFD, out of 20,138 MT offered, 18,300 MT were accepted. All contracts ended by the end of 2020 and product were released on the market.

## **New Common Agricultural Policy (CAP) and the Farm to Fork (F2F) and Biodiversity Strategies**

On June 1, 2018, the EC published its [proposals](#) for the next CAP, which should have started from 2021. From the start it was evident that, given the European elections in May 2019, it would be up to the newly elected institutions to finalize the agreement and extend the current CAP to bridge the gap. In December 2019, the new Von der Leyen Commission announced its [Green Deal](#) plan to make the EU climate neutral by 2050, to include the [F2F](#) and the [Biodiversity Strategies](#), which have been touted as roadmaps to enhance agricultural sustainability by 2030. The EU sees its Green Deal and accompanying strategies as its way of achieving its [Paris Climate Agreement](#) and other [United Nations Sustainable Development Goal](#) commitments.

These strategies are communications without hard legal basis. They aim to support the Green Deal's objectives by gradually changing the way agriculture operates. The strategies seek to reduce the use of chemical pesticides, fertilizers, and pollution and will be legally implemented through the new CAP. Other goals include an increase in conservation areas to 30 percent, a ten-percent environmental set-aside, and 25 percent of EU agricultural land be converted to organic farming. The co-legislators in the European Parliament (EP) and Council are currently in the 'Triologue' phase, finalizing the CAP agreement. Because of this delayed CAP, a transitional Regulation (Regulation 2020/2220) for the years 2021-2022 was adopted, allowing continued payments to farmers and other CAP beneficiaries and extending most of the CAP 2014-20 rules through 2022. During these years, funding will be drawn from the new Multi-annual Financial Framework 2021-2027 (MFF). The new MFF (\$1.3 trillion), in combination with an extraordinary COVID-19 recovery effort known as the Next Generation EU (\$907 billion), offer a \$2.2 trillion package to help the EU rebuild after the pandemic and support investment in the green and digital transitions. The new MFF proposal includes \$431 billion for the new CAP and fisheries policy, of which \$290 billion for direct payments, \$24 billion for market measures (together Pillar I), and \$94 billion for rural development (Pillar II) for the 2021-2027 period. MS will have to develop individual 'CAP Strategic Plans', setting out how they intend to meet the EU-wide objectives. The EC wants to strengthen the environmental aspect of CAP transforming the current "green" payments, which are tied to 30 percent of the direct payments, and introduced the concept of eco-schemes, an incentive payment scheme for care of the environment and climate. These green/climate elements might have a direct impact on the trade relations, as the EC is trying to set global standards.

For the dairy sector, it is expected that the voluntary coupled supports (VCS) from the previous CAP will be maintained to some level. With 19 MS having VCS programs, providing for \$1.1 billion in support claims covering 32 measures in 2020, [dairy](#) has the second largest VCS after beef. It offered support for 11.3 million cows. The largest programs ran in France, Poland, and Italy with 3.1 million, 2.5 million and 2.1 million cows, respectively.

## **Brexit Update**

The UK formally left the EU 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 an [Trade and Cooperation Agreement](#) (TCA) on its future relationship, which was only concluded on December 24, 2020, avoiding a no deal outcome (hard Brexit). The UK government published its post-Brexit [tariff schedule](#) that applies from January 1, 2021. The UK further published the full [list](#) and details of the Tariff Rate Quotas (TRQs) that it intends to operate as agreed with the EU on splitting EU quotas. The EC also published a specific [guide](#) on the use

of EU TRQs. Early trade problems occurred because of the Brexit impact on the [rules of origin](#), for which the EU also provides specific [guidance](#).

### **Veterinary Medicine Legislation**

The EU approved its new framework for [veterinary medicine regulation](#) on December 11, 2018. The final implementation date will be January 28, 2022. The EC is working on the [implementing legislation](#), including the list of antibiotics that will be exclusively preserved for human medicine and the modalities of use for permissible products. The approval procedure, which involves the EP and the Council has been slowed by the COVID-19 crisis. Consequently, it remains unclear what impact this regulation could have on imports of animal products. On March 26, 2021, the EC opened a public [consultation on the draft act on the criteria](#) for identifying antimicrobial medicines reserved for treating humans. The consultation run through April 23, 2021. The EC is further preparing the [draft act establishing the list of antimicrobial medicines reserved for treating humans](#) for the fourth quarter of 2021.

### **Four Months Suspension on Retaliatory Tariffs on EU Dairy Products**

The WTO authorized the United States to impose duties on \$7.5 billion worth of European goods after it decided that the EU failed to end subsidies for Airbus. The new tariffs took effect from October 18, 2019. Since then an additional 25 percent duty has been applied by the U.S. on a wide range of EU dairy products (mainly cheese and butter) from almost all MS. According to the list of products published by the Office of the U.S. Trade Representative, the retaliatory 25 percent tariff was imposed on cheese exports, including Swiss emmentaler, pecorino cheese, cheddar, blue-veined cheese, gruyere, romano reggiano cheese, parmesan, provolone, sbrinz, goya, colby, stilton, and processed cheese. Butter and butter substitute spreads, fats and oils derived from milk were also under 25 percent tariff. The tariffs applied varied between MS. In March 2021, the United States and the EU agreed to suspend all retaliatory tariffs on EU exports for a period of four months in order to allow both parties to concentrate on resolving the ongoing trade dispute.

### **Attachments:**

No Attachments