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## **EU-28**

### **Dairy and Products Semi-annual**

#### **2017 EU28 Semi-Annual Dairy and Products**

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**Report Highlights:**

In 2016 milk deliveries in the European Union (EU) increased by an estimated 0.5 percent and are expected to only slightly increase in 2017. In 2016 production of cheese, whole dry milk (WDM) and butter increased, which remained in demand on the world market. Non-fat dried milk (NFDM) production also increased but was used by the EU in the market intervention programs. In 2017 an increasing volume of milk is expected to be processed into cheese. Production of butter, NFDM and WDM is expected to stagnate. The European Commission (EC) continued intervention on the dairy market in 2016 through subsidizing public stocks of NFDM, and private storage of NFDM, butter and cheese. After six months break the EC purchases of NFDM for public intervention stocks started again in April 2017. In addition, the EC successfully implemented a voluntary milk production reduction program, allocating U.S. \$168 million for compensation paid to farmers.

## **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 EU-28 member states.

The authors of this report wish to recognize all colleagues that helped with this report. The collaboration of the following FAS colleagues in the EU member states has been critical for the completion of this report:

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**Executive Summary:**

## **Production**

### **2016**

It is estimated that in 2016 EU-28 milk production increased by 0.5 percent, mainly as a result of growing milk yield per cow. In the first half of 2016 production of milk in the EU continued to increase but in the second half of the year milk output declined because of the low level of farm-gate milk prices and EU's program of voluntary reduction of milk production introduced in the last quarter of 2016. The voluntary milk production reduction scheme gave farmers compensation to produce less milk.

According to the information published by the European Commission (EC), as a result of the voluntary milk reduction scheme in the last quarter of 2016 and in January of 2017, EU milk production fell by 851,700 MT, with 44,000 farmers from 20 EU member states participating in the scheme. The EC allocated Euro 150 million (U.S. \$168 million) for the milk production reduction scheme. Milk producers received an EU payment for cutting output in a three-month period equal to Euro 14 (U.S. \$15) per 100 kilograms of "reduced" milk, based on the corresponding period twelve months earlier.

In December 2016, dairy cow inventories were 0.2 percent, or almost 50,000 head, lower than in December 2015. Higher milk production in 2016 resulted in higher output of all dairy commodities in comparison to 2015. Production of fluid milk declined, reflecting a trend in the reduction of consumption in the EU.

### **2017**

It is forecast that in 2017 milk deliveries will slightly grow by only 0.2 percent, mainly because of higher yields of cows which will offset expected reduction in dairy cow inventories. In March 2017 the average price for raw milk amounted to Euro 33 per 100 kilograms and was 17 percent higher than in the same month of 2016. It is expected that, after six months of increases, prices for raw milk will stabilize during the spring 2017 flush period. According to data published by the EC during the first two months of 2017, milk deliveries in the EU decreased by 3.3 percent in comparison to the same period of 2016. The higher level of farm-gate milk prices is expected to stimulate milk production in the second half of 2017. However, world market prices for dairy commodities, which increased in the second half of 2016, showed stabilization or decline in the first quarter of 2017, which may adversely affect farm-gate prices for milk and potential increase of EU's milk production in the second half of the year. Slightly higher milk production in 2017 is forecast to be directed mostly towards cheese production, while butter, NFDM and WDM output is forecast to remain stable due to high stocks of NFDM built in 2015 and 2016 as a result of EU's market intervention programs.

## **Consumption**

In 2017 domestic consumption of cheese and NFDM is expected to increase, while consumption of butter is expected to decline because of growing exports. Consumption of NFDM is expected to increase mainly because of high production and intervention stocks built in 2015 and 2016. In 2017 part of NFDM production will be used for public intervention stocks, private storage aid (PSA) and commercial stocks.

## **Trade**

### **2016**

In response to uncompetitive prices and lower import demand from Algeria, Egypt, Thailand, China and Vietnam, 2016 exports of NFDM dropped by 17 percent. An opportunity to sell NFDM into the EU's intervention stocks also adversely affected overall exports in 2016. Exports of WDM also declined by 4 percent because of lower shipments to Oman. Exports of fluid milk, cheese and butter increased by 26, 11 and 20 percent, respectively.

### **2017**

In 2017 exports of cheese are expected to remain at a high level due to continuing sales to the United States, Japan, Saudi Arabia and South Korea. Exports of butter are expected to grow in 2017 because of competitive prices and continuing world market demand. Saudi Arabia, Egypt and the U.S. remain the major butter export markets, while butter oil is exported mainly to China. It is expected that exports of NFDM in 2017 will increase due to competitive prices and strong pressure to export stocks built in 2015 and 2016. Exports of WDM are expected to decline in 2017 because of reduced supplies and continuing strong demand for the domestic consumption. Oman, Algeria and China are the main export destinations for export of WDM from the EU. Exports of fluid milk are expected to increase by 17 percent in response to continuing demand from China.

## **Market Intervention**

According to data published by the Milk Market Observatory (MMO)\* of the EC, at the end of December 2016, 351,874 MT of NFDM was being stored by the EC within the public intervention scheme. In addition at the end of December 2016, 65,956 MT of NFDM were stored in the Public Storage Aid (PSA). Total public intervention and PSA stocks of NFDM at the end of December 2016 amounted to 416,985 MT. According to MMO in April 2017 a total of 4,565 MT of NFDM was offered for public intervention scheme by Germany, Lithuania, the Netherlands and Poland. Due to the seasonal increase of milk production in spring it is expected that offers of NFDM to public intervention may increase in the coming weeks. If NFDM prices decrease below the intervention threshold later in 2017, public stocks of NFDM may increase further towards the end of the year. The overall stock level may also increase due to the continuing PSA storage scheme. In December 2016, 24,697 MT of butter remained in PSA stocks. The EC did not purchase butter for public intervention because the butter price remained above the intervention price threshold during 2016. In December 2016, 15,018 MT of cheese and storable cheese products remained in PSA stocks.

*\*The MMO is an advisory group of experts/organizations created by the European Commission to monitor EU and world dairy market after the termination of milk quota system.*

## **Commodities:**

Dairy, Milk, Fluid

## Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
<b>Cows In Milk</b>	23,559	23,559	23,624	23,595	23,475	23,548
<b>Cows Milk Production</b>	150,200	150,200	152,000	151,000	152,500	151,300
<b>Other Milk Production</b>	4,350	4,350	4,400	4,500	4,425	4,555
<b>Total Production</b>	154,550	154,550	156,400	155,500	156,925	155,855
<b>Other Imports</b>	3	3	4	5	4	5
<b>Total Imports</b>	3	3	4	5	4	5
<b>Total Supply</b>	154,553	154,553	156,404	155,505	156,929	155,860
<b>Other Exports</b>	709	709	950	894	1000	1050
<b>Total Exports</b>	709	709	950	894	1000	1050
<b>Fluid Use Dom. Consum.</b>	33,800	33,800	33,600	33,600	33,400	33,550
<b>Factory Use Consum.</b>	120,044	120,044	121,854	121,011	122,529	121,260
<b>Feed Use Dom. Consum.</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	153,844	153,844	155,454	154,611	155,929	154,810
<b>Total Distribution</b>	154,553	154,553	156,404	155,505	156,929	155,860

(1000 HEAD) ,(1000 MT)

*Please note: The figures of milk deliveries to dairies in 2016 and 2017 are based on the data received from the analysts in the EU FAS Offices.*

## Production:

### 2016

It is estimated that EU milk production in 2016 increased by 0.5 percent from the previous year mainly as a result of growing milk yield of cows. In the first half of 2016 the EU-28 dairy market was affected by low farm-gate prices for milk. The EC expanded market intervention efforts and introduced a program of voluntary milk reduction by farmers with a budget of Euro 150 million (U.S. \$168 million) to compensate dairy farmers for reduction of milk output. In addition the EC offered member states aid envelopes totaling Euro 350 million (U.S. \$392 million) for use in programs supporting the dairy industry. As a result, the deliveries of milk in the EU-28 declined in the second half of the year. The decrease of milk output in the second half of 2016 did not offset the increase which occurred in the first half of the year resulting in 0.5 percent overall increase of milk output in 2016. The increase of milk deliveries in 2016 might be also partly attributed to EU market intervention programs which allowed stock building of NFDm.

### 2017

In 2017 milk deliveries are expected to increase by only 0.2 percent in comparison to 2016. It is expected that in 2017 farmers will hold with decisions on production expansion and herd enlargement until the farm-gate milk price grows to a level securing profitable production. It is expected that inventories of dairy cows in 2017 will decline in comparison to 2016 leading to the enhancement of genetics in national herds and generate higher per cow milk yield averages in 2017. It is expected that organic dairy farming will expand in 2017. In 2015 it accounted for four percent of EU milk production, but the price premium and more stable prices for organic milk are expected to stimulate this type of production. On average, the premium amounts to 10 Eurocents per kilogram of organic milk but was as high as 25 Eurocents for example in Germany when the price for conventional milk was at its bottom in some months of 2016.

At the beginning of 2017 milk deliveries in Germany and France (the two largest milk producers in the EU) were below last year but are expected to pick up in the second half of the year and result in a flat year on year milk production in Germany and higher output in France. In Spain, an upward trend in milk products for industry use in 2017 is expected due to higher production estimated for cheese and dairy products as domestic milk consumption is still in a downward trend. Spain's sheep and goat milk are following an upward trend the last five years resulting in being the largest EU producer of sheep milk, and the second largest of goat milk close to France. This milk is used to produce a large variety of Spanish mixed cheese, containing milk from cow, sheep or goat. Goat milk is also exported, mainly to France. In 2017 Dutch milk deliveries are expected to decline by five percent due to the phosphate plan (see Policy Section of the report), this is still above the level of production achieved in 2015. It should also be noted, that processors have the possibility to source milk from neighboring Member States.

### Consumption:

In 2016, fluid milk consumption declined in comparison to the previous year. There is a trend of reduction in consumption of fluid milk in the EU and a shift to other dairy products. Consumption is expected to also decline in 2017. Slightly higher milk output in 2017 will be mostly directed to the production of cheese. In France fluid milk consumption is still on a decreasing trend (it decreased by 3.6 percent in 2016). This trend is mainly due to attacks by anti-milk groups on the "healthy" image of milk and the competition of vegetal substitutes like soy milk and almond milk.

### Trade:

After an increase of 26 percent in 2016, it is expected that in 2017, exports of fluid milk will continue to grow driven by strong demand from China.

### Commodities:

Dairy, Cheese

### Production, Supply and Demand Data Statistics:

Dairy, Cheese Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	32	32	27	27	10	15
Production	9,740	9,740	9,850	9,810	9,875	9,830
Other Imports	61	61	70	71	65	70
Total Imports	61	61	70	71	65	70
Total Supply	9,833	9,833	9,947	9,908	9,950	9,915
Other Exports	719	719	820	800	825	800
Total Exports	719	719	820	800	825	800
Human Dom. Consumption	9,087	9,087	9,117	9,093	9,125	9,115
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	9,087	9,087	9,117	9,093	9,125	9,115
Total Use	9,806	9,806	9,937	9,893	9,950	9,915
Ending Stocks	27	27	10	15	0	0
Total Distribution	9,833	9,833	9,947	9,908	9,950	9,915
(1000 MT)						

**Production:**

In 2017, EU-28 cheese production is expected to increase by 0.2 percent. It is projected that most of the increase in milk production in the EU-28 in 2017 will be directed for manufacturing of cheese. It is expected that higher production of cheese will be directed mostly to growing domestic consumption.

**Consumption:**

Growing supplies and improving economic situations in some member states are expected to stimulate cheese consumption in 2017. It is expected that in 2017 the consumption of cheese will grow in the EU except Germany, Poland and the Netherlands.

**Trade:**

Cheese exports in 2017 are expected to remain at the high 2016 level. The limited increase of supplies and reduction of PSA stocks are expected to be directed into the growing domestic consumption. The overall level of exports in 2017 is expected to exceed the pre-Russian export ban level. It is expected that the United States will remain the major export destination, followed by Japan, Switzerland and Saudi Arabia. Cheese imports are projected to remain within established import quotas. In the longer perspective, Brexit may result in a decrease of the U.S. cheddar cheese exports to the EU because the U.K. used to be the major importer of this type of cheese within the EU.

**Stocks:**

According to the MMO report in December 2016, 15,018 MT of cheese was still in the PSA stocks. Italy, Lithuania and the Netherlands were the major users of the program. It is expected that PSA stocks will be fully used towards the end of 2017.

**Commodities:**

Dairy, Butter

**Production, Supply and Demand Data Statistics:**

Dairy, Butter Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	22	22	51	51	55	25
Production	2,335	2,335	2,370	2,345	2,365	2,345
Other Imports	27	27	21	23	20	20
Total Imports	27	27	21	23	20	20
Total Supply	2,384	2,384	2,442	2,419	2,440	2,390
Other Exports	192	182	235	218	240	230
Total Exports	192	182	235	218	240	230
Domestic Consumption	2,141	2,151	2,152	2,176	2,150	2,150
Total Use	2,333	2,333	2,387	2,394	2,390	2,380
Ending Stocks	51	51	55	25	50	10
Total Distribution	2,384	2,384	2,442	2,419	2,440	2,390

(1000 MT)

### Production:

Despite the strong demand on the international market butter production in 2017 is expected to remain unchanged in comparison to the previous year due to limited availability of milk. Butter production will also be limited from increasing as its residual product NFDM may have a hard time finding a profitable outlet apart from intervention storage.

### Consumption:

It is estimated that in 2017 butter consumption will be lower than in 2016 because of stable output and higher exports. However, in Germany butter consumption is fairly stable, despite the high price. On the consumer level this is the result of the rehabilitation of butter in relation to health and the fact that butter is seen as more natural than margarine. On the industrial level, food manufacturers like butter because vegetable oils other than palm oil tend to have a strong taste while palm oil faces consumer criticism unless it comes with a sustainability certificate.

### Trade:

In 2017 butter exports are expected to increase in comparison to the previous year's level due to continuing demand and competitive export prices. EU butter remains competitive on the U.S. market. In 2016 the EU-28 exported 19,325 MT of butter to the United States, 11 percent more than in 2015. Other export destinations for EU butter are Saudi Arabia and Egypt, while butter oil is mainly exported to China. In 2016 imports within the EU import quota set aside for New Zealand amounted to only 5,436 MT, 32 percent less than in 2015.

### Stocks:

According to the MMO data, at the end of December 2016 PSA stocks of butter amounted to 24,697 MT (mainly used by the Netherlands, Ireland and France). It is expected that in 2017 PSA stocks of butter will decrease because of demand for export.

### Commodities:

Dairy, Milk, Nonfat Dry

### Production, Supply and Demand Data Statistics:

Dairy, Milk, Nonfat Dry Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	17	17	62	62	400	417
Production	1,715	1,715	1,785	1,735	1,700	1,735
Other Imports	3	3	4	4	3	3
Total Imports	3	3	4	4	3	3
Total Supply	1,735	1,735	1,851	1,801	2,103	2,155
Other Exports	686	692	560	574	675	700
Total Exports	686	692	560	574	675	700
Human Dom. Consumption	987	981	891	810	978	1,005
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	987	981	891	810	978	1,005
Total Use	1,673	1,673	1,451	1,384	1,653	1,705
Ending Stocks	62	62	400	417	450	450
Total Distribution	1,735	1,735	1,851	1,801	2,103	2,155



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(1000 MT)

*Please note: The estimate of NFDN production in 2016 and 2017 is based on the fat-protein balance of milk deliveries and output of dairy products.*

### Production:

In 2017 output of NFDN is expected to remain stable in comparison to 2016 because of limited supplies of milk and high level of public and PSA stocks accumulated in 2015 and 2016.

### Consumption:

Higher NFDN production in 2016 was directed mainly into public intervention and PSA stocks. Domestic consumption (which in this report includes commercial stocks) is expected to increase in 2017 because part of production may be transferred into commercial stocks.

### Trade:

It is expected that in 2017 exports of NFDN will recover after a 17 percent decrease in 2016, because of competitive prices and the high level of stocks which are expected to be partly destined for export (see also Policy Section of the report). Major export destinations for NFDN exported from the EU are Algeria, Egypt, China, Indonesia, Philippines and Saudi Arabia.

### Stocks:

According to data published by MMO, in December 2016, 351,874 MT of NFDN have been stored by the EC within the public intervention scheme. In addition at the end of December 2016, 65,956 MT of NFDN have been stored into the Public Storage scheme (PSA). Total public intervention and PSA stocks of NFDN at the end of December 2016 amounted to 416,985 MT. Introduction of voluntary reduction in milk production in the second half of 2016 limited milk deliveries in the last quarter of 2016 and in effect reduced pressure to store NFDN under the public intervention and PSA scheme. In the week ending April 2, 2017, Poland was the first country in the EU which offered 472 MT of NFDN to the public intervention storage in 2017. According to the MMO in April 2017 a total of 4,565 MT of NFDN was offered for public intervention storage by Germany, Lithuania, the Netherlands and Poland. Due to the seasonal milk production in spring it is expected that offers of NFDN to public intervention will increase in the coming weeks. If NFDN prices decrease below the intervention threshold later in 2017, public stocks of NFDN may increase further towards the end of the year. The overall stock level may also increase due to the continuing PSA storage scheme. However, if prices for raw milk and dairy commodities increase towards the end of 2017, the public intervention stocks at the end of the year are expected to amount to 450,000 MT.

### Commodities:

Dairy, Dry Whole Milk Powder

### Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	0	0	0	0	0	0
Production	710	710	710	720	720	720
Other Imports	4	4	6	6	6	5

<b>Total Imports</b>	4	4	6	6	6	5
<b>Total Supply</b>	714	714	716	726	726	725
<b>Other Exports</b>	400	400	390	390	410	390
<b>Total Exports</b>	400	400	390	390	410	390
<b>Human Dom. Consumption</b>	314	314	326	336	316	335
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	314	314	326	336	316	335
<b>Total Use</b>	714	714	716	726	726	725
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	714	714	716	726	726	725
(1000 MT)						

### **Production:**

In 2017 WDM production is expected to remain stable compared to the previous year because slightly higher milk availability will be mostly directed towards cheese manufacturing.

### **Consumption:**

In 2017 domestic use of WDM is expected to remain at the previous year's level because of continuing demand from food industry (mainly for chocolate manufacturing).

### **Trade:**

It is estimated that in 2017 exports of WDM will remain at the previous year's level because of stable output and continuing strong domestic demand.

### **Policy:**

*EU 2016 Milk Reduction Scheme Yields 851,700 MT Reduction.*

Barely one year after the EU terminated its milk production quota regime at the end of March 2015, the EU's milk production rose sharply, provoking a major dairy price crisis. When storage measures for cheese, butter and NFDM proved insufficient in curbing the crisis, in the fall of 2016, the EC succumbed to demands for a special scheme to reduce the EU's dairy production on a voluntary basis. The scheme provided 14 Eurocents per kilogram if farmers signed up to decrease milk production between October 2016 and March 2017 compared to the previous year. Some 44,000 farmers from 20 member states signed up for the program with a target of reducing production by 1.07 million MT. Eventually, the EC paid subscribing farmers for an effective reduction of 851,700 MT in milk production compared to their previous year's production. For more info about the milk reduction scheme visit [DGAgri's dairy sector policy page](#).

*EU Dairy Crisis Storage Build-Up Hanging over Markets*

The amount of NFDM in storage built up during this latest dairy crisis is about twice as large as the amount accumulated during the 2009 dairy crisis. The 2009 NFDM stock was eventually reduced after more than two years through the EU's overseas food aid program. The current NFDM stocks level,

which represents more than a quarter year's production, may be expected to depress the EU NFDM market for the coming time, especially as the EU's efforts to start selling NFDM stocks through tenders have gradually resulted in lower interest at decreasing price offers. As the EU milk production is expected to grow after the milk production reduction scheme ended, more NFDM may be offered for intervention storage in the coming months, which will only make things worse. It can be questioned if and how long it will be before the EC will be compelled into offering a new production reduction scheme.

From July 2015 to the end of 2016, the EC bought 351,874 MT of NFDM in intervention storage. Only 40 MT were sold again in the first of eight tenders until April 2017. New quantities of NFDM are being offered for intervention storage in 2017, amounting to 4,565 MT by April 30. At the same time at the end of February 2017, 67,957 MT were still in storage through the PSA program and new PSA contracts for 2017 already amounted to 25,881 MT by the end of February. The butter stock situation is much better as only 8,250 MT remained in PSA storage at the end of February. Similarly for cheese only 12,600 MT remained in PSA storage at the end of February.

#### *EU Environmental Restrictions Function as De Facto Production Limitation*

The EU's environmental restrictions effectively cap animal production expansion for EU farmers. Especially, the 1992 [Nitrate Directive](#) and phosphate limitations in soils limit farmers' capacity to apply manure on farm land, hence effectively limiting animal numbers as other means of manure disposal of nutrients like digesting or processing face technical and economic barriers. The recent Dutch agreement with the EC to reduce their dairy cow herd by 160,000 head was mediated after Dutch dairy farmers had expanded milk production without regard for EU environmental restrictions, even as they were still producing under the milk quota system (for more information see [GAIN Report NL7006 -New Phosphate Reduction Plan Sets Limits to Dutch Dairy Production](#)). However, farmers in most of the old EU-15 member states face similar limitations in various regions and to various degrees as the restrictions are to protect soil and water and are not linked to dairy farming but all animal husbandry. Nevertheless, EU dairy production can be expected to continue to increase as significant research continues into more nutrient efficient animal genetics, more nutrient efficient feed processing and higher milk production efficiency per cow, all of which contribute to higher production per unit of manure.

While discussions for the next Common Agricultural Policy (CAP) 2020 have just started, a number of stake holders are of the opinion that the greening measures of the current CAP are inefficient and hence more attention and monetary focus must go to environmental and other societal goals for EU agriculture. EU agriculture, particularly animal farming, will also need to contribute if the EU wants to meet its goals agreed in the [Paris Agreement on Climate Change](#) from December 2015. As the main goal will be to reduce greenhouse gas (GHG) emissions from animal production, this can be expected to lead to a new round of EU farm consolidation as farmers will need to invest in new animal housing and production barns that prevent GHG from animals to escape into the environment.

**End of the report.**

