

Voluntary Report – Voluntary - Public Distribution

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Report Name: Spanish Cheese Exports May Rebound in 2021

Country: Spain

Post: Madrid

Report Category: Dairy and Products

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Report Highlights:

In 2020, Spanish dairy industry sector continued to increase milk production and efficiency despite the COVID-19 pandemic and lower dairy consumption due to the closure of the hospitality sector. Conversely, Spanish household dairy consumption rose sharply and may continue to rise in 2021. As a result of the pandemic, the Spanish cheese sector faced difficulties marketing gourmet cheeses domestically and in export markets. The Spanish dairy industry expects Spanish cheese exports to rebound in 2021 following the March 2021 announcement temporarily suspending tariffs related to the U.S. – EU WTO aircraft case. Anticipating a domestic and global recovery of the hospitality sector in 2021, total Spanish dairy exports may continue trending upward.

Executive Summary

Spanish domestic cow milk production rose 2.7 percent to 7.4 million tons in 2020 compared to 2019, due to increased efficiency in cow milk production and a wet spring during 2020. Conversely, in 2020, the Spanish dairy cow herd declined 4 percent to 810,000 animals. The number of dairy farmers continued its downward trend, lowering 5 percent to 12,479 dairy farmers compared to 2019. 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 efficiency growth also continued to boost Spanish imports of U.S. bovine genetics valued at \$4.5 million in 2020, increasing 36 percent over the last five years.

In addition, Spain is one of the EU leading producer of sheep and goat milk, mainly destined to produce high-valued cheeses. However, in 2020, due to the COVID-19 pandemic, the Spanish dairy sector faced disruptions marketing 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, Spanish production of sheep and goat milk declined slightly. However, due to the strong demand for Spanish sheep and goat milk domestically and in external markets, including China, sheep and goat milk prices are trending upwards.

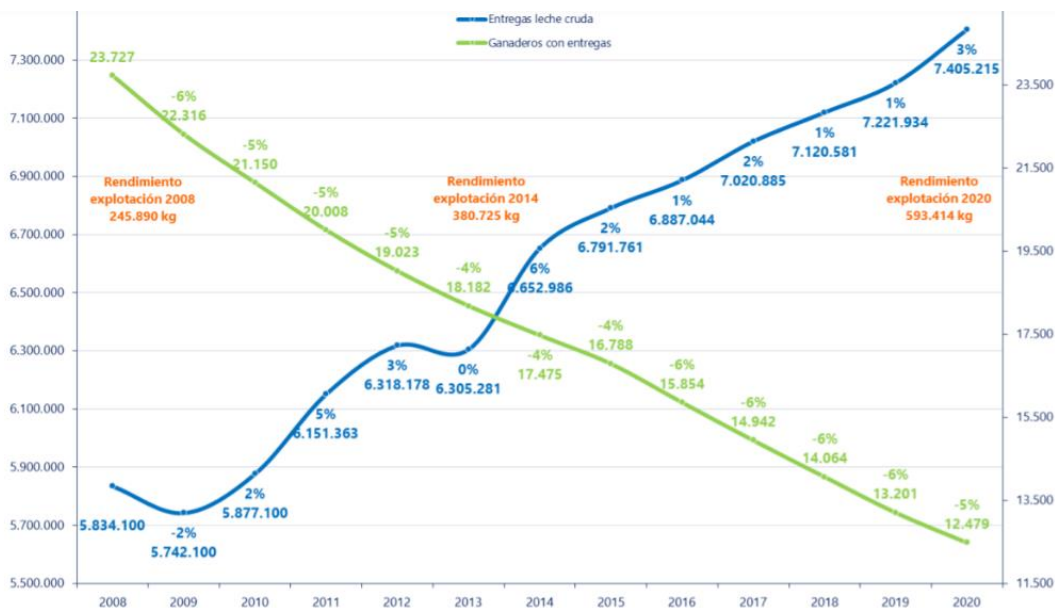
Spanish industry sources remark that in 2020, during the COVID-19 pandemic, household consumption of fluid milk, yogurt, butter for homemade bakery, milk cream, and low-cost cheese grew strongly. According to the Spanish dairy industry, domestic dairy consumption may continue to rise in the coming years. However, this increase in household consumption did not offset the loss of the hospitality and tourism sectors marketing high-valued cheeses and other dairy products.

Spain effectively reoriented its dairy export destinations to non-EU markets. In 2020, Spain sent 65 percent of its total dairy exports to other EU markets, mainly to Portugal, France, and Italy. Major non-EU markets of Spanish dairy exports are the UK, Saudi Arabia, the United States, and China. In 2020, despite the COVID-19 crisis and related global measures, total Spanish dairy exports -including milk- increased 0.4 percent and valued at \$1.8 billion. Higher export volumes of milk and cream, yogurt and fermented milk, infant formula, and whey offset lower export volumes of Spanish cheese. Spanish dairy exports to the United States are mainly high-valued cheese as this market is Spain's major export destination for cheese outside the EU. In 2020, Spain's cheese exports to the U.S. decreased 17 percent in volume, and 2.5 percent in value to \$94 million due to the COVID-19 crisis and additional U.S. tariffs in response to the WTO case against EU aircraft subsidies. Spanish dairy sources report that Spanish and U.S. traders absorbed the cost of the additional tariffs. Thus, they welcome the announcement in March 2021 suspending these additional tariffs for four months and expect a rebound of Spanish cheese exports in 2021. According to Spanish sources, in 2021, expecting the global recovery of the hospitality sector, Spanish dairy exports may continue trending upward.

General Information

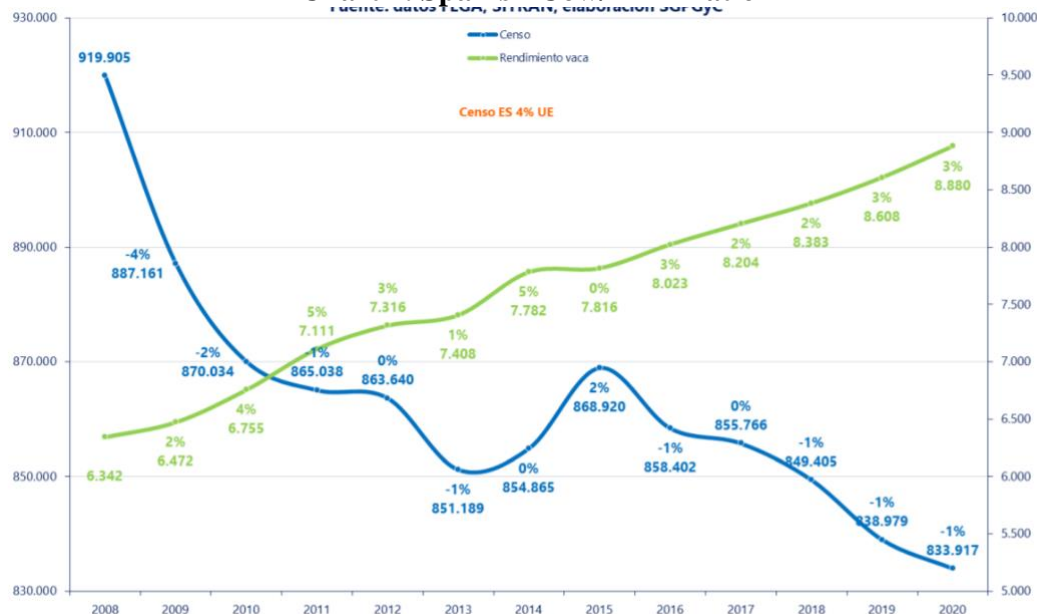
Since the abolition of the EU milk quota in 2015, the restructure of the Spanish dairy industry significantly increased efficiency and higher milk/cow ratio (see Chart 1). According to official data, Spanish domestic cow milk production rose 2.7 percent to 7.4 million tons in 2020 compared to 2019, and 27 percent compared to 2010. The production expansion is due to increased efficiency in cow milk production and a wet spring during 2020. Notwithstanding, over the last decade the dairy cow herd decreased 4 percent to 810,000 animals. Similarly, the number of dairy farmers continued to decline in 2020, down 5 percent to 12,479 dairy farmers compared to 2019. Improvements in agronomical factors such as animal genetics, nutrition, installations, animal health, and animal welfare significantly enhanced efficiency and the production of cow milk. According to official data, in 2019, Spanish total organic milk production represented only 1.3 percent of total Spanish cow milk production, 0.63 percent of total sheep milk, and 2.5 percent of total goat milk production. The dairy sector explains that the organic milk production has not taken off in Spain due to several factors, namely price, which continues to play a key role in consumer purchasing decisions. In addition, Spain has a large assortment of different types of high-valued fluid milk, such as milk featuring an animal welfare certificate, milk from mountain-grazing cows, fresh cow, sheep, and goat milk, etc.

Chart 1. Spanish Cow's Milks Deliveries to Dairy compared to Farmers



Source: [Spanish Ministry of Agriculture](#)

Chart 2. Spanish Cow/Milk Ratio



Source: Spanish Ministry of Agriculture

In addition, Spanish industry sources remarks that milk and dairy domestic consumption has been trending upward for the last three years. In 2020, during the COVID-19 pandemic, household consumption of dairy products increased sharply. Specifically, consumption of fluid milk, yogurt, butter for homemade bakery, milk cream, and low-cost cheese grew strongly during this period. Spanish industry contacts highlight an overall growth in dairy products consumption in Spanish households during last year: consumption of fluid milk rose 5 percent, yogurt and fermented milk grew 2.5 percent, cheese rose 6 percent, and milk cream, butter, and other dairy products leaped 17 percent. According to the Spanish dairy industry, this rising domestic dairy consumption trend may continue in the coming years. However, increased household consumption did not offset the loss of sales through hotels, restaurants, and institutions (HRI) channels which market high-valued cheeses and other dairy products. Last spring, the European Commission approved the Private Storage Aid (PSA) for EU dairy products and Spain filled its cheese quota with 4,592 tons, 793 tons of butter, and 185 tons of Non-Fat Dried Milk (NFDM) to rebalance the Spanish markets. Spanish average milk price in December 2020 stood 6.8 percent lower than EU milk price at 32.91 euro/100 kg.

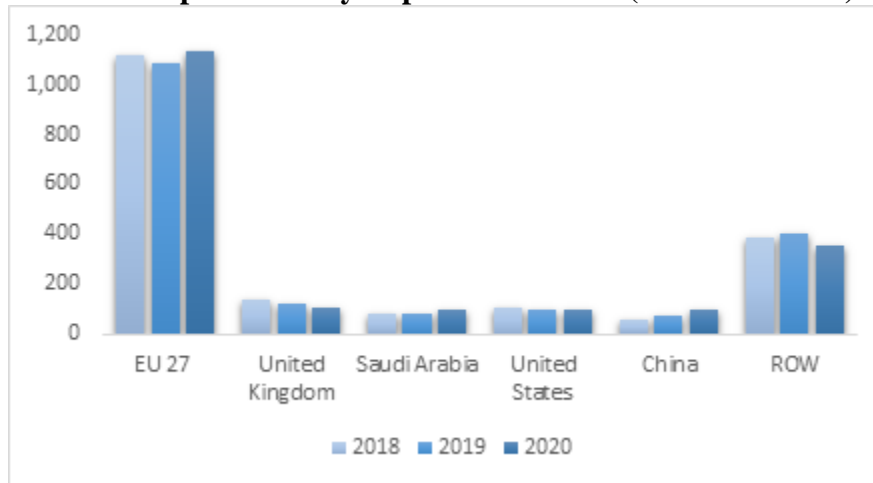
The industry’s restructure also resulted in higher Spanish imports of bovine genetics from the United States, increasing 36 percent over the last five years and valued at \$4.5 million in 2020. In addition, Spain is the EU leading producer of sheep and goat milk. This stable supply of domestic dairy will continue encouraging the use of domestic milk in the manufacturing of dairy products. However, in

2020, due to the COVID-19 pandemic, the Spanish dairy sector faced disruptions marketing gourmet cheeses like sheep, goat, and mixed cheeses given the temporary closure of the hotels, restaurants, events, celebrations, and tourism. Most medium and small producers of Spanish sheep and goat milk have been the most impacted by the COVID-19 situation. For this reason, in 2020, production of Spanish sheep and goat milk declined slightly and may remain flat in 2021. However, due to the strong domestic and global demand for Spanish sheep and goat milk, including China, sheep and goat milk prices continue to rise. Spanish demand for goat milk is increasing as consumers considered it very healthy and Spain's goat and sheep milk powder exports to China are expected to continue in 2021. According to Spanish sources, in 2021, milk production of cow, sheep, and goat may remain flat in response to consumer demand and the expected recovery of the hospitality sector.

In 2020, the increase in milk consumption led to lower manufacturing use of domestic milk, particularly in anticipation of lower production of cheese and other higher value-added dairy products due to the pandemic. 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, remained flat in 2020 and this trend is expected to continue in 2021 aided by slightly higher domestic milk demand.

Prior to the COVID-19 crisis, Spain was focused on increasing dairy exports and developing new strategic markets outside the EU. According to Trade Data Monitor, (TDM), in 2020, total Spanish milk exports grew 4.6 percent compared to previous year. Last year, Spain exported 1.2 percent more milk to non-EU strategic markets such as China, Libya, South Korea, and Dominican Republic. In 2020, Spain's total dairy exports to China continued to rise, growing 25 percent compared to 2019 and valued at \$95 million. Exported dairy products are mainly milk, milk powders, butter, and dairy whey (for swine herd feed). 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. In contrast, Spain sent 60 percent of its total milk exports to other EU markets, mainly to Portugal, France, and Italy. In 2020, despite of movement controls and the suspension of HRI activities in response to COVID-19, in Spain and other countries, total Spanish dairy exports -including milk-increased 0.4 percent and valued at \$1.8 billion. Increased export volumes of milk and cream, yogurt and fermented milk, infant formula, and whey offset the decline in Spanish cheese export volumes (see Chart 3). Spanish sources report that in 2021, due to the expected recovery of the hospitality sector in Spain and globally, Spanish dairy exports may continue to trend upward.

Chart 3. Spanish Dairy Exports 2018-2020 (in Million USD)

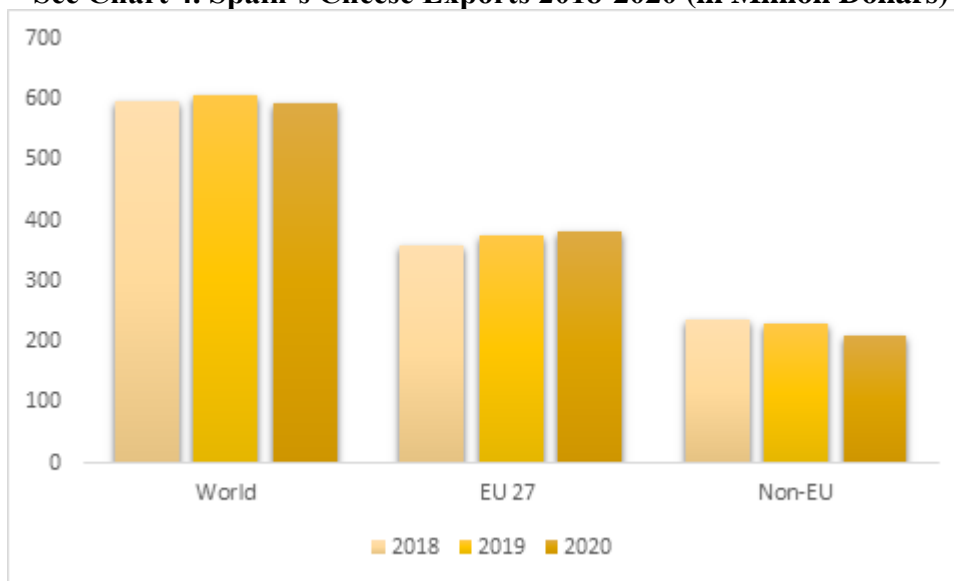


Source: TDM

Over the last decade, responding to strong international demand, Spanish cheese production has jumped 50 percent, reaching 442,000 tons in 2019. According to the Spanish dairy industry, this trend broke slightly in 2020 due to the COVID-19 crisis and the suspension of HRI in Spain and export markets. Industry observers expect that the Spanish cheese production will recover in 2021 due to the estimated reopening of hospitality sector and tourism and optimism over rollout of the COVID-19 vaccination. During the Spanish lockdown measures, Spanish household consumption of cheese trended upward but not enough to offset the loss in sales to HRI. A similar pattern took place in Spanish cheese export markets outside the EU. In 2020, Spain remained a net importer of European commodity cheeses, especially surpluses of low-cost cow cheeses from Germany, France, and the Netherlands. Additionally, Spain exported 1.7 percent less cheese compared to 2019 mainly due to the 16 percent decline in Spanish cheese exports outside the EU to 25,000 tons. In 2020, the total value of Spanish cheese exports reached \$593 million, a 2 percent decrease compared to 2019 (see Chart 4). In 2020, 80 percent of Spanish cheese exports went to other European Member States while 20 percent went to non-EU markets. By value, the main non-EU destinations for Spanish cheese are the United States, the UK, Canada, Australia, Dominican Republic, Mexico, Switzerland, and Cuba. In addition, Spanish cheese exports to China continued to grow slightly. In 2020, Spain's cheese exports to the U.S. decreased 17 percent in volume, and 2.5 percent in value to \$94 million. Lower exports were due to the COVID-19 crisis but also to additional U.S. tariffs related to the WTO case against EU aircraft subsidies. The United States is Spain's major non-EU export destination for cheese. Spanish dairy sources reported that Spanish and U.S. traders absorbed the cost of the additional tariffs, and that higher prices did not pass to final consumers in the United States. Spanish dairy industry welcomed the announcement in March 2021 temporarily suspending these additional tariffs. Hence, they expect a

rebound of Spanish cheese exports in 2021. In addition, the EU-Canada Comprehensive Economic and Trade Agreement (CETA) propelled Spanish cheese exports to Canada. Over the last three years, Spanish exports to Canada tripled and reached almost \$6.6 million in 2020. For 2021, estimates for total Spanish dairy exports may rise due to expected “normality” after the COVID-19 crisis and the related recovery of the hospitality sector and tourism.

See Chart 4. Spain’s Cheese Exports 2018-2020 (in Million Dollars)



Source: TDM

According to Spanish dairy sources, in 2020, Spanish production of butter continued its decade-long upward trend and expanded further due to a healthy demand and good butter prices. During the Spanish lockdown measures, as more families baked at home, household demand for butter strengthened. This combined with the reopening of HRI may encourage a continued rise in Spanish butter production for 2021. Spanish production and consumption of butter is traditionally well balanced. Regarding trade, 90 percent of Spain’s butter exports are going to the EU. China, Algeria, and Cuba are the main non-EU export destinations.

In line with the rise in Spanish butter production, NFDM production may also increase in 2021. In 2020, due to lower demand mainly in non-EU markets, namely negligible demand from Mexico, Spanish imports of NFDM from other EU countries lowered 23 percent, mainly from France, the Netherlands, and Portugal. Spain is not an important key-player in the global NFDM market and is a net importer of NFDM. However, NFDM to China continued to rise for the second year in a row, including sheep and goat milk powders and valued \$13 million in 2020. Spanish Whole Dried Milk (WDM) production is around 9,000 tons. Spanish production of WDM is primarily for export. Since 2017, Spain began redirecting its WDM exports (away from other EU countries) to China for infant formula manufacturing. However, last year, Spanish exports of WDM to China plummeted 76 percent and redirected exports to the EU, mainly due to the COVID-19 related issues such as logistics. The lack of

economic incentives and the presence of logistical export limitations will continue to discourage any significant increases in Spanish WDM production.

Additional Information

For more information on exporting U.S. agricultural products to Spain, please check the recently published reports:

Report Number	Title
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<u>SP2021-0013</u>	Food Processing Ingredients
<u>SP2020-0046</u>	Exporter Guide
<u>SP2020-0030</u>	Food Service – Hotel, Restaurants, Institutional
<u>SP2020-0024</u>	Retail Foods
<u>SP2020-0020</u>	Spanish Retail and Distribution Sector Update

Attachments:

No Attachments.