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Dairy and Products Annual

2012

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Report Highlights:

In 2012 and into 2013, EU-27 deliveries of fluid milk and manufactured dairy products are expected to increase but at a slower pace even when factoring in the economic downturn and rising cost of production into the equation. The increase in milk production will be mostly directed for production of cheese, which remains in demand both domestically and internationally, and Non Fat Dry Milk (NFDM), directed mostly for export driven by growing world market demand thus prices. Several efforts in 2012 to maintain the EU milk quota system after 2014 and to introduce intervention on the EU dairy market were rebuffed by the European Commission.

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 EU27.

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Executive Summary:

Production

In 2012, raw milk output in the EU27 is expected to increase by 1.3 percent and continue to grow in 2013 but at a slower rate. The decrease of prices on the international dairy market in the first half of 2012 resulted in a lower export demand for dairy commodities and 10 percent decrease of average EU-27 farm-gate prices for milk. Increased supplies of raw milk and slower export markets for dairy products were the major reasons for declining prices within the EU-27 in the first six months of 2012. However, the world dairy market situation improved in the third quarter of 2012 as a result of reduced supplies of dairy products from countries affected by summer drought along with growing import demand from China, North Africa, and Russia. The improved world market situation is expected to stimulate EU-27 dairy production towards the end of 2012 into 2013. The increase in milk production expected in 2012 will be mostly directed for production of cheese, which remains in demand both domestically and internationally, and Non Fat Dry Milk (NFDm), directed mostly for export due to growing world market demand thus prices. Although a decline in raw milk prices in the first half of 2012 combined with rising costs of feed and other inputs reduced profit margins in dairy production, EU farmers still perceive dairy production as stable and profitable in the long-term. The elimination of milk quota within the EU-27, scheduled for April 1, 2015, gives farmers the option to increase production based on market situations expected in the future. The trend of the EU-27 dairy herd contraction is expected to continue in 2012 and 2013, however, higher production per cow is expected to result in increased milk production. In 2013, the raw milk output increase is forecast to result in higher production of dairy products, mainly cheese and manufacturing of NFDm and butter due to their price advantage over Whole Dry Milk (WDM).

Market Intervention

In the first half of 2012, the European Commission (EC) three times was requested by a group of member states to introduce export refunds and increase of intervention prices for dairy commodities due to the difficult situation facing the dairy industry. At the meeting of EU27 Ministers of Agriculture held on September 24, 2012, Poland supported by Spain, Portugal, and Lithuania proposed to maintain the milk quota system after 2014 and introduce intervention on the EU dairy market. The requests were turned down because the EC did not find the situation to justify intervention.

Intervention stocks of NFDm built up in 2009 are expected to be totally consumed under EU food assistance programs in 2012. On August 15, 2012, 133,300 MT of butter were accumulated under the Private Storage Scheme (PSA), which started on March 1. The amount of PSA built in 2012 is 26 percent higher than in 2011 which indicates existing surplus of butter on the domestic market. The high PSA stocks were built despite the reduction of subsidies for storage under the PSA scheme announced by the EC on February 23, 2012. Higher PSA stocks built during the summer peak of production are expected to result in an increase of butter stocks at the end of 2012.

Trade

It is expected that in 2012, exports of all dairy products, except WDM, will increase in comparison to 2011 levels. In the first seven months of 2012, value of exports of dairy products from the EU27 was over one percent higher than in the same period of 2011. During the first seven months of 2012 exports of cheese, the main dairy product exported by the EU27, was 13 percent higher in comparison to the same period of 2011. Russia is expected to remain a major export market for EU27 dairy products in 2012 importing mainly hard cheese and butter. A temporary decrease of EU27 exports to Russia in the first half of 2012 was offset by increased exports to China and North Africa. In the first seven months of 2012, EU27 exports of NFDm grew by 22 percent with most of the increase to Algeria, Indonesia and Egypt, while exports of Whole Dry Milk (WDM) declined by three percent mainly because of lower imports by Algeria. In the first seven months of 2012, exports of butter increased by seven percent while exports of butter oil dropped by 33 percent in comparison to the same period of 2011. The decrease in exports of butter and butter oil to Russia in the first half of 2012 was offset by higher exports to North Africa and Asia. Apart from the world market conditions for dairy products, the exchange rate of the Euro to US\$ is expected to have a strong impact on further development of the overall EU-27 exports in 2012. In 2013, EU27 exports of cheese and butter are forecast to continue to grow, although at a slower pace than in 2012, due to limited availability of milk for processing. Exports of NFDm in 2013 are forecast to contract after the significant increase in 2012, while exports of WDM are forecast to remain at the previous year's level.

Dairy, Milk, Fluid

Dairy, Milk, Fluid EU-27	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	23,122	23,122	22,800	22,877		22,700
Cows Milk Production	138,219	138,219	140,000	140,000		140,700
Other Milk Production	4,020	4,700	4,020	4,750		4,750
Total Production	142,239	142,919	144,020	144,750		145,450
Other Imports	7	7	5	5		5
Total Imports	7	7	5	5		5
Total Supply	142,246	142,926	144,025	144,755		145,455
Other Exports	282	282	280	350		350
Total Exports	282	282	280	350		350
Fluid Use Dom. Consum.	33,870	33,870	33,950	33,950		33,950
Factory Use Consum.	108,094	108,774	109,795	110,455		111,155
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	141,964	142,644	143,745	144,405		145,105
Total Distribution	142,246	142,926	144,025	144,755		145,455
1000 HEAD, 1000 MT						

Please note: Data in “other milk production” row for 2011 and 2012 were increased in comparison to the 2012 Semi-Annual Report estimates due to an update in numbers from Spain and Portugal.

Production:

In the first half of 2012 the decrease of prices for dairy products on the world dairy products market led to a slower pace of milk production increase in the EU27 in comparison to 2011. Since July 2012, world market prices for dairy products started to recover which is expected to result in higher milk output towards the end of the year. In 2011, favorable world dairy market conditions, high producer prices and strong domestic consumption of dairy products especially in the first half of 2011 had boosted milk deliveries and raised farmer’s willingness to expand production.

As a result, 2012 milk supplies are expected to increase by roughly one percent and continue to grow by an additional half percent in 2013. Increase of production stems from continuing domestic and export demand for dairy products. The 2012 increase of milk deliveries is expected to be highest in Poland, Latvia, and Hungary. However, the increase of milk deliveries in 2012 will be limited because some member states exceeded their MY 2011/2012 (April-March) milk production quota ceiling (Ireland, the Netherlands, Denmark, Germany, and Italy) and farmers in these countries will have to pay fines. Although the increase of milk quota in MY 2012/2013 will allow for further increase of milk production, high costs of feed, energy and the economic crisis in certain EU member states are expected to limit further expansion of milk output. However, high costs for inputs accompanied by limited support of governments to milk production are expected to push out less efficient dairy farms from the market making the EU dairy sector more competitive. The trend of declining cow numbers is expected to continue in 2012 and 2013 but will continue to be offset by increasing productivity per cow due to availability of better genetics and less efficient farmers exiting production.

Consumption:

In 2012, fluid milk use is expected to increase slightly reflecting the projected 0.2 percent increase of the EU27 population but the majority of higher output of raw milk will be used by the processing industry. In 2013, fluid consumption is forecast to remain at the 2012 level because of the lingering effects of the economic downturn in Europe with higher milk output used by the processing industry.

Trade:

In the first seven months of 2012, extra EU-27 fluid milk trade increased by 38 percent due to stronger demand by China and Libya supplied mainly by Germany and France. External trade is expected to remain stable in 2013.

Dairy, Cheese

Dairy, Cheese EU-27	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	7,080	9,035	7,130	9,130		9,180
Other Imports	68	74	65	80		80
Total Imports	68	74	65	80		80
Total Supply	7,148	9,109	7,195	9,210		9,260
Other Exports	591	683	610	735		750
Total Exports	591	683	610	735		750
Human Dom. Consumption	6,557	8,426	6,585	8,475		8,510
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	6,557	8,426	6,585	8,475		8,510
Total Use	7,148	9,109	7,195	9,210		9,260
Ending Stocks	0	0	0	0		0
Total Distribution	7,148	9,109	7,195	9,210		9,260
1000 MT						

Please note: As of October 2012 a new definition is used for reporting on cheese. The new definition includes the following categories of cheese: soft cheese, medium soft cheese, medium hard cheese, hard cheese, extra hard cheese and fresh cheese produced out of cow's, ewe's, goat's, buffalo's and mixed milk. It does not include processed cheese. A discrepancy between the "Old" and "New" columns in the Cheese PSD table stems from a change of definition for cheese because data presented in "Old" columns still refer to the previously used definition of cheese including only hard cheese.

Production:

EU-27 cheese production is expected to increase by one percent in 2012 due to higher output of milk, continuing domestic demand and growing exports. Strong world market prices for cheese and dried whey powder, a residual product of cheese manufacturing, are expected to stimulate increase of output in 2012 and 2013. Dairy industries in **Germany, France, and Italy** remain the driving forces of European cheese production, supplying over 55 percent of the total output.

The **Benelux** dairy sector believes that cheese, in particular branded cheese, will be the main dairy product which the EU can compete with on the world market. With the abolition of the milk quota after 2015, Benelux milk production is expected to increase significantly with most of the milk forecast to be processed into cheese. In 2012, **French** cheese production is estimated to be stimulated by both higher exports to non-EU destinations (Japan in particular) and domestic demand. In **Germany**, higher production of soft cheese is expected in 2012, however reduced hard cheese output will offset the increase.

In **Greece**, 2012 cheese production is expected to increase by less than two percent in comparison to the previous year. Recent investment in the cheese-processing sector helped improve product's affordability, resulting in a more competitive marketplace. In **Italy**, mozzarella occupies first place in terms of volume produced, followed by Grana Padano and Parmigiano Reggiano. Italian cheese production is increasing mainly due to recovering prices and to growing demand in main export markets (France, the United States, Germany, and the UK). The earthquake that rocked Northern Italy on May 20, 2012 adversely affected production of cheese in Italy. Around 400,000 wheels of Parmigiano-Reggiano (Parmesan) and Grana Padano cheese, worth more than 240 million Euros (\$194 million), were damaged when the powerful earthquake shook them from the warehouse racks on which they are left to mature. Cheese production in the UK is expected to expand in 2012 largely due to increased cheddar production which, in recent years, has lost ground to the more mature cheeses.

Consumption:

In 2012, domestic cheese consumption within the EU-27 is expected to increase in comparison to the previous year. In several EU member states economic crisis leads to changes in the consumption pattern of cheese. Although the volume of consumed cheese remains high, consumers have switched to less expensive brands of hard cheese or substituted it with fresh cheese, while higher quality and more expensive brands of European cheeses are mainly exported.

In the first eight months of 2012, **French** households consumption of cheese increased by 2.1 percent. The abnormally cold weather conditions in spring 2012 favored French cheese consumption. Also, retail prices are maintained low in France as dairy companies are doing their best to make their products economically attractive for customers. Cheese products account for about 13 percent of sales in **Greek** supermarkets. Feta is the most well known Greek cheese and the most consumed in Greece. It is made from 70 percent of sheep's milk and 30 percent of goat's milk. The Greek consumer —along with those in other Western countries— is becoming increasingly concerned about body weight. Cheese can form part of a calorie-controlled diet and feta is lower in fat than many cheese alternatives.

Trade:

EU-27 export of cheeses is forecast to grow in 2012 and 2013, mainly due to higher import demand from Russia. In the first seven months of 2012, EU-27 cheese exports to Russia increased by 19 percent, supplied mostly by **Germany**, **Poland**, and **Lithuania**. The growth of EU-27 cheese exports in 2013 is expected to be limited by availability of cheese on the EU market. Major external markets for EU cheeses include Russia, the United States, Switzerland, Japan, and Algeria. Cheese imports are projected to remain within the established quota due to growing domestic supplies.

Policy:

EU policy on common food names (i.e. generic terms), like parmesan, feta, salami are raising concern. Over the last few years dairy industries have observed more monitoring by the EU regarding these terms within its borders. For example, within the EU “feta” cheese can only come from Greece. Increasingly, the EU is preventing the use of these names in other countries through its Free Trade Agreement negotiations.

Dairy, Butter

Dairy, Butter EU-27	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	36	36	29	29		40
Production	2,055	2,055	2,070	2,100		2,110
Other Imports	44	44	56	61		50
Total Imports	44	44	56	61		50
Total Supply	2,135	2,135	2,155	2,190		2,200
Other Exports	124	124	115	130		150
Total Exports	124	124	115	130		150
Domestic Consumption	1,982	1,982	2,000	2,020		2,020
Total Use	2,106	2,106	2,115	2,150		2,170
Ending Stocks	29	29	40	40		30
Total Distribution	2,135	2,135	2,155	2,190		2,200

1000 MT

Production:

In 2012, butter production in the EU-27 is projected to increase by two percent due to higher supplies of raw milk and growing demand for exports of NFDMM as butter is a residual product of NFDMM manufacturing. Reduced world prices for butter in the first half of 2012 and lowered export demand resulted in increased participation in the 2012 Private Storage Scheme (PSA).

Consumption:

In 2012, EU-27 domestic consumption of butter is expected to increase in comparison to 2011 due to higher production. It should be noted, however, that domestic consumption includes commercial stocks which will only be actually consumed in 2013. Although health concerns are still a factor limiting some butter consumption, economic considerations are playing a greater role in consumer buying decisions. For example, higher prices for vegetable oils and lower prices for butter in 2012 relative to 2011 have favored the incorporation of butter in the food industry in France, while in Germany margarine is still cheaper than butter. EU-27 butter consumption is forecast to remain stable in 2013.

Trade:

In the first seven months of 2012, EU exports of butter increased by seven percent in comparison to the same period of 2011. Higher exports of butter were offset by reduced exports of butter oil to Russia. However, reduced demand from Russia was partly compensated by higher exports to Northern Africa. Exports of butter are forecast to grow especially in the first half of 2013 as prices for EU butter are competitive and butter is available from PSA stocks. Imports in 2012 are expected to increase into the New Zealand import quota. In the first seven months of 2012 imports from New Zealand amounted to 37,600 MT, almost three times more than in the same period of 2011.

Stocks:

Intervention stocks built in 2009 were consumed under EU food assistance programs in 2010 and 2011. The 2012 PSA program started on March 1 and lasted till August 15. The PSA built in 2012 amounted to 133,300 MT, up 26 percent from the last year's figure, which indicates existing surplus of butter on the domestic market. The high PSA stocks were built despite the reduction of subsidies for storage under the PSA scheme announced by the EC on February 23, 2012. Most purchases under PSA occurred in the third quarter of the year. Therefore, due to 3-6 months contracts, the stocks generated from August will not be sold until after December 2013. Stock levels at the end of 2012 will be higher than those recorded at the beginning of the year.

Policy:

On September 16, 2012, butter's weighted average price stood at 314 Euros per 100 kilograms, well above the EU intervention price set at 221.75 Euros per 100 kilograms.

Dairy, Milk, Nonfat Dry

Dairy, Milk, Nonfat Dry EU-27	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	195	195	50	50		0
Production	1,180	1,180	1,200	1,270		1,290
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	1,375	1,375	1,250	1,320		1,290
Other Exports	518	518	500	570		540
Total Exports	518	518	500	570		540
Human Dom. Consumption	807	807	750	750		750
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	807	807	750	750		750
Total Use	1,325	1,325	1,250	1,320		1,290

Ending Stocks	50	50	0	0		0
Total Distribution	1,375	1,375	1,250	1,320		1,290
1000 MT						

Production:

Strong export demand is expected to boost EU-27 NFDMM production in 2012 by over eight percent. Growing world market prices make production of skim milk more attractive. In 2013, NFDMM output is forecast to further increase because of higher supplies of milk and demand for exports, albeit slower than recorded in 2012.

Consumption:

In 2012, consumption of NFDMM is expected to return to lower historical levels still supported by release of remaining intervention stocks. High prices for whey favor the use of NFDMM in animal feed rations. The consumption increase in 2011 resulted from domestic use of intervention stocks within the assistance programs for needy people. In 2011, 94,000 MT of intervention NFDMM stocks was allocated for this purpose. Italy, Spain, Poland, and France were the primary beneficiaries of this aid.

Trade:

In the first seven months of 2012, NFDMM exports were 22 percent higher than a year ago because of higher export demand and availability of product from increased production and release of intervention stocks. Increased exports to Mexico, Vietnam, and China more than offset reduced shipments to Algeria. However, France, which is Algeria's leading supplier of NFDMM, increased shipments to Algeria by 35 percent in the first seven months of 2012. In 2013, exports of NFDMM are expected to decrease due to lower availability of product in comparison to 2012.

Stocks:

The use of NFDMM intervention stocks already committed for 2012 food assistance programs are expected to reduce stocks to zero by year's end.

Policy:

On September 16, 2012, the weighted average EU-27 price for NFDMM amounted to 263 Euros per hundred kilograms, well above the EU intervention price set at Euros 246.

Dairy, Dry Whole Milk Powder

Dairy, Dry Whole Milk Powder EU-27	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	755	685	760	660		660
Other Imports	2	2	2	2		2

Total Imports	2	2	2	2		2
Total Supply	757	687	762	662		662
Other Exports	390	390	400	380		380
Total Exports	390	390	400	380		380
Human Dom. Consumption	367	297	362	282		282
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	367	297	362	282		282
Total Use	757	687	762	662		662
Ending Stocks	0	0	0	0		0
Total Distribution	757	687	762	662		662
1000 MT						

Please note: Production and consumption data for WDM were revised down largely because of a change in the data collection system employed by the German statistical office and lower than originally expected output in Belgium.

Production:

In 2012, EU-27 WMP production is expected to decrease in comparison to 2011. Strong competition for raw milk supplies in 2012 across the EU-27 and very competitive export markets limited increase of WDM production. In 2013, WDM production is forecast to remain flat as prices are expected to favor manufacturing NFDM/butter.

Consumption:

In 2012, domestic disappearance of WDM is expected to decrease in response to reduced availability. For 2013, consumption is forecast to remain stable.

Trade:

In 2012, lower production coupled with strong competition from Oceania in the Asian markets is expected to result in reduced EU-27 exports. In the first seven months of 2012, EU-27 exports of WDM were three percent below the previous year's level, mainly due to lower shipments to Algeria and Nigeria, and despite higher exports to Oman. Exports in 2013 are forecast to remain stable.

Policy:

Dairy Package- [Regulation \(EU\) No 261/2012](#)

[Regulation \(EU\) No 261/2012](#) [1], **also known as the** "Dairy package" and published in the Official Journal on March 30, 2012, is based on the recommendations of the High Level Group (HLG) on Milk, which had been created by the Commission in response to the 2009 dairy crisis. This regulation amends the "Single CMO" Regulation (EC) No 1234/2007 and implements the first three recommendations of the HLG (see also GAIN [E50044](#) [2] and [E50038](#) [3]), which were:

- Enhanced contractual relations between milk producers and dairy processors;

- Increased producers' collective bargaining power; and
- Newly created role for inter-branch organizations that could improve collaborations across the dairy sector,

The regulation further provides the possibility for creating Dairy Producer organizations (PO) in Member States (MS), which will have the right to engage in negotiations on milk delivery contracts with dairy processors on behalf of its member farmers. The membership of these PO's is limited to production volumes not to exceed:

- (i) 3.5 percent of total Union production;
- (ii) 33 percent of the total national production of any particular Member State (MS) covered by such negotiations by that producer organization; and,
- (iii) 33 percent of the total combined national production of all the Member States covered by such negotiations by that producer organization.

[Commission Implementing Regulation \(EU\) No 511/2012](#) [4], published on June 16, 2012, requires that MS notify the EU of delivery contracts concluded under Regulation No 261/2012, including the volume of milk delivered under these contracts. As of the summer of 2012, France and Spain were the only MS to report the conclusion such milk delivery contracts.

Update on the Common Agricultural Policy (CAP) Reform Post 2013.

Despite market prices for dairy products rapidly increasing again after a slump to their lowest levels since the 2009 crisis, dairy stakeholders want to include more market management tools in the Commission's CAP proposal. Currently the Private Storage Aid scheme for butter would be maintained on an optional basis only after production quotas end after MY 2014/15. Other stakeholders favor strengthening the intervention storage scheme again

The discussions between MS and in the European Parliament on the CAP proposals and on greening measures as a condition for receiving direct payments in Pillar I of the future CAP are also still vivid. These greening measures would include a whole range of societal and environmental concerns for water, air and soil quality, greenhouse gas emissions, maintenance of biodiversity, animal welfare, etc... Specific aid for dairy farmers in least favored areas (LFA) to maintain dairy production in a wide geographical area is part of the proposal as the vital role of dairy production in LFA is widely recognized for maintaining economic viability in these regions. The Commission [proposal](#) [5] for the new common organization of markets for agricultural products, also called the Single CMO, is available on the Commission website.

Accession of Croatia as the 28th EU Member State

Unless unexpected ratification problems occur, Croatia is poised to become the EU's 28th Member State on July 1st, 2013. As part of its accession [Treaty](#) [6], Croatia receives a milk production quota of 765,000 MT for the MY 2013/14 and MY 2014/15, as well as a special restructuring reserve of 15,000 MT. However, it is unclear how much of the milk produced will meet EU quality standards and to what extent the Croatian dairy processing plants will be up to par with EU hygiene legislation to be allowed to trade on the EU market. Newly accessing countries typically receive temporary derogations for those

processing plants that have not met EU standards yet on condition that production is marketed domestically in the MS only.

Change in quota management for New Zealand cheese quota (referral in cheese section)

Following a similar change in quota management of the New Zealand butter Tariff Rate Quota (TRQ) in 2007 upon an Agreement in the form of an Exchange of Letters with New Zealand, the EU is discussing a proposal to change the management of the New Zealand quota for cheese – 7,000MT of cheddar and 4,000MT of processing cheese. The issuance of inward monitoring arrangement (IMA 1) certificates for export by the New Zealand certification body would be halted and the quota would be managed by import licenses issued periodically by the EU under the simultaneous examination procedure. As this change has not been finalized and published yet, it is unclear as of when the change would apply and what the impact will be.

The new EU somatic cell and bacterial standard plate count requirements were implemented as of January 1, 2012. The phase-in period ended as of April 1, 2012, so shipments of dairy products requiring an EU health certificate must comply with the updated certification program and must be accompanied by an updated Certificate on Conformance. (For details please see:

<http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=STELPRD3636640>)

Please note: Effective Sept. 1, 2012, USDA's Agricultural Marketing Service (AMS) denies health certificate requests for shipments submitted after date of departure from the United States. EU rules require health certificates to be dated prior to the consignment leaving the control of the competent authority.

[1] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:094:0038:0048:EN:PDF>

[2]

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/High%20Level%20Group%20makes%207%20recommendations%20for%20EU%20dairy%20sector_Brussels%20USEU_EU-27_6-21-2010.pdf

[3]

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/State%20of%20progress%20of%20the%20High%20Level%20Expert%20Group%20on%20Milk_Brussels%20USEU_EU-27_5-12-2010.pdf

[4] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:156:0039:0040:EN:PDF>

[5] http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/com626/626_en.pdf

[6] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:112:0010:0020:EN:PDF>

Review of the dairy market situation in the EU member states

In 2012, although all EU27 member states suffered from the high cost of inputs and the economic downturn, farmers in countries which export dairy products outside the EU are able to maintain profitability of production and expand their operations. France, Germany, Ireland, the Netherlands, and Poland are leading exporters of dairy products in the EU.

Following several years of under-utilization of production quota and in anticipation of the termination of the quota system in the European Union **France** is modifying its national policies regarding dairy farmers exceeding their individual milk quotas, resulting in anticipated higher milk supply. So far, France has taxed dairy farmers exceeding their individual quota and used the money collected with this tax (in French, "Taxe Fiscale Affectee" or TFA) to fund and aid to the termination of dairy farming activities (in French, "Aide a la Cessation d'Activite Laitiere" or ACAL). The European Commission

launched an infraction procedure on June 21, 2012, against France for these systems: penalizing farmers exceeding their individual quotas (while the whole country under-utilizes its national quota) and using TFA to fund ACAL, which can be considered as a public support. Growing export demand for both skim milk powder and cheese, and strong and growing domestic demand for cheese are other factors driving French milk production up. Factors limiting France's milk production increase include higher feed (17 percent increase between January and July 2012), energy, and fertilizer costs and declining milk producer prices relative to 2011 levels. In 2013, France's milk production is forecast to continue to increase but at the smaller pace than in 2012. Farmers are likely to continue to increase their milk deliveries in anticipation of the termination of the production quotas and domestic restriction to production. To date, the unfavorable economic situation in France has not negatively affected food consumption, while the French consumer has reduced other expenses like car purchases for example.

Germany implemented the annual one percent quota increases for MY2009/10 through MY2012/13 established in the Health Check. Farmers reacted by expanding their deliveries in preparation of the expiration of the dairy quota restrictions in 2015, albeit in most years expansion remained below the additional volume. However, for MY 2011/12, preliminary data shows that Germany exceeded its quota by about 39,000 MT (0.1 percent) and farmers will have to pay a super levy for the first time since MY 2007/08. For 2012 and 2013, a further expansion of deliveries is expected, however at a slower pace as feed and energy costs are expected to increase and reduce profitability. This is expected to amplify the trend that the more efficient (and often larger) farms continue to grow while the less efficient farms go out of business.

Ireland takes advantage of being a grass fed dairy production sector. In 2011/2012, Ireland was marginally over its milk quota. Although the wet summer weather of 2012 has proved more challenging for the Irish dairy sector, the ongoing rise in the size of the dairy herd means that Ireland is still expected to produce close to quota in MY2012/13. Further, many in the country are looking forward to the end of the milk quota regime in 2015 and to answering the call of the Irish Government's Food Harvest 2020 report for a 50 per cent increase in milk production by 2020. If achieved, this would equate to a growth in milk deliveries from around 5.5 MMT currently to nearly 8 MMT, itself necessitating an increase in the size of the national herd from its current 1.1 million to about 1.4 million head. While this growth in the herd size is seen as achievable incrementally off the existing herd base, market commentators anticipate a somehow slower increase in the herd size and corresponding milk output. A limiting factor could also be the ability of the Irish dairy manufacturing sector to process the milk. The primary destination for any increase in the volume of milk products is seen as the export market.

Milk deliveries in **the Netherlands and Belgium** are anticipated to increase in 2012 and 2013 as milking efficiency improves. The Dutch milk quota was exceeded by a half percent in the 2011/2012 quota year. In 2012 and 2013, the high feed price might be a negative factor for profitability and milk production. Feed prices have been at a high level and it is generally forecast that prices might slightly decline during the second half of the season. The high milk price induced Benelux milk production. Fonterra will open a dairy factory in the Netherlands in 2014. Arla Foods, a leading dairy company in Northern Europe owned by Swedish, Danish and German dairy farmers, is taking part in the Fonterra auction.

In the first half of 2012, higher output of milk in **Poland** resulted in growing production of hard cheese, NFDM, condensed milk and whey, while butter production remains stable. In the first half of 2012, Polish exports of dairy products increased by 5.8 percent, while imports were reduced by 13.7 percent leading to a positive balance of dairy industry foreign trade estimated at 458 million euro. However, due to decreasing farm-gate prices for milk in the first three quarters of 2012, Poland is among the countries requesting European Commission for introduction of intervention on dairy market.

In Austria and Scandinavian countries, which are not oriented on exports outside the EU, dairy production is focused on ecological products or improvement of competitiveness through consolidation of the industry.

In **Austria** total milk production is declared GM free. The share of “organic milk” production is expected to grow from 11 percent in 2011 to 16 percent in 2012. In production of “hay milk” farmers are not allowed to use silage in feeding. Austrian farmers receive premiums for production of “organic” and “hay” milk and they expect that such system of production will improve their competitiveness in dairy production in comparison with other countries.

For the first time in several years, **Swedish** milk deliveries are increasing. The structural change in the Swedish dairy industry is continuing. In November 2011, a merger took place between the two dairy companies Arla Foods and Milko. In June, 2012, the French dairy giant Lactalis completed its acquisition of the Swedish dairy producer company Skånemejerier.

Some EU countries like Bulgaria, Greece, Hungary, Italy, Portugal, Romania, Spain and United Kingdom are struggling with less favorable natural conditions for dairy production, high feed costs, strict EU regulations regarding quality and hygiene of milk and/or inefficient structure of the industry.

One of the biggest challenges for the **Bulgarian** dairy sector has been production of EU quality compliant milk. The third and the last derogation regarding milk quality was granted to Bulgaria in the fall of 2011, according to which all farms producing non-compliant milk should stop supplying the market at the end of 2013. By that time, all dairy farms and all dairy processors have to produce and process only EU quality/safety compliant milk, and non-compliant milk can be used only for own on-farm use. In addition Bulgarian farmers feel pressured by increasing prices of all inputs – feed, energy and investment in upgrading facilities – while farm-gate milk prices decline. Milk production in 2012 and 2013 is forecast to stagnate or decrease slightly due to diminishing dairy cow numbers, especially at smaller farms, and challenges in front of improving productivity due to expensive and deficient feed (especially sources of protein). Imports of raw milk may stabilize or even grow as a result of the expiration of milk derogation, which will mean stagnant milk supply available for the market. As a result, the amount of milk processed at factories is forecast to be stable or slightly lower than a year ago. Consolidation and commercialization in the sector are projected to continue.

In 2012, **Greek** milk production is expected to remain stagnant because of the financial crisis gripping the country. Less efficient producers are going out of business as credit becomes increasingly difficult to secure and investment is scaled back. However, Greek milk production is forecast to recover steadily during 2013 due to gradual improvements in yields. Consumption is expected to be weighed down by a decrease in demand amid a deep and protracted recession, severe austerity, and fast-rising unemployment.

In **Hungary** production of milk increased five percent in the first half of 2012 after seven percent drop in CY 2011. Domestic sales of fluid milk increased less than the production. Milk exports grew by 12 percent in comparison to 2011 figures in the first six months of 2012. Utilization of the country's milk production quota was 77 percent in the 2011/12 quota year and it is not expected to improve in 2012/2013. Dairy production in Hungary is at the self-sufficiency level with low volume export-import with the neighboring EU countries.

In 2012, **Italian** fluid milk production is forecast to increase slightly compared to previous year. After almost two years of market stagnation, growing domestic and foreign demand made prices increase and stimulated dairy production. Despite growing input costs (due to the feed and energy costs surge), raw milk prices significantly increased in 2011 and first semester 2012 hence allowing farms revenues and margins (still negative) to recover.

In **Portugal** milk deliveries are expected to increase one percent per year in 2012 and 2013 as a result of growing yields. Production in the Azores has surged in 2012 because of a milder winter and better prices. The official series for the dairy herd numbers was recently corrected downwards with a retroactive effect by the national institute of statistics. Raw milk prices have been persistently lower than the weighted EU average reflecting the competition from other Member States such as France and Germany.

High feeding costs due to the severe drought and world crop situation are the major factors leading to an inventory reduction in **Romania**. Unlike other dry years, when the intra-mountain regions were less affected, this year the rainfall was much lower in these areas as well. Therefore, both pastures and hayfields became dry, forcing farmers to feed their animals with more expensive feed. In terms of farm size, the fragmentation remains a strong feature of the sector, about 90 percent of the dairy inventories being held in 1 - 3 head backyard farms. In the summer of 2011, about 80 percent of the milk delivered to the dairies was EU –compliant, but the Romanian veterinary service was confident that the percentage will significantly grow before the end of the EC milk derogation for Romania (December 31, 2013). During the first 6 months of 2012, milk delivered to the dairies increased by five percent. Nevertheless, considering the ongoing drought, it is expected that deliveries will slow down towards the end of the year. Overall it is predicted that milk deliveries will remain stable in 2012 but will drop in 2013. Cow productivity is expected to improve, being influenced by the positive results registered during the first half of 2012. This year, Romania was again at the bottom of the ranking in respect to the raw milk acquisition price among all EU Members States. That is because on one hand milk processors have high collection costs (estimated at about 30 percent of the purchasing price) and on the other hand, part of the milk is non-EU compliant.

The situation for **Spanish** milk producers is difficult because of high input costs and falling internal demand in value terms resulting from the contraction in consumption motivated by the economic crisis. In addition, there is pressure from other Member States trying to gain market share in Spain. Farm-gate prices for raw milk have consistently been below the EU average in the last 2 years even though Spain is a net importer of milk.

Poor returns and tight margins, largely due to a combination of high and rising feed costs and low farm-gate milk prices, mean rationalization continues apace in the **United Kingdom** dairy sector. Farm

numbers are in long term decline along with the number of head. While below quota and expected to remain so until the end of the regime in 2015, increased year-on-year per cow productivity has seen milk output steady to rising in recent years. However, the particularly difficult operating conditions in 2012 (which have seen UK farmers both blockading retailers and processors to glean higher farm-gate prices as well as successfully persuading the UK Government to introduce a milk ombudsman) are expected to see acceleration in this rationalization. While up marginally from 2011, milk output is expected to peak at 13.85 MMT in 2012 before declining slightly in 2013. In 2012, fluid milk consumption is forecast up in the UK, resulting from significant price promotions by retailers at the expense of the manufacturing sector. CY2013 is forecast to see reduced UK fluid milk consumption with the manufacturing sector little changed.