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Report Name: Exports Drive Improvements in the Spanish Dairy Sector

Country: Spain

Post: Madrid

Report Category: Dairy and Products

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Report Highlights:

The Spanish dairy sector continues to improve its efficiency by increasing milk deliveries and milk per cow ratio. In 2020, Spanish total production of cow milk may increase slightly to 7.3 million tons despite the COVID-19 crisis. During this period, Spanish household consumption of dairy products increased sharply. However, the closure of the hospitality sector in Spain and worldwide in response to COVID-19 related measures affected the domestic and external demand for Spanish high-valued cheese. Consequently, total Spanish dairy exports may lower slightly in 2020. However, the Spanish dairy industry expects exports to rebound in 2021.

Executive Summary

Over the last four years, the restructure of the Spanish dairy industry significantly increased efficiency in domestic dairy production. Spanish dairy ranchers also have taken a more business-oriented approach, improving agronomic practices, increasing efficiency of natural resources, and focusing on increasing exports to non-EU markets. In addition, Spanish industry sources remark that milk and dairy domestic consumption has been trending up for the last three years.

During Spain's first State of Alarm in response to the COVID-19 (March 14 to June 21, 2020), Spanish household consumption of dairy products increased sharply. Specifically, consumption of fluid milk, yoghourt, butter, milk cream, and low-cost cheese grew strongly during this period. According to the Spanish dairy industry, this rising trend in domestic dairy consumption may continue in the coming years. However, increased consumption at home did not offset the loss of sales through hotels, restaurants, and institutions (HRI) channels which market high-valued cheeses and other dairy products. On April 22, the European Commission approved the Private Storage Aid (PSA) for EU dairy products, meat, horticulture, and wine. Spain filled its cheese quota for PSA with 4,592 tons.

According to Spanish dairy sector, the sector continues to works toward improving social, economic, and environmental sustainability. Spanish dairy production contributes significantly in terms of reduction of greenhouse gas emissions (GEI). For this reason, efforts are being already made to reduce the environmental impact, through dietary modifications, improving manure management, reducing the number of animals per farm due to an increase in yield per cow, and by an efficient management of grazing. All these measures are in line with the new EU Green Deal strategy (for more information see EU Dairy and Products Annual Report).

According to Trade Data Monitor (TDM), total Spanish dairy exports have trended upwards for the last 10 years, valued at $1.8 billion in 2019. During the first eight months of 2020, despite de COVID-19 pandemic and related control measures, the volume of Spanish dairy exports declined only 0.8 percent. The major dairy products exported in value terms are cheese, milk and cream, yogurt, infant preparations, ice cream, and butter. Seventy percent of the Spanish dairy exports go to the EU while the United States, Saudi Arabia, and China are the major non-EU export destinations for Spanish dairy products.   In 2019, Spain's dairy exports to the U.S. declined six percent and were valued at $97 million mainly driven by cheese. Similarly, last year, U.S. dairy exports to Spain increased 11 percent and valued at $11.4 million mainly driven by milk albumin.

General Information

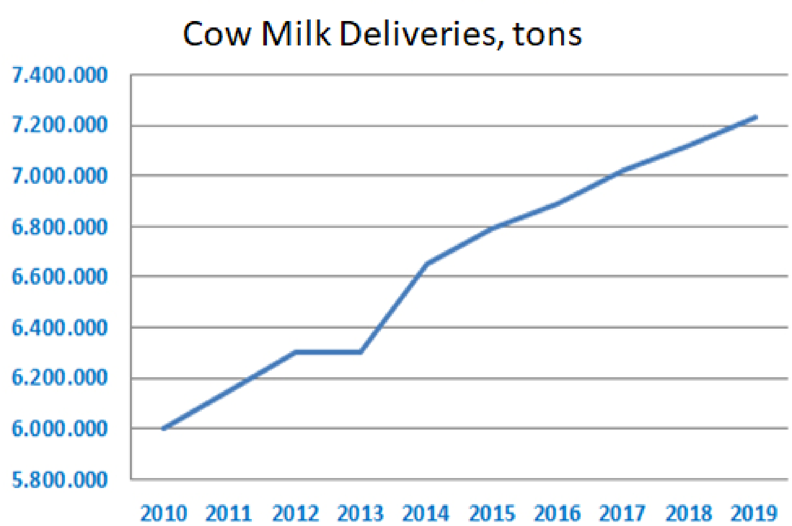
With the ongoing consolidation of the Spanish dairy industry since the abolition of the EU dairy quota in 2015, the number of dairy farmers continued to decline in 2019.   According to the Spanish dairy sector, in 2019, there were 21,700 ranchers producing cow, sheep, and goat milk. Sixty percent are dairy farmers, 25 percent are goat farmers, and 15 percent are sheep farmers. Since 2015, the number of

Spanish dairy farmers lowered 25 percent, sheep farmers declined by 22 percent, while goat farmers increased modestly by 155 new ranchers. The increase in new goat ranchers can be explained by stronger domestic demand for fluid goat milk and foreign demand for dry goat milk powder. In 2020, the number of dairy cows also decreased by 0.5 percent compared to previous year to 812,870 dairy cows. The restructuring of the Spanish dairy sector has led to a higher milk/cow ratio. Improvements in agronomical factors such as animal genetics, nutrition, installations, animal health, and animal welfare significantly enhanced efficiency and the production of cow milk. This restructure also resulted in higher Spanish bovine genetic imports from the United States valued at $4.5 million in 2019, increasing 20 percent over the last five years. The U.S. is the main supplier of bovine genetics to Spain.

As a result of this restructuring, in 2019, Spain's cow milk production continued its upward trend and increased 2 percent to 7.2 million tons, representing 5 percent of EU's total cow milk production (see Chart 1). In addition, Spain is the EU leading producer of sheep and goat milk, producing 511,755 and 475,398 tons respectively in 2019. This stable supply of domestic dairy will continue encouraging the use of domestic milk in the manufacturing of dairy products (see Chart 2).

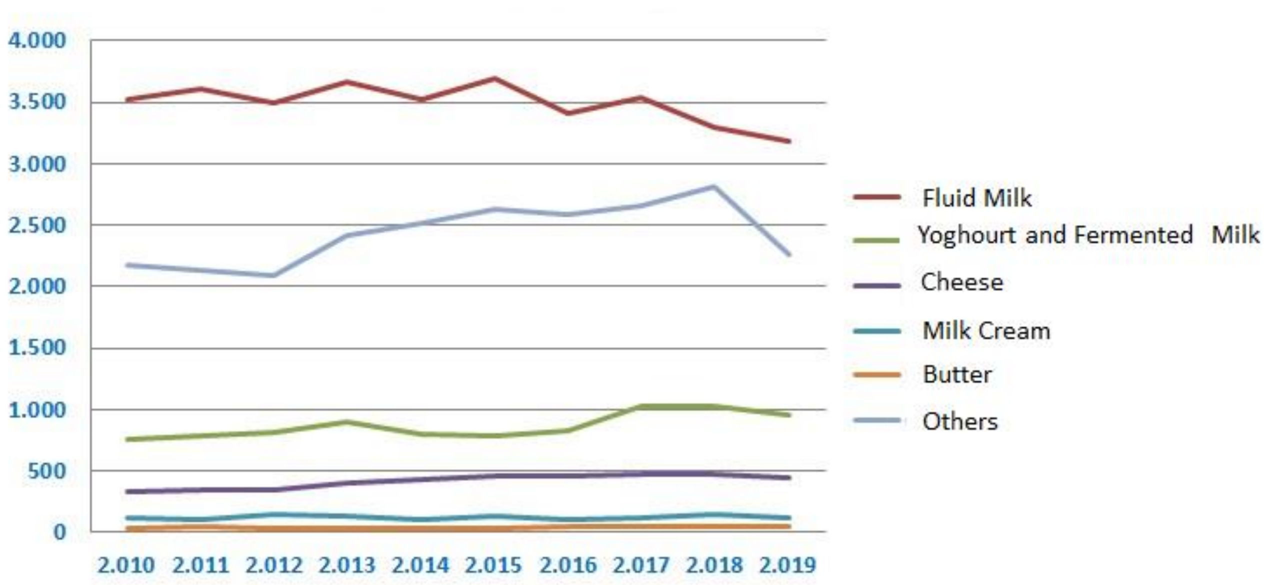
Chart 1. Spanish Cow Milk Deliveries 2010-2019 (in tons)

Year	Volume, tons
2010	5.998.543
2011	6.151.363
2012	6.301.148
2013	6.304.887
2014	6.651.349
2015	6.793.275
2016	6.886.386
2017	7.021.900
2018	7.117.700
2019	7.230.900



Source: Spanish Dairy Industry Association, Fenil

Chart 2. Spanish Production of Dairy Products (in 1,000 tons)



Source: Fenil

In 2020, due to the COVID-19 pandemic, the Spanish dairy sector is facing new disruptions in its ability to market gourmet cheeses like sheep, goat, and mixed cheeses given the temporary closure of the hotels, restaurants, events, celebrations, and tourism. For this reason, in 2020, production of Spanish sheep and goat milk is expected to decline. Instead, due to increased efficiency in cow milk production and a wet spring this year, cow milk production may continue increasing slightly and reach 7.3 million tons in 2020. According to Spanish industry sources, the slight declining trend in dairy cows expected for 2021 may flatten cow milk production in 2021. Additionally, Spanish demand for goat milk is increasing as consumers consider it a healthy option. Spain´s goat and sheep milk powder exports, primarily driven by exports to China for infant formula manufacturing, are expected to continue growing in 2020 and 2021. However, most medium and small Spanish sheep and goat milk producers have been the most impacted by the COVID-19 situation and are likely to decrease their operations.

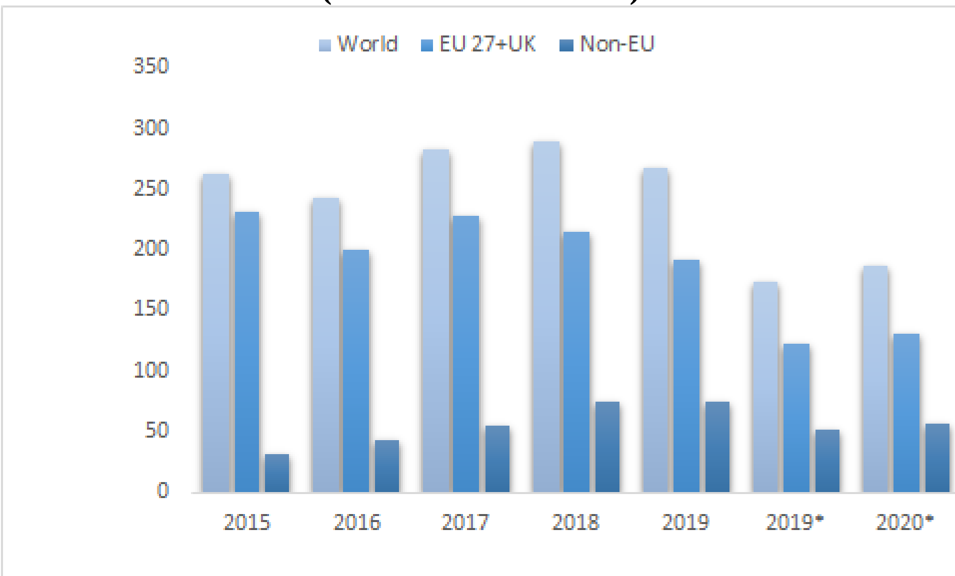
The slight increase in milk consumption may lead to lower use of domestic milk in dairy products manufacturing, particularly in anticipation of lower production of cheese and other higher value-added dairy products. Since 2010, domestic cow's milk deliveries to Spanish dairies have increased more than one million tons substituting the use of imported milk. Dairy cow farms continue to work with efficient agronomic factors despite the COVID-19 pandemic. This decline in imports, primarily from France and Portugal, is consistent with the downward trend of the last ten years (see Chart 3). This trend is expected to continue in 2020 aided by slightly higher demand for domestic milk.

Chart 3. Spanish Dairy Products Trade Balance 2010-2019 (in tons)

Source: Fenil

Prior to the COVID-19 crisis, Spain was focused on increasing exports and developing new strategic markets outside the EU. According to Trade Data Monitor (TDM), in 2019, total Spanish milk exports grew 3 percent in volume compared to previous year but declined 7 percent in value. Last year, Spain exported five percent more milk to new non-EU strategic markets such as Libya, Dominican Republic, China, and Chile. Spanish milk exports to African markets such as Mauritania also contributed. In 2019, Spain's milk exports to China accounted for four percent of the market corresponding to almost a 40 percent rise compared to 2018. By increasing its exports to third countries, about 40 percent of Spain's total milk exports, Spain effectively reoriented its export destinations away from the EU (see Chart 4). In contrast, Spain sent 60 percent of its total milk exports to other EU markets, mainly to Portugal. In 2020, as a result of movement controls and the suspension of Hotels, Restaurants, and Institutions (HRI) operations in response to COVID-19, in Spain and other countries, total Spanish dairy exports -including milk- are expected to lower.

Chart 4. Spain's Milk Exports 2015-2019 & January-August 2019/20 (in U.S. million dollars)

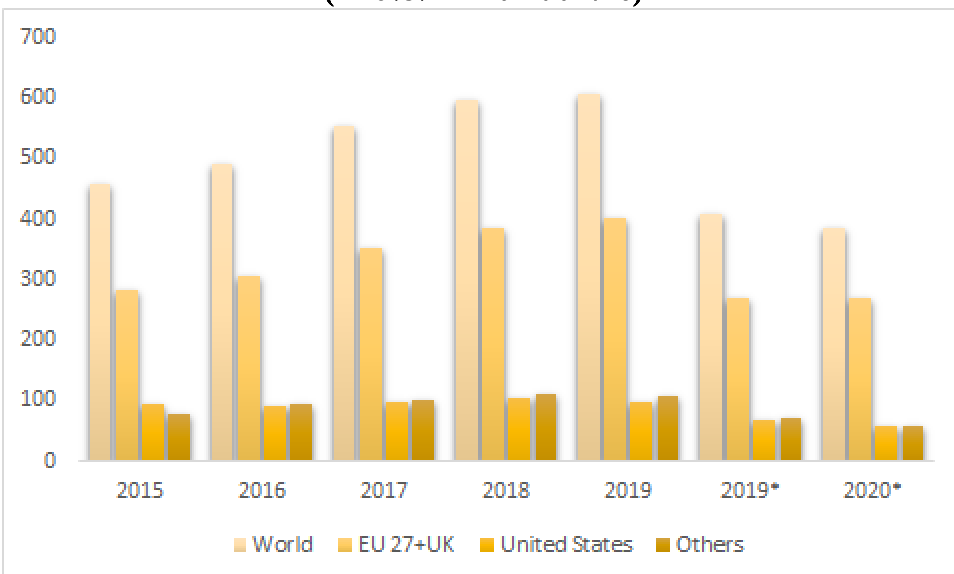


*January August . Source: TDM

Over the last decade, responding to strong international demand, Spanish cheese production has trended upward 50 percent, reaching 460,000 tons in 2019. According to the Spanish dairy industry, this trend may break in 2020 due to the COVID-19 crisis and the suspension of HRI in Spain and export markets. Spanish dairy industry observers speculate that the Spanish hospitality sector may normalize by 2021 and thus Spanish cheese production will recover in 2021. During the Spanish mandated-lockdown measures, Spanish household consumption of cheese trended upward but not enough to offset the sales loss to HRI outlets, which market high-valued cheeses for greater profits. A similar pattern is taking place in Spanish cheese export markets.

In 2019, although Spain remained a net importer of European commodity cheeses, especially surpluses of low-cost cow cheeses from Germany, France, and The Netherlands, the total value of Spanish cheese exports continued to grow to $605 million. Seventy-four percent of Spanish cheese exports go to other European Member States while 36 percent go to non-EU markets. By value, the main non-EU export destinations for Spanish cheese are the United States, Australia, Dominican Republic, Cuba, Mexico, Canada, and Switzerland. According to TDM, during the first eight months of 2019, Spanish cheese exports declined 3.8 percent primarily due to the COVID-19 outbreak in the global market (see Chart 5). In addition, during this period, Spain´s cheese exports to the U.S., its top non-EU market, decreased almost 30 percent in volume, and 16 percent in value to $56.8 million. Additional U.S. tariffs in response to the WTO Case against EU aircraft subsidies contributed to the decline in exports. Since 2014, the United States became Spain's major export destination for cheese with exports valued at $103 million in 2018. Spanish dairy sources report that so far, Spanish and U.S. traders are absorbing the cost of the tariffs, and that higher prices have not yet passed on to final consumers in the United States. In addition, the EU-Canada Comprehensive Economic and Trade Agreement (CETA) propelled Spanish cheese exports to Canada, doubling in the span of two years to almost $4 million in 2019. During the first eight months of 2020, and despite de COVID-19 crisis, Spain's cheese exports to Canada rose by almost 94 percent and reached $3.6 million. For 2020, estimates for total Spanish dairy exports may decline due to COVID-19 and the related suspension of the hospitality sector.

Chart 5. Spain's Cheese Exports 2015-2019 & January-August 2019/20 (in U.S. million dollars)



*January August . Source: TDM

According to Spanish dairy industry sources, in 2020, Spanish production of butter will continue its decade-long upward trend and expand further due to a healthy demand and good butter prices. During the Spanish mandated-lockdown measures, as more families baked at home, household demand for butter strengthened. This, combined with the reopening of HRI, may encourage a strong rise in Spanish butter production for 2020. Spanish production and consumption of butter is traditionally well balanced.

In line with a rise in Spanish butter production, Non-Fat Dried Milk (NFDM) may also increase in 2020. Spain is not an important key-player in the global NFDM market and is a net importer of NFDM coming from the EU, mainly France, Portugal, the Netherlands, and Germany. In 2019, Spanish NFDM production recovered due to a re-activation of Spanish NFDM exports to Mexico. However, in 2020, Spanish NFDM to Mexico may lower due to current paused of exports to this volatile commodity. Conversely, during the first eight months of 2020, Spain´s NFDM to China continued growing. Spanish whole dried milk (WDM) production is around 9,000 tons. Spanish production of WDM is primarily for export. Since 2015, Spain began redirecting its WDM exports (away from other EU countries) to China for infant formula manufacturing. In 2019, Spanish exports of WDM to China continued to grow and China became Spain's major export destination. That said, the lack of economic incentives and the presence of logistical export limitations discourages any significant increases in Spanish WDM production.

Attachments:

No Attachments.