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EU-28 2018 Semi-annual Dairy and Products Report

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Report Highlights:

Post estimates that 2018 milk deliveries in the European Union (EU) 2018 will increase by one percent over 2017 because of continued domestic and international demand. Although higher milk production in 2018 will generally result in higher dairy-product output, cheese manufacturing will account for the majority of the increase. Large non-fat dry milk (NFDM) stocks, a remnant of EU market-intervention programs in 2016 and 2017, are expected to negatively affect the NFDM market in 2018. China, Algeria, and the United States were the top three export markets for EU dairy products in 2017.

DISCLAIMER

The PS&D numbers contained in this report are not official USDA numbers. The following numbers are the result analysis and input from FAS offices across the EU and are a consolidation of PS&Ds from all EU-28 member states.

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Executive Summary:

Production

2018

2018 EU milk deliveries will increase by one percent over 2017 due to continued domestic and international demand. Higher 2018 milk production will increase the overall production of dairy products, although cheese production will account for the largest share. Post expects that the 2018 output of cheese will continue to grow due to favorable world market prices and continued export demand. Despite export demand growth of butter and non-fat dry milk (NFDM) manufacturing will be limited by the large NFDM stocks leftover from EU market intervention programs in 2016 and 2017. Whole dry milk (WDM) production is also expected to increase over 2017 due to higher milk output. Fluid milk production is expected to decline, reflecting a general reduction in fluid-milk consumption in the EU.

In February 2018, average EU raw-milk prices were €34 per 100 kilograms, almost unchanged from February 2017. After a seasonal decline during the spring, raw-milk prices should stabilize during the latter half of 2018, due to steady domestic and international market demand.

Dairy cow inventories in January 2018 dropped by one percent (230,000 head) from January 2017. This reduction did not affect milk output in 2017, as higher milk-yields compensated for the decline in the overall herd. The biggest single-country dairy-herd decline occurred in the Netherlands (129,000 head), due to new requirements to reduce phosphate emissions of the sector. EU dairy cow inventories are further expected to decline in 2018, mostly due to genetic improvements and increasing milk yields.

2017

EU-28 milk production in 2017 increased by about 1.6 percent over 2016. Favorable farm-gate prices for milk and lower feed costs during the last quarter of 2017 resulted in increased milk deliveries, which offset reduced production in the first seven months of 2017. Lower milk deliveries in Germany, the largest EU milk producer, were offset by higher deliveries in Eastern Europe, Ireland, Italy, and Spain.

In January 2018, the UK Government revised its milk production figures for every month in 2017, showing an increase in volumes across the board, adding nearly 800,000 metric tons (MT) to the previous 2017 estimate.

Consumption

Cheese consumption in 2018 will continue to increase because of higher production and growing demand for mozzarella and processed cheese. Butter consumption in 2018 will remain at last year's level. In 2017, the EU's butter supply was augmented by the Public Storage Aid (PSA) stocks. The PSA butter stocks were depleted as a result and are not available in 2018. NFDM and WDM consumption in 2018 should stabilize, as their higher output in 2018 will be destined mainly for export. 2018 fluid milk consumption will decrease from 2017, as consumers continue to shift away from fluid milk consumption toward other dairy products.

Trade

2017

In 2017, China, Algeria, and the United States were the top three export markets for EU dairy products. After a significant increase of fluid-milk exports in 2016, 2017 fluid-milk exports decreased, mainly because of reduced Chinese demand. 2017 cheese exports grew by about four percent, driven by higher production and strong international demand. Despite record-high world market prices for butter, exports of butter in 2017 decreased due to reduced availability and strong domestic demand. In response to strong demand from Algeria, China, Indonesia, and Mexico, 2017 exports of NFDMM increased by about 35 percent. 2017 WDM exports increased by three percent due to higher shipments to Algeria, Nigeria and China.

2018

In 2018, exports of cheese will continue to grow because of higher output and continued demand from the United States, Japan, Saudi Arabia, and South Korea. Exports of butter will remain stable in 2018 because of continuing domestic market demand and reduced private stocks. The United States, Saudi Arabia, and China will remain the major export markets for butter in 2018. 2018 exports of NFDMM are forecast to increase due to competitive prices and strong pressure to export the stocks built during 2016 and 2017 EU's public intervention. Exports of WDM will grow in 2018 because of continued demand from Algeria and the Middle East. In 2018, fluid-milk exports will slightly increase, as reduced demand from China will be offset by higher exports to Africa.

Market Intervention

According to data published by the EC's Milk Market Observatory (MMO)*, as of December 2017, the EU held 378,051 MT of NFDMM stocks under its public intervention scheme. Moreover, as of December 2017, 2,044 MT of NFDMM were stored in the Private Stock Aid (PSA). Total EU public intervention and PSA NFDMM stocks at the end of December 2017 were 380,095 MT.

In January 2018, the EU amended its rules for procuring excess stocks of NFDMM. It also adjusted the limits of eligible NFDMM for new tenders as of March 1, as well as the prices at which they are offered. As a result, the automatic purchase ceiling for NFDMM, at which all offers were accepted at the intervention price of €1,698 per MT, were reduced from 109,000 MT to zero. Buying into the 2018 public intervention scheme will be based only on a tendering process.

**The MMO is an advisory group of experts/organizations created by the EC to monitor EU and world dairy market after the termination of milk quota system.*

Commodities: Dairy, Milk, Fluid

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Cows In Milk	23,595	23,548	23,507	23,525	23,500	23,299
Cows Milk Production	151,000	151,000	151,700	153,400	152,100	155,100
Other Milk Production	4,550	4,550	4,600	4,600	4,650	4,680
Total Production	155,550	155,550	156,300	158,000	156,750	159,780
Other Imports	5	5	8	16	8	8
Total Imports	5	5	8	16	8	8
Total Supply	155,555	155,555	156,308	158,016	156,758	159,788
Other Exports	893	894	800	815	800	825
Total Exports	893	894	800	815	800	825
Fluid Use Dom. Consum.	33,600	33,600	33,550	33,550	33,500	33,500
Factory Use Consum.	121,062	121,061	121,958	123,651	122,458	125,463
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	154,662	154,661	155,508	157,201	155,958	158,963
Total Distribution	155,555	155,555	156,308	158,016	156,758	159,788

(1000 HEAD) ,(1000 MT)

Production:

2018

In 2018 milk deliveries will increase by one percent over 2017. According to the MMO, EU milk deliveries during the first two months of 2018 were 3.5 percent higher over the same period of 2017. Higher deliveries in early 2018 over the previous year are partly attributed to lower production levels in January and February 2017, when the EC's milk reduction scheme was still in place. In February 2018, the average EU raw milk price was €34 per 100 kilograms, almost no change over the same month in 2017. It is expected that inventories of dairy cows in 2018 will continue to decline but improved genetics in national herds should lead to higher yield averages per cow in 2018, as well as more of overall milk output.

2017

Unfavorable weather conditions which adversely affected feed supplies in spring 2017 and the EU milk reduction scheme led to reduced production in major EU milk producers (Germany and France) during the first seven months of the year. In the last quarter of 2017, improved feed supplies and stronger farm-gate prices for milk led to a significant increase of milk deliveries.

Overall, milk deliveries in Germany, France, Sweden, Slovenia, and the Netherlands decreased in comparison to the same period of 2016. The Netherlands experienced the single-country dairy-herd decline (129,000 head), due to new requirements to reduce phosphate emissions of the sector. Dutch milk deliveries declined by only 0.2 percent in 2017, as in general the least productive cows were

slaughtered, and most at the end of the year. Belgium, Bulgaria, Ireland, Poland, Romania, Italy, Spain, and the UK recorded an increase in milk deliveries. Please note that in January 2018, the UK Government revised its milk production figures for every month in 2017, showing an increase in volumes across the board and adding nearly 800,000 MT to the previous 2017 estimate.

Consumption:

Post expects that 2018 fluid milk consumption will decrease compared to 2017, following the current consumer trend away from fluid milk toward cheese and other processed dairy products. In France, fluid-milk consumption decreased by 3.4 percent in 2017, mainly due to disinformation campaigns by anti-milk activists, who seek to damage the public’s perception that milk is a healthful product. French fluid-milk consumption is also negatively affected by competition from plant-based substitutes like soy and almond drinks, as well as niche products such as flavored, vitamin-enriched, lactose-free, and plant-based milk products.

Trade:

Fluid-milk exports in 2018 will be slightly up in 2018, because reduced demand from China will be offset by higher shipments to Africa.

Commodities: Dairy, Cheese

Production, Supply and Demand Data Statistics:

Dairy, Cheese Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	27	27	15	15	11	0
Production	9,810	9,810	9,960	10,050	10,060	10,190
Other Imports	71	71	60	60	60	60
Total Imports	71	71	60	60	60	60
Total Supply	9,908	9,908	10,035	10,125	10,131	10,250
Other Exports	800	800	830	830	880	880
Total Exports	800	800	830	830	880	880
Human Dom. Consumption	9,093	9,093	9,194	9,295	9,251	9,370
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	9,093	9,093	9,194	9,295	9,251	9,370
Total Use	9,893	9,893	10,024	10,125	10,131	10,250
Ending Stocks	15	15	11	0	0	0
Total Distribution	9,908	9,908	10,035	10,125	10,131	10,250
(1000 MT)						

Production:

Cheese production remains the driving force of the EU-28's dairy processing industry. In 2018, cheese production will increase by an additional 2.4 percent over 2017's high level. Cheese production will absorb most of the EU's higher milk output in 2018. Higher cheese production will be split equally between export and domestic markets.

Consumption:

Higher supplies and improving economic conditions in some Member States are expected to further stimulate demand for cheese in 2018.

Trade:

Cheese exports in 2018 are expected to grow by six percent over 2017 due to higher supplies. The United States will remain the EU's largest export destination, followed by Japan, Switzerland, and Saudi Arabia. Cheese imports are projected to remain within established import quotas. 2017 saw a significant increase of the fresh cheese exports (12 percent), versus slower growth of the more established hard and semi-hard cheese categories (two percent increase). Exports of grated and powdered cheese also increased by 17 percent over 2016 levels.

Commodities: Dairy, Butter

Production, Supply and Demand Data Statistics:

Dairy, Butter Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	51	51	25	25	0	0
Production	2,345	2,345	2,310	2,340	2,320	2,355
Other Imports	23	23	20	17	15	17
Total Imports	23	23	20	17	15	17
Total Supply	2,419	2,419	2,355	2,382	2,335	2,372
Other Exports	213	213	170	174	145	174
Total Exports	213	213	170	174	145	174
Domestic Consumption	2,181	2,181	2,185	2,208	2,190	2,198
Total Use	2,394	2,394	2,355	2,382	2,335	2,372
Ending Stocks	25	25	0	0	0	0
Total Distribution	2,419	2,419	2,355	2,382	2,335	2,372
(1000 MT)						

Production:

Butter prices reached a historic levels in September 2017, at €6,500/MT (\$7,735) due to high domestic demand, limited output, and reduced stocks. Although prices have since decreased, they remain high, with March 2018 prices at €4,800/MT (\$5,952). 2018 butter production will increase over 2017 due to higher availability of milk for processing and strong domestic and international market demand.

Consumption:

Post estimates that EU butter domestic consumption in 2018 will decline from 2017. In 2017, domestic consumption was augmented by PSA stocks, which are no longer available in 2018. More and more EU consumers perceive butter as a healthful product and more natural than margarine. Food manufacturers also like butter because most vegetable oils (other than palm) tend to have a strong taste. Palm oil also tends to face consumer backlash throughout the EU, unless it is sustainably sourced.

Trade:

Despite high world market prices, butter exports in 2018 are expected to remain at the previous year's level due to strong domestic demand. EU butter remains competitive in the United States. During first two months of 2018 exports of butter to the U.S. increased by 56 percent. In 2017, the EU-28 exported 27,000 MT of butter to the United States, a 39 percent increase over 2016. Other important export markets for EU butter include Saudi Arabia, Iran, and China. In 2017, butter oil exports decreased by 28 percent, mainly because of an almost 53-percent drop in exports to China.

Stocks:

In 2017, PSA butter stocks were depleted due to strong domestic and international demand.

Commodities: Dairy, Milk, Nonfat Dry

Production, Supply and Demand Data Statistics:

Dairy, Milk, Nonfat Dry Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	62	62	418	418	385	380
Production	1,735	1,735	1,660	1,725	1,685	1,755
Other Imports	4	2	2	2	2	2
Total Imports	4	2	2	2	2	2
Total Supply	1,801	1,799	2,080	2,145	2,072	2,137
Other Exports	574	580	759	780	780	800
Total Exports	574	580	759	780	780	800
Human Dom.	809	801	936	985	937	982

Consumption						
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	809	801	936	985	937	982
Total Use	1,383	1,381	1,695	1,765	1,717	1,782
Ending Stocks	418	418	385	380	355	355
Total Distribution	1,801	1,799	2,080	2,145	2,072	2,137
(1000 MT)						

Please note: The estimate of NFDM production in 2017 and 2018 is based on the fat-protein balance of milk deliveries and output of dairy products.

Production:

In 2018, NFDM production will increase from 2017 due to higher supplies of milk and higher butter manufacturing. Despite strong demand on the international market, large public and PSA NFDM stocks accumulated in 2016 and 2017, and better returns from cheese manufacturing, are expected to limit the pace of NFDM production increase in 2018.

Output of NFDM in 2017 was adjusted up in comparison to the GAIN 2017 EU28 Annual Dairy and Products Report because of higher than originally predicted deliveries of milk in the last quarter of the year.

Consumption:

In 2018, consumption of NFDM will remain almost flat in comparison to 2017 because higher NFDM production will be directed mainly for export. Please note that domestic consumption in this report includes commercial stocks. In 2018, part of production may be transferred into commercial stocks because of EC decision on not opening the 109,000 MT quota of purchases for public intervention stocks (see Policy Section).

Trade:

Post expects that in 2018 exports of NFDM will increase by three percent based on competitive prices and large stocks, some of which will be exported. Major export destinations for NFDM exported from the EU are Algeria, China, Indonesia, the Philippines, and Mexico. During first two months of 2017, exports of NFDM increased by 12 percent over the same period in 2017.

Stocks:

According to data published by MMO, as of December 2017, the EC stocked 378,051 MT of NFDM under its public intervention scheme. In addition at the end of December 2017, 2,044 MT of NFDM were stocked under the Private Storage Scheme (PSA). Total public intervention and PSA stocks of NFDM as of the end of December 2017 were 380,095 MT. The level of NFDM stocks is expected to remain high through 2018 unless the EC decides to offload stocks, most likely under food assistance programs.

Commodities: Dairy, Dry Whole Milk Powder

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	0	0	0	0	0	0
Production	720	720	725	760	740	775
Other Imports	6	6	1	2	3	2
Total Imports	6	6	1	2	3	2
Total Supply	726	726	726	762	743	777
Other Exports	381	382	390	394	400	410
Total Exports	381	382	390	394	400	410
Human Dom. Consumption	345	344	336	368	343	367
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	345	344	336	368	343	367
Total Use	726	726	726	762	743	777
Ending Stocks	0	0	0	0	0	0
Total Distribution	726	726	726	762	743	777

(1000 MT)

Production:

In 2018 WDM production is expected to increase compared to the previous year because of higher milk availability and export demand from North African and Middle East countries.

Consumption:

In 2018 domestic use of WDM is expected to remain at the previous year's level because of continuing demand from the food industry (mainly chocolate manufacturing).

Trade:

Post estimates that in 2018 WDM exports will grow in comparison with the previous year's level because of higher output and continuing demand from Algeria and Middle East.

EU Policy:

NFDM Stocks Issue Remains Unresolved

NFDM stocks of 380,000 MT, which represents more than a quarter year's production, remain an unresolved issue, because the EC maintains its position of selling stocks through tenders. In 19 tender sessions since December 2016, only 34,614 MT of sale tenders were accepted, of which 24,066 MT in the latest tender. This finally cleared the intervention stocks from 2015. Dairy industries from Member States and dairy farmer organizations push for offering NFDM stocks for food assistance or even using it as a fertilizer. It is expected that if the issue remains unresolved, it will continue to depress the EU NFDM market.

In light of high stocks and good export demand, the EC decided to limit public intervention buying of NFDM in 2018 to tenders only, which are unlikely to occur under current market conditions. In January 2018, the EU amended rules determining limits for buying in excess stocks of NFDM and the rules over the quantities of NFDM accepted into intervention when the new tenders open in March 1, and over the prices at which they are offered. As a result of the amendment the ceiling for automatic purchases of NFDM within which all offers are accepted at the intervention price of Euro 1,698 per MT were reduced from 109,000 MT to zero.

EU Environmental Restrictions

Farmers in most of the old EU-15 member states face similar limitations in various regions and to various degrees as the restrictions are to protect soil and water and are not linked to dairy farming but all animal husbandry. In 2017, Dutch milk deliveries declined as a result of the plan to reduce the phosphate emissions of the sector. Farmers had to cut their herd by five percent compared to the size in October 2016, or have a smaller herd compared to the size in July 2015. The enforcement was conducted by fines and bonuses. Despite many farmers have endorsed an official protest, most farmers complied and the execution was as scheduled. As a result of the plan, Dutch dairy herd has been reduced by about 129,000 dairy cows in 2017. Milk deliveries declined by only 0.2 percent in 2017, as in general the least productive cows were slaughtered, and most at the end of the year.

Brexit

In March 2018, the United Kingdom was able to agree, in principle, with the EC on a transition agreement that will continue the UK-EU trade relationship after the Brexit deadline on March 29, 2019 through December 31, 2020. This agreement guarantees the continuation of the current intra-EU trade relations between the UK and the EU-27. It is unclear what will happen post December 31, 2020. The UK and the EU are continuing negotiation for their future relationship. In addition, it is expected that the UK will also pursue trade agreements with other countries. Due to the amount of uncertainty, it is impossible to forecast the impact this will have on the EU dairy market.