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Dairy and Products Annual

EU-28 2017 Annual Dairy and Products Report

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Report Highlights:

European Union (EU) milk deliveries in 2017 are expected to remain consistent with 2016 levels. Post forecasts that cow inventories will stabilize in 2017. Milk reductions resulting from unfavorable weather conditions during the first half of 2017 will be offset by higher output during the second half of the year. In 2017, cheese production is expected to increase due to strong global and domestic demand. Butter and non-fat dried milk (NFDM) production is expected to decrease due to the limited availability of raw milk. Whole dry milk (WDM) production should remain stable. To date, the EU's dairy market in 2017 has been primarily driven by large publically-held stocks of NFDM and record-high butter prices. Post forecasts that 2018 milk deliveries will grow by 0.1 percent based on higher milk production, particularly as herd sizes remain stable next year.

DISCLAIMER

The PS&D numbers in this report are not official USDA numbers. The following numbers are the result analysis and input from FAS offices across the EU and are a consolidation of PS&Ds from all EU-28 member states.

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Executive Summary:

Production

2017

Post estimates that EU-28 milk production in 2017 will remain consistent with 2016 levels. During the first seven months of 2017, EU milk production decreased by 0.3 percent from the corresponding period in 2016. Lower milk deliveries in Germany and France (the two largest EU milk producers) were partly offset by higher deliveries in Eastern Europe, Ireland, Italy, and Spain. Post expects that milk output during the last quarter of 2017 will increase due to favorable prices and feed supplies. In July 2017, average EU raw-milk prices were €34 per 100 kilograms, a 33-percent increase over the same month in 2016. Raw milk prices should stabilize during the fall 2017 and remain stable through spring 2018 because of steady domestic and international market demand.

Dairy cow inventories in January 2017 were 0.4 percent (88,000 head) lower than in January 2016. While the 2017 dairy herd size has remained stable to date, this reduction in the overall cow inventory has resulted in a slight decline in milk output versus 2016. Post expects that the 2017 output of cheese will continue to grow due to favorable world market prices and continued export demand. Meanwhile, NFDM and butter production are decreasing because of low raw milk stocks. WDM production is expected to remain more stable in 2017 versus 2016. Fluid milk production is expected to decline, reflecting a general reduction in fluid-milk consumption in the EU.

2018

Post forecasts that 2018 milk deliveries will grow by 0.1 percent over 2017 because of continuing domestic and international demand. Slightly higher milk production in 2018 is forecast to be directed mostly towards cheese and WDM production. Butter and NFDM manufacturing are forecast to remain stable, supported by the large NFDM stocks leftover from EU market intervention programs in 2016 and 2017.

Consumption

2017 cheese consumption is expected to remain stable, because higher production will be exported to international markets. Butter consumption in 2017 is expected to remain at last year's level. Lower private stocks and a reduction in butter exports will compensate for the decrease of butter production. Consumption of NFDM in 2017 is expected to increase mainly because of growing commercial stocks. (Please note that in PSD table consumption includes commercial stocks.) Consumption of WDM in 2017 is expected to remain flat because of stable production. Cheese consumption in 2018 is forecast to increase based on higher output, while consumption of butter and NFDM will decline from 2017.

Trade

2017

After a significant increase in 2016, fluid milk exports are expected to decrease in 2017 mainly because of reduced demand from China. 2017 exports of cheese are forecast to grow by about four percent, driven by higher production, stable domestic consumption, and strong international demand. Despite record-high world market prices for butter, exports of butter in 2017 are expected to decrease due to

reduced availability and strong domestic demand. In response to strong demand from Algeria, China, Indonesia and Mexico, 2017 exports of NFDm are expected to increase by about 30 percent. Large EU NFDm stocks and competitive prices will stimulate European exports in 2017. 2017 WDM exports should remain about the same as last year. During first seven months of 2017, exports of cheese and NFDm increased by seven percent and almost 40 percent, respectively, over the same period of 2016. During the same time, exports of butter and fluid milk decreased by 10 and 16 percent, respectively.

2018

In 2018 exports of cheese are expected to continue to grow because of higher output and continued demand from the United States, Japan, Saudi Arabia, and South Korea. Exports of butter are expected to remain flat in 2018 because of continuing domestic market demand and stable production. The United States, Saudi Arabia, and Egypt are expected to remain the major butter export markets in 2018. 2018 exports of NFDm are forecast to increase due to competitive prices and strong pressure to export the stocks built during 2015 and 2016. Exports of WDM are expected to grow in 2018 because of continued demand from China. Oman, Algeria, and China are expected to remain the main export destinations for export of WDM from the EU. Exports of fluid milk are expected to remain at 2017 levels because of continued Chinese demand.

Market Intervention

According to data published by the EC's Milk Market Observatory (MMO)*, as of December 2016 the EU held 351,874 MT of NFDm stocks under its public intervention scheme. Moreover, as of December 2016, 65,956 MT of NFDm were stored in the Public Storage Aid (PSA). Total EU public intervention and PSA stocks of NFDm at the end of December 2016 amounted to 416,985 MT. According to MMO at the end of July 2017, total public intervention and PSA stocks amounted to 375,422 MT. However, in August 2017, NFDm prices again decreased below intervention price and additional procurement took place in August and September 2017. According to MMO data, the NFDm procured by the EC during August and September 2017 amounted to 22,710 MT. In July 2017, only 227 MT of butter was stored under PSA, a significant reduction from the 24,697 MT of butter held as of December 2016. The EC is not expected to purchase butter for public intervention because butter price remain above the intervention price threshold. In July 2017, 10,865 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 European Union	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	23,595	23,595	23,548	23,507	0	23,500
Cows Milk Production	151,000	151,000	151,300	151,000	0	151,750
Other Milk Production	4,500	4,550	4,555	4,600	0	4,650
Total Production	155,500	155,550	155,855	155,600	0	156,400
Other Imports	5	5	5	8	0	8
Total Imports	5	5	5	8	0	8
Total Supply	155,505	155,555	155,860	155,608	0	156,408
Other Exports	894	894	900	800	0	800
Total Exports	894	894	900	800	0	800
Fluid Use Dom. Consum.	33,600	33,600	33,550	33,550	0	33,500
Factory Use Consum.	121,011	121,061	121,410	121,258	0	122,108
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	154,611	154,661	154,960	154,808	0	155,608
Total Distribution	155,505	155,555	155,860	155,608	0	156,408

(1000 HEAD) ,(1000 MT)

Please note: The figures of milk deliveries to dairies in 2017 and 2018 are based on the data received from the analysts in the EU FAS Offices.

Production:

2016

During the last quarter of 2016 and in early 2017, the EC introduced a voluntary €150 million (\$168 million) milk-reduction scheme to compensate dairy farmers for reducing milk output. As a result, EU-28 milk production began to decline during the second-half of 2016. This production decrease did not offset an earlier increase during the first half of the year, resulting in a net 0.5-percent overall increase of milk output in 2016. As a result of the EU's voluntary milk reduction and Netherlands program for phosphate reduction, the EU dairy herd decreased by 88,000 head in 2016. Post sources report that the Netherlands was supposed to reduce its dairy herd by 160,000 cattle (standard livestock units) to meet EU phosphate reduction requirements. The reduction was implemented through higher slaughter in 2016, as well as by exports. During the first half of 2017, exports of Dutch cattle increased by 23 percent, mainly to Russia, Croatia, and Poland.

2017

Post expects EU milk production in 2017 to remain at the previous year's level. Despite the reduction in herd size from 2016, higher average milk yields will offset most of the lower associated with the reduction in herd size. During the second half of 2016, and first nine months of 2017, the EU-28 saw higher farm-gate prices for milk and growing export demand for dairy commodities. Unfavorable weather conditions adversely affected feed supplies in spring 2017 and led to reduced production in Germany and France. The reduction in Germany and France was partly offset by higher production in Eastern Europe, as well as Ireland, Italy, and Spain. Production is expected to rebound during the end of 2017 and into 2018 due to improved feed supplies and stronger farm-gate prices. In July 2017, the average price for raw milk in the EU amounted to €34 per 100 kilograms, a 33-percent increase over the same period in 2016.

During the first seven months of 2017 in Germany, France, Sweden, Slovenia, the Netherlands, and U.K. milk deliveries decreased in comparison to the same period of 2016. Bulgaria, Ireland, Poland, Romania, Italy and Spain recorded increase of milk deliveries.

Although **Germany** remains the EU's largest milk producer and prices remain profitable, its ability to build production capacity or milk stocks through herd expansion will be limited because of new regulations to reduce nitrogen levels in ground water. These regulations restrict allowable levels of nitrogen from fertilizer or manure. 2017 milk deliveries in Germany are expected to reach 31.0 million MT, a decrease of 320,000 MT or 1.0 percent compared to 2016. **Dutch** milk deliveries will be down in 2017 due to a program to reduce phosphate emissions. Dutch farmers must reduce their herd sizes by five percent from sizes in October 2016. This requirement will be enforced through a system of fines and financial incentives. Despite protests, most farmers are complying with these mandates. As a result, the dairy herd in the Netherlands should be reduced by about 160,000 animals (including heifers). Throughout 2017, Dutch milk deliveries are expected to decline by five percent. Post expects that after a temporary dip in dairy production in 2017, a gradual increase in production will occur in 2018. **Slovenian** milk stocks slowly decreased during the first seven months of 2017. Milk production is expected to decrease slightly in 2017 and remain flat in 2018. In **Hungary**, milk production has trended upward, despite some market difficulties, due to government intervention. Hungarian milk production in 2016 was one percent higher than the previous year. The growth in milk production stopped in the first five months of 2017 because the purchase of raw milk declined by two percent and exports decreased by four percent.

In **Austria**, 2016 year-on-year milk deliveries increased in by three percent. This trend stopped in 2017. Milk deliveries are expected to increase during the second half of 2017. Organic milk and "hey milk" (cows must not be fed with silage) remain to be an important sector in Austria. In 2016, organic milk accounted for 15 percent of total cow milk deliveries, the share of hey milk was at 11 percent. Organic milk and dairy products are increasingly exported to Germany and Italy. **Italy's** fluid milk production increased by three percent in 2016 and is expected to continue its upward trend in 2017, particularly due to the end of the EU's milk quota regime. Approximately 43 percent of the Italian milk is produced in the Lombardia region. In **Poland** milk deliveries increased by an estimated four percent during the first seven months of 2017. Polish farmers continue to expand their dairy herds because of good farm-gate prices for raw milk and adequate supplies of feed. **Irish** farmers are expanding their herds and creating new dairy farms. Post estimates that since the termination of the milk quota, 600 new dairy farms were created in Ireland. Good grass conditions, combined with profitable milk prices, stimulate milk production. In the first seven months of 2017 milk deliveries in Ireland increased by over seven percent. In **Belgium and Luxembourg**, milk production decreased from summer 2016 through early 2017 in reaction to low farm-gate prices and the EC's production reduction scheme, especially in Wallonia. Production picked up in spring of 2017. Sheep and goat milk production continue to increase and supply cheese manufacturing. In 2016, total milk deliveries in **Bulgaria** grew by almost four percent and cow milk deliveries grew by 3.1 percent. The main reasons for higher output were stronger domestic demand for processing, industry consolidation, more commercial farms and investment by processors, as well as EU and domestic support programs. During the first seven months of 2017, Bulgarian milk deliveries increased by about five percent over the same period of 2016. Direct sales and on-farm cow milk consumption declined by five percent in 2016, dipping below 50 percent for the first time. This is related to the accelerated commercialization of dairy farms and efforts to limit the grey market. **Spain's** dairy industry is increasing domestic milk production to decrease raw-milk

imports and dairy products from France, Germany, and the Netherlands, as well as to encourage more Spanish dairy exports. In 2016 Spanish milk deliveries grew by one percent over the previous year. Post projects that milk deliveries will also grow in 2017 and 2018. Spanish sheep and goat milk production has trended upward over the last five years. As a result, Spain has become the EU's largest producer of sheep milk and the second largest of goat milk, just behind France. Spain is producing a large variety of mixed cheeses, containing milk from cows, sheep, and/or goats. Goat milk is also exported, mainly to France. In **Romania**, the 2017 dairy cow inventory is expected to slightly recover. The non-commercial sector continues to suffer from an overall lack of profitability and is expected to decline further in 2018. However, commercial farms are expected to continue strong growth, encouraged by subsidies and local milk acquisition policies. During the first five months of 2017, deliveries increase by 4.5 percent. Post expects that this trend will continue through the end of 2017, and increase by an additional 1.5 percent in 2018.

2018

In 2018 milk deliveries are expected to increase by only 0.1 percent over 2017. In 2018, farmer's decisions on production expansion and herd enlargement will depend on farm-gate milk prices, feed supplies, and profitability of production. It is expected that inventories of dairy cows in 2018 will remain consistent with 2017 levels. However, improved genetics in national herds should lead to higher yield averages per cow in 2018, as well as more of overall milk output. Post expects that organic dairy production will expand in 2018. In 2015 organic accounted for four percent of the EU's milk production, but the price premium, coupled with more consistent price stability, should encourage organic expansion. Although the average EU-wide price premium for organic milk hovered around €0.10 per kilogram over conventional milk prices, organic prices reached €0.25 in Germany in 2016. In 2017, most Polish dairy processors advertised dairy products as produced without genetically-engineered feed.

Consumption:

In 2016, fluid milk consumption declined from 2015, as EU consumers tended to shift from fluid milk consumption to other dairy products. Post expects that fluid milk consumption will also decline in 2017 and 2018. In France, fluid milk consumption decreased by 3.6 percent in 2016. This trend is largely driven by propaganda from animal-welfare organizations, as well as increasing competition from vegetal substitutes, like soy milk and almond milk.

Trade:

After a 26-percent increase in 2016, fluid-milk exports in 2017 are expected to decrease by about 10 percent because of reduced demand from China. According to FAS Beijing's 2017 [Dairy and Products Semi-Annual](#), milk consumption has plateaued in major metropolitan areas like Beijing and Shanghai. Future growth depends on stronger consumer demand in third and fourth-tier cities, although consumption growth in these cities is uncertain in the near term due to China's slowing economy and the relatively high cost of fluid milk. Moreover, a growing amount of imported UHT milk is coming from Chinese-owned facilities. Chinese dairy processors have invested heavily in overseas herds and processing facilities to create overseas supply chains leading back to China.

Commodities:

Dairy, Cheese

Production, Supply and Demand Data Statistics:

Dairy, Cheese Market Begin Year European Union	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	27	27	15	15	0	11
Production	9,810	9,810	9,910	9,860	0	9,940
Other Imports	71	71	70	60	0	60
Total Imports	71	71	70	60	0	60
Total Supply	9,908	9,908	9,995	9,935	0	10,011
Other Exports	800	800	855	830	0	880
Total Exports	800	800	855	830	0	880
Human Dom. Consumption	9,093	9,093	9,140	9,094	0	9,131
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	9,093	9,093	9,140	9,094	0	9,131
Total Use	9,893	9,893	9,995	9,924	0	10,011
Ending Stocks	15	15	0	11	0	0
Total Distribution	9,908	9,908	9,995	9,935	0	10,011

(1000 MT)

Production:

In 2017, EU-28 cheese production is expected to increase by almost 0.1 percent. It is expected that higher production of cheese will be directed mostly to exports as domestic consumption is expected to remain flat.

Consumption:

Despite growing supplies and improving economic situations in some member states cheese consumption in 2017 is expected to remain at the previous year's level.

Trade:

Cheese exports in 2017 are expected to grow by four percent over 2016, with increased supplies and reduced of PSA stocks directed into exports. Overall 2017 exports will exceed the pre-Russia import ban level. 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. Brexit may result in lower long-term U.S. cheddar cheese exports to the EU, as the UK is the major cheddar importer within the EU.

Stocks:

According to the MMO report in July 2017, 1,865 MT of cheese was still in the PSA stocks. Italy was the major user of the program. It is expected that PSA stocks will be fully used towards the end of 2018.

Commodities:

Dairy, Butter

Production, Supply and Demand Data Statistics:

Dairy, Butter Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	51	51	25	25	0	0
Production	2,345	2,345	2,335	2,320	0	2,320
Other Imports	23	24	10	16	0	15
Total Imports	23	24	10	16	0	15
Total Supply	2,419	2,420	2,370	2,361	0	2,335
Other Exports	218	218	175	185	0	185
Total Exports	218	218	175	185	0	185
Domestic Consumption	2,176	2,177	2,190	2,176	0	2,150
Total Use	2,394	2,395	2,365	2,361	0	2,335
Ending Stocks	25	25	5	0	0	0
Total Distribution	2,419	2,420	2,370	2,361	0	2,335

(1000 MT)

Production:

Despite the strong demand on the international market and record-high world market prices, butter production in 2017 is expected to decrease in comparison to the previous year due to limited availability of milk for processing. Butter production will also be limited from increasing in 2017 as its residual product NFDG may have a hard time finding a profitable outlet because of huge stocks built in 2016 and 2017 within EU's market intervention programs. Profitability of manufacturing butter depends on its price on domestic or export markets and price of NFDG, which in this case is a by-product for butter. Dairy processors face a dilemma whether they should take advantage of current high butter prices and risk building commercial stocks of NFDG, or they should choose less risky cheese production, which uses both milk fat and protein and remains in continues demand on the world market. Many EU dairy processors might currently paraphrase William Shakespeare--Cheese or butter? That is the question. Post expects that 2018 butter production will remain at the same level as 2017, primarily because increased raw milk output will be directed into production of cheese.

Consumption:

Post estimates that EU butter consumption in 2017 will remain at the previous year's level. Lower production of butter in 2017 will be offset by reduced PSA stocks and decreased exports. More and more EU consumers perceive butter as a healthful product and more natural than margarine. Food manufacturers also like butter because most vegetable oils (other than palm) tend to have a strong taste. Palm oil also tends to face consumer backlash, unless it is sustainably sources. Although high international prices do not directly translate into high prices on the domestic markets, there are cases of butter shortages and even sales limits enforced by some retailers. See the following link describing recent butter shortages in Estonia, followed by a picture of empty butter shelves in the supermarket. The red sign requests consumers not to buy excessive amounts of butter:

<http://www.err.ee/619255/voikriis-on-kasvatanud-teiste-leivamaarete-muuki>



Trade:

Despite record high world market prices, butter exports in 2017 are expected to decrease in comparison to the previous year's level due to strong domestic demand and reduced output. In the first seven months of 2017 butter exports decreased by 15 percent. However, EU butter remains competitive in the United States. During first seven months of 2017 exports of butter to the U.S. increased by 56 percent. In 2016, the EU-28 exported 19,325 MT of butter to the United States. Other important export markets for EU butter include Saudi Arabia, Iran, and China. In the first seven months of 2017, export of butter oil decreased by 28 percent, mainly because of an almost 60-percent drop in exports to China. In 2017, the EU's import quota established for New Zealand is expected to increase because of Europe's butter shortage. During first seven months of 2017, butter imports were 4,023 MT, a 48-percent increase over the same period in 2016.

Stocks:

According to the MMO data, at the end of July 2017 PSA stocks of butter amounted to 227 MT compared to 102,043 MT in July 2016. It is expected that in 2017 PSA stocks of butter will almost entirely depleted because of strong domestic and export demand.

Commodities:

Dairy, Milk, Nonfat Dry

Production, Supply and Demand Data Statistics:

Dairy, Milk, Nonfat Dry Market Begin Year European Union	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	62	62	412	418	0	385
Production	1,785	1,735	1,675	1,685	0	1,685
Other Imports	4	4	2	2	0	2

Total Imports	4	4	2	2	0	2
Total Supply	1,851	1,801	2,089	2,105	0	2,072
Other Exports	574	574	675	750	0	780
Total Exports	574	574	675	750	0	780
Human Dom. Consumption	865	809	1,014	970	0	937
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	865	809	1,014	970	0	937
Total Use	1,439	1,383	1,689	1,720	0	1,717
Ending Stocks	412	418	400	385	0	355
Total Distribution	1,851	1,801	2,089	2,105	0	2,072
(1000 MT)						

Please note: The estimate of NFDM production in 2017 and 2018 is based on the fat-protein balance of milk deliveries and output of dairy products.

Production:

In 2017, NFDM production is expected to decrease from 2016 due to limited supplies of milk, large public and PSA stocks accumulated in 2016 and 2017, and reduced butter manufacturing for which NFDM is a residual product. Post forecasts that NFDM production in 2018 will remain flat in comparison to this year because higher milk production will mostly go to cheese production.

Consumption:

Higher NFDM 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. In 2018, consumption of NFDM is forecast to decrease in comparison to 2017 because of higher exports.

Trade:

Post expects that in 2017 exports of NFDM will recover after a 17 percent decrease in 2016 based on competitive prices and large stocks, some of which will be exported. Major export destinations for NFDM exported from the EU are Algeria, China, Indonesia, the Philippines, and Mexico. During first seven months of 2017, exports of NFDM increased by 39 percent over the same period of 2016.

Stocks:

According to data published by MMO, as of July 2017, the EC stocked 357,359 MT of NFDM under its public intervention scheme. In addition at the end of July 2017, 18,063 MT of NFDM were stocked under the Public Storage Scheme (PSA). Total public intervention and PSA stocks of NFDM as of the end of July 2017 were 375,422 MT. However, in August 2017 NFDM prices again decreased below intervention price and additional buying-in took place in August and September 2017. According to the MMO data additional NFDM procured by the EC in August and September 2017 amounted to 22,710 MT. (Note: The EU's NFDM public intervention runs April 1 to September 30). The overall public intervention stocks at the end of 2017 are expected to amount to 385,000 MT. The level of NFDM

stocks is expected to remain high through 2018 unless the EC decides to offload stocks under food assistance programs.

Commodities:

Dairy, Dry Whole Milk Powder

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Beginning Stocks	0	0	0	0	0	0
Production	710	720	695	720	0	740
Other Imports	6	6	3	3	0	5
Total Imports	6	6	3	3	0	5
Total Supply	716	726	698	723	0	745
Other Exports	390	381	380	380	0	400
Total Exports	390	381	380	380	0	400
Human Dom. Consumption	326	345	318	343	0	345
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	326	345	318	343	0	345
Total Use	716	726	698	723	0	745
Ending Stocks	0	0	0	0	0	0
Total Distribution	716	726	698	723	0	745

(1000 MT)

Production:

In 2017 WDM production is expected to remain stable compared to the previous year. Production is forecast to increase in 2018 because of higher milk availability and demand from China.

Consumption:

In 2017 and 2018 domestic use of WDM is expected to remain at the previous year’s level because of continuing demand from the food industry (mainly chocolate manufacturing).

Trade:

Post estimates that in 2017 WDM exports will remain consistent with the previous year’s level because of stable output and continuing strong domestic demand. During first seven months of 2017, WDM exports were only one percent higher over the same period in 2016. Post forecasts that exports will increase in 2018 because of growing demand from Algeria and China.

EU Policy:

CETA Provisional Implementation on September 21, 2017

The EU – Canada Trade Agreement (CETA), signed by the European Council on October 26, 2016, was provisionally applied from September 21, 2017 as the agreement's ratification procedure is being finalized. The agreement will incrementally allow the EU duty-free access for cheese quota for respectively 17,000 MT of cheese from year 6, starting at 2,667 MT the first year, and 1,700 MT of industrial cheese, starting at 283 MT the first year. This is on top of 800 MT of cheese that Canada reserves for the EU out of its WTO cheese quota. In exchange, the EU is granting Canada duty-free quota for beef and pork.

European dairy industries worry that the Canadian cheese quota will be difficult to use as the quota management has been given to Canadian dairy processors and the management details have not been fully agreed. The EU industry also sent a letter to the European Commission complaining that the new Canadian grade VII payment scheme will lead to unfair export competition in other dairy export markets.

EU-Vietnam FTA Possibly Implemented at Beginning of 2018

The EU and Vietnam concluded FTA negotiations in December 2015 and both parties hope to finalize the ratification procedure for the agreement by the end of 2017 allowing the agreement to apply from the beginning of 2018.

Vietnam will receive duty-free access to the EU dairy market from the start of the agreement, while the EU will receive reduced duty access for dairy products after four- or six-year grace periods depending on the products. The agreed EU and Vietnam tariff schedules are available [online](#) [1] .

EU Taking Advantage of U.S. TPP Withdrawal, Concluding Japan-EU FTA

On July 5, 2017, the EU and Japan announced that they had come to a political agreement on a Japan - EU FTA after they agreed on the most contentious topics of agricultural access on the Japanese side and cars and car parts on the European side. However, negotiations will continue on practical and technical details for such an FTA.

The formal U.S. withdrawal from the Trans Pacific Partnership (TPP) in January 2017 seems to have created openings for the EU, which now looks to reverse its backlog on trade with Japan and get on par with Australia. European farm-industry leaders cheer this agreement with their second-largest and most affluent Asian market.

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.

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.

^[1] <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1437>