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Report Highlights:
In 2012, EU-27 milk production is expected to continue to increase but at a slower rate than in 2011 due to reduced domestic and international demand. Softening economies in Europe, fluctuating prices for dairy products on the world market in the first four months of 2012 and decreasing farm-gate prices for milk in several EU member states are expected to dampen producer interest to expand dairy production the latter half of the year. Some member states affected by the unstable dairy market situation are calling for introduction of export refunds and increase in intervention prices for dairy commodities, but so far, the European Commission (EC) rejects such proposals. Raw milk output increase is expected to generate higher production of dairy products, mainly of hard cheese, and manufacture of NFDM and butter.

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 is expected to increase by one percent. The slower pace of increase in 2012 as compared to 2011 stems from lower domestic demand for dairy products accompanied by instability in the international dairy market at this year's outset. Both the one percent milk quota increase and larger production capacity built in anticipation of the end of the milk quota regime in three years factor into the raw milk increase. It is expected that most of the increase will be consumed in production of cheeses which remain in demand both domestically and internationally. A decline of raw milk prices in the first quarter of 2012 combined with rising costs of production reduced profit margin of dairy farmers and cooled their euphoria for expanding production towards the end of the year. Increased supplies of raw milk and slower export markets for dairy products are the major reason for declining prices within the EU-27. The EU-27 dairy herd inventories are expected to continue to decline although higher yields will result in increased milk production. The raw milk output increase is expected to result in higher production of dairy products, mainly hard cheese, and residual manufacturing of NFDM and butter.

Market Intervention:

In April 2012, Polish Minister of Agriculture supported by Spain, Portugal, Hungary, Lithuania and Latvia requested the European Commission (EC) introduce export refunds and increase intervention prices for dairy commodities. Although the request was turned down by the EC it indicates that if the current trend of declining prices for butter and Non Fat Dried Milk (NFDM) continue this year, the EC will be pressured to consider intervention on the dairy market. The remaining intervention stocks of NFDM built up in 2009 are expected to be consumed fewer than 2012 EU food assistance programs. In March and April 2012, 47,000 MT of butter were accumulated under the Private Storage Aid scheme (PSA) which opened on March 1 and will close on August 15. The amount of PSA built in March and April 2012 is 70 percent higher than registered in March and April 2011, indicating a 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.

Trade:

In 2011, exports of all dairy products, except Whole Dry Milk (WDM), increased in comparison to 2010 levels. Reduction of exports to Russia, a major export market for EU dairy products, was offset by increased exports to Asia. 2011 exports of NFDM increased by 37 percent while exports of WDM dropped by 13 percent. Despite softer world demand for dairy products, during the first two months of 2012 exports of NFDM and whey climbed 23 percent compared to the same period the previous year. However, exports of butter and butter oil dropped by 33 percent and WDM declined 18 percent compared to the previous year same period. Exports of cheese during the first two months of 2012 remained stable in comparison to 2011. Apart from world market conditions for dairy products, the exchange rate of euro to US$ will have a strong impact on further development of EU-27 overall exports in 2012.

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.

Commodities:

Dairy, Milk, Fluid

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid EU-27	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	23,617	23,566	23,072	23,122	23,000	22,800
Cows Milk Production	135,435	135,472	137,800	138,219	138,950	140,000
Other Milk Production	4,020	4,020	4,020	4,020	4,020	4,020
Total Production	139,455	139,492	141,820	142,239	142,970	144,020
Other Imports	5	5	6	7	5	5
Total Imports	5	5	6	7	5	5
Total Supply	139,460	139,497	141,826	142,246	142,975	144,025
Other Exports	217	217	260	282	260	280
Total Exports	217	217	260	282	260	280
Fluid Use Dom. Consum.	33,738	33,738	33,870	33,870	33,915	33,950
Factory Use Consum.	105,505	105,542	107,696	108,094	108,800	109,795
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	139,243	139,280	141,566	141,964	142,715	143,745
Total Distribution	139,460	139,497	141,826	142,246	142,975	144,025
1000 HEAD, 1000 MT						

Production:

After a two percent increase in milk deliveries in 2011, the largest increase since implementation of a quota system in 1984, milk supplies are expected to increase by only one percent in 2012. The 2011 France, Ireland and Poland registered the largest increases. The downward trend of cow numbers is expected to continue in 2012 but higher yields are expected to compensate lower inventories. Favorable world dairy market conditions, high producer prices and strong domestic demand for dairy products, especially in the first half of 2011, boosted milk deliveries and raised farmer's willingness to expand production. Softening of the world market for dairy products in the second half of 2011 resulted in a decrease of EU-27 farm-gate prices in the first four months of 2012 and elevated concerns about potential oversupply of milk and milk products towards the end of 2012.

In 2011 milk deliveries to dairies exceeded fall 2011 estimates mainly due to higher than expected production in France, Poland and Germany – European countries which are strong exporters of dairy products on the world market.

While the overall EU-27 MY 2011/12 dairy quota was not filled, some Member States (MS) produced in excess of their allocated national quota and will be assessed a fine. Although the increase of milk quota in MY 2012/2013 will allow for further increase of milk production, higher costs of feed, energy, fertilizers and the ongoing economic difficulties in certain EU member states are dampen such efforts. For example French milk producers income suffered as production costs increased an estimated 7 percent on average in 2011, mainly due to higher fertilizer, energy, and feed costs.

Consumption:

Fluid milk disappearance in 2012 is expected to increase in parallel to demographic changes within the EU but the majority of higher raw milk output is expected to be consumed by the processing industry.

Trade:

In 2011, EU-27 fluid milk exports to extra EU destinations increased due to stronger demand by Croatia, supplied mainly by Hungary, Czech Republic and Germany. External trade in 2012 is expected to remain stable.

Commodities:

Dairy, Cheese

Production, Supply and Demand Data Statistics:

Dairy, Cheese EU-27	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	6,970	6,970	7,070	7,080	7,120	7,130
Other Imports	78	78	65	68	65	65
Total Imports	78	78	65	68	65	65
Total Supply	7,048	7,048	7,135	7,148	7,185	7,195
Other Exports	603	603	620	591	640	610
Total Exports	603	603	620	591	640	610
Human Dom. Consumption	6,445	6,445	6,515	6,557	6,545	6,585
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	6,445	6,445	6,515	6,557	6,545	6,585
Total Use	7,048	7,048	7,135	7,148	7,185	7,195
Ending Stocks	0	0	0		0	0
Total Distribution	7,048	7,048	7,135	7,148	7,185	7,195
1000 MT						

Production:

EU-27 cheese production is expected to increase by one percent in 2012 in reaction to higher output of milk, stronger domestic demand and higher exports. Use of raw milk for cheese and residual whey production remains competitive versus utilization for manufacturing of other dairy products. Attractive prices for exported whey are an additional incentive for increased cheese manufacturing. Dairy industries in Germany, France, and Italy remain the driving forces of European cheese production, supplying over 55 percent of the total output. Increase of cheese production in 2011 compared to original estimate in the fall, stems mainly from higher than originally predicted production in France.

Consumption:

In 2012, domestic cheese consumption within the EU-27 is expected to remain strong; however changes in the pattern of consumption are noted in several MS. Higher quality and more expensive brands of European cheeses are mainly exported, while European consumers switch more often to lower quality brands or fresh cheese.

Trade:

EU-27 total export of cheeses is expected to recover in 2012 after declining in 2011 mostly due to lower demand from Russia. Despite continuing world demand, EU-27 cheese exports in 2012 will be limited by availability of cheese on the EU market. Major external markets for EU cheeses include the United States, Switzerland, Japan, Russia, and Saudi Arabia. In July 2011, two German cheese producers lost their export license to Russia. As a result German exports to Russia decreased by 27 percent (21,000MT) affecting overall EU-27 cheese exports last year. Cheese imports are projected to remain within the established quota due to growing domestic supplies.

Commodities:

Dairy, Butter

Production, Supply and Demand Data Statistics:

Dairy, Butter EU-27	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	103	103	36	36	25	29
Production	1,980	1,980	2,025	2,055	2,040	2,070
Other Imports	41	41	50	44	55	56
Total Imports	41	41	50	44	55	56
Total Supply	2,124	2,124	2,111	2,135	2,120	2,155
Other Exports	155	155	125	124	130	115
Total Exports	155	155	125	124	130	115
Domestic Consumption	1,933	1,933	1,961	1,982	1,965	2,000
Total Use	2,088	2,088	2,086	2,106	2,095	2,115
Ending Stocks	36	36	25	29	25	40
Total Distribution	2,124	2,124	2,111	2,135	2,120	2,155
1000 MT						

Production:

In 2012, EU-27 butter production is projected to rise due to higher supplies of raw milk and higher milk fat content in raw milk. Higher forecasts for output of butter in 2012 stem mainly from continuing demand for exports of NFDM as butter is a residual product of the manufacturing process. Reduced world prices for butter and lowered export demand resulted in elevated interest in participation in the 2012 Private Storage Aid scheme (PSA). Increase of butter production in 2011 compared to original estimate in the fall, stems mainly from higher than originally predicted production in Germany and France.

Consumption:

In 2012, EU-27 domestic consumption of butter is expected to increase in comparison to 2011 due to higher production and reduced exports. Although health concerns are still a factor limiting some butter consumption, economic considerations (vegetable oil prices increased at a higher rate than butter prices in 2011) are playing a greater role in consumer buying decisions.

Trade:

In 2011, exports of butter decreased by 21 percent in comparison to previous year as a result of reduced demand from Russia and Middle East countries. In the first two months of 2012, EU exports of butter decreased by 33 percent in comparison to the same period of 2011. The decrease of exports results from reduced demand mainly from Russia (38 percent decrease) and strong competition from other suppliers. Import demand from Russia, Middle East and North African may pick up later this year with falling global prices. Imports are expected to increase based on projections of enlarged import quota from New Zealand. In the first two months of 2012 imports from New Zealand amounted to 21,000 MT, five times more than in the same period of 2011.

Stocks:

Intervention stocks built in 2009 were consumed under EU food assistance programs. The PSA, started on March 1, will close on August 15. The quantity of butter in PSA built in March and April 2012 is 70 percent higher than that in March and April 2011 which indicates existing surplus of butter on the domestic market. High PSA stocks were built despite the reduction of subsidies for storage under the PSA scheme announced by the EC on February 23, 2012.

Policy:

On April 15, 2012, butter's weighted average price stood at 285 Euros per 100 kilograms. The EU intervention price is set at 221.75 Euros per 100 kilograms.

Commodities:

Dairy, Milk, Nonfat Dry

Production, Supply and Demand Data Statistics:

Dairy, Milk, Nonfat Dry EU-27	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	259	259	195	195	55	50
Production	1,060	1,060	1,150	1,180	1,180	1,200
Other Imports	4	4	2	0	2	0
Total Imports	4	4	2	0	2	0
Total Supply	1,323	1,323	1,347	1,375	1,237	1,250
Other Exports	378	379	450	518	420	500
Total Exports	378	379	450	518	420	500
Human Dom. Consumption	750	749	842	807	817	750
Other Use, Losses	0		0	0	0	0
Total Dom. Consumption	750	749	842	807	817	750
Total Use	1,128	1,128	1,292	1,325	1,237	1,250
Ending Stocks	195	195	55	50	0	0
Total Distribution	1,323	1,323	1,347	1,375	1,237	1,250
1000 MT						

Production:

In 2011 strong export demand boosted EU-27 Non-Fat Dry Milk (NFDM) productions by over 11 percent. Although production and export of NFDM remains profitable, margins have been declining since fall of 2011 due to the decrease in world market prices, making production of skim milk less attractive. In 2012 NFDM output should continue to increase on account of higher supplies of milk and demand for exports, albeit at a level of growth lower than registered in 2011.

Consumption:

The 2011 consumption increase resulted from domestic use of intervention stocks within the assistance programs for needy people. In 2011, 94,000 MT of intervention NFDM stocks was allocated for this purpose within the national programs of food assistance to needy people. Italy, Spain, Poland, and France were the primary beneficiaries of this aid. In 2012, consumption of NFDM is expected to return down to more normal levels. High prices for whey are expected to favor the use of NFDM in animal feeding rations.

Trade:

In 2011, NFDM exports were 37 percent higher than a year ago as a result of higher export demand and availability of product from increased production and release of intervention stocks. In the first two months of 2012, EU-27 exports of NFDM increased an additional 37 percent. Increased exports to China and Vietnam offset reduced shipments to Algeria. However, France maintained its high level of exports of NFDM to Algeria and increased exports to India. In 2012, exports of NFDM are expected to decline in comparison to 2011 but remain at a high level due to increasing production and continuing export demand projected by world market analysts. European exchange rates will play an important role for the global market competitiveness of NFDM.

Stocks:

The use of NFDM intervention stocks for food programs combined with sales through tenders reduced 2011 stocks by year's end to 50,000 MT. The remaining stocks were committed to the 2012 food assistance programs.

Policy:

On April 15, 2012, the weighted average EU-27 price for NFDM amounted to 207 Euros per hundred kilograms, still above the EU intervention price of 174.69 Euro.

Commodities:

Dairy, Dry Whole Milk Powder

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder EU-27	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	780	780	770	755	770	760
Other Imports	2	2	1	2	1	2
Total Imports	2	2	1	2	1	2
Total Supply	782	782	771	757	771	762
Other Exports	444	447	415	390	415	400
Total Exports	444	447	415	390	415	400
Human Dom. Consumption	338	335	356	367	356	362
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	338	335	356	367	356	362
Total Use	782	782	771	757	771	762
Ending Stocks	0	0	0	0	0	0
Total Distribution	782	782	771	757	771	762
1000 MT						

Production:

In 2012, EU-27 whole milk powder (WMP) production is expected to increase slightly in comparison to 2011. Strong competition for raw milk supplies in 2012 across the EU-27 and very competitive export markets are expected to limit increase of WDM production.

Consumption:

In 2011, domestic disappearance of WDM increased in response to reduced exports. In 2012, consumption is expected to remain flat at the previous year's level.

Trade:

In 2011, strong competition from Oceania in the Asian markets coupled with lower production resulted in reduced EU-27 exports. In the first two months of 2012 EU-27 exports were 18 percent below the previous year's level.

EU-27 Policy in Dairy Sector

Dairy package- Regulation (EU) No 261/2012

The Commission's "Dairy package" was approved in February 2012 and Regulation (EU) No 261/2012 [1] published in the Official Journal on March 30, 2012. This proposal was drafted in the autumn of 2010, 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 dairies;
- producers' collective bargaining power; and
- the possible role of inter-branch organizations in the dairy sector,

The regulation 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, and
(ii) 33 percent of the total national production of any particular Member State 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.

However, the dairy package will only become operational after implementing acts, which are still under discussion, are published. This regulation must clarify details further, like the requirements for price formulas in supply contracts or how PO's operate and how they can be funded. In the meantime, France was the first MS to press forward and already made supply contracts mandatory for a five year period.

The EU dairy market and the upcoming Common Agricultural Policy (CAP) reform post 2013

As market prices for dairy products are rapidly declining to their lowest levels since the 2009 crisis, some dairy stakeholders are petitioning to re-open the "Dairy package" as part of the ongoing CAP reform discussion before it has even been implemented. The reason is that they want to include more market management tools as the Commission's CAP proposal suggests only maintaining the Private Storage Aid scheme on an optional basis after production quota and the export subsidy scheme are ended after MY 2014/15.

Further, dairy producers fear a major loss in direct payments under a future flat rate scheme as well as the burden of the high level of 30 percent of payments for the "greening" measures. These greening measures in the future CAP would include a whole range of societal concerns as a condition for receiving direct payments, like environmental concerns for water, air and soil quality, greenhouse gas emissions, maintenance of biodiversity, animal welfare, etc… Especially the proposed requirement for three different crops in the farm's crop plan could be challenging for many dairy farmers as they typically concentrate their crops towards on-farm feed and fodder production.

[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

Related Reports:

European Council and Parliament adopt Milk Package in first reading, EU-Brussels; 12/21/2011
http://fasintranetapps-gain.fas.usda.gov/Applications/FileDownLoad.aspx?FileID=8691

Spain Dairy Annual Voluntary Report, Madrid, 10/27/2011
http://fasintranetapps-gain.fas.usda.gov/Applications/FileDownLoad.aspx?FileID=8078