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EU-28

Dairy and Products Annual

Annual

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Report Highlights:

In 2014, dairy production in the EU28 is driven by the approaching termination of the milk quota system scheduled for March 31, 2015, introduction of Russian ban on imports of dairy products and fluctuation of world market prices for dairy commodities. As a result of very good dairy world market prices in late 2013 and early 2014, European farmers boosted milk production in order to respond to tight world supplies of dairy products. However, a decrease in world market prices of dairy commodities accompanied by introduction of the Russian ban for dairy products in August 2014 have changed the dairy market from tight to an oversupply situation. The lag between market situation signals and reaction of farmers taking production decisions is expected to result in high milk and dairy products output towards the end of 2014 and into 2015.

Executive Summary:

Production:

In 2014 EU-28 milk production is driven by fluctuating world market prices for dairy products and the approaching termination of the milk quota system scheduled for March 31, 2015. As a result of increased dairy cow inventories, adequate supplies of feed and attractive milk procurement prices, 2014 milk deliveries are expected to grow by almost 3 percent in comparison to 2013. The pace of the increase of milk deliveries in 2014 exceeded the estimate presented in the semi-annual report published on May 15, 2014 and there was a need for an upwards correction of the milk production and output of dairy products estimate.

In the second half of 2013 and in the first three quarters of 2014, favorable growing conditions for crops led to lower feed prices, and along with higher farm-gate prices for milk, stimulated EU-28 dairy production. Growing demand for milk powders on the world dairy market in 2014 has changed the profile of dairy processing in the EU28 by shifting the focus from cheese to milk powders. It is expected that the 2014 overall increase in milk production will be directed mostly towards Non-Fat Dry Milk (NFDm), Whole Dry Milk (WDM) and butter production, which are in higher demand on the international market. Increased availability of raw milk in 2014 will be also used for higher production of cheese. However, the increase of cheese output will be slower than in previous years in response to the Russian import ban on European dairy. The long-term contraction trend of the EU-28 dairy herd ended in response to favorable farm-gate prices for milk and market expectations associated to the EU's discontinuation of the milk quota system. For 2015, dairy cow inventories are expected to increase when combined with higher output per cow and favorable feed conditions will result in an increase in total EU milk production.

Consumption

In 2014, higher production of milk is expected to result in higher domestic consumption of dairy products. Although consumption of all dairy products is expected to grow, the smallest increase is predicted for fresh products. The higher availability of dairy products is expected to be directed mostly for export and the remaining part will be consumed domestically or used to rebuild commercial stocks which were reduced in 2013.

Trade

In 2014, the higher availability of dairy products stemming from increased production of milk is expected to result in higher exports of milk powders (WDM and NFDm), and fluid milk in comparison to 2013. Decrease of world market prices for cheese and introduction of a ban on imports of dairy products by Russia on August 7, 2014 are expected to reduce EU28 exports of cheese in 2014 and limit recovery of trade in 2015. During the first seven months of 2014, exports of cheese, the main dairy product exported by the EU-28, remained flat in comparison to the same period of 2013. It is expected that, due to the Russian ban, exports of cheese will decrease towards the end of 2014 but the decrease will be partly offset by increased exports to other external markets. Reduction of world market prices for butter in comparison to 2013 and the introduction of Russian ban on imports of dairy products are expected to keep EU28 exports almost flat for 2014. However, exports of butter may recover in 2015 because of competitive prices on the world market and stocks built in 2014. Most of the increase of NFDm production in 2014 is expected to be directed for

exports. In the first seven months of 2014 exports of NFDM increased by almost 60 percent with most of the growth recorded by Algeria and China. It is expected that NFDM exports in 2015 will continue at the high level due to growing output and continuing demand from North Africa and China. In the first seven months of 2014 exports of WDM increased by 13 percent mainly because of higher exports to Algeria.

Impact of Russian Ban

On August 7, 2014, Russia introduced a ban for agricultural products from several countries including the EU28. Cheese and butter were the main dairy products exported from the EU28 to Russia affected by the ban. In 2013, EU28 exported to Russia 257,000MT of cheese, 24,000 MT of butter and 5,368 MT of butter oil. In the first seven months of 2014, before introduction of the ban, Russia already imported from the EU28 130,000 MT of cheese, 16,000 MT of butter and 1,600 MT of butter oil. The ban is expected to adversely affect the Netherlands, Germany, Finland, France, Lithuania and Poland which were the major exporters of cheese and butter to Russia in 2013 and in the first seven months of 2014.

Market Intervention:

Within the new Common Agricultural Policy 2014-2020, the Private Storage Scheme (PSA) is no longer an automatic system opening mid-March and closing mid-August. Opening of the PSA requires the European Commission's (EC) decision, which depends on the current market situation. Introduction of the Russian ban on agricultural products forced the European Commission to re-open the PSA scheme for butter and skim milk powder and open a temporary exceptional private storage aid scheme for cheeses falling under CN codes 0406 20, 0406 30, 0406 40 and 0406 90, and frozen curd falling under CN code 0406 10. The decision was introduced for the period of September 5 to December 31, 2014. However, on September 22, 2014, the European Commission terminated the PSA for cheese to avoid the possibility of reaching the maximum volume of 155,000 MT so soon after the measure was opened on September 5, 2014. Re-opening of the PSA program on September 5, 2014, allowed the building of stocks of cheese, butter and skim milk powder towards the end of the year and into 2015.

DISCLAIMER

The PS&D numbers in this report are not official USDA numbers. The numbers are the result of a group effort by the individual FAS EU offices to consolidate PS&D's from all EU-28.

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Dairy, Milk, Fluid

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid European Union	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	23,193	23,193	23,505	23,482		23,700
Cows Milk Production	140,100	140,100	144,000	144,000		147,000
Other Milk Production	4,750	4,750	4,750	4,750		4,750
Total Production	144,850	144,850	148,750	148,750		151,750
Other Imports	23	23	20	15		15
Total Imports	23	23	20	15		15
Total Supply	144,873	144,873	148,770	148,765		151,765
Other Exports	420	420	440	465		465
Total Exports	420	420	440	465		465
Fluid Use Dom. Consum.	33,800	33,800	33,800	33,850		33,900
Factory Use Consum.	110,653	110,653	114,530	114,450		117,400
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	144,453	144,453	148,330	148,300		151,300
Total Distribution	144,873	144,873	148,770	148,765		151,765
1000 HEAD, 1000 MT						

Production:

2014

Strong world market for dairy products and approaching discontinuation of the EU dairy quota system scheduled for March 31, 2015, stimulated milk production in the second half of 2013 and first half of 2014. It is estimated that in 2014 EU-28 milk deliveries will increase almost 3 percent year-on-year with production increases registered principally during the first half of the year. In the first half of 2014 EU milk deliveries increased by 4.9 percent over the first six months of 2013. In Northern Europe 2013/2014 winter was milder but wetter than usual and early spring positively impacted pasture conditions, thus milk production, in the first 6 months of the year. Supplies and quality of roughages are good and compound feed prices are declining. Although in a majority of member states milk procurement prices are still at a level higher than in 2013, the decline of prices on the international dairy market may lead to a decrease of average EU-28 farm-gate milk prices and slower increase of milk production towards the end of the 2014. The production estimate of milk deliveries in 2014 presented in the EU-28 Semi-Annual Dairy and Products (published in mid-May 2014) expected that milk deliveries would increase in comparison to 2013 output, however, the scale of the increase was much greater than predicted thus there was a need for an upward adjustment of milk production estimate.

In several member states with favorable natural conditions for production of milk farmers started in advance to adjust to the new market situation which will be created by the termination of milk quota system. In 2013/14 quota year (April-March) Germany, the Netherlands, Poland,

Denmark, Austria, Ireland, Cyprus and Luxembourg exceeded their national milk quota allocation (see Policy Section).

In 2014 EU-28 dairy cow inventories increased, a trend that is expected to continue in 2015. Farmers are building cow inventories in response to favorable dairy market conditions and the dairy quota elimination coming in 2015.

2015

Dairy cow numbers are expected to grow because farmers will expand operations to generate higher overall milk production in expectation of the approaching termination of the milk quota system in 2015. Good feed availability along with continued enhancement of genetics in national herds is expected to generate higher per cow milk yield averages in 2015.

In 2013/2014 quota year (April 1-March 31) there was a last one percent milk quota increase before discontinuation of the quota system, so for 2014/2015 quota year no increase of milk quota was foreseen in the 2008 CAP agreement as it was expected that the 5-year so-called “soft landing” would already have made the quota void.

Consumption:

In 2014, fluid milk consumption is expected to increase in response to higher output of raw milk. However, consumption of the majority of fresh dairy products is expected to remain flat in 2014 and 2015.

Trade:

In 2014, overall external exports are expected to increase by 10 percent. In the first seven months of 2014, extra EU-28 exports of fluid milk increased by 24 percent driven by strong demand from China for UHT milk.

Dairy, Cheese

Production, Supply and Demand Data Statistics:

Dairy, Cheese European Union	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		100
Production	9,380	9,368	9,450	9,470		9,520
Other Imports	75	75	80	80		80
Total Imports	75	75	80	80		80
Total Supply	9,455	9,443	9,530	9,550		9,700
Other Exports	787	787	790	730		790
Total Exports	787	787	790	730		790
Human Dom. Consumption	8,668	8,656	8,740	8,720		8,860
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	8,668	8,656	8,740	8,720		8,860
Total Use	9,455	9,443	9,530	9,450		9,650
Ending Stocks	0		0	100		50
Total Distribution	9,455	9,443	9,530	9,550		9,700
1000 MT						

Production:

In 2014, EU-28 cheese production is expected to increase by one percent due to higher availability of raw milk and increased domestic consumption. In the first half of 2014 cheese output increased by 0.4 percent and is expected to grow further towards the end of the year. The world market demand for cheese remains strong, stimulating EU production and exports.

However, high world market prices for milk powders competing with cheese for raw milk supplies and Russian ban on imports of dairy products adversely affected world prices for cheese so made production and exports of cheese less attractive than in 2013.

Consumption:

In 2014, the increased cheese output will be directed mostly into domestic consumption and increased commercial stocks. The EU-28 domestic cheese consumption increased in parallel with the economic recovery. In 2014, growing supplies, higher availability stemming from reduced exports, and improving economic situations in some member states are expected to stimulate cheese consumption further leading to an increase in overall consumption relative to 2013.

Trade:

It is expected that in 2014, exports of cheese will decrease by an estimated 7 percent due to the Russian ban on imports of dairy products. In the first seven months of 2014 EU28 exports of cheese were at the same level as for the comparable period of 2013. In 2013 EU-28 exported to Russia 257,000 MT of cheese, almost one third of total EU28 cheese exports. Cheese was supplied to Russia primarily from Lithuania, the Netherlands, Finland, and Poland. In the first seven months of 2014 EU28 exports to Russia amounted to 130,000 MT, 10 percent down in comparison to first seven months of 2013. The potential loss of export market in Russia for the

EU28 cheese towards the end of 2014 can be estimated at 127,000 MT. It is expected that part of this loss will be offset by exports to new destinations outside the EU28 like Saudi Arabia, Egypt, Libya, and the United Arab Emirates. Apart from Russia, major external markets for EU28 cheeses include the United States, Switzerland, Japan, and Algeria. It is expected that in 2015 exports of cheese will recover as domestic output gears up to meet continuing demand on the world market. If the Russian ban is lifted in 2015 the weaker ruble may reduce the attractiveness of the Russian market for EU28 exporters. Cheese imports are projected to remain within the established import quotas.

Stocks:

On September 4, 2014 the European Commission issued a Regulation (EU) 950/2014 opening a temporary exceptional private storage aid scheme for 155,000 MT of certain cheeses and fixing in advance the amount of aid. The private storage aid scheme was opened for cheeses falling under CN codes 0406 20, 0406 30, 0406 40 and 0406 90, and frozen curd falling under CN code 0406 10. The program was closed on September 22, 2014 because according to the EC “it was disproportionately used” by certain member states. According to Milk Market Observatory report on September 28, 2014 the stocks built during the time when the PSA scheme for cheese has been operating amounted to 101,000MT.

Dairy, Butter

Production, Supply and Demand Data Statistics:

Dairy, Butter European Union	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	33	33	24	24		40
Production	2,100	2,100	2,130	2,195		2,275
Other Imports	43	44	50	40		40
Total Imports	43	44	50	40		40
Total Supply	2,176	2,177	2,204	2,259		2,355
Other Exports	122	122	140	125		150
Total Exports	122	122	140	125		150
Domestic Consumption	2,030	2,031	2,064	2,094		2,165
Total Use	2,152	2,153	2,204	2,219		2,315
Ending Stocks	24	24	0	40		40
Total Distribution	2,176	2,177	2,204	2,259		2,355

1000 MT

Production:

In 2014, EU-28 butter output is expected to increase in comparison to 2013 due to higher supplies of raw milk, continuing world market demand, as well as growing output of NFDM for which butter is a residual product. Lower exports to Russia are expected to be partly offset by growing domestic demand. Stocks will grow towards the end of the year as a result of the PSA program opened by the European Commission in response to the Russian ban in September 2014. It is forecast that in 2015 production will continue to grow due to increased availability of raw milk as well as growing domestic and export demand. Due to the Russian ban some of the EU milk for cheese production is being switched to production of butter and NFDM.

Consumption:

EU-28 domestic butter consumption is projected to increase in 2014 in response to higher output and changes in consumer preferences. Although health concerns are still a factor among some consumers, economic considerations, and campaigns against the use of palm oil are playing a larger role in consumer buying decisions. Consumption growth is expected to continue also in 2015 because of higher production.

Trade:

In 2014, exports of butter are expected to increase slightly in comparison to the previous year's level due to higher output and competitive export prices. On September 28, 2014, the average price of EU butter was 27 percent lower than a year ago and amounted to Euro 3.07 per kilogram. The end of the automatic opening of the Private Storage Aid (PSA) program under the new Common Agricultural Policy (CAP) in 2014 influenced price fluctuations in the EU because butter produced during the spring peak of production had to be stored without the EU subsidies or sold at the lower price. In the first seven months of 2014, EU-28 exports of butter and butter oil increased by 27 and 20 percent, respectively, in comparison to the same period of 2013. In the first seven months of 2014 exports of butter to Russia (the major importer of butter from the EU-28) increased by 30 percent and amounted to 16,000MT. In the case of exports of butter, introduction of the Russian ban is expected to have smaller impact on exports than in the case of cheese because world demand for dairy fat remains firm. Exports of butter are forecast to increase in 2015 because a significant decrease in butter prices in 2014 will make EU butter competitive on the world market in a situation of limited global supplies and stocks. Reduced prices make EU28 butter competitive even on the U.S. market. In the first seven months of 2014 EU28 exported to the United States 4,578MT of butter, a 130 percent increase over the same period of 2013. In the first seven months of 2014, imports within the EU import quota of 77,400 MT set aside for New Zealand amounted to 29,341 MT, 102 percent more than in the comparative period of 2013.

Stocks:

Within the new Common Agricultural Policy 2014-2020 PSA is no longer an automatic system opening mid-March and closing mid-August. Opening of the PSA requires the European Commission's decision, which depends on the current market situation. Introduction of the Russian ban on agricultural products forced the European Commission to re-open the PSA scheme for butter for the period September 4 till December 31, 2014. According to a Milk Market Observatory report on September 28, 2014 PSA stocks of butter amounted to 11,823 MT mainly used by the Netherlands and Ireland. It is estimated that at the end of 2014 PSA stocks of butter may amount to 40,000MT.

Dairy, Milk, Nonfat Dry

Production, Supply and Demand Data Statistics:

Dairy, Milk, Nonfat Dry European Union	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		20
Production	1,270	1,250	1,400	1,440		1,600
Other Imports	5	5	5	2		1
Total Imports	5	5	5	2		1
Total Supply	1,275	1,255	1,405	1,442		1,621
Other Exports	407	407	535	550		650
Total Exports	407	407	535	550		650
Human Dom. Consumption	868	848	870	872		951
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	868	848	870	872		951
Total Use	1,275	1,255	1,405	1,422		1,601
Ending Stocks	0	0	0	20		20
Total Distribution	1,275	1,255	1,405	1,442		1,621
1000 MT						

Production:

In 2014, NFDM output is expected to increase in comparison to 2013 due to higher availability of raw milk supplies and strong demand on the world market. In the first six months of 2014 output of NFDM was 10 percent higher than in the same period of 2013. It is expected that in 2015 output of NFDM will continue to grow as a result of increased drying capacity in Germany, larger supplies of raw milk, and increasing demand in export markets, mainly from China.

Consumption:

Higher NFDM production in 2014 is expected to be directed mainly into export channels or commercial and PSA stocks as well as domestic consumption. Please note that the category “domestic consumption” includes commercial stocks. It is forecast that increase of production in 2015 will push further exports of NFDM and growth of commercial stocks.

Trade:

In the first seven months of 2014, exports of NFDM increased by 60 percent over the same period of 2013. A jump of NFDM exports in 2014 stemmed mostly from higher year-on-year imports by Algeria, China and Egypt. The increase of exports was a combination of high prices for milk powders in 2014 and increased EU28 production. In 2015, exports of NFDM are expected to increase further due to higher output of product in comparison to 2014, reduction of EU prices and strong export demand from the world market. The decrease of prices is attributed to growing output in the United States and European Union and good projections for the output in Oceania.

Stocks:

As in the case of butter, opening of PSA for NFDM requires European Commission's decision, which depends on the current market situation. Introduction of the Russian ban on agricultural products forced the European Commission to re-open the PSA scheme for NFDM from September 4 till December 31, 2014. According to the Milk Market Observatory report of September 28, 2014 PSA stocks of NFDM amounted to 5,617 MT, mainly used by Germany. It is estimated that at the end of 2014 PSA stocks of NFDM may amount to 20,000MT.

Dairy, Dry Whole Milk Powder

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder European Union	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	685	667	750	770		850
Other Imports	3	3	4	2		2
Total Imports	3	3	4	2		2
Total Supply	688	670	754	772		852
Other Exports	374	374	430	440		500
Total Exports	374	374	430	440		500
Human Dom. Consumption	314	296	324	332		352
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	314	296	324	332		352
Total Use	688	670	754	772		852
Ending Stocks	0	0	0	0		0
Total Distribution	688	670	754	772		852

1000 MT

Production:

In 2014, WDM production is expected to increase due to higher supplies of raw milk, continuing export demand and higher domestic demand. The increase of output was boosted because of higher return from manufacturing of milk powders and butter over production of cheese. It is forecast that production of WDM will remain strong because high prices and the limited supply of WDM on the world market should stimulate production in 2015.

Consumption:

In 2014, domestic use of WDM is expected to increase in response to higher domestic demand particularly for chocolate production, and growth of commercial stocks. In 2015 domestic consumption is expected to continue to grow due to greater availability of WDM on the market.

Trade:

In 2014, EU-28 exports of WDM are expected to grow mainly because of increased shipments to Algeria. It is estimated that in 2015 exports will continue to increase because of growing supplies, reduced export prices, and continuing import demand. In the first seven months of 2014, EU-28 exports of WDM were 13 percent over the previous year's level, mainly due to higher shipments to Algeria.

Policy Section

EU Dairy Farmers in Eight MS Face Massive Fine for Overshooting Production Quota

In early October, 2014, the European Commission announced that for the 2013/14 quota year (April-March) Germany, the Netherlands, Poland, Denmark, Austria, Ireland, Cyprus and Luxembourg exceeded their national milk quota allocation although the overall EU deliveries were 4.6% below the total quota volume. The milk deliveries over quota in the aforementioned eight countries amounted to 1,469,000 MT. The total fine for exceeding the quota will amount to €408.7 million. The evolution of milk prices in the last quarter of 2014 and first quarter of 2015 will determine if dairy farmers will maintain a sufficient margin if they overshoot their individual quota or if they will have to buy additional quota or reduce production towards the end of the 2014/2015 quota year.

No Changes to Dairy Soft Landing

The current build-up of over-quota milk deliveries in response to still highly profitable farm gate prices is a strong indication that at the end of the ultimate quota year 2014/15 more MS will have to pay an even bigger fine for overshooting their production quota limits. Therefore, several MS have been lobbying since the beginning of this last quota year for changes to the quota rules in an effort to soften the anticipated bill. At the Agricultural Council meeting on July 14, 2014, 17 Member States (MS), many of which are among the EU's largest dairy producers, pushed for changes to the milk quota rules to allow for a further increase in within-quota production. However, changes to the EU dairy quota rules were dismissed as a blocking minority of 11 MS decided to maintain the dairy "soft landing" rules as agreed upon in 2008. The CAP agreement from 2008 included five consecutive 1 percent milk production quota increases covering the quota years 2009/10 through 2013/14 as a "soft landing" cushion before the abolition of the quota system in 2015, but no last quota increase was foreseen for 2014/15 as it was anticipated that the 5-year "soft landing" would have made the quotas void.

Commission Report on Implementation of Dairy Package

In June 2014, the Commission presented a report on the development of the market situation in the milk sector. The report, which was mandated in the October 2012 "Milk Package," is meant to improve the position of dairy producers and prepare the dairy sector for the end of the quota system in 2015. The report provides information about the implementation of the Dairy Package in individual Member States. It includes data about the installation of producer groups as well as details about milk supply contracts in the different MS.

The report was accompanied by a Commission staff working document that elaborated on the economic evolution of the EU dairy market since the Dairy Package was implemented. The Milk Package was approved after the 2009 dairy crisis with the aim of strengthening EU dairy farmers bargaining positions with their dairy processors in advance of the EU dairy quota regime expiration in April 2015.

Introduction of Private Storage Aid (PSA) for butter, NFDm and cheese in response to the Russian ban on agricultural products

On August, 7, 2014 the Russian government introduced a ban on imports of certain agricultural products from the Union to Russia, including dairy products. In order to mitigate adverse effects of the ban on the EU28 dairy industry the European Commission introduced Private Storage Aid (PSA) for butter, NFDm and cheese for the period of September 4 to December 31, 2014.

Details of the PSA program for each commodity can be found at the following EC regulations:

- Commission Implementing Regulation (EU) No 947/2014 (butter),
- Commission Implementing Regulation (EU) No 948/2014 (NFDm),
- Commission Delegated Regulation (EU) No 950/2014 (cheese).