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Report Highlights:

EU environmental restrictions and elevated input costs are depressing milk production in 27 European Union Member States (EU27). Additionally, the increase in cow productivity can no longer compensate for the decline in the EU27 dairy cow herd. As a result, EU27 cows' milk production has been shrinking since 2021 and is forecasted at 143.9 million metric ton (MT) for 2023, 0.55 percent down from 2022. With declining milk deliveries, the processors are forecasted to have less milk available for factory use in 2023, which forces them to carefully assess for which products they will use the available milk. EU27 cheese production for 2023 is forecast to increase to 10.5 MMT as consumption continues to rise year after year. This comes at the expense of the production of butter, non-fat dry milk (NFD), and whole milk powder (WMP).

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Executive Summary

Note: Effective January 1, 2021, the United Kingdom (UK) completed its departure from the European Union (EU), including trade between both entities. In this report if it is not indicated otherwise, the EU means the current EU27 (without the UK).

At the beginning of 2023, the European dairy cow herd amounted to slightly over 20 million head, which is 0.6 percent below the 2022 numbers. This decline has continued for several years and is expected to continue throughout 2023 as milk farm-gate prices have dropped since the beginning of the year, discouraging herd expansion. Low farm-gate prices combined with increasing costs of production, lack of successors, limits on farm development, and stricter EU animal welfare and environmental regulations are also leading to a smaller herd. Despite the declining dairy cow herd, until 2020, milk deliveries were on the rise because the drop in cow numbers was compensated by increasing productivity. However, starting from 2021, EU cow's milk deliveries have been in a downward trend, forecasted to reach 143,900 metric tons (MT) in 2023 and 0.55 percent down from 2022 level. The severe drought of 2022 negatively impacted the milk yield and may again affect several top milk-producing Member States (MS) in 2023. Despite consumers' appreciation of non-cow dairy products, the 2023 non-cow milk deliveries to dairies are forecasted to stagnate because main sheep and goat milk producing MS' herds declined and high inflation depressed the purchasing power of consumers. 2023 fluid milk domestic consumption is forecasted to further decline since 2020, when COVID-19 trends boosted the consumption of drinking milk. Fluid milk has been facing competition from plant-based milk, which was estimated in 2022 to account for 11 percent of the overall milk market. With declining milk deliveries, processors are forecasted to have less milk available for factory use in 2023, which forces them to carefully assess for which products they will use the available milk.

Cheese production remains the preferred EU27 milk factory use, and this trend is expected to continue, supported by solid domestic consumption of this product. In 2023, cheese production is expected to rise by 0.67 percent and amount to 10.45 million MT, despite declining milk deliveries. Cheese production should be favored over other dairy products, as its price is more stable, and butter prices reached their peak in 2022. Additionally, increasing consumption supports cheese production, with consumers willing to pay more for high-end products or choosing cheaper types of cheese. Following the 2022 drop in EU27 cheese exports to main destinations, the 2023 export number is forecasted to stagnate.

The EU27 butter production in 2023 is still forecasted to decrease by 0.6 percent, or by 13,000 MT, compared to 2022, as smaller milk supply will favor cheese production over butter and non-fat dry milk (NFDM). Imports, elevated in 2022 to support rebuilding consumption, are forecasted to remain at high levels, stagnating from the 2022 number. In 2023, EU27 butter consumption is forecasted to reverse to its declining trend, with stagnating demand from hotels, restaurants, and institutions (HRI), and consumers choosing healthier fats over butter.

As Non-Fat Dry Milk (NFDM) production in the EU is the residual product from EU butter and cream production, its production is declining in line with butter production. For 2023, NFDM production is forecasted to decline from 2022 levels, but only by 1 percent, reaching 1.5 million MT. Almost half of EU27 NFDM production is exported and, thus, declines in production are linked with a drop in exports. The EU27 NFDM exports compete heavily with NFDM exports mainly from the United States and New Zealand, with the EUR/USD exchange rate an important factor. The EU27 NFDM exports in 2023 are

forecasted to continue to shrink compared to 2022 by 1.5 percent, which is more than the drop in production, but the forecasted stagnating domestic consumption will leave more NFDN on the EU market. In 2023, with high inflation limiting the purchasing power of consumers, demand from the price-sensitive food processing sector is forecast to stabilize the domestic consumption of NFDN compared to 2022 levels.

Whole Milk Powder (WMP) production usually generates the lowest processing margins, and EU processors generally prioritize cheese production, which offers the most stable long-term returns. With declining milk supplies, EU27 WMP production is forecast to decline further, stabilizing at a low level of 600,000 MT in 2023, after a 6-percent decrease in 2022. EU WMP exports decrease in line with the drop in production and that is forecast to continue in 2023. EU27 WMP consumption, almost entirely by the EU food industry, is rather stable in the longer term.

From a policy perspective, apart from the expected EU dairy sectors' concerns connected to the implementation of the new Common Agricultural Policy (CAP) and Farm-2-Fork (F2F) initiatives in 2023, the impact of the war in Ukraine will be addressed throughout 2023. Strengthening EU environmental and climate mitigation policies are expected to require additional non-productive investments and further erode dairy farming profitability. Additionally, as a result of Russia's war in Ukraine, production costs (energy, feed, fertilizers) were strongly elevated in 2022. Tariff and quota-free access for Ukrainian agricultural products to the EU market allowed for feed cost increases to stabilize, however, input costs remain at a high level in 2023, which might depress dairy farmers' margins with dropping farm-gate milk prices. As more dairy farmers may leave the sector, the major industry players are reviewing their milk allocation and product mix, as they adjust to these new EU policy realities.

Notes to The Reader:

The dairy products covered in this report are:

- Fluid Milk, which includes milk produced from cows and other milk production (from sheep, goats, and buffalo), but excluding milk suckled by young animals.
- Cheese covered by HTS Code: 0406 Cheese.
- Butter covered by HTS Codes: 040510 Butter and 040590 Butterfat/Anhydrous Milk Fat (AMF). A conversion factor of 1.25 is used for Butterfat/AMF.
- Non-Fat Dry Milk (NFDN) covered by HTS Code: 040210.
- Whole Milk Powder (WMP) covered by HTS Codes: 040221 and 040229.

Fluid Milk

Table 1: Fluid Milk Production, Supply, and Distribution:

Country:	EU-27					
Commodity:	Dairy, Milk (1000 Head / 1000 MT)					
	2021		2022		2023	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2021		01/2022		01/2023	
Cows In Milk	20,514	20,522	20,200	20,213	19,950	20,088
Cows Milk Deliveries to Dairies	144,833	145,047	143,900	144,700	143,000	143,900
Other Milk Production	4,145	4,185	4,150	4,180	4,200	4,180
Total Milk Production	148,978	149,232	148,050	148,880	147,200	148,080
Extra EU27 Imports	590	590	650	674	650	660
TOTAL SUPPLY	149,568	149,822	148,700	149,554	147,850	148,740
Extra EU27 Exports	1,563	1,586	1,450	1,413	1,350	1,350
Fluid Use Dom. Consumption	23,951	23,920	23,800	23,768	23,650	23,650
Factory Use Consumption	124,054	124,316	123,450	124,373	122,850	123,740
Feed Use Dom. Consumption	0	0	0	0	0	0
Total Dom. Consumption	148,005	148,236	147,250	148,141	146,500	147,390
TOTAL DISTRIBUTION	149,568	149,822	148,700	149,554	147,850	148,740

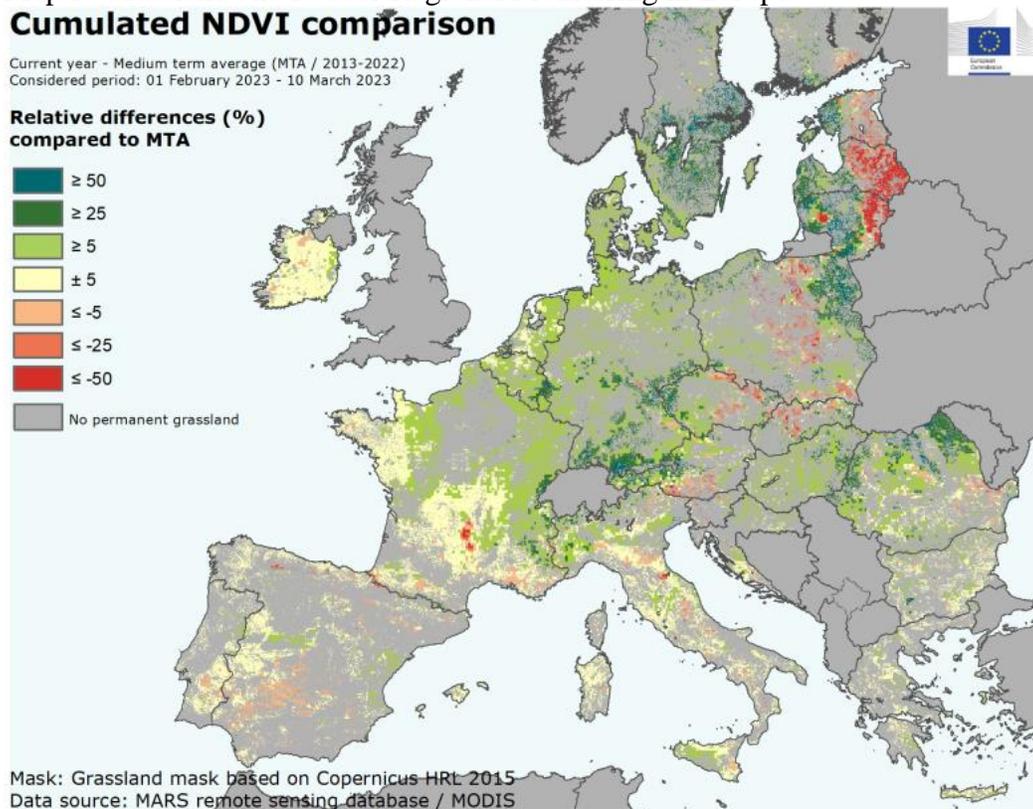
Production

The EU27 dairy cow numbers have been decreasing since 2015, dropping to slightly more than 20 million in December 2022. Many farmers are quitting dairying because they cannot cope with increasing costs of production, lack of successors, limits on farm development, and stricter EU animal welfare regulations. The declining trend, however, has slowed down as record-high farm-gate prices for milk offered throughout 2022 compensated for higher production costs and encouraged dairy farmers to maintain production. Starting in January 2023, milk farm-gate prices resumed their decline throughout the EU, leading to increased cow slaughter, which already in January 2023 was on average 4.5 percent higher than in January 2022. Declining dairy farmers' revenues even caused protests in the Baltic States, where dairy cow herds are small and more vulnerable to price crises. The decline in cow numbers is expected to accelerate again in 2023 as milk prices decrease. Additionally, EU environmental policies will contribute to the decline in dairy cow numbers. In the Netherlands, which has the fifth-largest EU dairy cow population, farmers lost the derogation to spread more manure on fields, which will result in farmers reducing their number of cows or limiting their milk production in order to avoid violating local climate-related regulations. In addition, the [Dutch government's measures](#) to lower nitrogen emissions are forecasted to incentivize farmers to stop dairy farming in the long term.

EU27 cows' milk production continues its decreasing trend since 2020, even despite further year-on-year increases in cow productivity, which in the past compensated for the declining cows' herd. However, milk yield increase was hampered by unprecedented drought that during summer 2022 ravaged meadows and fodder in western European countries. In the first months of 2023, following the European Union's crop monitoring tool, there are notable regional differences in grassland and fodder condition. In the north of Europe, they are assessed as in favorable conditions (marked in green and

yellow in the below map), however, in the southern regions, mostly Spain, Portugal, Italy, eastern Romania, and southern France (marked in light red in the below map), rainfall deficits put the grassland under stress. Certain parts in the Baltic Sea region, Poland, Austria, Slovakia, and Czechia could not be correctly assessed at this early stage of the year and they are marked in deep red.

Map 1: Grassland and Fodder Regional Monitoring in Europe



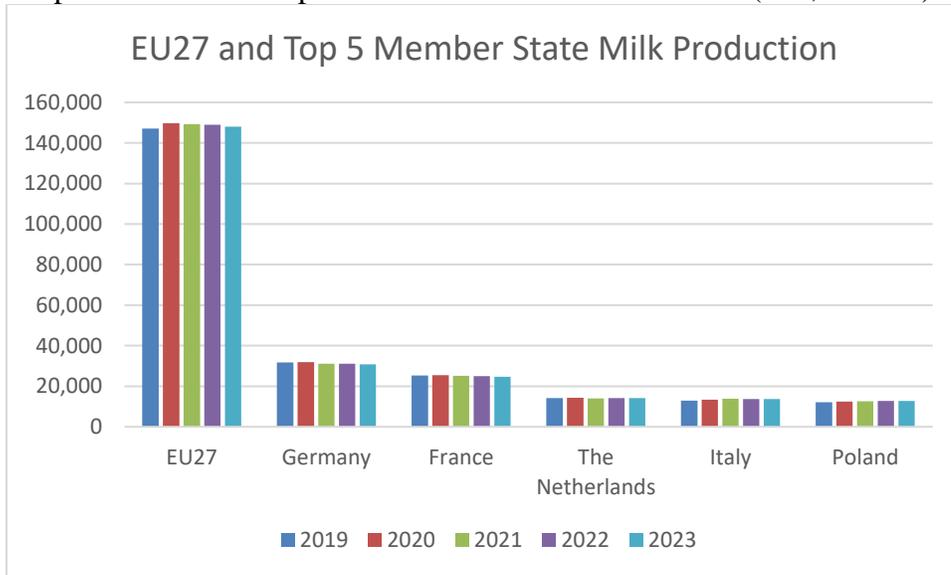
Source: European Commission, the JRC MARS Bulletin

In 2022, non-cow milk production dropped by 1.75 percent. The sheep and goat industry is a vulnerable sector and was hit even harder than cow farms by the economic situation. The main sheep and goat milk producing MS experienced high input costs and drought. Additionally, the high inflation rate of 11.5 percent on average for the EU27 diminishes consumer purchasing power and results in preferences for cheaper products or lower quantities of dairy specialties. EU goat and sheep herds have been declining. In 2023, the inflation rate is expected to remain at a high level. In Spain, the EU leading producer of sheep and goat milk, the fragmented sector is not expected to recover, while in France, growth is expected in goat milk production, where several cooperatives support very diverse cheese production. Therefore, non-cow milk deliveries to dairies are forecasted to stagnate in 2023.

Updated 2022 and 2023 milk production in the European Union is still on a declining trend, however, the drops in production are lower than previously expected. In the first half of 2022, the top European dairy producers, except for Poland, lowered their cow milk deliveries. However, increasing milk prices that compensated for higher production costs resulting from Russia's war in Ukraine (energy, feed, fertilizers), discouraged farmers from eliminating their herds and in the end of 2022, cumulative EU

milk deliveries only decreased slightly in comparison to 2021. In 2022, EU all milk deliveries amounted to 148.88 million metric tons (MMT), 0.24 percent down below the previous year.

Graph 1: EU27 and Top 5 Member State Milk Production (in 1,000 MT)



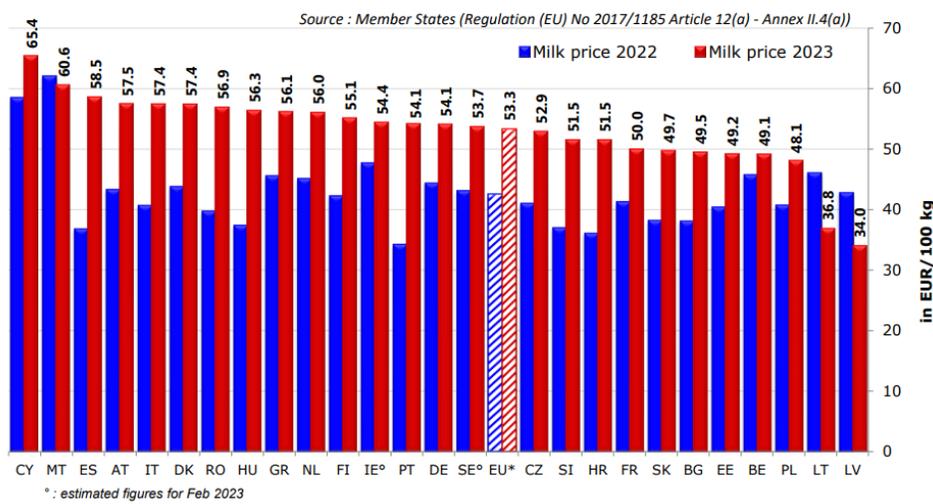
Source: USDA/FAS PSD Online and FAS EU Posts

Farm gate milk prices peaked in December 2022. They started dropping in January 2023 and fell substantially in February, and in March 2023 a further drop of 2.9 percent of the average EU cow’s raw milk price is expected. However, they are still elevated in comparison to the previous year, except in the Baltic States. Consequently, deliveries are expected to decrease further in 2023 by 0.54 percent and amount to 148.08 MMT. However, due to the higher beginning stock cow number, deliveries are expected at a higher level than estimated in the previous report.

Graph 2: European Milk Prices at Farm Gate

EU MILK PRICES

(Feb 2023 vs Feb 2022)



* : estimated figures for Feb 2023

Source: European Commission

The decline of EU milk prices at farm gate could also lead to further restructuring of the dairy sector in Europe. In Spain, France, Germany, and Poland, the number of dairy farmers continues to decrease, although the losses are mainly of smaller and less efficient farms. Input costs, namely feed, energy, and labor, were strongly up in 2022 and are stabilizing in early 2023. However, they are under pressure from the developments of the war in Ukraine and might easily depress the margins. Many of the medium and small cow farms and industries experienced negative margins and could not continue to operate. In Poland, where dairy processing is mainly owned by cooperatives, in early 2023 larger dairy processors continued to take over the smaller ones that cannot cope with farmers' expectations of high prices on one hand, and discounts requested by retail chains on the other.

Trade

Imports of fluid milk from outside of the EU is minimal and over 98 percent are imported from the United Kingdom (Northern Ireland) for processing in Ireland. Extra-EU export has been led by ultra-high temperature (UHT) milk exports to China, mostly from Germany, Poland, and France. However, after record-high 2021 export volumes, when almost half of exports were destined to that market, China's COVID-19 lockdown decreased their demand by 39 percent in 2022, leading to a total drop in exports of 11 percent. In 2023, a further decrease is expected, although compensated by higher demand from Serbia, North Africa, and stable exports to the UK.

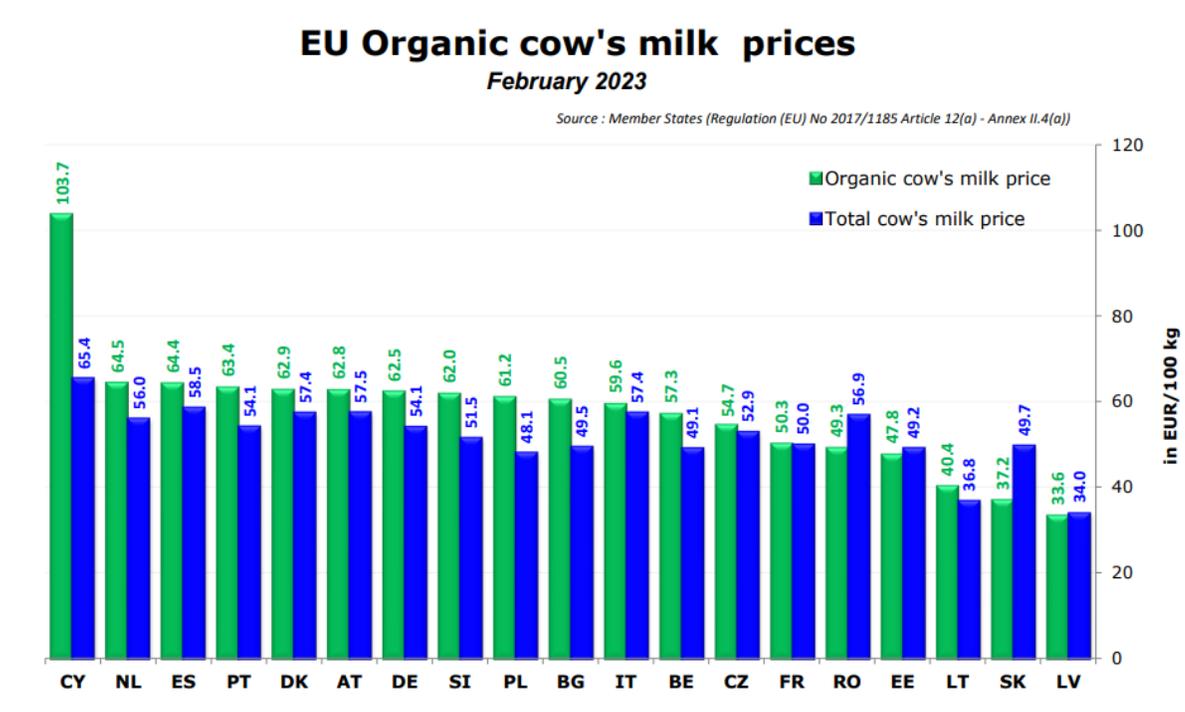
Domestic Consumption

Since post-COVID-19 trends maintained elevated consumption of drinking milk in 2021, it started to return to traditional levels decreasing slightly in 2022 and this trend is expected to continue in 2023. The high inflation rate, which in the case of dairy products reached 28.4 percent in February 2023 on average in the EU, influenced the drop in consumption less than previously forecasted because fluid milk is a food product for basic dietary requirements. In recent years, however, it has faced competition from plant-based milk, which is regarded by consumers as healthier and more environmentally friendly. According to a Good Food Institute Europe (GFI Europe) [report](#) that analyzed NielsenIQ sales data for 13 European countries (including the UK), the most developed category of plant-based foods was plant-based milk, which in 2022 accounted for 11 percent of the overall milk market. Retail sales of plant-based milk grew by 19 percent between 2020 and 2022, reaching €2.21 billion in 2022.

Organic milk

In recent years, consumption of milk and other fresh products from organic production or other production methods perceived as more natural and healthier, has grown in popularity with EU consumers. However, this trend appears to have come to a halt in 2021. Despite stagnating consumption, production, involving higher production costs, is still on a rise. This mismatch of increasing production with waning demand is leading to a declining price premium for these products over conventional products. In some MS, the price premium has turned negative and the excess organic milk is being delivered to conventional dairy producers and receiving a lower price than conventional milk because of lower technical standards like milk solubles or somatic cell count.

Graph 3: European Organic Milk Prices at Farm Gate



Source: European Commission

As a result, organic drinking milk production has started to decline again in the EU leading MS like France, Denmark, and Austria. Additionally, in certain MS a large assortment of different types of high-value fluid milk is available for the consumers. For example, in Spain, milk with animal welfare certificates, milk from mountain grazing cows, fresh cow, sheep, and goat milk, etc., are available. This means that with a wider choice of drinking milk options with supposed higher health or environmental qualities, consumers' preference for organic milk is declining.

Factory Use Consumption

After a decrease in EU factory use in 2021, a result of the milk production slowdown, factory use consumption recovered marginally in 2022, facilitated by decreasing fluid milk domestic consumption. However, the decreasing EU milk production is expected to cause a drop in EU factory use in 2023, 0.6 MMT below the 2022 volume. This will force dairy processors to carefully assess for which products they will use the available milk.

Cheese

Table 2: Cheese Production, Supply, and Distribution:

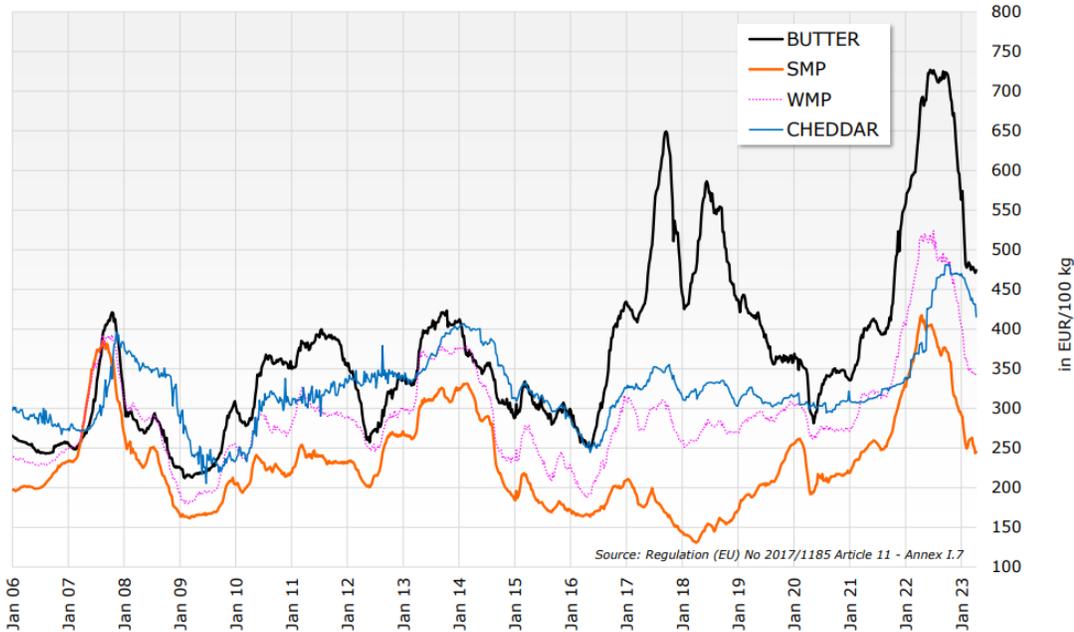
Country:	EU27					
Commodity:	Dairy, Cheese (1000 MT)					
	2021		2022		2023	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2021		01/2022		01/2023	
Beginning Stocks	0	0	0	0	0	0
Production	10,550	10,401	10,550	10,380	10,600	10,450
Extra EU27 Imports	196	196	185	187	190	190
TOTAL SUPPLY	10,746	10,597	10,735	10,567	10,790	10,640
Extra EU27 Exports	1,385	1,385	1,370	1,341	1,375	1,340
Domestic Consumption	9,361	9,212	9,365	9,226	9,415	9,300
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	9,361	9,212	9,365	9,226	9,415	9,300
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	10,746	10,597	10,735	10,567	10,790	10,640

Production

Cheese production continues to be the primary output goal of the European dairy processing industry, supported by the solid domestic consumption of this product. With increased production capacity, following openings of new cheese processing plants in several western European countries in 2020, the 2021 production of cheese was boosted by expanded fresh cheese (mozzarella) production. However, in 2022, the industry released 0.2 percent less cheese to the market, as a result of low raw milk availability, increasing butter production, and declining export demand, despite favorable EU cheese prices in comparison to main competitors. In 2023, despite declining milk deliveries, cheese production is expected to rise by 0.67 percent. Cheese production should be favored over other dairy products because its price is not dropping as much as that of other dairy products, and butter prices already reached their peak in 2022. Additionally, increasing consumption supports cheese production, alongside the expected development of the hospitality sector and tourism. However, production growth may be limited, due to uncertainties in the global market, high input costs, high inflation, and lower consumer purchasing power.

Graph 4: EU Dairy Products Quotations

EU evolutive* dairy Quotations
 (EU Average Prices based on MS communication and weighted by production)



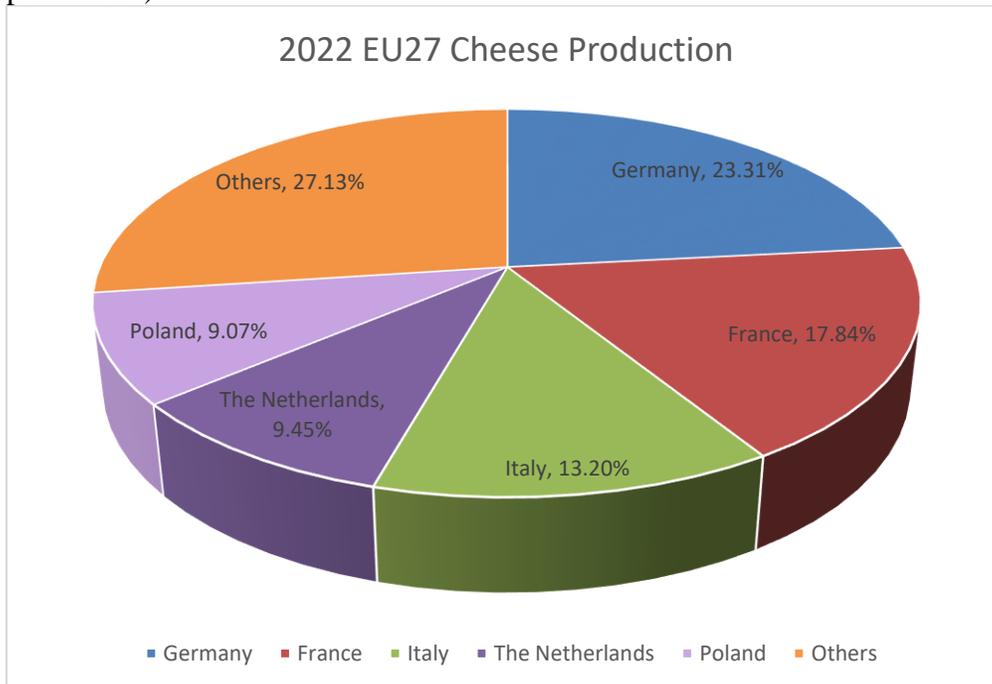
* EU evolutive: EU-15 (before 2004), EU-25 (2004 to 2006), EU-27 (2007 to 2013), EU-28 (2013 to 01/2020), EU-27 without UK (from 02/2020 onwards)

SMP – Skimmed Milk Powder or Non-Fat Dry Milk

WMP – Whole Milk Powder

Source: European Commission

Graph 5: Top 5 EU Cheese Producing Member States in 2022 (in percentage of the EU27 total production)



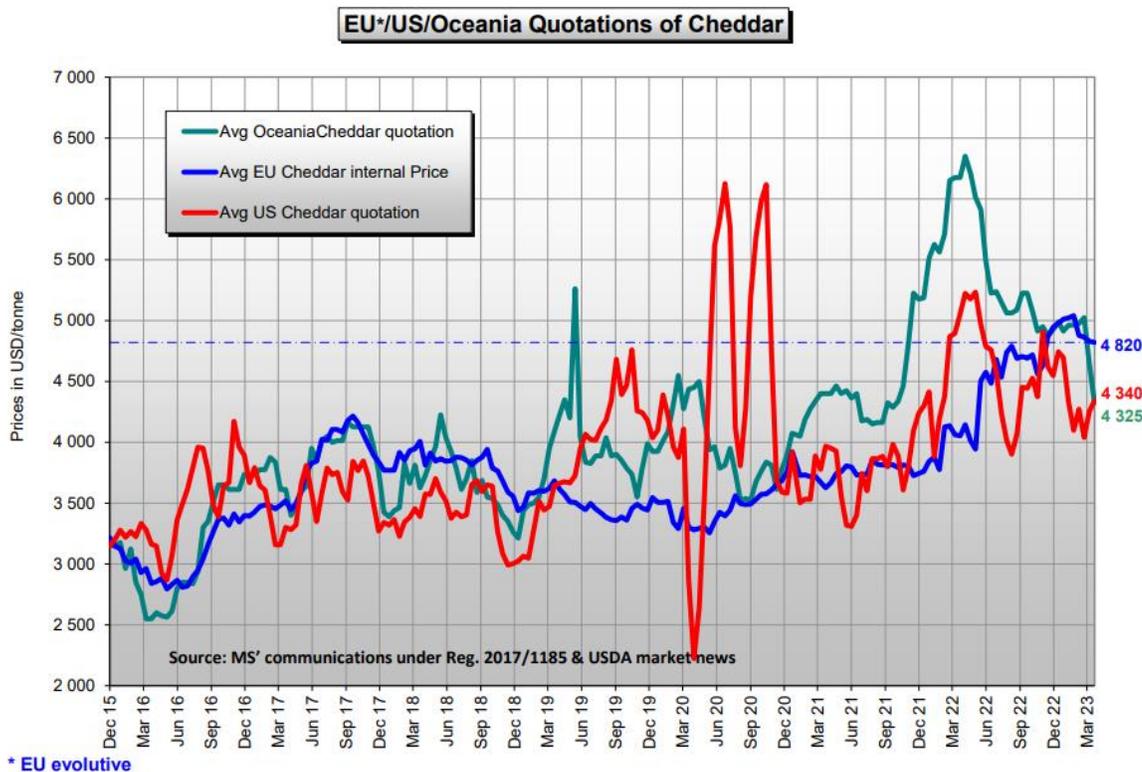
Source: Eurostat and FAS EU Posts

Trade

Cheese imports into the EU are limited and mainly originate from Switzerland and the UK. Imports from the UK decreased in 2022 by 9.5 percent, despite the fact that UK exporters have been learning to operate under customs checks after Brexit. However, post-Brexit challenges still remain. Imports from Switzerland also decreased in 2022 by 6 percent. Additionally, Ukraine became the fourth-largest supplier of cheese to the EU, as a result of the unilateral trade measure granting Ukraine quota and tariff-free access to the EU market. In 2023, EU27 cheese imports are forecasted to remain at a similar level as in 2022.

About 13 percent of EU27 cheese production is exported to the UK, the United States, and Japan. These three markets remained the top destinations for EU27 cheese exports in 2022, but they all decreased their demand, driving down the 2022 export number by 3.2 percent. This drop was strengthened by the decline in exports to war-torn Ukraine (highest drop by 38 percent) and to China. Lower cheese production and rising prices in the second half of 2022 against other global competitors, negatively affected EU exports.

Graph 6: Comparison of Cheddar Quotations of European Union, the United States, and Oceania

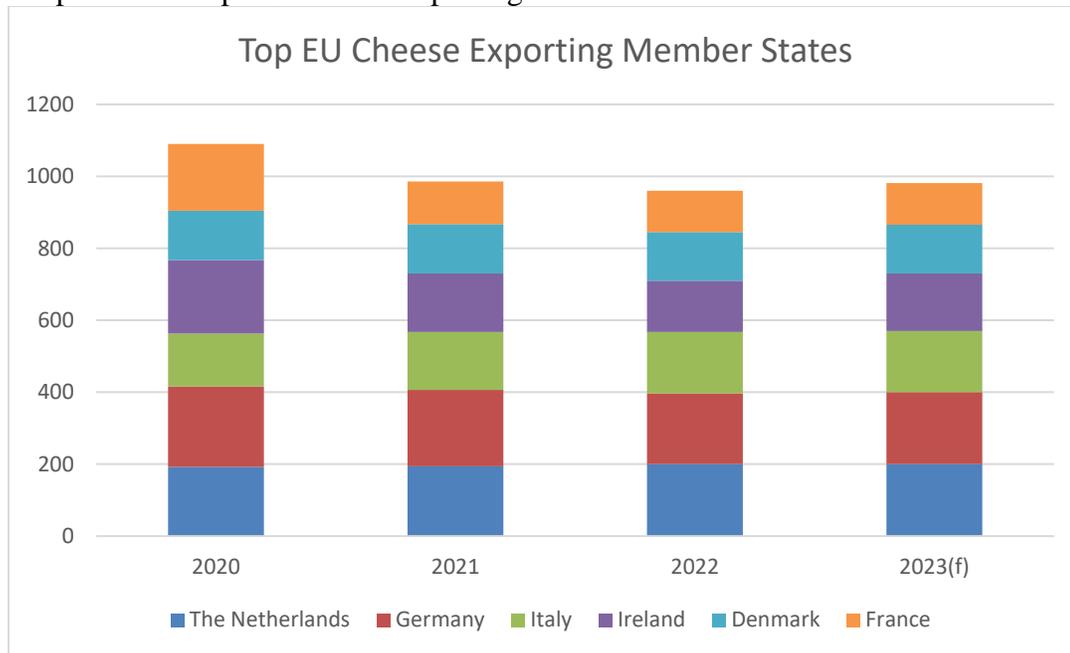


Source: European Commission

In January 2023, EU27 exports decreased by 4 percent year-on-year, affected by uncompetitive EU pricing, but assuming recovering demand from the UK, the 2023 export number is forecasted to remain at the same level as in 2022. Additionally, with the support of EU funds, the Spanish dairy sector will

promote its high value cheeses in the United States for the next 3 years, which is expected to increase exports to that market in 2023 and beyond.

Graph 7: The Top EU Cheese Exporting Member States

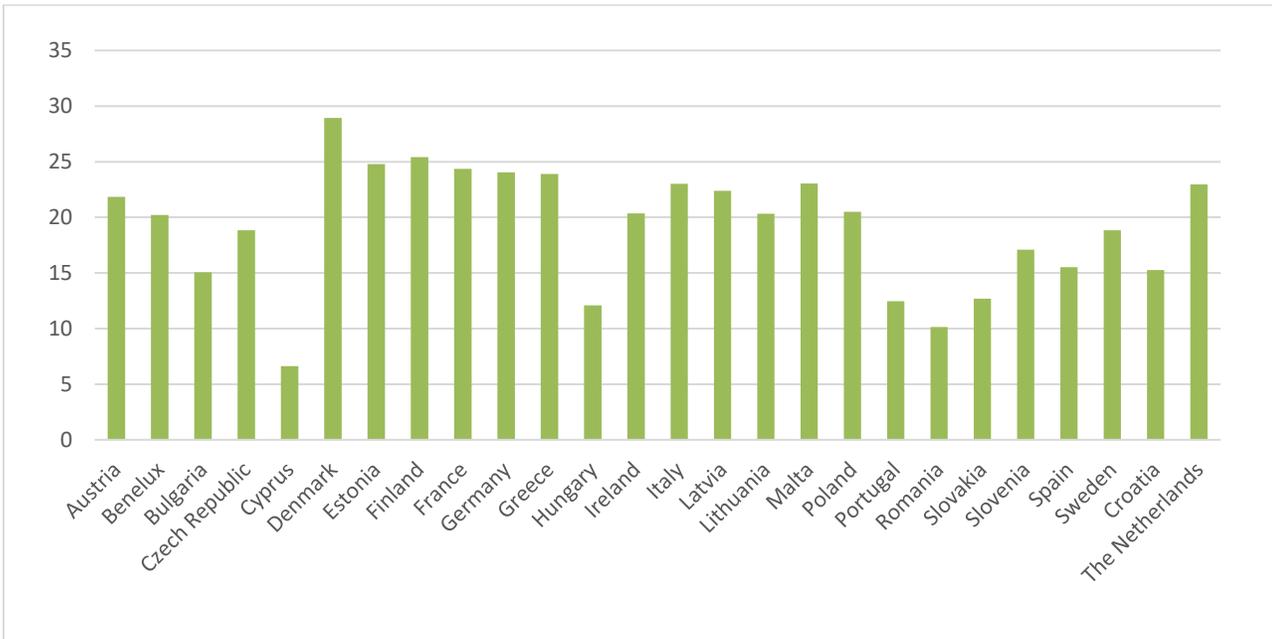


Source: TDM Ltd. and FAS EU Posts (internal EU27 trade is excluded)

Domestic Consumption

EU27 domestic cheese consumption is on a long-term increasing trend in 2022 and 2023. Although in France in 2022 consumption dropped by 3.3 percent as inflation and high prices drove consumers away, it is not the case in other MS, where consumers are willing to pay more for high-end products or choose cheaper types of cheese. For 2023, as inflationary pressure is forecasted to stabilize in the second half of the year, consumption is anticipated to further rise by 0.8 percent over 2022. The top cheese consuming MS are Germany, France, Italy, Poland, and Spain. However, in terms of consumption divided by the size of population, France, Germany, and the Nordic States are the top EU consumers.

Graph 8: EU MS Cheese Consumption by Size of Population



Source: Calculated FAS EU Post consumption data and Eurostat population data for January 2022

Butter

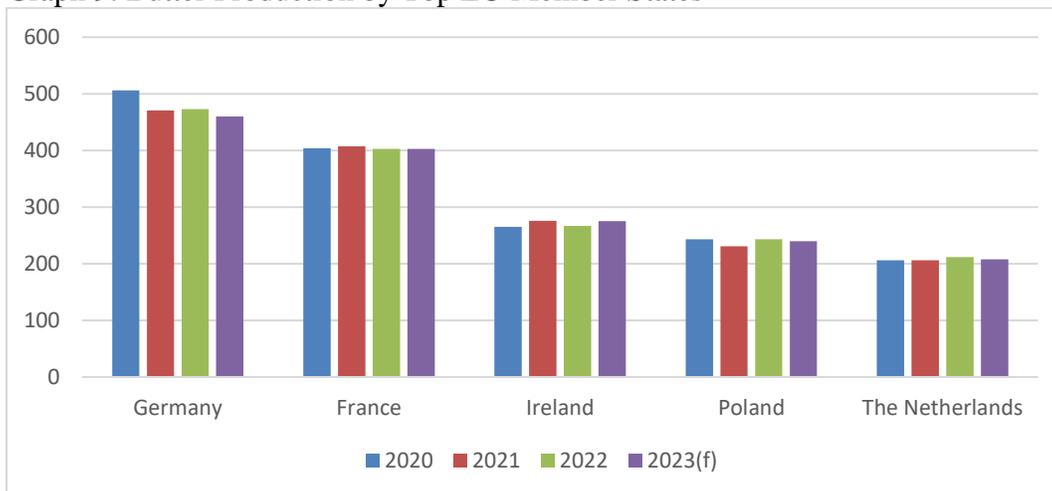
Table 3: Butter Production, Supply, and Distribution:

Country:	EU27					
Commodity:	Dairy, Butter (1000 MT)					
	2021		2022		2023	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2021		01/2022		01/2023	
Beginning Stocks	0	0	0	0	0	0
Production	2,141	2,081	2,080	2,073	2,040	2,060
Extra EU27 Imports	51	46	70	72	70	70
TOTAL SUPPLY	2,192	2,127	2,150	2,145	2,110	2,130
Extra EU27 Exports	265	257	260	250	265	250
Domestic Consumption	1,927	1,870	1,890	1,895	1,845	1,880
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	1,927	1,870	1,890	1,895	1,845	1,880
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2,192	2,127	2,150	2,145	2,110	2,130

Production

EU27 butter production in 2023 is still forecasted to decrease, as smaller milk supply will favor cheese production over butter and skimmed milk powder (SMP). However, the previous forecast is adjusted up by 20,000 MT, due to the fact that Germany, Italy, the Netherlands, Poland, and Belgium revised upwards their butter production outlook for 2023. EU27 butter production in 2022 ended only 0.34 percent lower than previously estimated. Germany, France, Ireland, Poland, and the Netherlands are the largest butter producers in the EU. Together they provide almost 75 percent of EU27 butter supply.

Graph 9: Butter Production by Top EU Member States



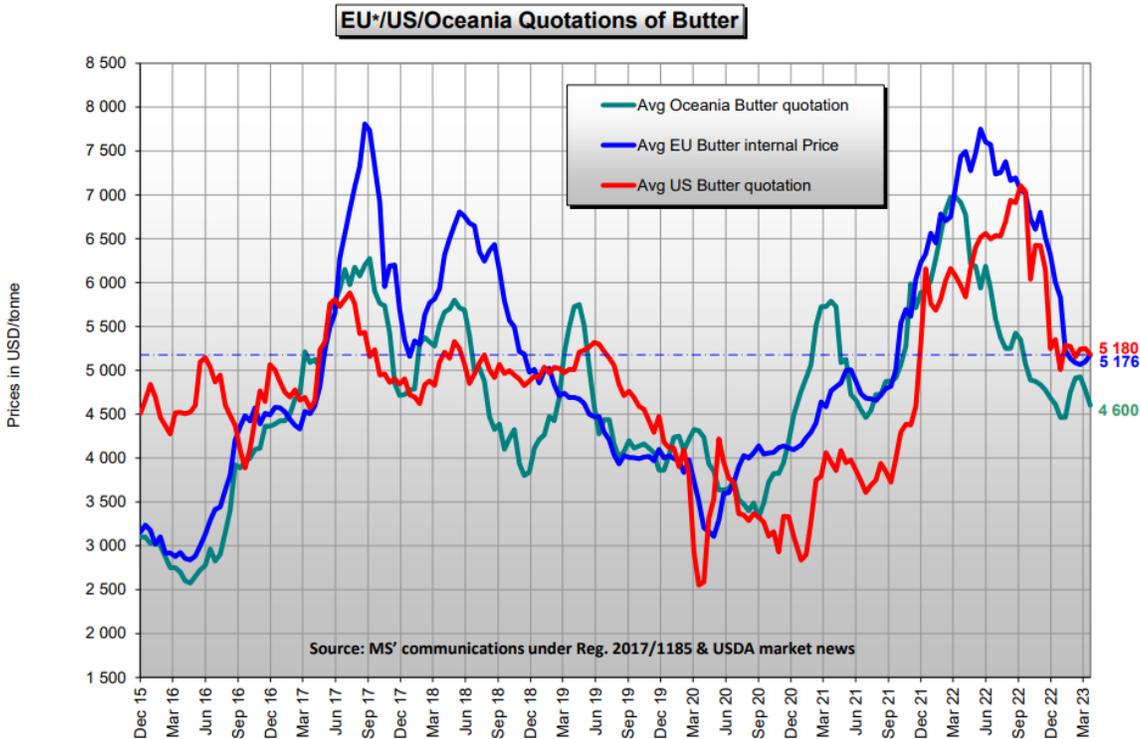
Source: Eurostat and FAS EU Posts

Trade

EU27 butter imports are dominated by imports from the UK, and in 2022 recovered from Brexit-related decreases in 2020 and 2021. Moreover, with extremely high EU butter prices, other suppliers like New Zealand, Ukraine, and Turkey significantly increased their deliveries. Imports from Ukraine were additionally supported by quota and tariff-free access to the EU market, granted on June 4, 2022, for one year. The 2023 forecast for butter imports is maintained at a stagnating level from 2022.

EU27 butter exports forecast for 2023 is also stable from 2022, however, lower than originally anticipated. In 2022, the main recipients of EU exports were the UK, the United States, China, Saudi Arabia, and South Korea. The 27 percent export increase to the UK was partially offset by decreased butter exports to China, Saudi Arabia, and the United States, however, the 2022 EU27 butter export number was lower than estimated in the previous report. In 2022, EU butter prices were among the highest on the market.

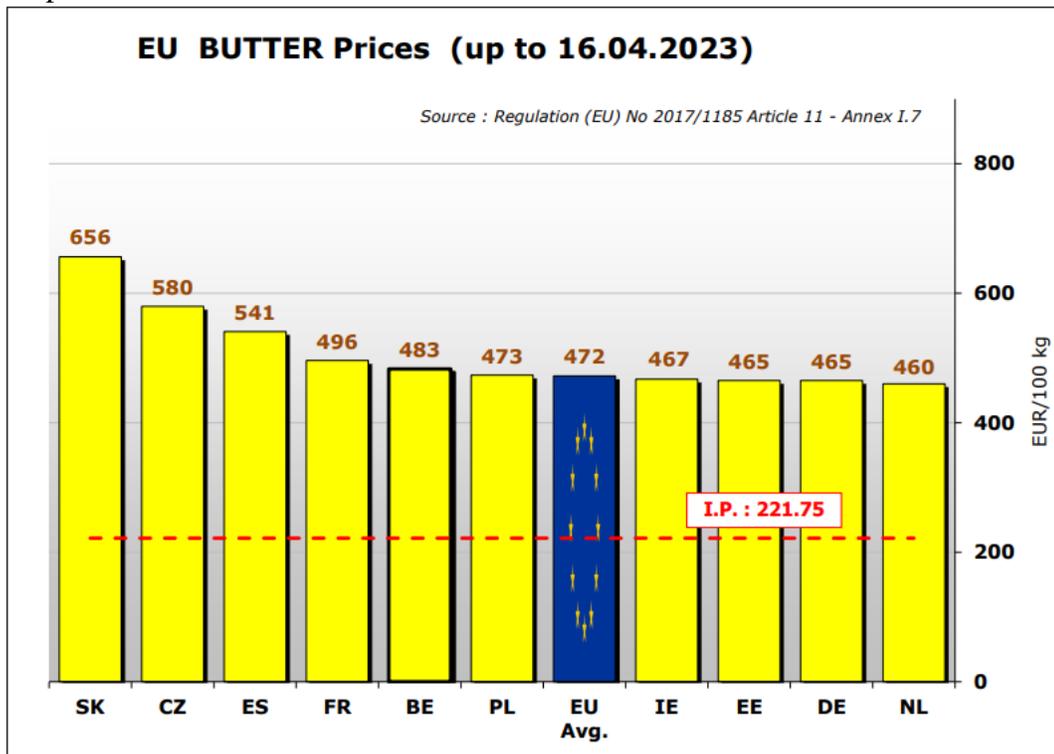
Graph 10: Comparison of Butter Quotations of European Union, the United States, and Oceania



* EU evolutive

Source: European Commission

Graph 11: Butter Prices in EU Member States



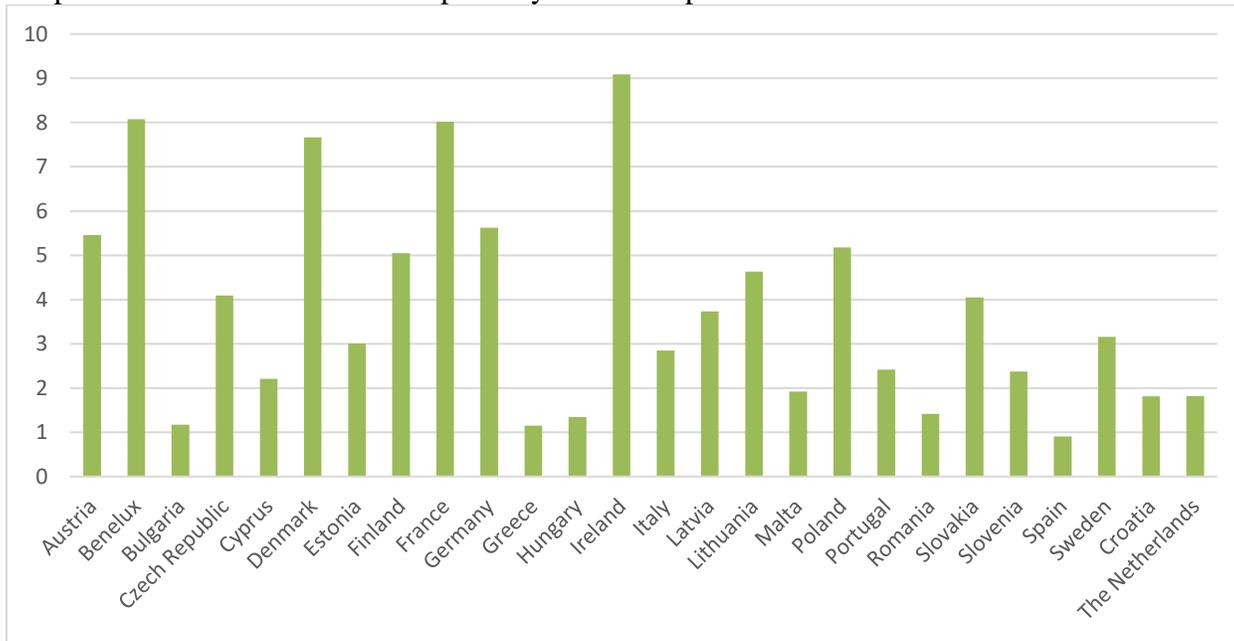
Source: European Commission

Domestic Consumption

The previously forecasted declining trend of butter consumption prompted by health concerns paused in 2022. It was expected that the record increase of butter prices in the retail sector, combined with high inflation limiting the purchasing power of consumers would cause a drop in butter consumption in 2022. However, rising prices of other oils, including of plant origin, by 32.4 percent in December 2022, made butter a comparative choice for consumers. The recovering hospitality sector and tourism supported the consumption increase. In 2023, EU27 butter consumption is forecasted to revert to its declining trend, with stagnating demand from hotels, restaurants, and institutions (HRI), and consumers choosing healthier fats over butter. HRI sector is expected to be negatively affected by diminishing purchasing power of consumers, preventing growth in butter consumption.

Butter consumption patterns vary across the EU, driven by local cooking and eating habits. In 2022, Ireland and Belgium/Luxembourg had the highest butter consumption in relation to the size of population, followed by Denmark, France, and Germany. MS around the Mediterranean Sea typically consume less butter as cooking mostly uses olive oil, while MS in the Central East of the EU consume more plant-based spreads because of the lower price.

Graph 12: EU MS Butter Consumption by Size of Population



Source: Calculated FAS EU Post consumption data and Eurostat population data for January 2022.

Non-Fat Dry Milk

Table 4: Non-Fat Dry Milk (NFDM) Powder Production, Supply, and Distribution:

Country:	EU27					
Commodity:	Dairy, Non-Fat Dry Milk (1000 MT)					
	2021		2022		2023	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2021		01/2022		01/2023	
Beginning Stocks	0	0	0	0	0	0
Production	1,504	1,496	1,450	1,514	1,375	1,500
Extra EU27 Imports	32	32	35	36	40	40
TOTAL SUPPLY	1,536	1,528	1,485	1,550	1,415	1,540
Extra EU27 Exports	788	788	700	711	625	700
Domestic Consumption	748	740	785	839	790	840
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	748	740	785	839	790	840
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1,536	1,528	1,485	1,550	1,415	1,540

Production

NFDM production in the EU27 is closely tied to butter production and is usually not a production goal on its own. Therefore, EU27 NFDM production for 2022 and 2023 were revised up, in line with butter production patterns and full 2022 statistical data. For 2023, NFDM production is forecasted to decline from 2022 levels, but only by 1 percent. Among the top EU NFDM producers, Germany, Belgium, and Poland forecast production decline, whereas France and Ireland expect a slight increase in production in 2023.

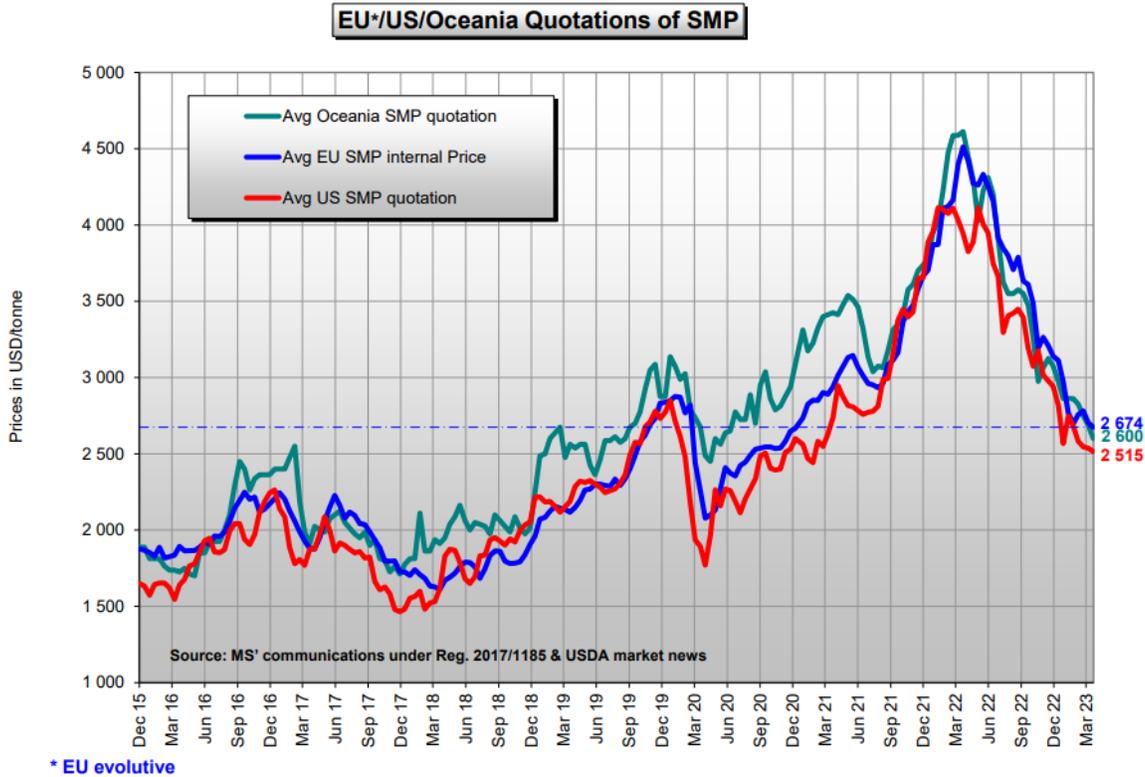
Trade

The EU27 imports little NFDM, and most of that from the UK, but these imports are declining after Brexit, down 18 percent in 2022 over 2021. In 2022, the UK accounted for 48 percent of NFDM supplies to the European market, while Ukraine came in second with 28 percent import share, increasing imports by 499 percent. This was a result of quota and tariff-free access to the EU market, granted to Ukraine on June 4, 2022, for one year.

EU27 NFDM exports compete heavily with NFDM exports from the United States and New Zealand, with the EUR/USD exchange rate an important factor. EU27 NFDM exports in 2023 continue to be forecasted to shrink compared to 2022 because of limited production, however, the decline is expected to be by 2 percent and not 5 percent, as forecasted in the previous report. Despite a 10-percent decrease in NFDM exports in 2022 compared to 2021, China (-33 percent) and Algeria (+26 percent) remained the leading buyers in 2022, followed by Indonesia (-33 percent), Egypt (+14 percent), Nigeria (-25 percent), the Philippines (-33 percent), and Yemen (+5 percent). Almost half of EU NFDM production is

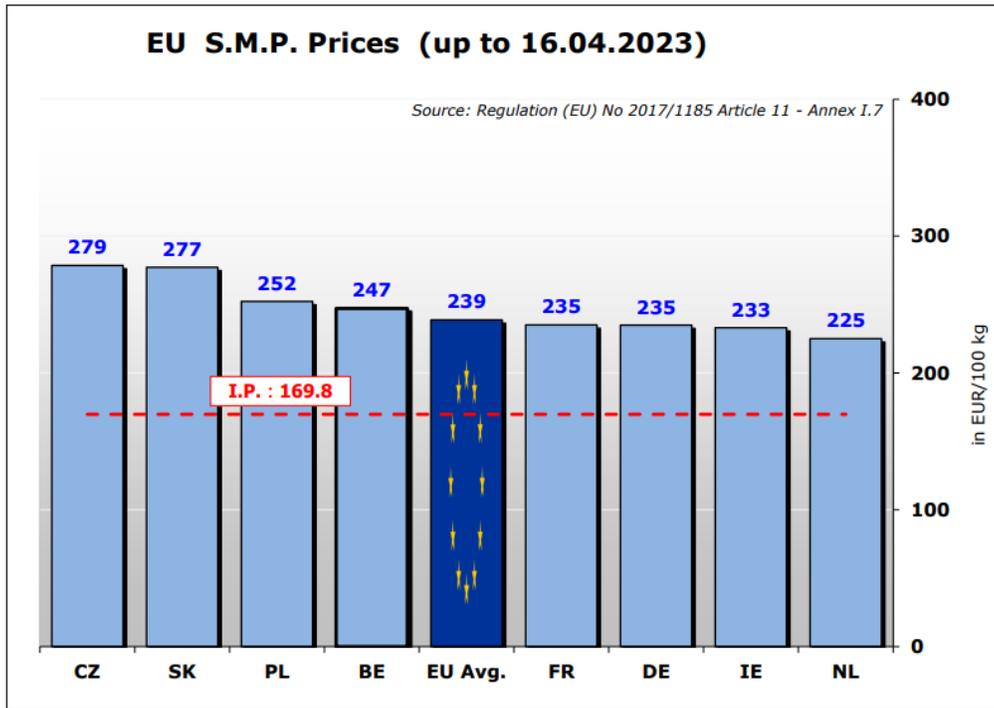
exported. The main NFDM exporting EU MS are Germany, France, Belgium, Ireland, the Netherlands, and Poland.

Graph 13: Comparison of Skimmed Milk Powder (SMP) Quotations of European Union, the United States, and Oceania



Source: European Commission

Graph 14: Skimmed Milk Powder (SMP) Prices in EU Member States



Source: European Commission

Domestic Consumption

Domestic consumption of NFD in the EU is mainly for the food industry, where it is used in recombined dairy products such as UHT milk, yogurts, or cheeses, but also as non-fat milk solids in chocolate or in bakery. Calf feed for veal production is another outlet on the domestic market. EU27 consumption of NFD is forecast to be stable in 2023, supported by demand from the price-sensitive food processing sector.

Whole Milk Powder

Table 5: Whole Milk Powder (WMP) Production, Supply, and Distribution:

Country:	EU27					
Commodity:	Dairy, Whole Milk Powder (1000 MT)					
	2021		2022		2023	
	USDA Official	New	USDA Official	New	USDA Official	New
Calendar Year Begin	01/2021		01/2022		01/2023	
Beginning Stocks	0	0	0	0	0	0
Production	663	655	620	616	600	600
Extra EU27 Imports	11	11	20	20	20	20
TOTAL SUPPLY	674	666	640	636	620	620
Extra EU27 Exports	298	298	250	241	240	230
Domestic Consumption	376	368	390	395	380	390
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	376	368	390	395	380	390
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	674	666	640	636	620	620

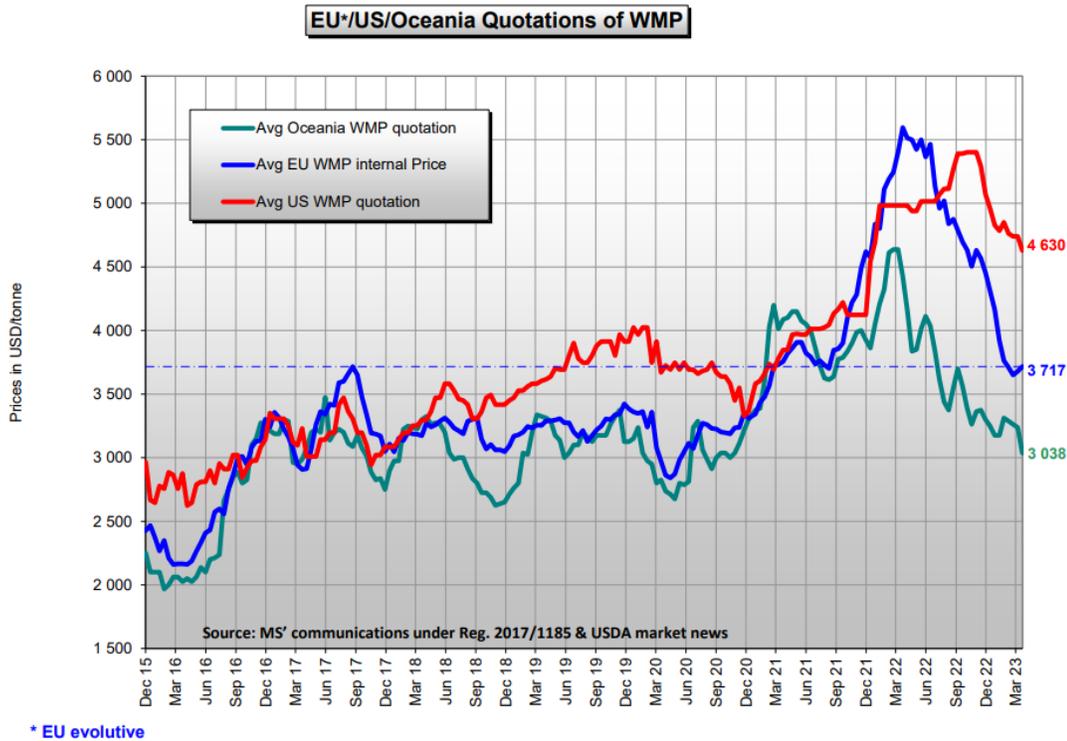
Production

EU27 WMP production is forecast to stabilize in 2023, after a 6-percent decrease in 2022 compared to 2021 because of limited milk supplies. WMP production usually generates the lowest processing margins, and EU processors generally prioritize cheese production, which offers the most stable long-term returns.

Trade

EU27 WMP imports are negligible, sourced mostly from the UK. EU27 WMP exports are decreasing due to the lack of supplies and export competitiveness, a trend which is expected to continue in 2023. EU WMP exports in 2022 were directed mainly to the Middle East, China, and the UK, while traditional recipients in North Africa halved their demand for EU WMP due to high prices and competition from MERCOSUR countries.

Graph 15: Comparison of Whole Milk Powder (WMP) Quotations of European Union, the United States, and Oceania



Source: European Commission

Domestic Consumption

EU27 WMP domestic consumption is mainly in the food processing industry, which usually is stable. However, WMP consumption showed a decline in 2021 compared to 2020 and recovered in 2022. In 2023, consumption is forecasted to remain stable.

EU Policy

Common Agricultural Policy (CAP)

The new CAP for 2023-2027 was [adopted](#) on December 2, 2021, and published in the Official Journal on December 6, 2021:

- [EU Regulation 2021/2116](#), repealing EU Regulation 1306/2013 on the financing, management, and monitoring of the CAP;
- [EU Regulation 2021/2115](#), establishing rules on support for national CAP strategic plans, and repealing EU Regulations 1305/2013 and 1307/2013;
- [EU Regulation 2021/2117](#), amending EU Regulations 1308/2013 on the common organization of the agricultural markets; 1151/2012 on quality schemes for agricultural products; 251/2014 on geographical indications for aromatized wine products; and 228/2013 laying down measures for agriculture in the outermost regions of the EU.

EU MS were requested to submit so-called [Strategic Plans](#), incorporating MS specific goals and initiatives, by the end of 2021. By December 2022, all national strategic plans were approved by the European Commission (EC). Implementation of the new CAP started on January 1, 2023. For more information, please see GAIN Report: [EU Common Agricultural Policy Reform](#).

The Green Deal

On December 11, 2019, the EC announced the [European Green Deal](#). The EC sees the Green Deal and accompanying strategies as a way of achieving [Paris Climate Agreement](#) and [UN Sustainable Development Goal](#) commitments. For the food and agriculture sector, the EC adopted the [Farm to Fork \(F2F\) Strategy](#) and the [Biodiversity Strategy](#) for 2030. The strategies target a 50 percent reduction in pesticide use, a 20 percent reduction in fertilizer use, a 50 percent reduction in nutrient leakage in groundwater, 25 percent of agricultural land being used for organic farming, 10 percent of land set aside for environmental areas, and an increase in nature conservation areas by 30 percent by 2030.

Deforestation-Free Supply Chains

As part of the Green Deal, the EC published a [proposal](#) for a Regulation aimed at preventing products causing deforestation entering the EU market. The proposal targets products which are identified by the EC as the main drivers of deforestation including soy and palm oil. On December 6, 2022, the proposal was adopted by the EU institutions. The text is going through a legal review but is now de-facto final and is expected to be formally adopted in the coming months. It will then enter into force late 2024 or early 2025. To sell any of the covered products in the EU or export them from the EU, business operators will be required to provide extensive information about the product's origins, including the precise location(s) and general time of production. The Regulation establishes a country benchmarking system through which the EU Commission will assess the risk that countries, or parts thereof, produce relevant commodities and products that contribute to deforestation. Products sourced from standard- or high-risk origins must comply with additional risk assessment and mitigation procedures. It is likely that this new Regulation will divert global trade flows for soy and palm. It will also likely have an impact on commodity prices in the European Union. For more information, please see GAIN Report: [European Institutions Finalize Deforestation-Free Supply Chain Regulation](#).

Trade Policy

EU Free Trade Agreements (FTAs)

The EU is negotiating and has implemented several FTAs with other countries and regions, which include concessions on dairy. Additional information is available on the website of the EC at: <https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/>. The EU finalized an FTA with New Zealand as well as its update of the FTA with Mexico, while negotiations on an FTA with Australia and the update of the Chile FTA continue. Some provisions of the FTA with Ukraine will apply as of 2023.

On June 30, 2022, the EU concluded negotiations on an FTA with [New Zealand](#), eliminating all duties on exports of EU dairy products. The EU opens a TRQ of 15,000 MT for NFDMM at 20 percent duty; a new butter TRQ for 15,000 MT at 5 percent duty, on top of the existing 47,177 MT WTO butter TRQ, for which 21,000 MT will also see the duty gradually reduced to 5 percent; a 25,000 MT duty-free TRQ for cheese, on top of the existing WTO TRQ for 6,031 MT, for which the duty will gradually also be eliminated and a 3,500 MT TRQ for high protein whey at zero duty. New Zealand will further protect EU GI's.

In April 2018, the EU concluded an [agreement in principle](#) with Mexico. After ratification, the agreement will offer free access for EU blue cheese, with further TRQs of 5,000 MT for fresh and processed cheese and 20,000 MT for other cheeses. Mexico has also agreed to protect European GI's.

On June 28, 2019, the EU reached a trade [agreement in principle](#) with the four member countries of Mercosur (Argentina, Brazil, Paraguay, and Uruguay). The details of this agreement, in which the EU will receive TRQ's for 38,000 MT of cheese and 10,000 MT of milk powder, still need to be elaborated and its provisional implementation is years away. Nevertheless, intense discussions on climate change mitigation and environmental restrictions continue as the EU advances its Green Deal and F2F proposals, and criticism from EU farmers, MS, and EP have put into question the future of this FTA.

The European Union and Ukraine have provisionally applied an Association Agreement since November 2014. As a part of this association agreement, a Deep and Comprehensive Free Trade Agreement (DCFTA) has been provisionally applied since January 2016. Some agricultural goods were liberalized when the agreement entered into force, but a small number of goods are subject to a transitional period lasting until 2023. Additionally, by 2026, dairy and other products will be subject to limited linear tariff reductions of 20-60 percent. A residual tariff will continue to apply after that. For more information, please see: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A22014A0529%2801%29>

EU Policy Response to the War in Ukraine

In February 2022, Russia launched its further invasion in Ukraine. The war is putting pressure on global food security mainly due to the high level of exports of feed and grains products from the two countries in conflict.

On March 23, 2022, the EC published a Communication on '[Safeguarding food security and reinforcing the resilience of food systems](#)'. This Communication outlines short-term and medium-term actions that

the EU took to enhance global food security and support EU farmers given rising commodity prices and costs for energy and fertilizer inputs due to the war in Ukraine:

- €500 million euros distributed in national allocations for direct support for EU farmers most affected by higher input costs and the closure of export markets. MS can supplement this support using national funds;
- Exceptional and temporary derogation from certain greening obligations such as the production of any food and feed crops on fallow lands;
- Reduction of blending proportion requirements for biofuels;
- Derogations from Regulation 396/2005 for pesticide maximum residue levels (MRLs) to allow the import of feedstock from additional sources.

On June 3, 2022 the EU adopted a [regulation](#) allowing for temporary trade liberalization to certain Ukrainian products for 1 year.

In May 2022, the EC also published an Action Plan for [EU-Ukraine Solidarity Lanes](#) to facilitate Ukraine's agricultural exports in response to the initial blockade of Ukrainian Black Sea ports. The Commission listed actions to help Ukraine export as much agricultural products as possible before the new harvest. This includes making additional vehicles available, prioritizing Ukrainian agricultural export through new rail slots, and addressing delays to shipments due to burdensome border checks. In July 2022, Ukraine, Russia, Turkey, and the United Nations signed the Black Sea Grain Initiative (BSGI) to reopen some Black Sea routes and resumed Ukraine agricultural exports through three ports.

[Veterinary Medicine Legislation](#)

On January 28, 2022, the EU implemented the new framework for [veterinary medicine regulation](#), which was approved in December 11, 2018.

The [Commission Delegated Regulation \(EU\) 2021/1760](#) established the criteria for antimicrobials to be reserved for use by humans. The European Medicines Agency (EMA) was [mandated](#) to draft a proposal for a list of antibiotics reserved for human medicine based on these criteria. On July 20, 2022, [Commission Implementing Regulation \(EU\) 2022/1255](#) was published in the Official Journal, listing antimicrobials or groups of antimicrobials reserved for treatment of certain infections in humans, and entered into force on February 9, 2023. The official controls [Regulation \(EU\) 2021/1756](#) ensure compliance with the prohibition of certain uses for antimicrobials.

A draft Delegated Act for the Implementation of Article 118 imposing limitations on the use of antibiotics for animals in the EU, which will also apply to operators in third countries, is proposed and has been notified to the World Trade Organization (WTO) as G/SPS/N/EU/605 on December 8, 2022.

[New EU Animal Welfare \(AW\) Legislative Roadmap](#)

On July 5, 2021, the European Parliament's Committee of Inquiry on the Protection of Animals during Transport (ANIT), published a [report](#) about livestock transport in the EU and to third countries. The report describes patterns in the European transport of animals and possible avenues for improved animal welfare.

On January 21, 2022, public consultation ended on the EU's [Animal Welfare Inception Impact Assessment](#). This impact assessment marks the beginning of an EU revision of its animal welfare

legislation, which is one of the goals of the EU’s F2F strategy. The aim is to have a draft animal welfare regulation approved by the end of 2023. The proposal will likely expand existing regulations for animal welfare during transport, at the farm level, and at slaughter. A renewed [Animal Welfare Platform](#) was installed in May 2021 as an advisory body to inform the EC on these proposals. New initiatives for animal welfare labeling are also being discussed by the subgroup on animal welfare labeling.

At the July 18, 2022 EU Agricultural Council meeting, Denmark, on behalf of five member states (Belgium, Denmark, the Netherlands, Germany, and Sweden), presented a [position paper](#) to strengthen EU rules on animal transportation and reduce the maximum journey length. This initiative follows months of debate –including in the European Parliament – of continued issues with animal welfare issues, mostly in maritime animal transportation.

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Related reports from FAS Posts in the European Union:

Country	Title	Date
Bulgaria	Dairy and Products Annual	11/16/2022
European Union	Dairy and Products Annual	10/21/2022
The Netherlands	Nitrogen Report Delivered to the Dutch Government	10/14/2022

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Attachments:

No Attachments