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GAIN Report

Global Agricultural Information Network

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Report Highlights:

Spain is one of the few EU countries with a structural deficit of milk production that is enshrined in its quota allocation. This fact has been amplified by the 15 percent population growth in the last decade to 46 Million in 2010. Based on per capita consumption data, the Spanish Ministry of Environment, Rural, and Marine Affairs (MARM) estimates total milk consumption to be around 9 million tons. The national quota is just above 6 million tons.

Disclaimer

The following report is a Voluntary GAIN report on the dairy industry and market in Spain. This report complements the EU-27 Annual Dairy Report. The data below are shared to help characterize the Spanish industry and market – none of the figures are official USDA data.

Executive Summary:

Spain is one of the few countries with a structural deficit of milk production that is enshrined in its quota allocation. This fact has been amplified by the 15 percent population growth in the last decade to 46 Million in 2010. Based on per capita consumption data, the Spanish Ministry of Environment, Rural, and Marine Affairs (MARM) estimates total milk consumption to be around 9 million tons. The national quota is just above 6 million tons. This is a deficit of almost 3 million tons. Despite this, farm gate prices in Spain have been consistently below the EU average. Several producer associations attribute this to a favoring of other-EU produce by some industry and distribution companies.

Recently the inter-professional body INLAC and the Ministry of Environment, Rural and marine Affairs (MARM) signed an agreement to create and maintain a database of the homologated supply contracts so as to keep track of prices and increase transparency in the sector. As in other sectors, dairy farmers in Spain are feeling a margin squeeze from higher costs with energy and feed.

General Information:**Milk**

Cow milk deliveries will increase in 2011 accompanying a 17,000 head increase in the dairy herd in the December 2010 census from the previous year. There has been a decrease in household consumption of fluid milk as the macroeconomic environment shows no sign of improving and unemployment continues to hover above 20 percent. Intra EU-27 imports of fresh milk are expected to keep the downward trend in 2011 and 2012, while extra EU-27 imports continue to be zero. Exports to the EU and to third countries are relatively constant.

Table 1. Fluid Milk Production, Supply and Demand

Dairy, Milk, Fluid Spain	2010	2011	2012
	Market Year Begin: Jan 2010	Market Year Begin: Jan 2011	Market Year Begin: Jan 2012
	Post Estimate	Post Projection	Post Projection
Cows In Milk	828	845	850
Cow Milk Production	5,832	5,924	5,957
Other Milk Production	913	914	915
Total Production	6,745	6,838	6,872
Intra EU-27 Imports	578	382	380
Extra EU-27 Imports	0	0	0
Total Imports	578	382	380
Total Supply	7,323	7,220	7,252
Intra EU-27 Exports	109	120	120
Extra EU-27 Exports	14	14	14
Total Exports	123	134	134
Fluid Use Dom. Consum.	4,025	3,868	3,750
Factory Use Consum.	3,175	3,219	3,368
Feed Use Dom. Consum.	0	0	0
Total Dom. Consumption	7,200	7,087	7,118
Total Distribution	7,323	7,220	7,252

1000 HEAD, 1000 MT

Source: FAS-Madrid estimates and GTA

The Spanish Fund for Agricultural Guarantee (FEGA) published its final report for the 2010/2011 campaign where it evaluates data from annual milk deliveries and direct sales from the annual declarations for the period. Data submitted shows that 8,298 producers delivered milk in excess of their available reference quantity with a total excess of 318,373,575 kg. On the other hand, 13,147 producers delivered milk below or at the level of their available reference quantity, generating 403,432,559 kg of milk that was not delivered. Spain will not have to pay any amount to the European Agricultural Guarantee Fund (EAGF).

Supply contracts:

In the current 2011/12 campaign there are 1,542 million liters of milk under homologated supply contracts in Spain, according to the latest data published in July. Although the number of contracts currently in force, including those prorogated (5,712) outnumbers last season's 5,545, the volume of milk contracted is 861 million liters lower. This season has also seen a shortening of the average duration of contracts (5.4 months against 7.4 months in the previous campaign) implying that buyers and sellers are looking for shorter term commitments. There is also an increase in the contracts that have a monthly fixed price: 4,074 so far this season against a total 3,856 in the last campaign or 1,243 in 2009/10. On the other hand, the volume contracted at a price fixed for the whole duration of the contract seems to be lower: 1.5 million liters so far this campaign against 2.4 million liters in the previous campaign.

Cheese

Cheese production is expected to increase at about 2 percent a year reaching 195,000 tons in 2012.

Human domestic consumption of medium and hard cheese is showing a slight decrease in 2011. Both imports and exports are expected to grow in 2011 and 2012. Imports of cheese are forecast to reach 245,000 tons in 2011, almost all from intra EU-27 countries. Exports may reach 57,000 tons, 80 percent of which are destined to other EU-27 Member States.

Table 2. Cheese Production, Supply and Demand

Dairy, Cheese Spain	2010	2011	2012
	Market Year Begin: Jan 2010	Market Year Begin: Jan 2011	Market Year Begin: Jan 2012
	Post Estimate	Post Projection	Post Projection
Beginning Stocks	0	0	0
Production	191	194	195
Intra EU-27 Imports	243	240	245
Extra EU-27 Imports	0	0	0
Total Imports	243	240	245
Total Supply	434	434	440
Intra EU-27 Exports	39	42	45
Extra EU-27 Exports	9	10	12
Total Exports	48	53	57
Human Dom. Consumption	386	382	383
Other Use, Losses	0	0	0
Total Dom. Consumption	386	382	383
Total Use	434	434	440
Ending Stocks	0	0	0
Total Distribution	434	434	440
1000 MT			

Source: FAS-Madrid estimates and GTA

Butter

Butter production is increasing in Spain. Total production in 2011 is expected to reach 42,000 tons, a 10 percent increase from the previous year. Domestic consumption stands at around 30,000 tons per annum. All butter imports originate in EU-27 countries, mainly France, Portugal, and Germany and these are expected to remain stable in 2011. Demand from France, Belgium and the Netherlands has been lower this year and total exports are expected to fall from the 2010 hike to be around 24,000 tons in 2011. Exports to extra EU-27 countries are however expected to rise to over 1,000 tons with countries like Algeria and territories like Ceuta and Andorra increasing orders from Spain. During the 2010 period there were no intervention purchases for butter. Since 1 March 2011, with the opening of the latest intervention period, to date there have been no offers and as such there are no intervention stocks for 2011.

Table 3. Butter Production, Supply and Demand

Dairy, Butter Spain	2010	2011	2012
	Market Year Begin: Jan 2010	Market Year Begin: Jan 2011	Market Year Begin: Jan 2012
	Post Estimate	Post Projection	Post Projection
Beginning Stocks	11	0	0
Production	38	42	43
Intra EU-27 Imports	16	14	14
Extra EU-27 Imports	0	0	0
Total Imports	16	14	14
Total Supply	65	55	57
Intra EU-27 Exports	38	23	24
Extra EU-27 Exports	0	1	2
Total Exports	38	24	26
Domestic Consumption	27	31	32
Total Use	65	55	57
Ending Stocks	0	0	0
Total Distribution	65	55	57

1000 MT

Source: FAS-Madrid estimates and GTA

Non Fat Dry Milk

Production of Non Fat Dry Milk is small in Spain but is increasing and is expected to reach 11,000 tons by the end of 2011. Human domestic consumption is stable at around 49,000 tons. Other uses include 3,000 tons incorporated to animal feed. Imports, all from intra EU-27 countries, are expected to increase slightly and reach 48,000 tons in 2011. Exports have risen steadily in the first five months of 2011 and are expected to reach 7,000 tons by the end of the year. During the 2010 period there were no intervention purchases of non fat dry milk. Since March 1, 2011, with the opening of the latest intervention period, there have been so far no offers and as such there are no intervention stocks for 2011.

Table 4. Non Fat Dry Milk Production, Supply and Demand

Dairy, Milk, Nonfat Dry Spain	2010	2011	2012
	Market Year Begin: Jan 2010	Market Year Begin: Jan 2011	Market Year Begin: Jan 2012
	Post Estimate	Post Projection	Post Projection
Beginning Stocks	1	0	0
Production	10	9	10
Intra EU-27 Imports	45	48	48
Extra EU-27 Imports	0	0	0
Total Imports	45	48	48
Total Supply	56	57	58
Intra EU-27 Exports	2	6	5
Extra EU-27 Exports	1	2	2
Total Exports	3	7	7
Human Dom. Consumption	50	47	49
Other Use, Losses	3	3	3
Total Dom. Consumption	53	50	52
Total Use	56	57	58
Ending Stocks	0	0	0
Total Distribution	56	57	58

1000 MT

Source: FAS-Madrid estimates and GTA

Dry Whole Milk Powder

Production is very small in the country swinging at around 2,000 tons per annum. Annual consumption is slightly diminishing and it stands currently at below 10,000 tons. Trade is slowing down with both imports and exports expected to be around 17 percent lower in 2011. All imports come from EU-27 countries and are projected to reach 14,000 tons in 2011. France and Portugal are the destiny to over 80 percent of the WMP exported by Spain. Extra EU-27 exports will account for only 10 percent of the total 6,100 tons expected to be exported by Spain in 2011.

Table 5. Dry Whole Milk Powder Production, Supply and Demand

Dairy, Dry Whole Milk Powder Spain	2010	2011	2012
	Market Year Begin: Jan 2010	Market Year Begin: Jan 2011	Market Year Begin: Jan 2012
	Post Estimate	Post Projection	Post Projection
Beginning Stocks	0	0	0
Production	2	1	2
Intra EU-27 Imports	17	14	14
Extra EU-27 Imports	0	0	0
Total Imports	17	14	14
Total Supply	19	15	16
Intra EU-27 Exports	7	5	5
Extra EU-27 Exports	1	1	1
Total Exports	7	6	6
Human Dom. Consumption	11	9	10
Other Use, Losses	0	0	0
Total Dom. Consumption	11	9	10
Total Use	19	15	16
Ending Stocks	0	0	0
Total Distribution	19	15	16
1000 MT			

Source: FAS-Madrid estimates and GTA

Policy

In the year 2009 MARM released the document “Strategy for the Spanish Dairy Sector – ‘Horizon 2015’” and it has been proceeding to its implementation ever since. The objectives of this strategic plan are to increase the sector’s competitiveness and market orientation while contributing to the development of rural areas where this sector has a key presence, thereby allowing the settlement of population in rural areas. The plan is based on measures and proposals that encompass the whole of the challenges faced by the dairy sector in Spain. It is structured around five axes:

Axis 1 – Restructuring of the Sector

Objective: To increase the dimension of milk farms with the aim of reaching the EU average of production per farm.

Tools:

1. Royal Decree assigning quota for free to certain farms. In particular to young farmers with start-up projects for new farms and to dairy farmers with that committed to increase production in the framework of the modernization of their farms.

2. Transfer of National Reserve quota usage rights. This is a new system of transfer of milk reference quantities.
3. Relaxation of the system of temporary quota transfers between farmers, so as to eliminate some of the limitations that prevented cessions to occur during more than one consecutive period.
4. Relaxation of the system of account withholdings of the milk tax, in a way that these will only occur if at the end of the campaign deliveries to industry show a possible surplus.

Axis 2 – Improvement of Competitiveness and Quality (Specific Aids)

This is the axis that includes the specific measures for the dairy sector decided at the CAP 2008 ‘Health Check’.

Objective: Consolidation of the sector in the areas where production faces specific difficulties and quality improvement of the Spanish dairy production.

Tools:

1. Program of aids to farms with specific limitations. This is an aid program to farms in less-favored areas and from these to those that have a determined forage area. The total amount allocated is 40.2 million Euros.
2. Program of aids to the quality improvement of milk and dairy products. The total allocated amount is around 20 million Euros.

Axis 3 – Market Equilibrium

Objective: Improve the management of conjunctural surpluses in the milk production.

Tools:

1. Optimization of the use of the mechanisms for regulation of surpluses that are made available by the CAP. MARM will promote coordinated actions (through the inter-professional body INLAC) to trigger larger surplus regulation operations through the use of measures included in the EU legislation.

Axis 4 – Improvement of information and transparency about the production and commercialization of milk

Objective: Reinforce dairy production traceability actions with the aim of offering the market and consumers better information about milk and of assuring the loyal competitiveness of Spanish and other Member States’ products.

Tools:

1. Royal Decree with specific conditions for the voluntary labeling of milk and dairy products with the “Letra Q” logotype. The industries that voluntarily join an additional control of the

traceability system of the production and bottling/packaging of milk and dairy products may label the end product with the logotype “Letra Q”.

2. Milk commercialization control program. MARM will implement a coordinated action with the control services of the Autonomic Communities to ensure that the milk commercialization norms are rigorously respected.

Axis 5 – Reinforcement of the inter-sectoral cohesion and improvement of the relationship between the links in the chain

Objective: To reinforce a stable inter-professional relationship and with solid contractual links between suppliers and industry.

Measures:

1. Support and reinforcement of the inter-professional body (INLAC) and its common actions and measures.
2. Commitment to completely implement the homologated “Contracts-Type” as a key to support stability and certainty in the sector.

Among the latest developments in the implementation of the Plan “Horizon 2015” are:

- The gratuitous transfer in July 2011 of 141,753 tons of the National Reserve to 1,512 milk producers. These can either be young farmers with aid programs for the setting up of new farms or dairy farmers included in farm modernization schemes. This measure will be complemented with the transfer of another 254,000 tons during the present campaign.
- The submission by MARM to the EC on 13 July 2011 of the proposal to convert former Article 69 payments into new Article 68 specific aid payments. It was decided to keep the current two line structure:
 - 20% for the Article 68 specific aid for the promotion of quality: 3,952,600 Euros;
 - 80% for the Article 68 specific aid to face vulnerability: 15,810,400 Euros that will be added to the 40,200,000 Euros already allocated to this line.

The proposal includes provisions for the differential allocation of aid funds to compensate those farms that have specific geographical disadvantages.

- The publishing on April 2011 of a Royal Decree regulating milk supply contracts in Spain in the framework of the EC proposal on "contractual relations in the milk sector" that stems from the recommendations of the High Level Experts' Group on Milk (HLG). All raw milk transactions between producers and industry must be subject to a written contract specifying volume, delivery calendar, and price. This obligation will be in force after the approval of the

corresponding EU Regulation that is expected in the coming months. The Royal Decree also regulates the recognition of milk producer associations and dairy inter-professional bodies.