

Required Report: Required - Public Distribution

Date: November 08, 2021

Report Number: E42021-0078

Report Name: Dairy and Products Annual

Country: European Union

Post: Brussels USEU

Report Category: Dairy and Products

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Report Highlights:

In 2022, milk production in the European Union 27 Member States (EU27) is forecast to increase by 0.2 percent to 150.45 million metric tons (MMT) compared to 2021. As EU liquid milk consumption is flat, most additional milk goes to processing. Cheese production is the main use and EU27 cheese production is forecast to increase to 10.4 MMT, which is 50,000 MT more than in 2021 and 168,000 MT more than in 2020. Both EU domestic cheese consumption and exports continue to increase. EU butter production is forecast to recover to 2.14 MMT in 2022, after a decrease in 2021 compared to 2020, for lack of milk and at the expense of exports. Non-Fat Dry Milk production is also forecast to recover to 1.56 MMT in 2022, after a decrease in 2021 compared to 2020, resulting in lower exports. EU27 Whole Dry Milk production is most affected by stagnating milk production, with significant production cuts in both 2021 and 2022 and lower exports.

Notes to The Reader:

The dairy products covered in this report are:

- Fluid Milk, which includes milk produced from cows and other milk production (mainly 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.

List of Abbreviations Used:

CAP: Common Agricultural Policy

EU27: 27 remaining EU member states after the departure of the United Kingdom

EP: European Parliament

EU: European Union

F2F: Farm to Fork Strategy

GI: Geographical Indicator

MS: Member State of the European Union

PS&D: Production, Supply, and Distribution

Acknowledgements:

The following numbers resulted from analysis and input by FAS offices across the EU and are a consolidation of PS&D charts from 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

Golya Gellert from FAS Budapest covering Hungary and Slovenia

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

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Executive Summary:

Note: Effective January 1, 2021, the United Kingdom (UK) is separated from the European Union (EU), including trade between both entities. In this report if not indicated otherwise EU means the current EU27 without the UK. However, Production, Supply, and Distribution (PSD) tables still include numbers for EU27+UK only in the columns "USDA official." The column "New Post" in the PSD tables only includes EU27 (without the UK). Please note that therefore "USDA official" and "New Post" cannot be compared due to different data sets.

After the EU milk production quota system ended on April 1, 2015, EU27+UK dairy production increased from 154.5 million metric tons (MMT) in 2015 to 162.2 MMT in 2020, with the largest relative milk production increases in Ireland, Bulgaria, Romania, and the Czech Republic. However, this growing trend is stagnating as environmental restrictions are impacting milk production and leading to a decreasing supply in many Northwestern European Member States (MS). Some EU dairy industry experts believe that EU milk production may decline in 2022 and 2023, when the new CAP and the accompanying F2F conditionalities require EU dairy farmers to adjust their production systems. Meanwhile, Post forecasts the EU27 milk production for 2022 to increase slightly by 0.2 percent to 150.45 MMT of total milk collected. This is a similar increase as in 2021, despite a 0.1 reduction after 7-months of deliveries compared to 2020. 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. As drinking milk consumption in the EU is rather stable, despite some surge in 2020 when COVID-19 kept people home, most of the additional milk goes to dairy processing.

EU dairy processing has long been driven by cheese production, and this trend is expected to continue as several new cheese plants have emerged in recent years, mainly for the production of industrial mozzarella for the food processing industry. The COVID-19 pandemic has put this business model under pressure as consumers have veered from eating out to home cooking as telework greatly increased. At the onset of the pandemic, dairy processors had to reformulate products for ready-to-eat meal producers, as well as adapt their packaging and logistics to retail customers. The resulting, albeit short-termed, turmoil in the market led the EC to set up a [Private Storage Aid](#) (PSA) scheme for cheese, butter, and NFD. Nevertheless, EU27 cheese production for 2022 is forecast to increase to 10.4 MMT, an increase of 50,000 MT over 2021 and almost 170,000 MT higher than production in 2020. EU cheese consumption continues to increase year after year and this is expected to continue through 2022, albeit at a slowing pace. However, the consumer appetite for 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 is affecting EU27 cheese exports negatively, especially in 2021, as increasing prices, together with a strong Euro, is eroding the competitiveness of EU cheeses on international markets. However, in spite of the halt in tourism, which drives consumption of specialty cheeses, this does not pertain to GI cheeses, which continue to have strong exports.

Contrary to cheese, the EU butter market is mature, with the market growing more slowly than the demographic expansion. Also, the ageing population is looking for healthier eating patterns. After a 1

percent decrease in 2021 compared to 2020, EU27 butter production is forecast to slightly recover to 2.14 MMT in 2022. EU27 domestic consumption decreased at the onset of the COVID-19 crisis, but is expected to expand again in 2021 and 2022. EU27 butter trade for 2022 is forecast to slightly recover again after an expected 20 percent decrease in 2021 compared to a bumper 2020 because of increased EU butter prices in response to the decrease in production.

Non-Fat Dry Milk (NFDM) or Skimmed Milk Powder (SMP) production in the EU is the residual product from EU butter and cream production. Consequently, its production more or less follows butter production. Therefore, EU27 2022 NFDM production is forecast to slightly recover again after a 3 percent dip in 2021, compared to 2020. EU27 NFDM production in 2020 was high after the large EU NFDM intervention stocks, built in 2015 and 2016 in response to the dairy crisis after the end of the EU production quota system, were sold out in 2019. More than half of EU NFDM production is exported. The proximity of Northern Africa and the Middle East make countries like Algeria, Oman, and Nigeria top export destinations for EU NFDM. Domestic consumption is led by feed consumption for veal production, but commercial stocks may conceal actual consumption. While the PSA scheme was particularly set up to support NFDM prices in May 2020, after prices in Lithuania and Germany decreased to the EU intervention price, triggering the intervention buying program, very little NFDM was contracted for intervention as prices rapidly veered up again.

The EU Whole Milk Powder (WMP) market is limited to a stable food industry consumption and production is mainly driven by WMP export demand offering a better return over the butter + NFDM complex. The EU has a hard time competing for WMP exports with New Zealand. For 2022, EU27 WMP production is forecast to further decrease after it already decreased by 20 percent in 2021, compared to 2020. While EU domestic consumption in 2022 will also decrease, exports are forecast to decrease to a level to supply only traditional customers in the EU neighborhood.

From a policy perspective, Brexit, COVID-19, and the U.S. Airbus tariffs have been important factors affecting European dairy markets, together with consecutive droughts affecting milk production. For the near future, the new Common Agricultural Policy (CAP) and the Farm to Fork Strategy (F2F), together with the EU strengthening its environmental and climate mitigation policies, will dominate the EU dairy sectors' concerns. Impact studies forecast these policy initiatives to drive EU dairy production down. Already, the major industry players are adapting their corporate plans and strategies towards their most profitable and strategic interests.

Fluid Milk Production, Supply, and Distribution:

Country:	EU27					
Commodity:	Dairy, Milk (1000 Head / 1000 MT)					
	2020		2021		2022	
	USDA Official (EU28)	New EU27	USDA Official (EU28)	New EU27	USDA Official (EU28)	New EU27
Calendar Year Beginning	01/2020		01/2021		01/2022	
Cows In Milk	22,633	20,766	22,400	20,565	0	20,400
Cows Milk Deliveries to Dairies	157,500	145,415	158,500	145,700	0	146,000
Other Milk Production	4,730	4,260	4,750	4,350	0	4,450
Total Milk Production	162,230	149,675	163,250	150,050	0	150,450
Extra EU27 Imports	13	718	13	660	0	630
TOTAL SUPPLY	162,243	150,393	163,263	150,710	0	151,080
Extra EU27 Exports	1,061	1,477	1,270	1,560	0	1,560
Fluid Use Dom. Consum.	33,500	23,912	33,500	23,900	0	23,950
Factory Use Consum.	127,682	125,004	128,493	125,250	0	125,570
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	161,182	148,916	161,993	149,150	0	149,520
TOTAL DISTRIBUTION	162,243	150,393	163,263	150,710	0	151,080

Production:

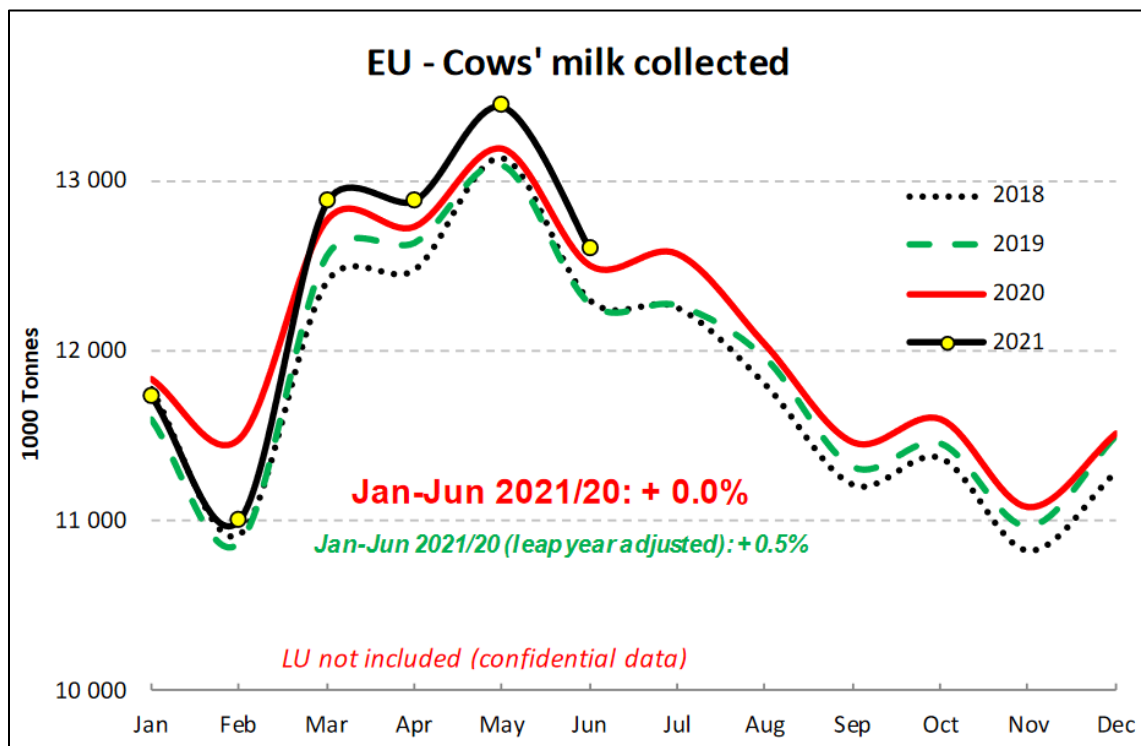
In 2022, milk production in the EU27 is forecast to barely increase as production expansion is more and more hampered by environmental and animal welfare constraints. This is expected to lead to a plateau in EU milk production when the new CAP kicks off in 2023 under F2F and the EU's Green Deal in order to reach climate neutrality by 2050. Sector experts believe that a wave of dairy farm endings can be expected after 2022 under pressure from high production costs and as small and older dairy farmers leave the business instead of making the expected required investments to meet the increased F2F standards. Dairy cow numbers have been decreasing for years as small farms stopped, but expanding farms kept production increasing through improved productivity, particularly in eastern EU MS, that acceded the EU in 2004 and after. The remaining farmers renewed their herds with improved genetics, but several MS have lost the race with a faltering dairy industry as they could not keep up the competition with Western European countries, like Germany and the Netherlands. An exception to this trend is Bulgaria, where after years of declines, investments in genetics and farm improvements began to pay dividends and cow inventories are growing again. 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 are bringing the dairying intensification process to a halt. The 1992 Nitrate Directive has hampered development in most of the old MS, from Denmark and Ireland over France and Germany to the north of Italy. More recently, limits to phosphate emissions increased the pressure. In the past year, governments in [the Netherlands](#) 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. In Germany, three consecutive years of drought, resulting in higher production costs, are leading to a decrease in production as many smaller farms quit the business. In addition, higher participation in animal welfare labeling programs that require more space per animal result in fewer animals in the existing facilities. Good customer demand for goat cheeses and other small ruminant products continue to drive non-cow milk production up, as the financial return is higher than for cow milk production.

After seven months in 2021, EU milk production has declined by 0.1 percent compared to 2020. However, good fodder supplies and high export demand are expected to eventually push production above last year's production number, which was impacted by drought and excessive heat. Farm gate milk prices are higher in about all MS. While MS around the North Sea had cool and wet weather, driving grass growth, MS to the south and the east of the EU are facing high production costs because of high feed prices. COVID-19 is not hampering dairy processors as vaccination campaigns are successful in keeping COVID-19 infections under control and processing and logistics have adapted to the new consumption and distribution reality. France and Ireland have the highest milk production increase with more than two percent, while Germany and Hungary have the largest declines in production.

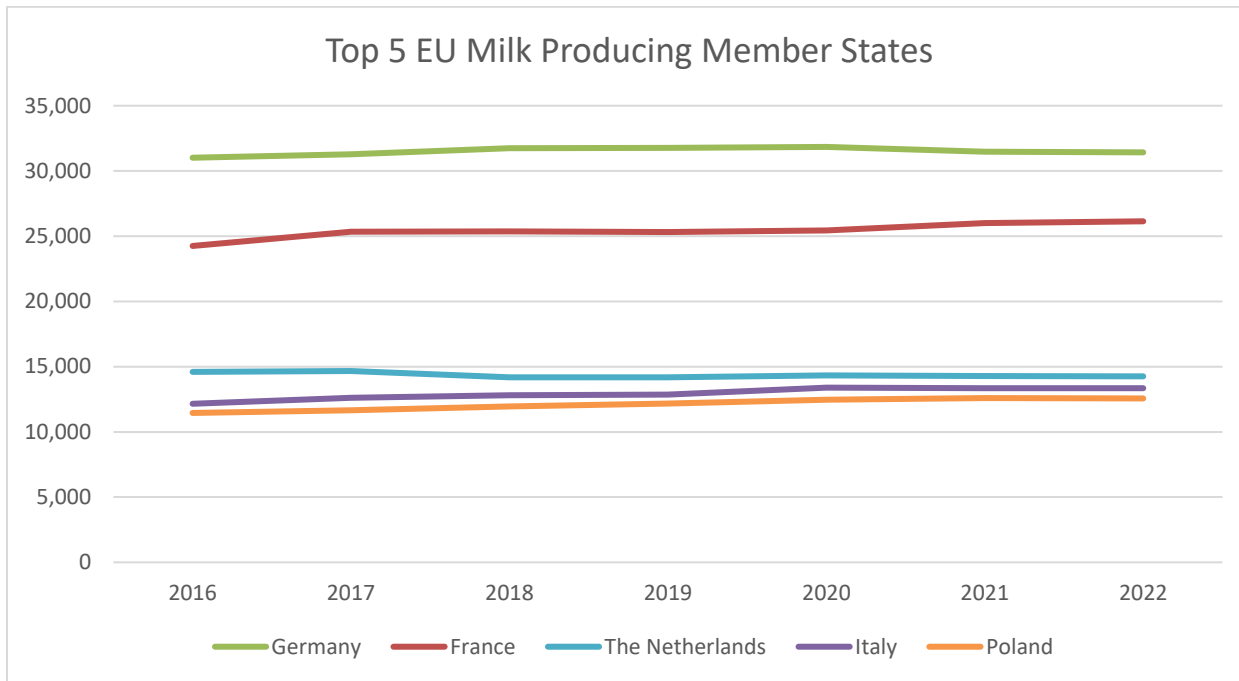
In 2020, milk production in the EU was still increasing 1.6 percent compared to 2019, with the biggest increases in Belgium, Ireland, Italy, Poland, and Spain.

Graph 1: EU Cow Milk Collection



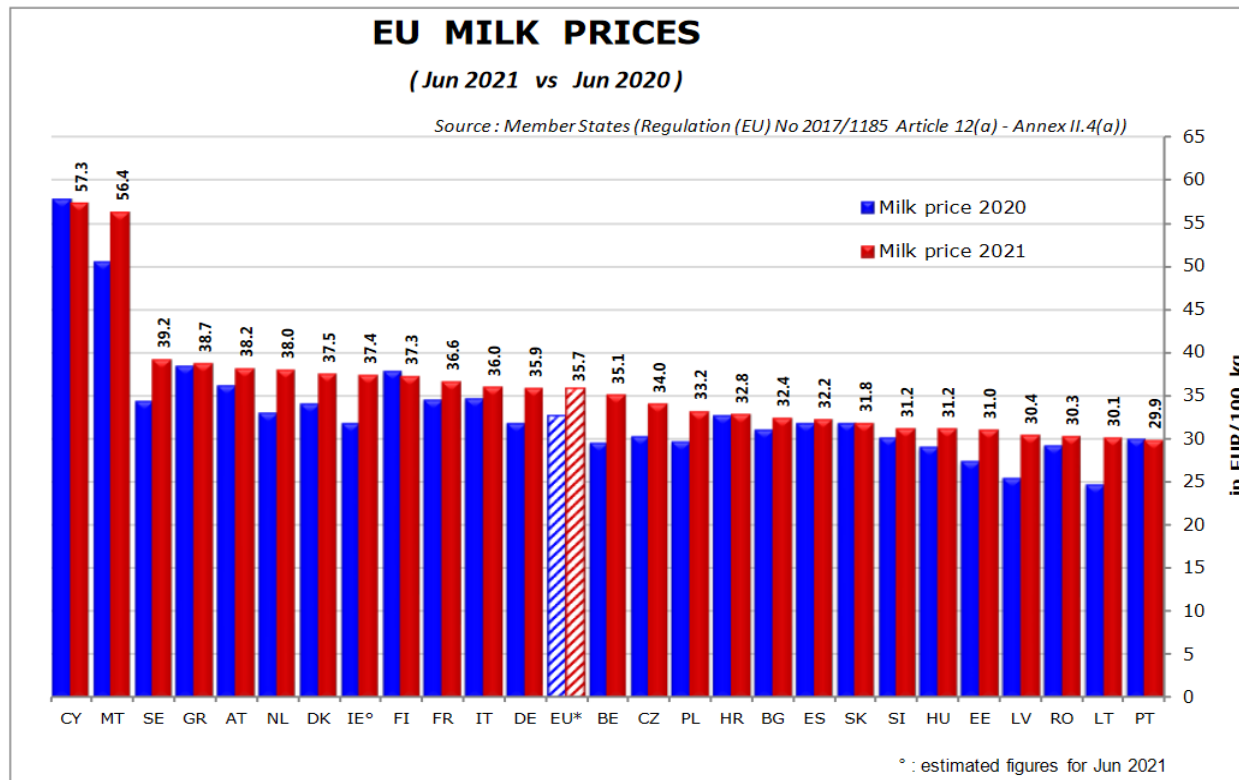
Source: European Commission

Graph 2: Top EU Milk Producing Member States (in 1,000 MT)



Source: FAS EU Posts

Graph 3: European Milk Prices at Farm Gate



Source: European Commission

Trade:

Most trade of fluid milk occurs within the EU as the major dairy companies source and process milk across MS borders. Extra-EU import is limited to Ireland that processes most Northern Irish milk, and neighboring countries such as Switzerland, Norway, and the Balkan countries. Imports from other countries face issues with perishableness and EU sanitary requirements. 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.

Domestic Consumption:

Domestic consumption of drinking milk received a boost from the COVID-19 crisis in 2020 and is 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. Continued consumption at this rate in 2022 may depend on the COVID-19 situation.

Factory Use Consumption:

As a result of the milk production slowdown, the increase in EU27 factory use consumption is also forecast to significantly slowdown in 2022. This will force dairy processors to carefully assess for which products they will use the available milk.

Cheese Production, Supply, and Distribution:

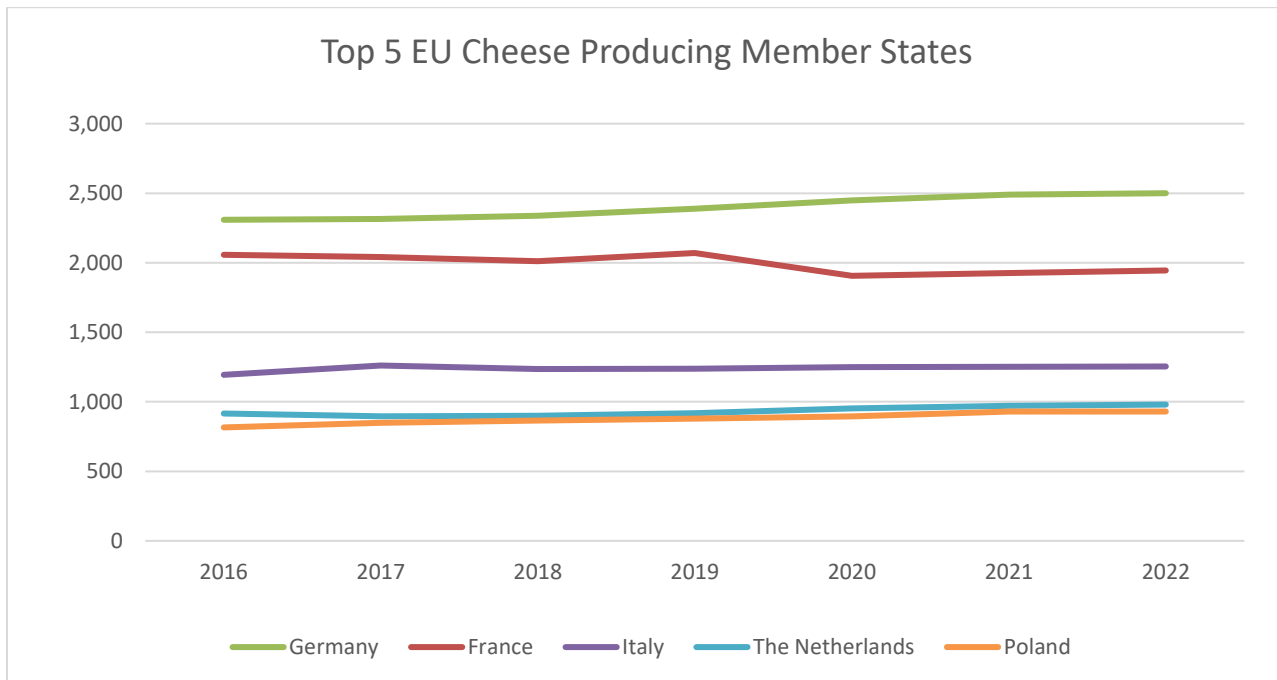
Country:	EU27					
Commodity:	Dairy, Cheese (1000 MT)					
	2020		2021		2022	
	USDA Official (EU28)	New EU27	USDA Official (EU28)	New EU27	USDA Official (EU28)	New EU27
Calendar Year Beginning	01/2020		01/2021		01/2022	
Beginning Stocks	0	0	0	0	0	0
Production	10,340	10,232	10,600	10,350	0	10,400
Extra EU27 Imports	63	223	70	185	0	190
TOTAL SUPPLY	10,403	10,455	10,670	10,535	0	10,590
Extra EU27 Exports	943	1,400	1,000	1,400	0	1,420
Domestic Consumption	9,460	9,055	9,670	9,135	0	9,170
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	9,460	9,055	9,670	9,135	0	9,170
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	10,403	10,455	10,670	10,535	0	10,590

Production:

Cheese continues to be the bedrock of the European dairy processing industry. Several new cheese processing plants have emerged in the Netherlands, Belgium, Germany, and France, mostly for the production of 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 slow down to 0.5 percent in 2022. In 2021, the increase in cheese production is estimated to recover by 1 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. At the demand of the EU dairy industry, 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 have heavily suffered from the COVID-19 crisis. This was particularly true in France, Greece, Italy, Spain, and Portugal, which feature the majority of the GI cheeses and heavily depend on tourism.

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



Source: FAS EU Posts

Trade:

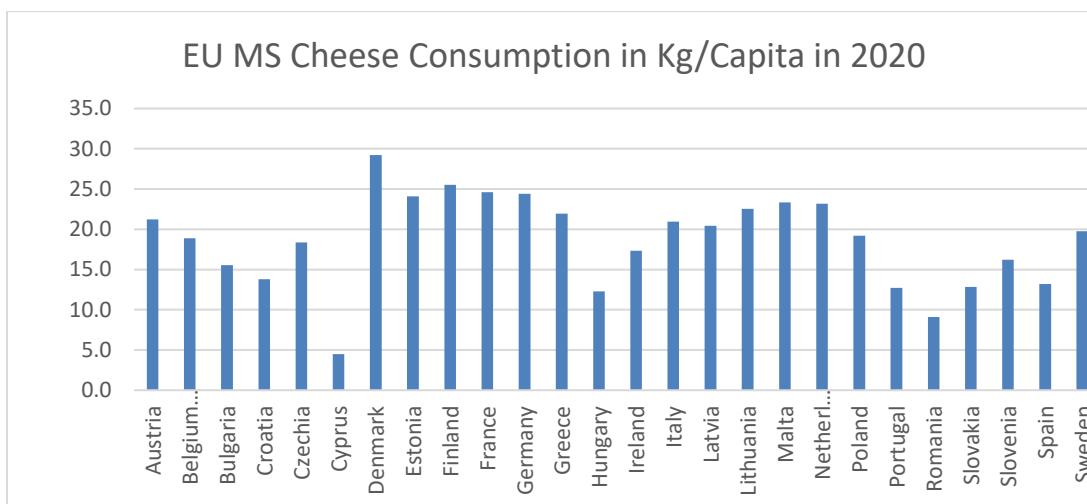
Cheese imports into the EU are limited and mainly originate from Switzerland and the UK. Imports from the UK are decreasing in 2021 as UK exporters face customs checks after Brexit.

EU27 cheese exports continue to increase from year to year by 1-3 percent. However, the slowing increase in cheese production is affecting EU27 cheese exports negatively, especially in 2021, as increasing prices, together with a strong Euro, is eroding the competitiveness of EU cheeses on international markets. This is with the exception of GI cheeses, who continue their marketing success with increasing exports, as highlighted in the EU's latest [Agri-food trade report](#) for 2020. The UK is the first export destination and cheese exports to the UK are almost back to pre-Brexit levels after a short adaptation period to the new import requirements. Exports to Japan continue to grow and have overtaken exports to the United States, with exports to Ukraine and South Korea also increasing. Exports to the United States have suffered from the recent trade spat in the aircraft-related case, with cheese exports from Italy, Germany, and Spain suffering the most. 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 remained robust, but earnings decreased as more expensive cheeses were consumed in the HRI sector. The popularity and demand for cheese from non-cow origin also continues to grow. EU27 cheese consumption continues to increase year by year at 0.6-0.8 percent. 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: Derived from calculated FAS EU Post consumption data and Eurostat population data for 2020.

Butter Production, Supply, and Distribution:

Country:	EU27					
Commodity:	Dairy, Butter (1000 MT)					
	2020		2021		2022	
	USDA Official (EU28)	New EU27	USDA Official (EU28)	New EU27	USDA Official (EU28)	New EU27
Calendar Year Beginning	01/2020		01/2021		01/2022	
Beginning Stocks	0	0	0	0	0	0
Production	2,410	2,153	2,390	2,134	0	2,139
Extra EU27 Imports	4	53	12	45	0	40
TOTAL SUPPLY	2,414	2,206	2,402	2,179	0	2,179
Extra EU27 Exports	247	316	200	235	0	240
Domestic Consumption	2,167	1,890	2,202	1,944	0	1,939
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	2,167	1,890	2,202	1,944	0	1,939
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2,414	2,206	2,402	2,179	0	2,179

Production:

EU27 butter production in 2022 is forecast to recover slightly in response to increasing export demand and milk production. The highest increases in butter production are forecast in Ireland and Poland, where milk production is still expanding. Butter production is anticipated to decrease in Denmark, Germany, and the Netherlands, all MS where milk production is under pressure from environmental restrictions. EU27 butter production is decreasing in 2021 compared to 2020, as milk is directed to cheese instead of butter and skimmed milk powder (SMP). This is a reversal from the past, in which surplus milk usually was used for butter and SMP for export. 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.

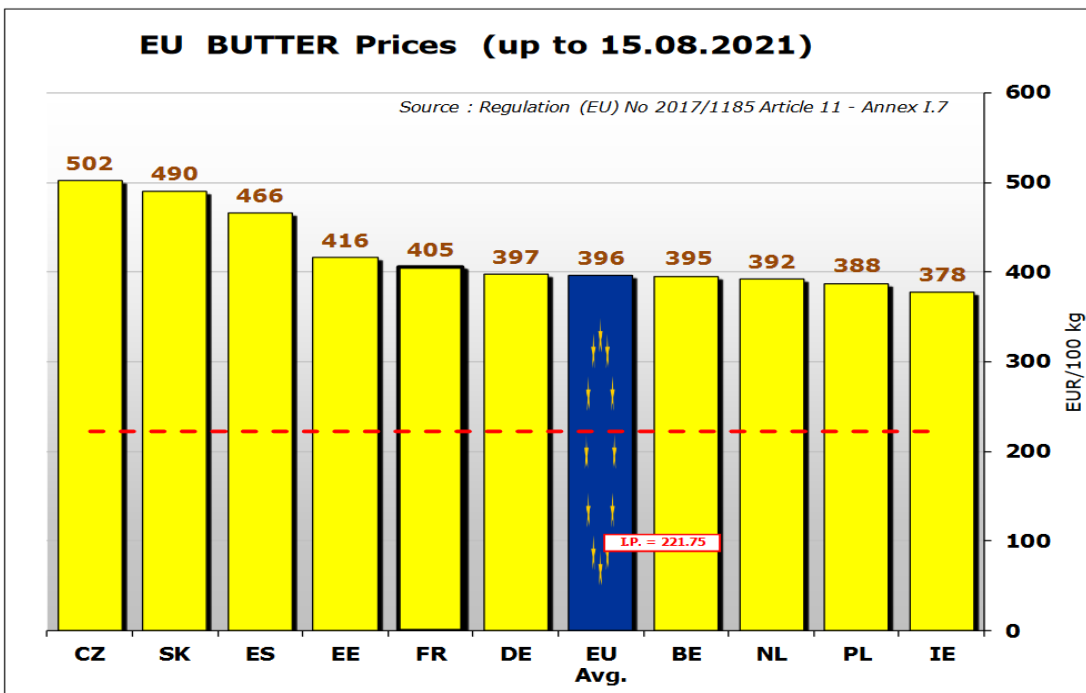
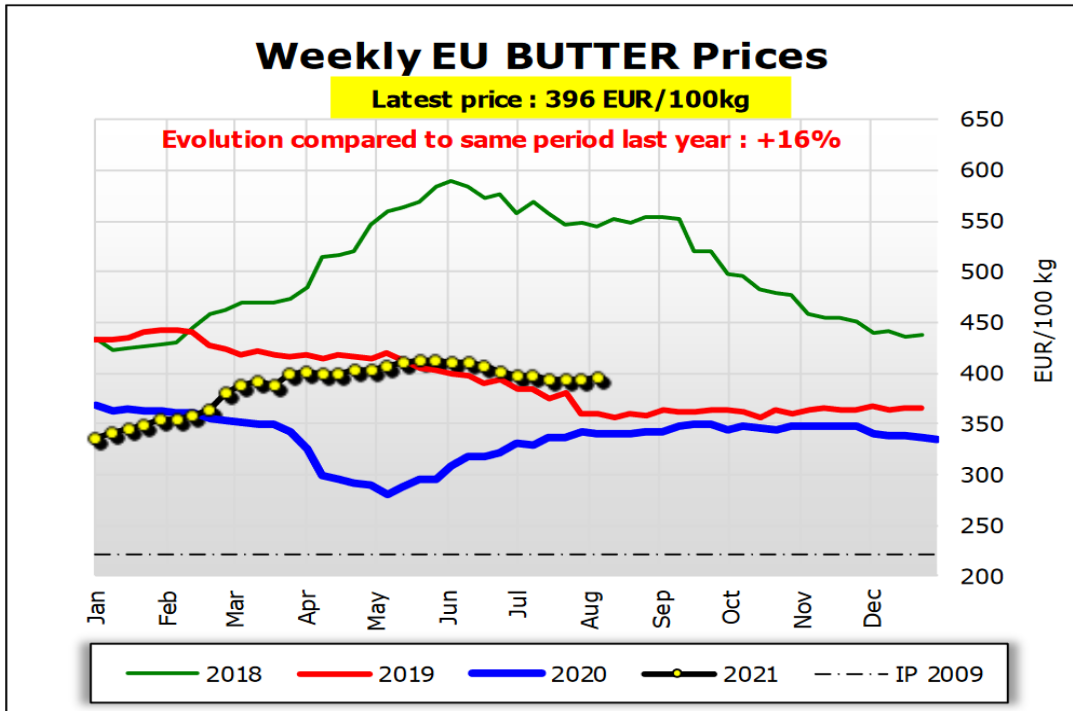
Trade:

EU27 butter imports are limited and rarely exceed the GATT WTO TRQ for butter from New Zealand. Butter imports from the UK are forecast to decline as a result of Brexit.

EU27 butter exports for 2022 are forecast to slightly recover, after decreasing by a quarter in 2021 compared to 2019. The decrease in production led EU butter prices to increase, making EU butter uncompetitive on the world market. Butter exports to the UK in 2021 show the highest decrease in volume following Brexit, but butter exports to Saudi Arabia, Morocco, Egypt, Turkey, and Ukraine all

decreased by more than 50 percent in the first half of the year. In contrast, exports to South Korea and China have almost doubled 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 5 and 6: EU Butter Price Evolution and Butter Prices in MS

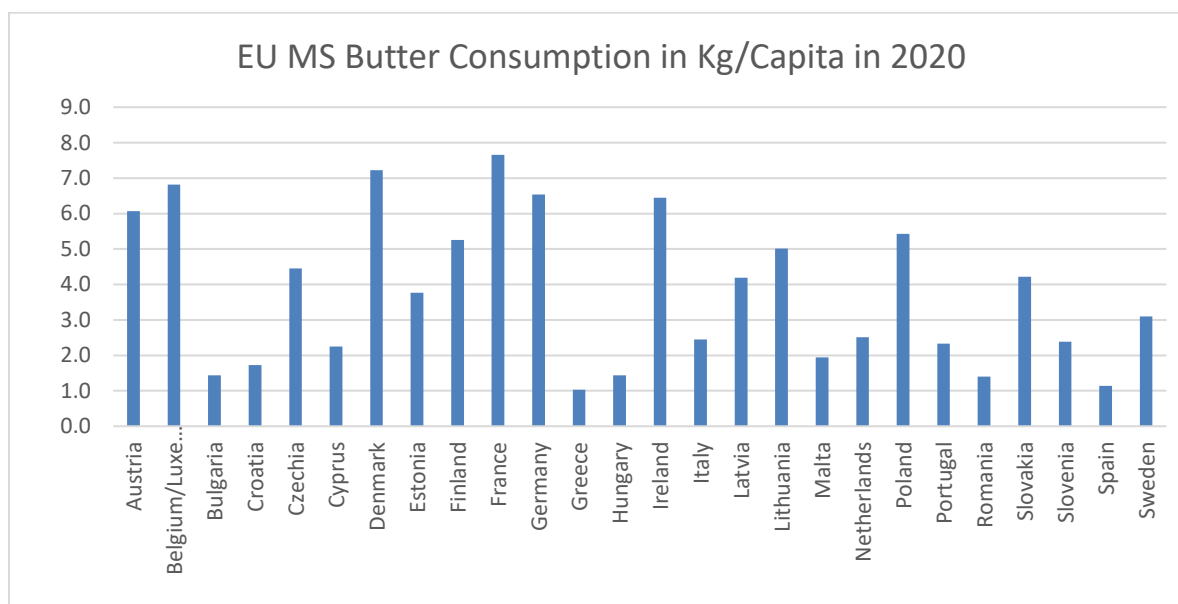


Source: European Commission

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 as consumers pursue healthier diets. In 2020, France had the highest per capita butter consumption, followed by Denmark, Belgium/Luxembourg, and Germany. MS around the Mediterranean Sea typically consume less butter as cooking is mostly done using olive oil.

Graph 7: EU MS Butter Consumption per Capita



Source: Derived from calculated FAS EU Post consumption data and Eurostat population data for 2020.

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

Country:	EU27					
Commodity:	Non Fat Dried Milk (1000 MT)					
	2020		2021		2022	
	USDA Official (EU28)	New EU27	USDA Official (EU28)	New EU27	USDA Official (EU28)	New EU27
Calendar Year Beginning	01/2020		01/2021		01/2022	
Beginning Stocks	0	0	0	0	0	0
Production	1,820	1,590	1,760	1,550	0	1,560
Intra EU27 Imports	2	39	4	18	0	15
TOTAL SUPPLY	1,822	1,629	1,764	1,568	0	1,575
Extra EU27 Exports	829	831	810	810	0	825
Domestic Consumption	993	798	954	758	0	750
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	993	798	954	758	0	750
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1,822	1,629	1,764	1,568	0	1,575

Production:

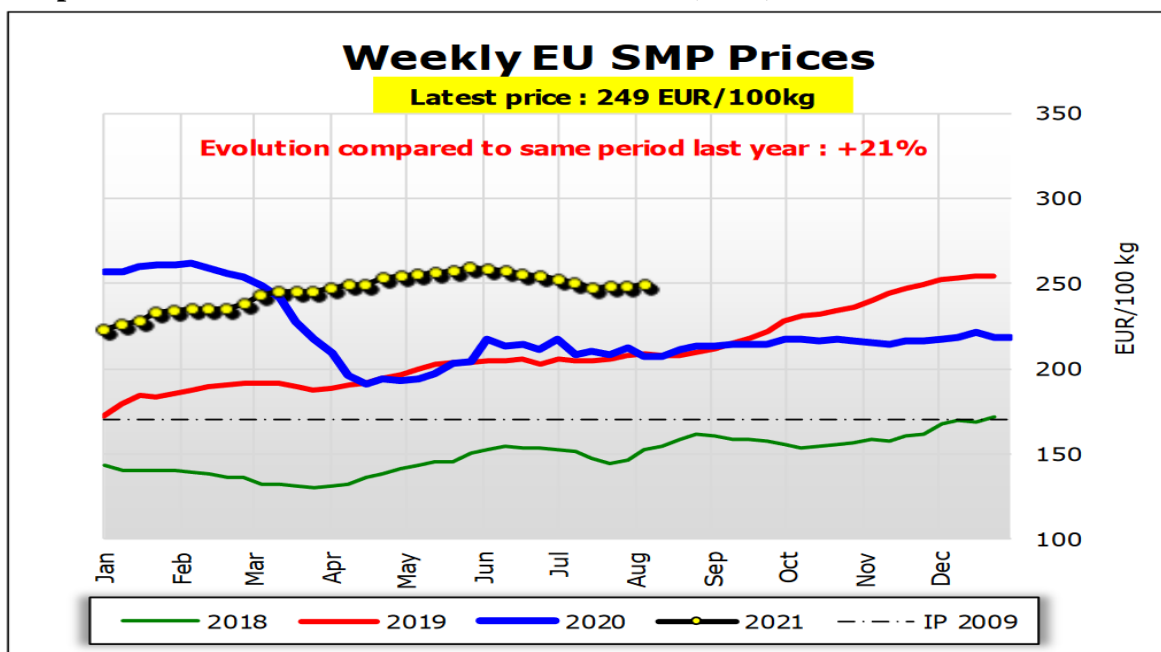
NFDM production in the EU27 is closely tied to butter production. Weather during the grass season and cost of feed ratios influence the milkfat to protein content of milk. NFDM production in 2022 is forecast to slightly recover from a dip in production in 2021, compared to 2020, in line with butter production. 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 very little NFDM, and imports from the UK are also declining as a result 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. China and Algeria are the leading buyers, followed by Indonesia, Egypt, and Nigeria. More than half of EU NFDM production is exported. EU NMPF exports in 2022 are forecast to mostly recover after a decrease in 2021 compared to 2020. The main NFDM exporting EU MS are Germany, France, Belgium, Ireland, the Netherlands, and Poland.

Graph 8: Evolution of EU Skimmed Milk Powder (SMP) Prices



Source: European Commission

Domestic Consumption:

Domestic consumption of NFDMD in the EU used to be led by blending in feed as it was supported through the CAP under the EU milk production quota regime, but this support disappeared with the quota regime in 2015. Since then, NFDMD use in feed is mainly for calf feed for veal production. The EU food industry is the other main outlet on the domestic market.

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

Country:	EU27					
Commodity:	Dairy, Whole Milk Powder (1000 MT)					
	2020		2021		2022	
	USDA Official (EU28)	New EU27	USDA Official (EU28)	New EU27	USDA Official (EU28)	New EU27
Calendar Year Beginning	01/2020		01/2021		01/2022	
Beginning Stocks	0	0	0	0	0	0
Production	750	708	760	630	0	590
Extra EU27 Imports	1	28	2	7	0	5
TOTAL SUPPLY	751	736	762	637	0	595
Extra EU27 Exports	332	345	330	310	0	280
Domestic Consumption	419	391	432	327	0	315
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	419	391	432	327	0	315
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	751	736	762	637	0	595

Production:

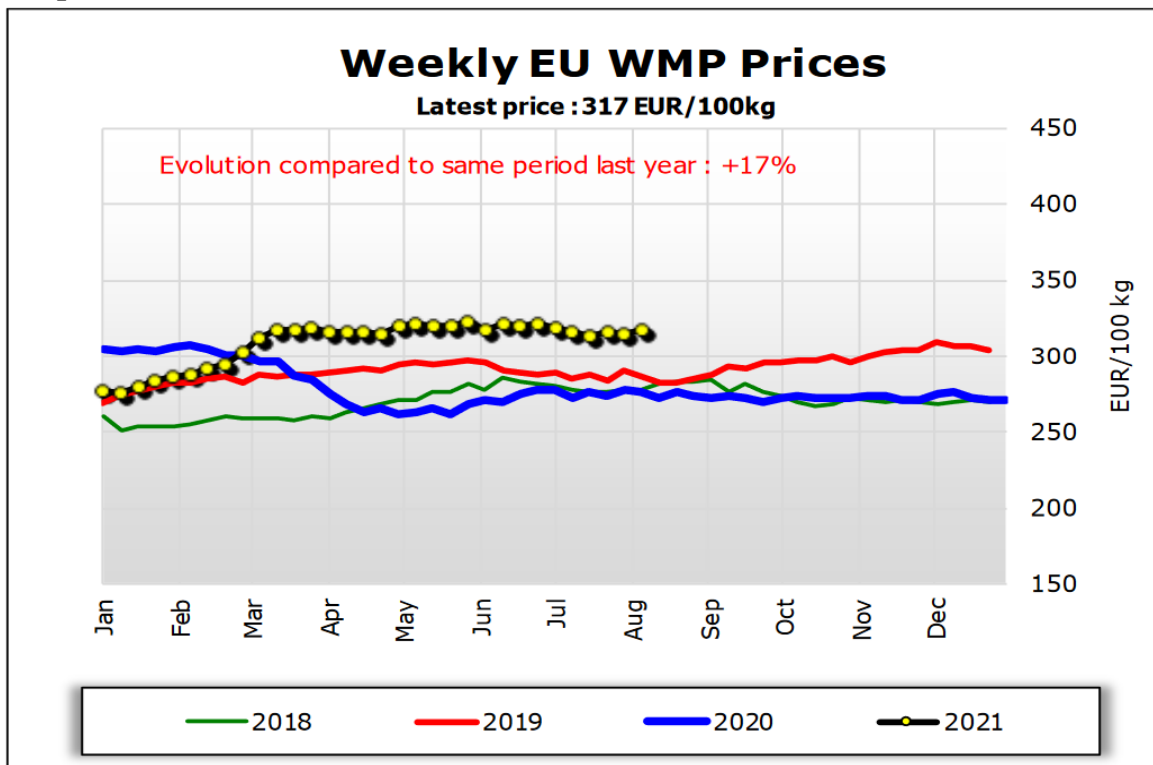
EU27 WMP production is forecast to continue to decrease in 2022 as a result of limited milk supplies. WMP usually generates the lowest processing margins and EU processors prioritize cheese production, which offers the most stable returns.

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 in the Chinese market. EU WMP exports are mainly to North Africa and the Middle East, including Oman, Algeria, and Nigeria. WMP exports to the UK are also declining as a result of Brexit.

Graph 9: Evolution of EU Whole Milk Powder (WMP) Prices



Source: European Commission

Domestic Consumption:

EU27 WMP domestic consumption is mainly in the food industry, which is rather stable. WMP consumption is showing a decline in 2021 and 2022 as a result of the decrease in production and the COVID-19 crisis, which decreased consumption in the HRI sector of WMP containing products.

EU Policy Update:

COVID-19 Update

When the COVID-19 pandemic struck Europe in March 2020, EU MS reacted with border closings and shutting down their HRI sectors. This created widespread supply chain disruptions at the production, trade, and retail level. EU milk processors adapted by converting surplus liquid milk into butter and NFDM, with market prices across dairy commodities in free fall. Following through on requests for market support, foreseen in the CAP, from EU dairy processors and MS, the European Commission published private storage (PSA) measures for cheese, skimmed milk powder, and butter on May 4, 2020 (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2020:140:TOC>).

For cheese, a total of 100,000 MT of PSA was made available for MS between May 7, 2020 and June 30, 2020 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 SMP, out of 20,138 MT offered, 18,300 MT were accepted. All contracts ended by the end of 2020 and products were released on the market. As EU dairy prices have increased, no further specific COVID-19 aid was provided for the dairy sector.

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

Uncertainty about [Brexit](#) and the EU's future budgetary situation prevented the previous Juncker Commission from properly preparing the next Common Agricultural Policy (CAP), which should have started from 2021 as the current CAP expired at the end of 2020. The EC published its new [CAP proposals](#) on June 1, 2018, but it was evident from the start that, given the European elections in May 2019, it would be up to the incoming institutions to finalize the agreement and that an extension of the current CAP would be needed to bridge the gap. As Brexit became a reality at the end of January 2020, the new Von der Leyen Commission prepared a new multiannual financial framework 2021-2027 (MFF) proposal (€1074.3 billion), in combination with an extraordinary recovery effort 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 May 20, 2020, the European Commission announced both the [Farm to Fork](#) (F2F) Strategy and the [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 include 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.

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. The Council and the European Parliament (EP) have requested that comprehensive impact assessments must be available before legislative initiatives are proposed. Given the level of ambition in the strategies that the EC wants to implement through the new CAP, a two-year transition has been agreed. Because the Council only agreed on a [CAP deal](#) on June 28, 2021, trilogue negotiations between Council, EP, and EC on the programs for the new CAP are now expected to be finalized in October or November of 2021. MS are requested to submit so-called Strategic Plans by the end of 2021, incorporating MS specific goals and initiatives. Because the EU livestock sector is specifically targeted as critical to reach the Green House Gas (GHG) emission reductions as part of the new strategies, the EC commissioned an external [Study on the Future of EU Livestock](#) that was published in October 2020.

Brexit Update

The United Kingdom (UK) formally left the European Union on January 31, 2020 and the 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 Parliament ratified the TCA in a special assembly on December 30, 2020, allowing the provisional implementation of the agreement on January 1, 2021, while the European Parliament is expected to approve the TCA in the months to come.

Having avoided a Brexit departure under WTO trade rules, with full border controls, including on the Irish island, the late agreement left customs officials and businesses unprepared. From January 1, 2021 this immediately led to border problems and stuck shipments, especially on the UK side as EU ports and customs instantly enforced the new customs document requirements according to EU [guidelines](#). The UK negotiated a grace period till July 1, 2021 to get its customs services up to speed as well, but in the meantime has unilaterally delayed full controls on EU imports till January 1, 2022. On September 14, 2021, the [UK prolonged again their import requirements schedule](#). Full customs declarations and controls will be introduced on January 1, 2022 as previously announced, although safety and security declarations, as well as export health certificates, including for dairy products, will now not be required until July 1, 2022. In the meantime, supply problems in the UK persist, while UK exporters of fresh food products to the EU continent saw shipments perish as they were unable to provide missing documentation on time. On the EU side, many businesses, especially online services, stopped taking UK orders because of the added administrative and customs fees.

With regards to the impact of Brexit on EU Tariff Rate Quotas (TRQ), the EC published a specific [guide](#), as well as for [import licenses](#). Many 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 ([Regulation \(EU\) 2019/6](#)) on December 11, 2018. The final implementation date will be January 28, 2022. Drafts for the [implementing legislation](#), including the list of antibiotics that will be exclusively preserved for human medicine and the modalities of use for permissible products, are going through the approval procedure. On July 13, 2021, the EP ENVI Committee adopted a motion against the draft delegated act setting the criteria for putting products on the restricted list, but on September 15, 2021, the EP plenary voted down the motion, putting the implementation process back on track. In the same plenary meeting, the EP voted an amendment to the EU import controls regulation referring to Article 118 of the veterinary medicine regulation that explicitly requires imported products of animal origin to adhere to the future EU limitations on the use of antibiotics in animal farming. The list of reserved antibiotics for human medicine is expected before the end of the year, just in time for the implementation date of the veterinary medicine regulation.

Related reports* from FAS Posts in the European Union:

Country	Title	Date
European Union	EU Green Deal - July 2021 Update	07/26/2021
Slovenia	Slovenian Agricultural Priorities for EU Presidency	06/29/2021
Denmark	Government Introduces Climate Action Plan for Agriculture	06/20/2021
European Union	Dairy and Products Semi-annual	05/15/2021

*The GAIN Reports can be downloaded from the following FAS website <http://gain.fas.usda.gov/Pages/Default.aspx>.

Attachments: [Dairy, Milk, Fluid EU Annual2021.pdf](#)

[Dairy, Cheese EU Annual2021.pdf](#)

[Dairy, Butter EU Annual2021.pdf](#)

[Dairy, Milk, NonFat Dry EU Annual2021.pdf](#)

[Dairy, Dry Whole Milk Powder EU Annual2021.pdf](#)