

Required Report: Required - Public Distribution

Date: October 21, 2022

Report Number: E42022-0066

Report Name: Dairy and Products Annual

Country: European Union

Post: Brussels USEU

Report Category: Dairy and Products

Prepared By: Yvan Polet

Approved By: Elisa Fertig

Report Highlights:

After an EU-wide drought in 2022, the EU27 dairy herd is forecast to drop below 20 million head in 2023. This will lead to a continued decrease in milk production and deliveries for factory use despite higher farm gate milk prices. As EU dairy processors continue to favor cheese production, the decrease in milk deliveries will be at the expense of butter and non-fat dry milk (NFDN), and, to a lower extent, lower whole milk powder (WMP) production, despite high world market prices. EU27 domestic consumption of cheese is forecast to return to its increasing trend in 2023, after a short dip in 2022, while butter consumption is forecast to decrease in response to the high prices. Domestic consumption of NFDN and WMP is rather stable in the EU, while EU27 dairy powder exports are forecast to decrease in line with the decrease in production. While EU27 butter exports are foreseen to further slowly increase, EU27 cheese exports are forecast to decline.

Executive Summary:

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

Dairy cow numbers in the European Union (EU) are forecast to fall below 20 million head in 2023, a decline of 1.7 million head since its peak in 2016, and a decrease of 564,000 head since 2021. Despite continued year on year increases in milk productivity, this loss of dairy cows results in an erosion of EU27 cow milk production, which is forecast for 2023 at 147.2 million metric ton (MMT), including 4.2 MMT of non-cow milk. This is a decrease of 0.85 MMT compared to 2022 and 1.8 MMT down from 2021. The EU-wide drought in 2022 is reinforcing the decline in milk production as the increased production cost evaporates the increase in the farm gate milk price. The planned implementation on January 1, 2023, for the new Common Agricultural Policy (CAP) and the accompanying Farm to Fork Strategy (F2F) conditionalities, which require EU dairy farmers to adjust their production systems, will push more farmers out of dairying in the next few years. Strong consumers' appreciation for goat and ewe derived dairy products, mainly cheeses, continues to drive the production of non-cow milk. Drinking milk consumption in the EU is forecast to continue its decrease in 2023, after a spike in 2020 and 2021 when COVID-19 kept people home. Unfortunately, this decrease does not prevent milk for dairy processing to also decrease by 600,000 MT in 2023, compared to 2022, which itself was a decrease of 597,000 MT from 2021. This continued decrease in milk deliveries has consequences for EU dairy processors, who are forced to reconsider their milk allocation.

Cheese production remains the preferred EU27 milk factory use, and this trend is expected to continue as several new cheese plants were built in recent years, mainly to produce industrial mozzarella for the food processing industry. EU27 cheese production for 2023 is forecast to increase by 15,000 MT to 10.36 MMT, compared to 2022, which itself was stable from 2021. The recovery of the EU27 cheese consumption in 2022 is forecast to continue in 2023 after a decline in 2021. The consumer appetite for Geographical Indicator (GI) and local cheeses, including goat cheeses, continues to grow in Western Europe, with higher returns for processors and local farmers alike. The EU27 trade in cheese is forecast to decrease, in line with the decrease in production.

The EU butter market is contracting, as the aging population is looking for healthier eating patterns. Butter production is forecast to decrease by 2.5 percent in 2023 compared to 2022, which itself sees a decrease of 1.5 percent from 2021. Some higher butter imports are forecast to supplement the decreasing domestic production, and EU27 butter exports are forecast to remain stable, after a recovery in 2022 compared to 2021.

As Non-Fat Dry Milk (NFDM) or Skimmed Milk Powder (SMP) production in the EU is the residual product from EU butter and cream production, its production is declining in line with butter production. Therefore, EU27 NFDM production in 2023 is forecast to further decrease by 5 percent, after an expected decrease of 3.5 percent in 2022, compared to 2021. The decrease in EU NFDM production

comes at the expense of exports, with the biggest decreases in 2022 to China and other Asian destinations. Exports to Northern Africa and the Middle East suffer less. Domestic consumption is led by feed consumption for veal production, but fluctuations in commercial stocks may conceal actual consumption.

Whole Milk Powder (WMP) production is usually the residual EU milk processing use and a lack of milk is forecast to continue to hamper production in 2023, after previous decreases in 2022 and 2021. EU27 WMP consumption, almost uniquely in the EU food industry, is rather stable in the longer term. EU WMP exports decrease in line with the decrease in production and that is forecast to continue in 2023.

From a policy perspective, as the impact of Brexit and COVID-19 on European dairy markets are mostly behind us, the implementation of the new CAP and F2F initiatives in 2023 will dominate the EU dairy sectors' concerns. Strengthening EU environmental and climate mitigation policies are expected to require additional non-productive investments and further erode dairy farming profitability. On the short term, the 2022 drought and the increased production costs resulting from the war in Ukraine are worrying EU dairy farmers about feed and fodder supplies for 2023. As more dairy farmers will potentially leave the sector, the major industry players are reviewing their milk allocation and product mix, as they adjust to these new EU policy realities.

Notes to The Reader:

The dairy products covered in this report are:

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

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

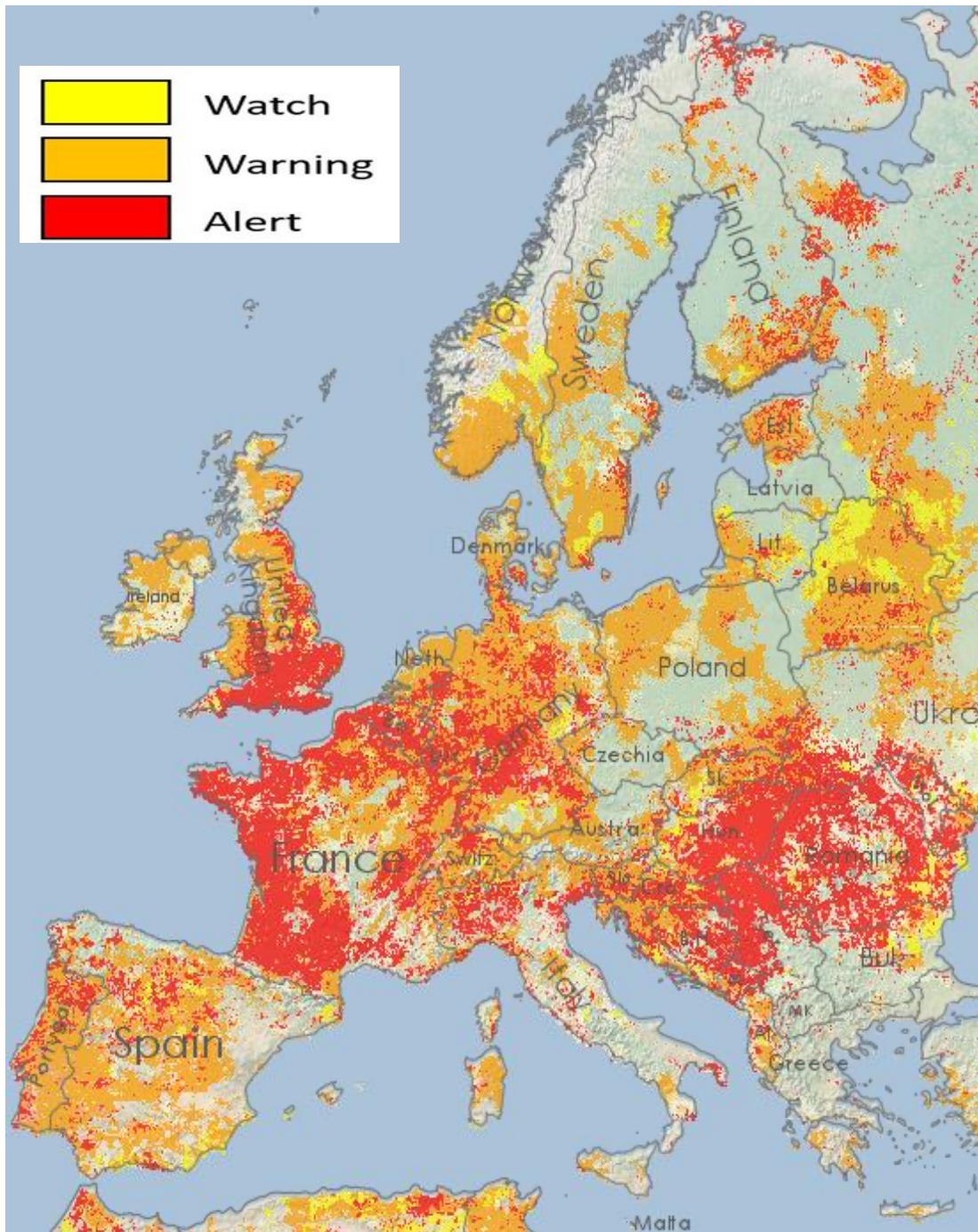
Country:	EU-27					
Commodity:	Dairy, Milk (1000 Head / 1000 MT)					
	2021		2022		2023	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2021		01/2022		01/2023	
Cows In Milk	20,536	20,514	20,200	20,207	0	19,950
Cows Milk Deliveries to Dairies	145,034	144,833	142,250	143,900	0	143,000
Other Milk Production	4,350	4,145	4,400	4,150	0	4,200
Total Milk Production	149,384	148,978	146,650	148,050	0	147,200
Extra EU27 Imports	590	590	600	650	0	650
TOTAL SUPPLY	149,974	149,568	147,250	148,700	0	147,850
Extra EU27 Exports	1,563	1,580	1,500	1,450	0	1,350
Fluid Use Dom. Consumption	23,937	23,941	23,500	23,800	0	23,650
Factory Use Consumption	124,474	124,047	122,250	123,450	0	122,850
Feed Use Dom. Consumption	0	0	0	0	0	0
Total Dom. Consumption	148,411	147,988	145,750	147,250	0	146,50
TOTAL DISTRIBUTION	149,974	149,568	147,250	148,700	0	147,850

Production:

The 2022 drought, which stretched all summer from Southern France and Bulgaria to Poland, heavily impacted 2022 fodder production in the EU, as most EU farmers missed out on two grass cuts or had to bring cows inside for lack of grass. As a result, many farmers are already feeding their cows with fodder reserves for the winter. Graph 1 below details the regional impact of the drought before the start of September rains. While September rains may allow grass growth to recover to some extent, the resulting fodder shortage and the high feed prices will drive farmers to reduce their dairy herds in the coming winter. The continued decrease in dairy cows from recent years is hence forecast to take the EU27 dairy herd to below 20 million cows at the beginning of 2023. France, Germany, and Poland saw the largest drops in dairy cow numbers in 2022 compared to 2021, with Romania and Italy also shedding significant numbers of dairy cows. Ireland, followed at some distance by Hungary and Belgium, are the only MS to have increased their dairy herds since the end of the milk quota regime. The resulting EU27 cow milk production in 2023 is hence forecast to decrease to 143 MMT, or 0.9 MMT below 2022 production and more than 2.4 MMT below its 2020 peak milk production. The increased productivity per cow, helped by increasing farm-gate milk prices, made the 2022 decrease in EU27 milk production less sharp than previously forecast. Significantly higher input costs for energy, fertilizer, and feed, as a result of the Russian invasion in Ukraine and the following sanctions against Russia, are greatly eliminating profits that EU dairy farmers could earn from high farm gate milk prices. Non-cow milk production, mostly concentrated in Mediterranean member states, seems to fare better, driven by consumer demand for dairy products, like goat cheeses or mozzarella buffala, as well as local milk

production for niche products protected by a Geographical Indication (GI). However, as farmers in areas in France and Italy that produce milk for GI products under strict production protocols, are already running out of fodder, they are halting production as they can no longer meet the feeding standards for their GI production.

Graph 1: EU Drought Map Beginning of September 2022



Source: European Drought Observatory

Legend explanation to Graph 1

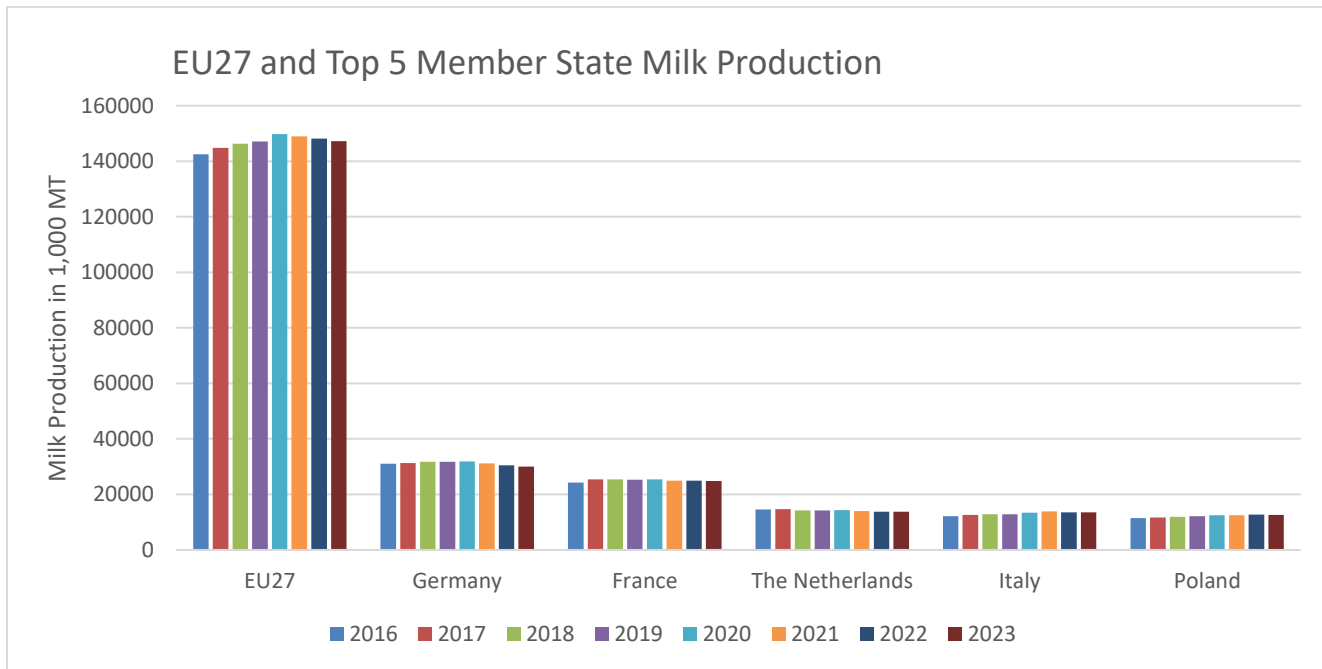
#	LEVEL	INTERPRETATION
1	Watch	A relevant precipitation deficit is observed.
2	Warning	The above precipitation deficit is accompanied by a soil moisture anomaly.
3	Alert	The above two conditions are accompanied by a negative anomaly of vegetation growth.

The increase in the EU dairy production after the abolition of the EU dairy quota regime in 2015 has become increasingly constrained by environmental and animal welfare regulations. The EU cow herd has decreased by 1.7 million head since 2016, as droves of small dairy farmers quit the sector. It is anticipated that the consolidation of dairy farms, with a further reduction in the EU dairy herd, and ensuing milk production, will continue as the new CAP under the F2F strategy from 2023 will bring additional climate related emission restrictions. Small and less efficient farmers may choose not to make the necessary investments to upgrade their barns and production equipment to meet the enhanced environmental and animal welfare constraints enshrined in member states' national strategic plans (NSP) under the new CAP. This may well lead to further geographical concentration of milk production. In some MS in the East, but also Portugal, farmers converted to beef production, away from dairy production, which requires less investments and has good export opportunities for live beef cattle.

Since the implementation of the 1992 Nitrate Directive, environmental restrictions have hampered the dairying intensification process. After the abolition of the milk quota regime, the Nitrate Directive has been the most important brake on further dairy farming expansion in most of the Northern and Western MS, from Denmark and Ireland over France and Germany to the north of Italy. More recently, limits to phosphate emissions increased the pressure. Last year, governments in [the Netherlands](#)¹ and Belgium introduced legislation to ban nitrogen emission deposits on natural habitats that are part of the EU's Natura 2000 zones, halting new barn permits in the process. In the Netherlands, this has led to numerous farmer protests, with farmers blocking motorways, as well as Schiphol national airport, but without a solution until now. The trend towards more extensive dairying programs like organic production, hay milk, and other so-called ecological practices is also slowing milk production, as demand for these higher-priced products is not following increased production, which puts the price premium in compensation for the higher production cost under pressure. Since food prices increased in reaction to the market turbulence provoked by the war in Ukraine, sales of organic products have reportedly been decreasing.

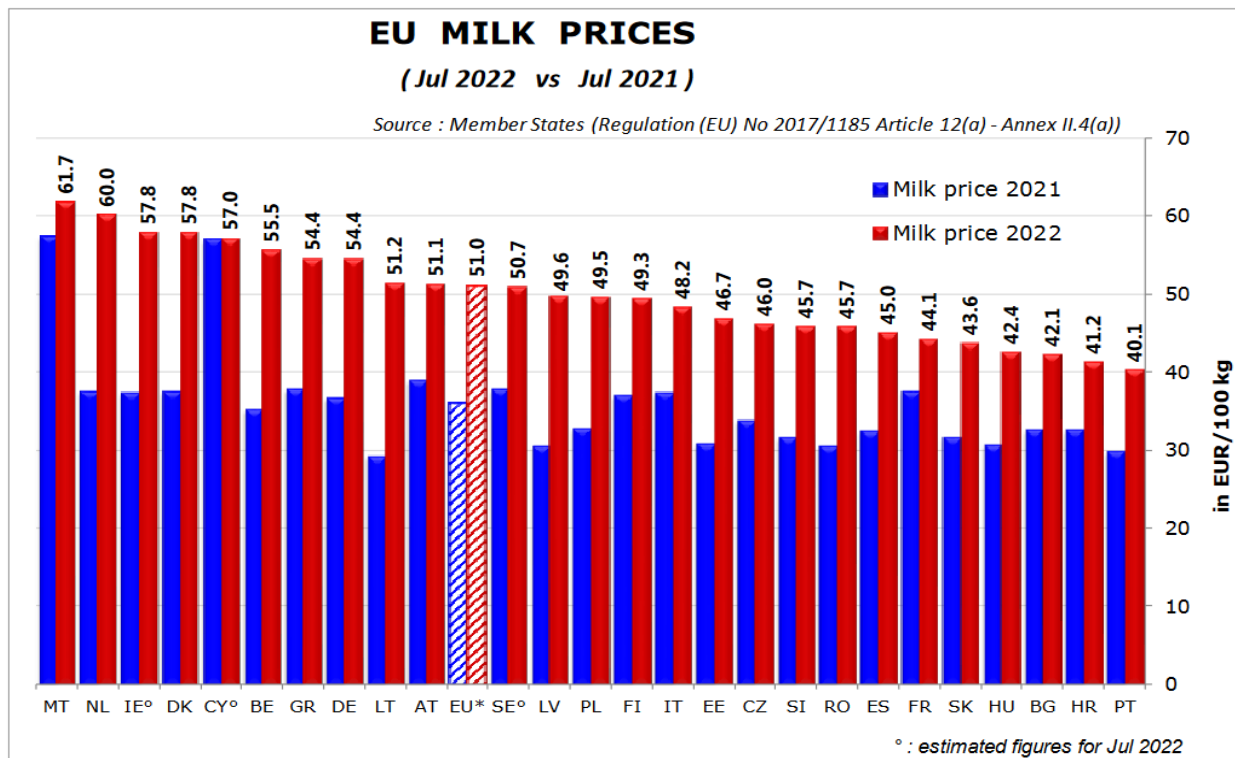
¹ In October 2020, Wageningen University published a report "[Dutch Dairy Farming in 2030](#)" for FrieslandCampina, modeling different policy scenarios for the Netherlands, which suggest a reduction in dairy farms by a third or even half by 2030 depending on the scenario.

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



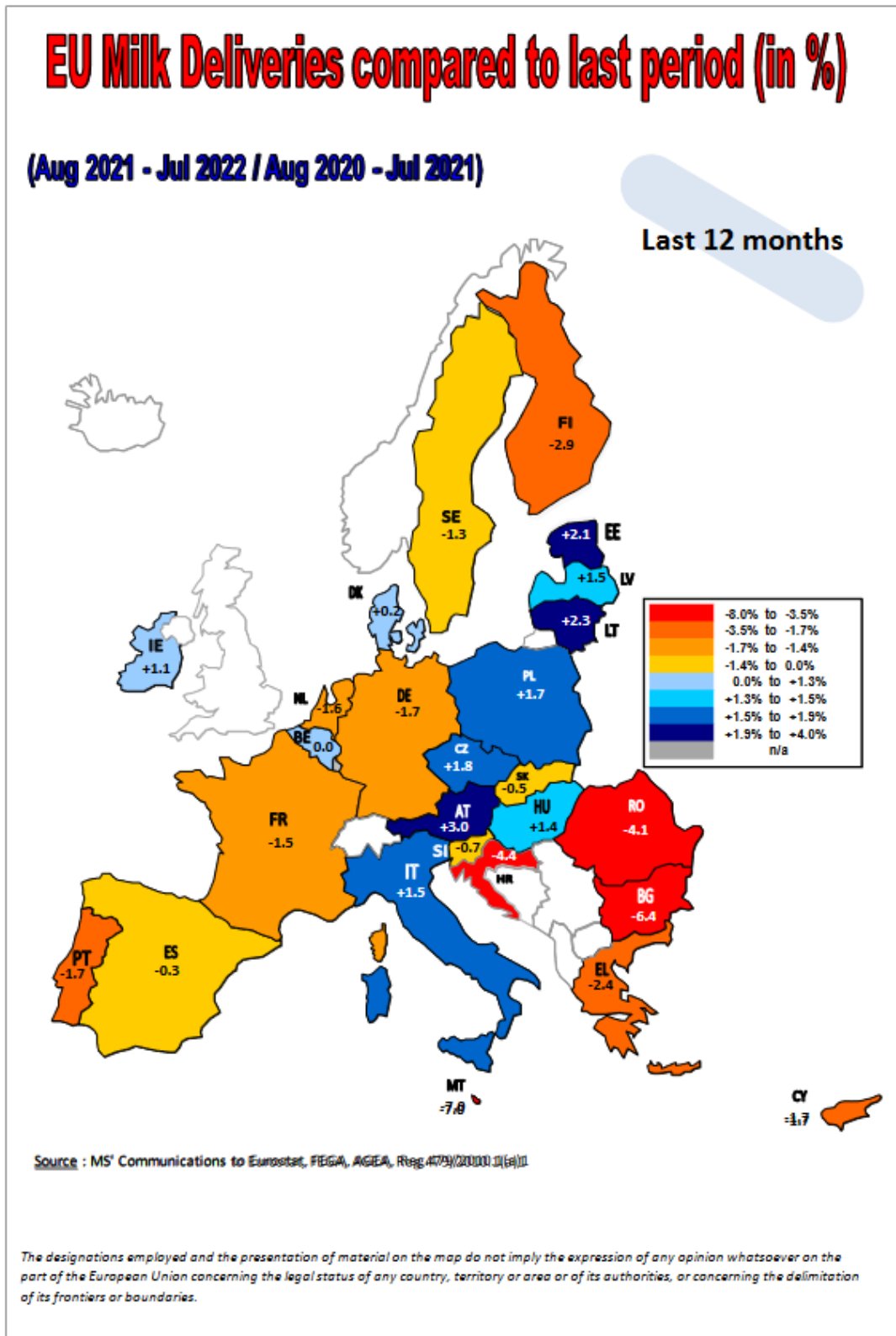
Source: USDA/FAS PSD Online and FAS EU Posts

Graph 3: European Milk Prices at Farm Gate



Source: European Commission

Graph 4: Evolution of EU Milk Deliveries



Source: European Commission

Graph 4 above shows the year-on-year evolution of milk production by MS in 2022 compared to the previous year.

Trade:

Trade outside of the EU is very minimal. Most trade of fluid milk occurs within the EU as the major dairy companies' source and process fresh milk across MS borders. Extra-EU import or trade outside the EU is mostly limited to Ireland that processes most Northern Irish milk. Exports, almost exclusively of pasteurized milk in small end-consumer packages, are historically to the UK, North Africa, and Middle Eastern countries, but China became the dominant export destination for EU milk in recent years, accounting for half of EU liquid milk exports or about 0.5 percent of EU production. However, Chinese imports of EU packaged milk decreased by almost 40 percent in the first half of 2022, while doubled exports to the UK in the same period only partly compensated lost exports to China.

Domestic Consumption:

Domestic consumption of drinking milk received a boost from the COVID-19 crisis in 2020 and was mostly maintained in 2021, as the switch to teleworking led to higher household milk consumption. However, household milk consumption slightly decreased again in 2022 and is forecast to decrease further in 2023. The same was seen for fresh dairy products and ice cream during the hot 2020 summer. The influence on milk consumption of the influx of millions of Ukrainian refugees is not yet visible in the numbers.

In recent years, consumption of milk and other fresh products from organic production or other production methods perceived as more natural and healthier like the "haymilk" in Austria and Germany, has grown in popularity with EU consumers. However, this trend seems to have come to a halt in 2021, despite this production, involving higher production costs, is still increasing. This mismatch of increasing production with waning demand is leading to a declining price premium for these products over conventional products and in some cases has turned negative as in some MS the excess organic milk is being delivered to a conventional dairy producer, attracting a lower price than conventional milk because of lower technical standards like milk solubles or somatic cell count. As a result, organic milk production has started to decline again in MS like Denmark and France.

Factory Use Consumption:

The decreasing EU milk production results in a decrease in EU factory use. The decrease in fluid milk consumption can only partly compensate lost production. For 2023, the availability of milk for factory use is forecast to decrease by 0.6 MMT to below 123 MMT compared to 2022. The expected fall in factory use in 2022 compared to 2021 is significantly smaller than previously expected, in response to the increased processors' milk price, as well as a lower than previously anticipated decrease in domestic consumption, despite higher consumer prices. However, it is still 0.6 MMT below the 2021 volume. Dairy processors are carefully assessing for which products they will use the available milk as the decline in EU milk production is anticipated to continue.

Table 2: Cheese Production, Supply, and Distribution:

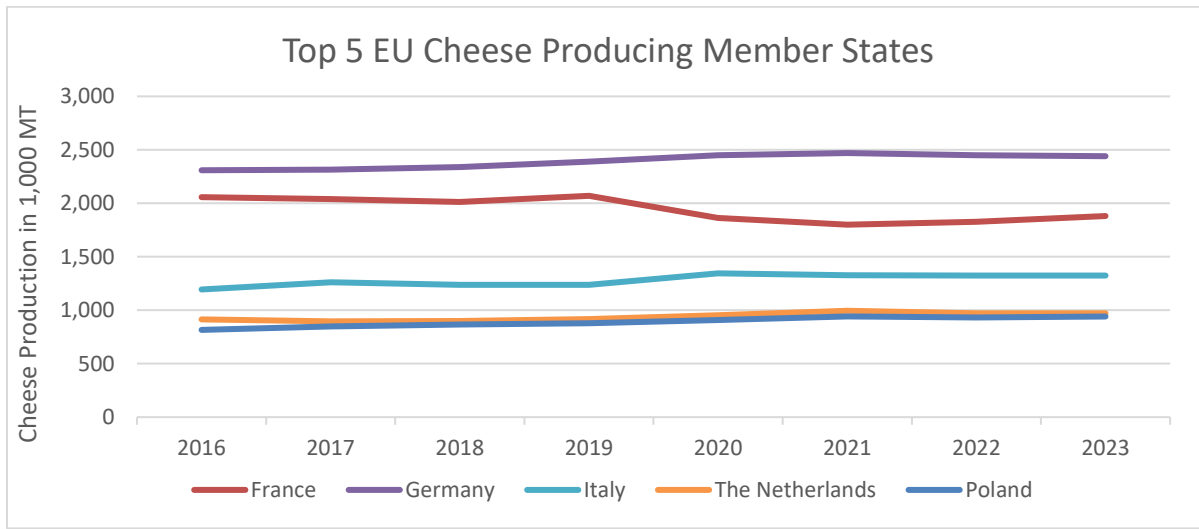
Country:	EU27					
Commodity:	Dairy, Cheese (1000 MT)					
	2021		2022		2023	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2021		01/2022		01/2023	
Beginning Stocks	0	0	0	0	0	0
Production	10,550	10,347	10,600	10,345	0	10,360
Extra EU27 Imports	196	196	200	194	0	195
TOTAL SUPPLY	10,746	10,543	10,800	10,539	0	10,555
Extra EU27 Exports	1,385	1,385	1,400	1,350	0	1,330
Domestic Consumption	9,361	9,158	9,400	9,189	0	9,225
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	9,361	9,158	9,400	9,189	0	9,225
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	10,746	10,543	10,800	10,539	0	10,555

Production:

Cheese production remains the primary output goal of the European dairy processing industry. New cheese processing plants were built in the Netherlands, Belgium, Germany, and France, mostly to produce industrial mozzarella for the food processing industry. Cheese production is given priority over other dairy commodities. This contributes to why EU27 cheese production in 2022 is expected to remain stable, despite the decrease in milk deliveries. A partial recovery in France after the reduction in response to COVID-19 compensates for some decreases in production in Germany and the Netherlands. EU cheese production is forecast to slightly increase in 2023 as domestic cheese demand picks up again after the COVID-19 crisis.

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. GI cheese producers suffered from the COVID-19 crisis, as the hotel, restaurant, and institutional sector (HRI) sector and tourism are driving GI cheese consumption. This was particularly true in France, Greece, Italy, Spain, and Portugal, which feature most of the GI cheeses and heavily depend on tourism. As tourism to these MS is picking up again on the back of the decreased COVID-19 threat, GI cheese production is recovering.

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



Source: Eurostat, complemented with contributions from FAS EU Posts

Trade:

Cheese imports into the EU27 are limited to Switzerland and the UK. Imports from the UK decreased in 2021 as UK exporters faced new customs checks after Brexit. EU cheese imports are slightly decreasing in 2022 because of decreasing imports from Switzerland and are forecast to remain stable in 2023.

EU27 cheese exports are decreasing in 2022 compared to 2021, as a recovery of exports to the UK after the decline provoked by Brexit, is outweighed by the decline in exports to war-torn Ukraine and to China. For 2023, EU27 cheese exports are forecast to further decrease in 2023, hampered by increasing prices. This is less the case for GI cheeses, which continue their marketing success with increasing exports. The UK is the first export destination by far, followed by the United States and Japan. Exports to Switzerland, South-Korea, and Saudi-Arabia have been increasing in recent years, while cheese exports to China are decreasing again after a surge in 2021. The main EU cheese exporting MS are Germany, Ireland, France, the Netherlands, Italy, and Denmark.

Domestic Consumption:

EU27 cheese consumption is returning to its long-term increasing trend line in 2022 and 2023, after a dip in 2021. Cheese consumption in 2021 decreased after it increased in 2020 because the COVID-19 crisis drove household demand for cheese up, replacing demand from the HRI sector. The popularity and demand for cheese from non-cow origin also continues to grow, as consumers crave for craft products and stronger tastes. The top cheese consuming MS are Germany, France, Italy, Poland, and Spain.

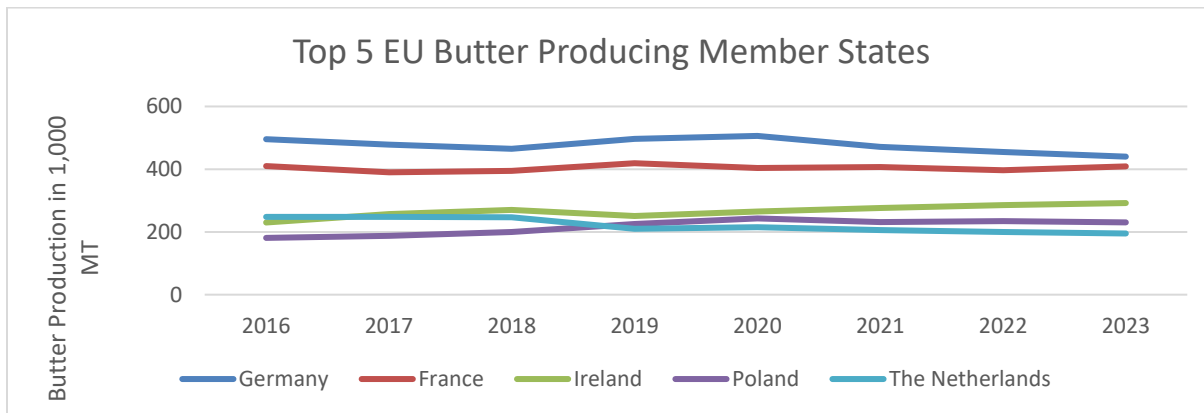
Table 3: Butter Production, Supply, and Distribution:

Country:	EU27					
Commodity:	Dairy, Butter (1000 MT)					
	2021		2022		2023	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2021		01/2022		01/2023	
Beginning Stocks	0	0	0	0	0	0
Production	2,141	2,113	2,070	2,080	0	2,040
Extra EU27 Imports	51	51	45	70	0	70
TOTAL SUPPLY	2,192	2,164	2,115	2,150	0	2,110
Extra EU27 Exports	265	265	270	275	0	275
Domestic Consumption	1,927	1,899	1,845	1,875	0	1,835
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	1,927	1,899	1,845	1,875	0	1,835
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2,192	2,164	2,115	2,150	0	2,110

Production:

The EU27 butter production is forecast to decrease in 2023 because of decreasing milk deliveries. EU27 butter production in 2022 is reviewed slightly up from the previous forecast, while butter production in 2021 ended 1.5 percent lower than previously estimated. France, Germany, Belgium, the Netherlands, and Spain all see their butter production decrease in 2022, while Ireland and Poland are the exception with increasing butter production in response to high butter prices. EU27 butter production may have peaked in 2020, just like cow milk production. The main EU butter producing MS are Germany, France, Ireland, Poland, and the Netherlands.

Graph 6: Top 5 EU Butter Producing Member States (in 1,000 MT)



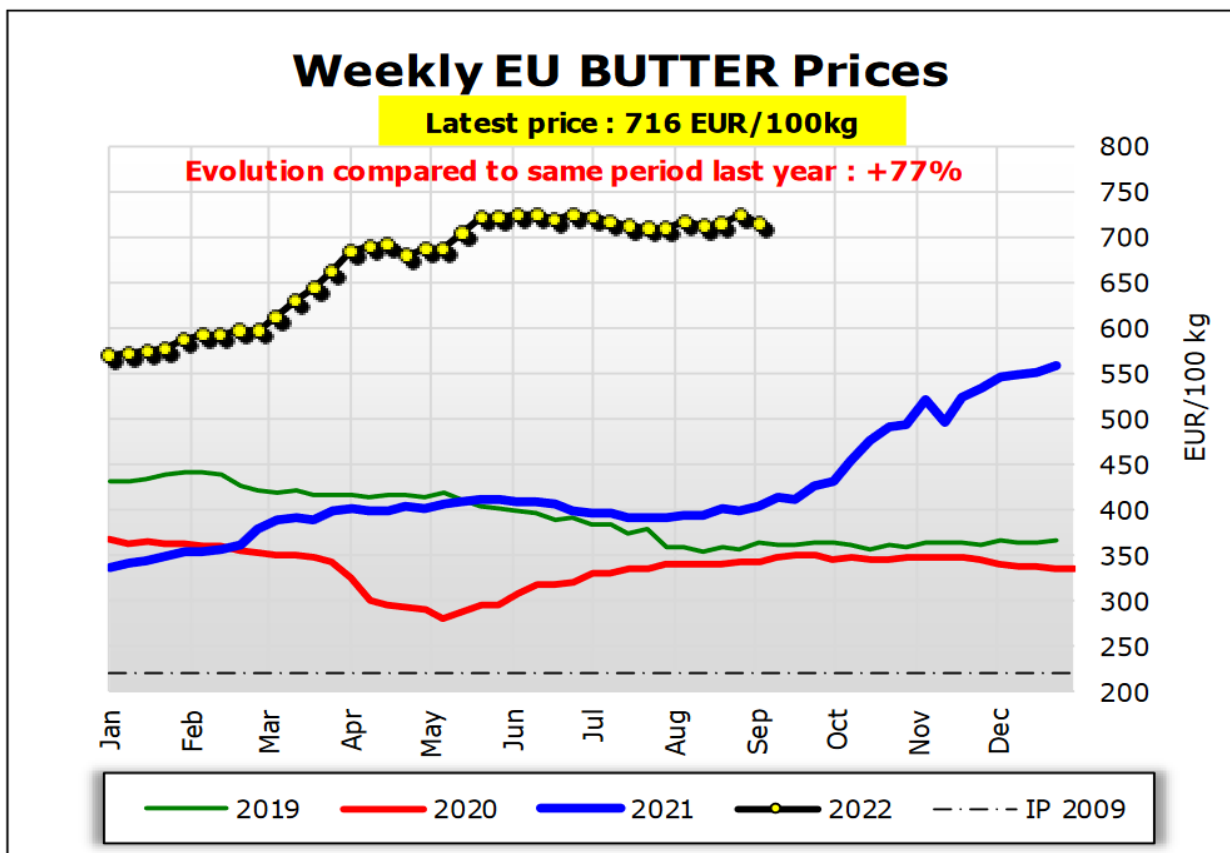
Source: Eurostat, complemented with contributions from FAS EU Posts

Trade:

EU27 butter imports are recovering in 2022 from a decrease in 2020 and 2021 as a result of Brexit. Butter imports are forecast to level off in 2023. EU butter imports are practically limited to imports from the UK, while EU27 imports into the GATT WTO tariff rate quota (TRQ) for butter from New Zealand have been limited after Brexit.

EU27 butter exports for 2023 are forecast to be stable, after partly recovering in 2022 from a decrease in 2021 because of decreased exports to the UK after Brexit. Exports to the UK are up again by 50 percent in the first half of 2022, while decreased butter exports to China and Ukraine are partly offsetting the increase. EU butter exports to the United States remain stable in 2022. EU butter exports are hampered by the decrease in production, despite EU butter prices having increased by 77 percent in the past year. Ireland is the top EU butter exporting MS, followed by France, the Netherlands, and Denmark.

Graph 7: EU Butter Price Evolution



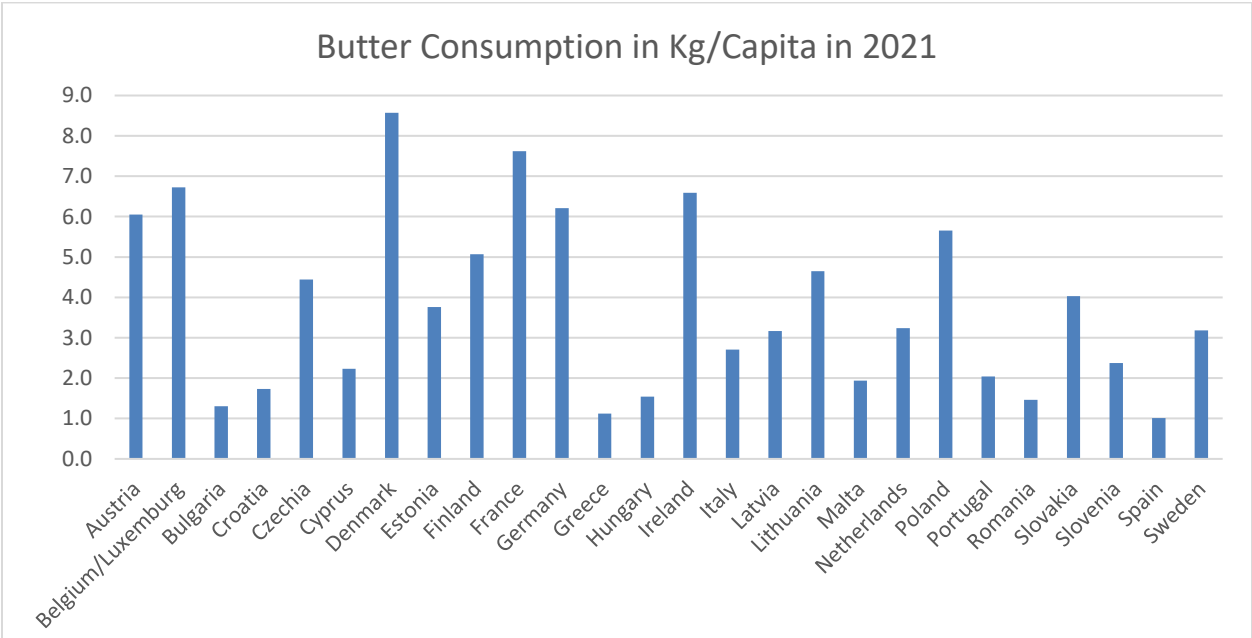
Source: European Commission

Domestic Consumption:

EU27 butter consumption is forecast to continue its downward trend, which started a few years ago as EU consumers aim at reducing their animal fat intake because of health concerns. With full year 2021

data available, it appears that the previously perceived break in the declining consumption trend as a result of COVID-19, was false. However, butter consumption patterns vary widely between EU MS as they are driven by local cooking and eating habits. In 2021, Denmark and France had the highest per capita butter consumption, followed by Belgium/Luxembourg, Ireland, and Germany. MS around the Mediterranean Sea typically consume less butter as cooking is mostly done using olive oil, while MS in the Central East of the EU consume more plant-based spreads because of the lower price.

Graph 8: EU MS Butter Consumption per Capita



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

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

Country:	EU27					
Commodity:	Non-Fat Dried Milk (1000 MT)					
	2021		2022		2023	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2021		01/2022		01/2023	
Beginning Stocks	0	0	0	0	0	0
Production	1,526	1,504	1,485	1,450	0	1,375
Intra EU27 Imports	32	32	25	35	0	40
TOTAL SUPPLY	1,558	1,536	1,510	1,485	0	1,415
Extra EU27 Exports	788	788	700	675	0	615
Domestic Consumption	770	748	810	810	0	800
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	770	748	810	810	0	800
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1,558	1,536	1,510	1,485	0	1,415

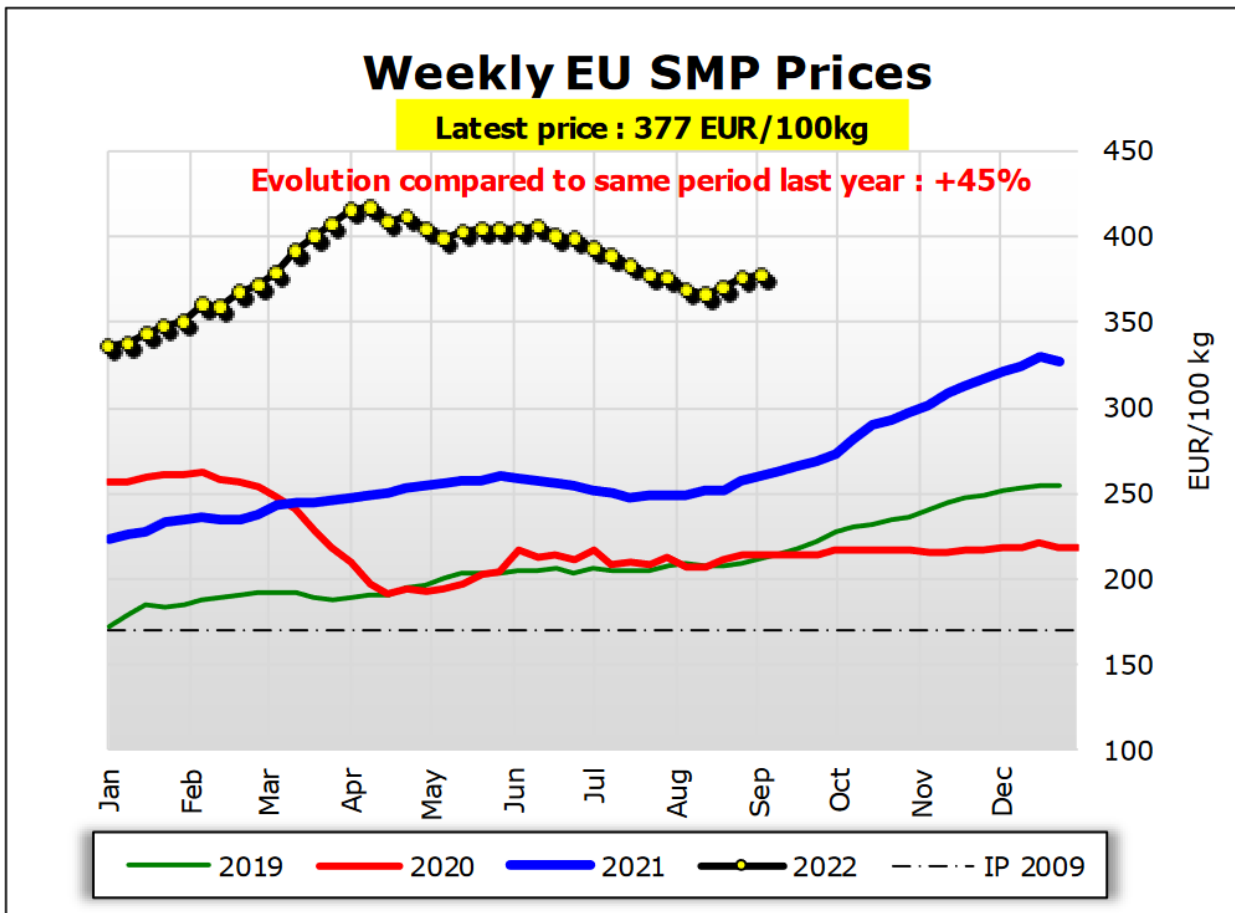
Production:

NFDM production in the EU27 is closely tied to butter production and is usually not a production goal on its own. The EU27 NFDM production for 2023 is forecast lower than in 2022, in line with decreasing butter production. EU27 NFDM production in 2022 and 2021 were reviewed lower than previously estimated. EU prices for NFDM have also increased compared to a year ago, but not to the same extent as butter prices. The main NFDM producing MS are France, Germany, Ireland, Poland, and Belgium.

Trade:

The EU27 imports little NFDM, mostly from the UK, but these imports are declining after 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. Despite the current favorable exchange rate for EU NFDM exporters, EU27 NFDM exports are forecast to further decrease in 2023, after they are already decreasing in 2022 by almost 20 percent compared to 2021, because of limited production. China remains the leading buyers in 2022, followed by Algeria, Indonesia, Egypt, Philippines, Nigeria, and Malaysia. NFDM exports to the UK halved in 2021 compared to 2020 and are only slightly recovering in 2022. The main NFDM exporting EU MS are France, Belgium, Germany, Ireland, and the Netherlands.

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



Source: European Commission

Domestic Consumption:

Domestic consumption of NFDM in the EU is mainly for calf feed for veal production. The EU food industry is the other main outlet on the domestic market. NFDM blending in feed used to be much higher as it was supported through the CAP under the EU milk production quota regime, but this support disappeared with the quota regime in 2015. EU27 consumption of NFDM rather stable, with consumption numbers often influenced by fluctuations in commercial stocks.

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

Country:	EU27					
Commodity:	Dairy, Whole Milk Powder (1000 MT)					
	2021		2022		2023	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2021		01/2022		01/2023	
Beginning Stocks	0	0	0	0	0	0
Production	663	650	620	600	0	600
Extra EU27 Imports	11	11	10	20	0	20
TOTAL SUPPLY	674	661	630	620	0	620
Extra EU27 Exports	298	298	260	230	0	230
Domestic Consumption	376	363	370	390	0	390
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	376	363	370	390	0	390
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	674	661	630	620	0	620

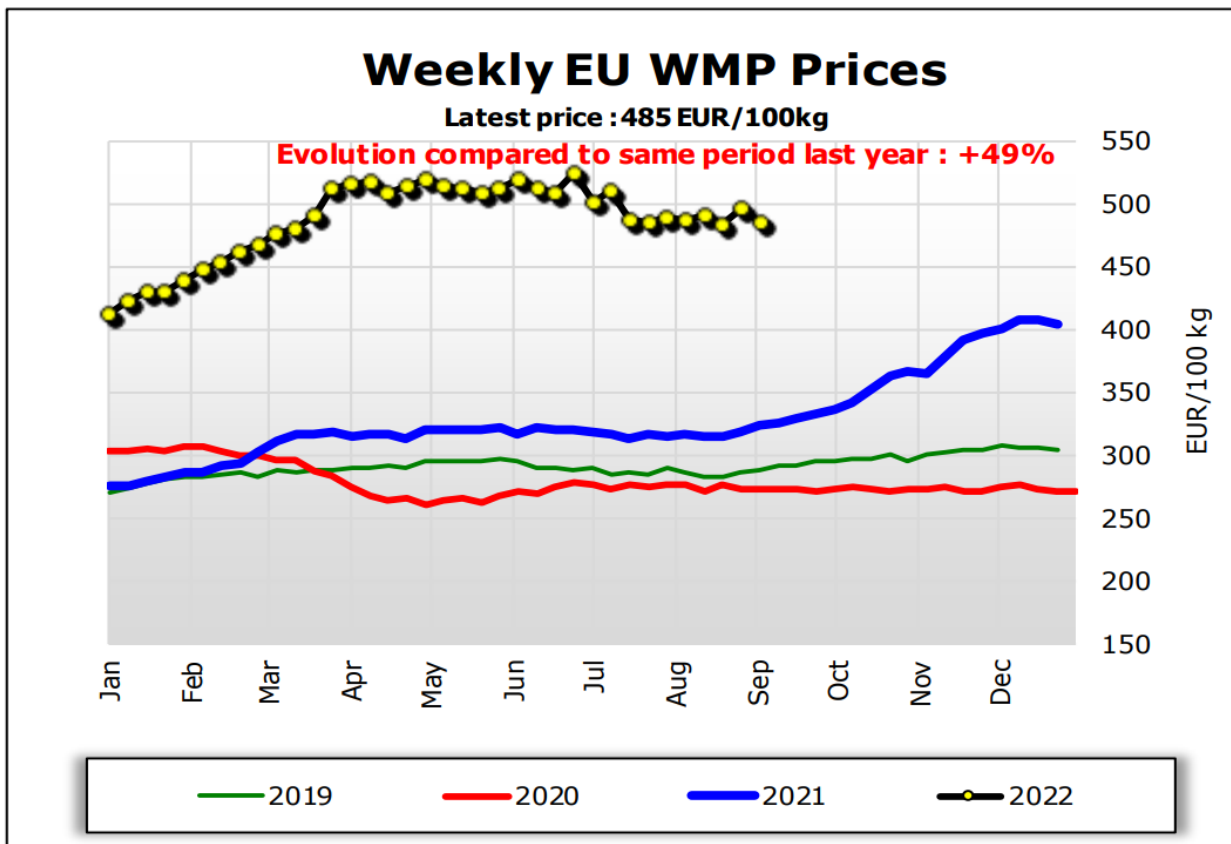
Production:

EU27 WMP production in 2023 is forecast to stabilize compared to 2022, after dropping almost 10 percent from 2021, because of limited milk supplies. WMP production usually generates the lowest processing margins and EU processors generally prioritize cheese production, which offers the most stable long-term returns. The most important WMP producing MS are France, Germany, the Netherlands, Denmark and Ireland, which together produce some 80 percent of the EU WMP.

Trade:

EU27 WMP imports are negligible, with imports from the UK partly recovering after the decline following Brexit. EU27 WMP exports are decreasing for lack of supplies and export competitiveness, despite much increased prices. EU WMP exports to mainly North Africa and the Middle East are decreasing in 2022, with exception of Oman, and are not forecast to recover in 2023. WMP exports to China are decreasing in 2022, while exports to Nigeria even decreased by more than 80 percent in the first half of 2022. WMP exports to the UK have also declined after Brexit.

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



Source: European Commission

Domestic Consumption:

EU27 WMP domestic consumption is mainly in the food industry, which usually is stable. WMP consumption is recovering in 2022 after a decline in 2021.

EU Policy Update:

EU Policy Response to the War in Ukraine

In February 2022, Russia launched an invasion into Ukraine. The war is threatening global food security mainly due to the high level of exports of feed and grains products from the two countries in conflict. On July 20, 2022, the UN Food and Agriculture Organization (FAO) published a [“Note on the impact of the war on food security in Ukraine”](#). The EU dairy sector is impacted by the increased input prices, such as energy, pesticides, and fertilizers, for which Belarus and Russia are important suppliers.

On March 23, 2022, the European Commission published a Communication on [‘Safeguarding food security and reinforcing the resilience of food systems’](#). This Communication outlines short-term and

medium-term actions that the EU will take to enhance global food security and support EU farmers given rising commodity prices and costs for energy and fertilizer inputs due to the war in Ukraine. First, €500 million euros will be distributed in national allocations to directly support EU farmers most affected by higher input costs and the closure of export markets. Member States can supplement this support up to 200 percent using national funds.

Additionally, the Commission has granted an exceptional and temporary [derogation](#) from certain greening obligations. Member States may allow production of any food and feed crops on fallow lands that are part of Ecological Focus Areas (EFA) for the duration of 2023, while still providing the full level of greening payment that would be given if the land was kept fallow. This temporary flexibility aims to allow EU farmers to adjust and expand their cropping plans in response to the new market dynamics and may help to overcome feed and fodder shortages as a result of the 2022 drought.

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

Uncertainty around [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 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 a recovery effort known as the Next Generation EU (€750 billion). The [€1.8 trillion 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. As a result of these delays and the increased environmental and climatological ambitions that the EC wanted to include in the new CAP, a two-year transition was agreed. The Council adopted the new [CAP 2023-2027](#) on December 2, 2021 and it was published in the [Official Journal](#) on December 6, 2021. MS were supposed to submit so-called [National Strategic Plans](#) (NSP) by the end of 2021, incorporating MS specific goals and initiatives, but only 18 MS met this deadline, with the last ones submitted in the spring of 2022. On August 31 the first seven NSPs for Denmark, France, Finland, Ireland, Poland, Portugal and Spain received final approval, followed by Austria and Luxembourg in September 2022. The other 19 NSPs should follow in the next two months. The new CAP is due for implementation on January 1, 2023.

On May 20, 2020, the European Commission announced both the [Farm to Fork](#) (F2F) Strategy and the EU [Biodiversity Strategy](#) for 2030 as roadmaps for enhancing food and agricultural sustainability by 2030 under the European [Green Deal](#). The Strategies mark the beginning of a multi-step legislative

development process that aims to fundamentally change the way EU agriculture operates and food is produced for, and provided to, EU consumers. The goal is for MS to tailor their new CAP programs towards achieving and enforcing the different strategy targets through [enhanced conditionality measures](#). The stated goal is that 40 percent of CAP funding goes towards climate change mitigation measures. Specific goals are a 50 percent reduction in pesticide use, a 50 percent reduction of nutrient leakage in groundwater through a 20 percent reduction in fertilizer use, an increase in nature conservation areas to 30 percent, 10 percent of environmental set-aside, and 25 percent of land for organic farming. 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. Additionally, limitations in veterinary drug use, especially antimicrobial use, and increased animal welfare goals are stated. The EC provided [recommendations](#) to MS for the inclusion of these goals into the MS strategic plans and has expressed its intention to disapprove the plans from those MS that miss adequate ambition to meet the goals. The bulk of legislative proposals for F2F and Biodiversity Strategy are planned for 2022 and 2023 as shown in think tank FarmEurope's [timeline](#). In a move to protect European agriculture from imports outside the EU that are not burdened by these additional costly requirements, the French EU presidency championed the idea of imposing [EU health and environmental standards to imports of agricultural and food products](#), also called mirror clauses.

In November 2021, the European Commission published a [proposal](#) for a Regulation aimed at preventing products causing deforestation or forest degradation from entering the EU market. The proposal targets products identified by the Commission as the main drivers of agricultural expansion leading to deforestation including cattle, raw hides and skins of cattle and leather. Restrictions on soybean imports would also have consequences for feed for the European dairy, pig and poultry sectors. The proposal lays down mandatory due diligence rules for companies wanting to place these commodities on the EU market. The proposed legislation also introduces a benchmarking system to assess countries and their level of risk of deforestation and forest degradation driven by the commodities in the scope of the regulation. The risk level assigned to each country through the benchmarking system (low, standard, or high) will determine the level of scrutiny applied to the relevant products it exports to the EU. For information about the legislative proposal, please see GAIN Report: [EU Commission Proposes Rules to Curb Deforestation Linked to Agricultural Production](#). As part of the EU legislative process, the proposal went to the European Parliament (EP) and the Member States for consideration, debate, and amendment. In June, the Council adopted the proposal, but in September 2022, the [EP voted](#) to expand the regulation to include six additional commodities and their by-products: swine, sheep, goats, poultry, maize and rubber. Next, the Commission, Council and EP will hold trilogue negotiations to come to a final compromise.

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. Legislative proposals to convert the above strategies will need approval from the Council and the European Parliament (EP) through

joint compromises. Both legislative bodies have requested that impact assessments must be available before legislative initiatives are proposed.

Veterinary Medicinal Products Legislation

The EU approved its new framework for [veterinary medicine regulation](#) ([Regulation \(EU\) 2019/6](#)) on December 11, 2018. The final implementation date was January 28, 2022. Drafts for the [implementing legislation](#), including the list of antibiotics that will be exclusively reserved for human medicine and the modalities of use for permissible products, are going through the approval procedure. On October 6, 2021, [Commission Delegated Regulation \(EU\) 2021/1760](#) establishing the criteria for the designation of antimicrobials to be reserved for the treatment of certain infections in humans was published. The European Medicines Agency (EMA) was [mandated](#) to draft a proposal for a list of antibiotics reserved for human medicine based on these criteria. This list missed the January 28 implementation date of the veterinary medicine regulation, but was approved by the Council on July 4, 2022, and is awaiting publication in the EU Official Journal. On October 8, 2021, the official controls [Regulation \(EU\) 2021/1756](#) of the European Parliament and of the Council of October 6, 2021, amending Regulation (EU) 2017/625, was published in the Official Journal in order to ensure compliance with the prohibition of certain uses of antimicrobials. A draft Delegated Act for the Implementation of Article 118 imposing limitations on the use of antibiotics for animals in the EU that will also apply to operators in third countries, is also yet to be proposed.

New EU Animal Welfare (AW) Legislative Initiatives Start with Animal Transportation Issues

At the July 18, 2022 EU Agricultural Council meeting, Denmark, on behalf of five member states (Belgium, Denmark, the Netherlands, Germany and Sweden), presented a [position paper](#) to strengthen the EU rules on animal transportation and reduce the maximum journey length. This initiative follows months of debate, including in the European Parliament, of continued issues with animal welfare issues, mostly in maritime animal transportation.

On July 5, 2021, the European Parliament's Committee of Inquiry on the Protection of Animals during Transport (ANIT), which was set up to investigate the implementation and enforcement of the EU's AW legislation, published a [report](#) about livestock transport in the EU and to third countries. The report described patterns in the European transport routes of 1.3 billion animals per year and possible avenues for improved AW.

On January 21, 2022, a public consultation ended on the EU's AW [inception impact assessment](#), which was published on July 6, 2021. This impact assessment marks the beginning of an [EU revision](#) of its AW legislation, which is one of the goals of the EU's F2F strategy. The public consultation received 983 comments, including from the [U.S. Meat Export Federation](#). The goal is to adopt new legislative proposals for AW on farms, during transport and in the slaughterhouse by the end of 2023. A renewed [AW platform](#) was installed in May 2021 as an advisory body to inform the EC on these proposals. New

initiatives for AW labeling are also being discussed and the subgroup on AW labeling of the EU's AW Platform presented its [conclusions](#) in the summer of 2021.

EU Eyes Four New FTAs as No Progress on EU-Mercosur Trade “Agreement in Principle” Is Made

The EU finalized an FTA with New Zealand as well as its the update of the FTAs with Mexico, while negotiations on an FTA with Australia and the update of the Chile FTA continue.

On June 30, 2022, the EU concluded negotiations on an FTA with [New Zealand](#), eliminating all duties on exports of EU dairy products. The EU opens a TRQ of 15,000 MT for NFDM at 20 percent duty, a new butter TRQ for 15,000 MT at 5 percent duty, on top of the existing 47,177 MT WTO butter TRQ, for which 21,000 MT will also see the duty gradually reduced to 5 percent, a 25,000 MT duty-free TRQ for cheese, on top of the existing WTO TRQ for 6,031 MT, for which the duty will gradually also be eliminated and a 3,500 MT TRQ for high protein whey at zero duty. New Zealand will further protect EU GI's.

In April 2018, the EU concluded an [agreement in principle](#) with Mexico. After ratification, the agreement will offer free access for EU blue cheese, with further TRQs of 5,000 MT for fresh and processed cheese and 20,000 MT for other cheeses. Mexico has also agreed to protect European GI's.

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

Acknowledgements:

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

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

Related reports from FAS Posts in the European Union:

Country	Title	Date
European Union	EU Parliament Adopts Negotiating Positions on Deforestation-Free Supply Chains and Renewable Energy	09/30/2022
European Union	Livestock and Products Annual	09/14/2022
Netherlands	2022 Dutch Farmer Protests Against New Nitrogen GHG Emissions Reductions Policies	07/27/2022
European Union	Dairy and Products Semi-Annual	06/23/2022
European Union	European Commission Opens Feedback Period on List of Antimicrobials Reserved for Human Medicine	04/22/2022
European Union	European Commission Proposes Revision of Geographical Indications Legislation	04/14/2022
European Union	GI issues in the future of the CAP	03/18/2022

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

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

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

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

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

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

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

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