

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** Dairy Situation and Outlook

**Country:** United Kingdom

**Post:** London

**Report Category:** Dairy and Products

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**Report Highlights:**

The United Kingdom's departure from the European Union on December 31, 2020, and the Covid pandemic have both presented challenges and opportunities for the dairy processing sector. These include changes to consumption demand, both domestically and in export markets, and on supply, specifically, terms of trade. In CY2022, more stability in the sector is forecast, but uncertainty remains. The rationalization of the dairy herd is forecast to continue in CY2022, meaning milk production is only forecast to rise marginally.

## **Executive Summary**

The United Kingdom (UK) dairy herd remains in long term decline, but milk production is rising marginally year-on-year due to improved milk yield per cow. While the dairy processing sector hopes that CY2022 will bring a measure of certainty following a time of significant disruption and need for agility, underlying demand for milk remains strong.

CY2021 started with the UK's departure from the European Union (EU) and the latter immediately implementing export health certificate requirements and other checks on animal and animal product imports, including dairy. These initially disrupted trade flows. Exporters are now becoming familiar with the requirements, but these have reduced the use of Great Britain (England, Wales, and Scotland) as a land bridge between Ireland and the Continent. From July 1, 2022, the EU will face similar requirements for exports to Great Britain. Again, some initial disruption is expected, albeit the trade has more time to prepare.

The UK began CY2021 in another COVID lockdown. Successive lockdowns through CY2020 increased retail sales of dairy products and reduced usage in the hotel, restaurant, and institutional (HRI) sector. These purchasing patterns favor domestic products and supported demand for milk deliveries. Imported product is more heavily utilized in the HRI sector. In CY2021, there has been a slow reopening of the HRI sector, and a corresponding reduction in retail purchases. We forecast a continuation of this trend in CY2022.

## **Fluid Milk**

The UK dairy herd remains in long term decline, with another year-on-year fall forecast in CY2022 as producers continue to restructure their herds. The reasons include the use of sexed semen (increasing the proportion of females) and rising costs, especially for feed. However, milk deliveries are again forecast to rise marginally year-on-year, a combination of producers retaining their more productive animals, an overall improvement in herd genetics and milk yield, and underlying demand supporting the farm-gate milk price.

The majority of UK fluid milk trade is between Northern Ireland and Ireland. Imports of fluid milk from Ireland for processing are forecast unchanged in CY2022. Exports are forecast to rise, albeit some Irish processors may be wary of incorporating imported milk from Northern Ireland in products such as milk powder for baby formula as this means it can no longer be sold with an EU origin label.

Fluid milk consumption, although supported by home consumption during the pandemic, was down in CY2020 and is expected down again in CY2021. A factor is increasing demand for plant-based milk, made from oats, almonds, or soya – driven by environmental and health considerations but also benefitting from increased popularity during the pandemic. This sector continues to increase in popularity in the UK with consumers reported to have increased spending 25 percent in CY2020 to over \$525 million. In CY2022, a further increase in plant-based milk consumption is forecast to maintain the downward pressure on fluid milk consumption.

The partial closure of the UK HRI sector in CY2020 and CY2021, and a sustained period during which a large proportion of the population have been, and continue to, work from home have led to product demand side change in the UK dairy sector. However, increased retail demand for dairy products has more than offset the loss in foodservice demand. While processors have had to adapt their product mix, overall demand for milk delivered to dairies has risen.

The ongoing recovery in the HRI sector in CY2021 is forecast to continue in CY2022. It will be offset by a decline in retail sales. A return towards pre-COVID trends on product consumption is expected. However, this process is forecast to be slow with HRI sector demand expected to remain below pre-pandemic levels through CY2022. Not only will consumers be slow in fully returning to their previous habits, the HRI sector also needs time to recover. Some businesses will never reopen, while others face recruitment challenges as many of their staff were EU nationals who have since left the UK.

## **Products**

The effective closure of the hospitality sector in CY2020 and only partial reopening in CY2021 has increased retail purchases of dairy products in the UK. Increases in cooking from scratch and home-baking have further supported the dairy categories. As retailers favor domestic production, this has supported UK cheese and butter production which is expected to rise in CY2021. For cheese, this increase is mainly in the form of cheddar, but also some territorialials. For butter, there has been an increase in packet butter production for retail, at the expense of bulk butter production for export. Production of both butter and cheese is forecast to continue to rise in CY2022, but to a lesser extent than this year, supported by consumer demand which is expected to remain above pre-Covid levels. Powder production, expected up marginally in CY2021 is currently forecast unchanged in CY2022.

While the [Trade and Cooperation Agreement \(TCA\)](#) means no quotas or tariffs between the UK and EU, exports to the EU from the UK immediately faced additional trade friction, in the form of new paperwork requirements and export health certificates, from January 1, 2021. For cheese, and to a lesser extent butter, exports surged in late CY2020 ahead of the change, and then fell sharply in the first few months of CY2021. The TCA was only agreed on December 24, 2020, giving exporters just one week to understand and meet the new requirements before it was implemented. Most have now adapted, such as setting up distribution centers in the EU, and have absorbed much of the additional costs. However, the increased paperwork requirements for movements of animal products between Ireland and the Continent across Great Britain (GB), which acts as a land bridge between the two, has led to some traders rerouting consignments of butter and cheese around GB. Rules of origin also now mean that imported product warehoused in GB before re-export, such as from the United States, is subject to double duties, and this has also affected trade patterns. While the new terms of trade have reduced exports thus far this year, the pace has increased as the year progressed. Reduced demand from the EU's HRI sector has also been a significant factor in the expected year-on-year decline in exports of both cheese and butter. Their more recent recovery is currently forecast to continue in CY2022, supported by increased demand from the EU's HRI sector.

For powders, the UK's departure from the EU is expected to have a more profound effect on trade. Rules of origin mean a product containing GB milk powder faces additional duties when re-exported from the EU if it is not considered substantially altered. Processors are also unable to label their product

as EU if it includes non-EU origin ingredients. Non-Fat Dried Milk (NFDM) exports are expected down in CY2021, with the entire reduction being in exports to the EU, in part due to these new terms of trade, but also due to reduced export demand. While exports are currently forecast to recover in CY2022, much of the rise is currently expected to be to non-EU destinations.

The switch from HRI to retail sales, and reduced exports meaning increased domestic product availability, is reflected in lower imports of dairy products in CY2021, much of which are destined for the hospitality sector. The UK imports nearly all its imported cheese requirement from the EU - mainly Ireland, France, Germany, Italy, and Belgium - and imports from all these origins are down in CY2021. The ongoing phased reopening of the HRI sector will increase cheese imports towards the end of the year (helped by the UK not imposing import controls on EU animal products until July 1, 2022) but they will still be significantly down year-on-year. The outlook for the HRI sector is positive for CY2022, and cheese imports are currently forecast to rise, albeit remain below their pre-COVID level. The imposition of documentary checks on imports from the EU from July 1, 2022, will present some challenges for cheese imports, and be a limiting factor on any growth, but the long lead time should mean that this is kept to a minimum and be short-lived. It is a similar story for butter imports, with over half of annual imports being from Ireland.

## Statistical Appendices

### Production, Supply and Distribution

Dairy, Milk, Fluid Market Year Begins United Kingdom	2020		2021		2022	
	Jan 2020		Jan 2021		Jan 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Cows In Milk</b> (1000 HEAD)	0	1867	0	1856	0	1840
<b>Cows Milk Production</b> (1000 MT)	0	15447	0	15500	0	15600
<b>Other Milk Production</b> (1000 MT)	0	0	0	0	0	0
<b>Total Production</b> (1000 MT)	0	15447	0	15500	0	15600
<b>Other Imports</b> (1000 MT)	0	220	0	250	0	250
<b>Total Imports</b> (1000 MT)	0	220	0	250	0	250
<b>Total Supply</b> (1000 MT)	0	15667	0	15750	0	15850
<b>Other Exports</b> (1000 MT)	0	792	0	770	0	800
<b>Total Exports</b> (1000 MT)	0	792	0	770	0	800
<b>Fluid Use Dom. Consum.</b> (1000 MT)	0	6370	0	6280	0	6250
<b>Factory Use Consum.</b> (1000 MT)	0	8505	0	8700	0	8800
<b>Feed Use Dom. Consum.</b> (1000 MT)	0	0	0	0	0	0
<b>Total Dom. Consumption</b> (1000 MT)	0	14875	0	14980	0	15050
<b>Total Distribution</b> (1000 MT)	0	15667	0	15750	0	15850
(1000 HEAD) ,(1000 MT)						

Dairy, Cheese Market Year Begins United Kingdom	2020		2021		2022	
	Jan 2020		Jan 2021		Jan 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	0	488	0	505	0	515
Other Imports (1000 MT)	0	499	0	395	0	475
Total Imports (1000 MT)	0	499	0	395	0	475
Total Supply (1000 MT)	0	987	0	900	0	990
Other Exports (1000 MT)	0	193	0	151	0	165
Total Exports (1000 MT)	0	193	0	151	0	165
Human Dom. Consumption (1000 MT)	0	794	0	749	0	825
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	0	794	0	749	0	825
Total Use (1000 MT)	0	987	0	900	0	990
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	0	987	0	900	0	990
(1000 MT)						

Dairy, Butter Market Year Begins United Kingdom	2020		2021		2022	
	Jan 2020		Jan 2021		Jan 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	0	194	0	210	0	215
Other Imports (1000 MT)	0	77	0	52	0	55
Total Imports (1000 MT)	0	77	0	52	0	55
Total Supply (1000 MT)	0	271	0	262	0	270
Other Exports (1000 MT)	0	65	0	48	0	55
Total Exports (1000 MT)	0	65	0	48	0	55
Domestic Consumption (1000 MT)	0	206	0	214	0	215
Total Use (1000 MT)	0	271	0	262	0	270
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	0	271	0	262	0	270
(1000 MT)						

Dairy, Milk, Nonfat Dry Market Year Begins United Kingdom	2020		2021		2022	
	Jan 2020		Jan 2021		Jan 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	0	67	0	70	0	70
Other Imports (1000 MT)	0	22	0	18	0	20
Total Imports (1000 MT)	0	22	0	18	0	20
Total Supply (1000 MT)	0	89	0	88	0	90
Other Exports (1000 MT)	0	72	0	44	0	65
Total Exports (1000 MT)	0	72	0	44	0	65
Human Dom. Consumption (1000 MT)	0	17	0	44	0	25
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	0	17	0	44	0	25
Total Use (1000 MT)	0	89	0	88	0	90
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	0	89	0	88	0	90
(1000 MT)						

**Attachments:**

No Attachments.