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**Report Highlights:**

2027 European Union (EU) milk production is forecast to decline slightly to 153.3 million metric tons (MMT), from an estimated 153.7 MMT in 2026, due to declining cow milk deliveries prompted by decreasing cow numbers, lower profitability, environmental regulations, and disease outbreaks. With lower milk production, factory use consumption is forecast to slightly decrease in 2027. As a result, dairy processors will need to determine which products to make with available milk. Cheese production is forecast to remain the primary output goal of the EU dairy processing industry, supported by solid domestic consumption, export demand, and additional revenues from whey powder. 2027 EU27 cheese production is forecast to reach 11.2 MMT, up by 0.3 percent from 2026. However, this increase will come at the expense of the production of butter, skim milk powder, and whole milk powder.

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

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# Executive Summary

In 2027, European Union (EU) all milk deliveries are forecast to amount to 153.3 million metric tons (MMT), 0.3 percent below 2026 deliveries, driven by a decrease in cows' milk production not offsetting a 0.2 percent increase in "other" milk production (primarily from sheep and goats). Smaller farms are being pushed out of production due to declining farm-gate milk prices, increasing feed costs and availability, ongoing disease outbreaks, and restrictive environmental regulations. This is expected to result in declining cow numbers in 2027, down 1 percent from 2026. The continuing increase in cows' productivity is not expected to offset shrinking herds in 2027. As a result, cows' milk deliveries in 2027 are forecast at 149 MMT, down 0.3 percent from 2026. Higher production observed in the first months of 2026 is forecast to slow in following months, as declining farm-gate milk prices paired with increasing costs of energy and fertilizers squeeze farmer profits. Moreover, prolonged heat and water deficits in western and central Europe in the first half of 2026 are expected to result in feed shortages, leading to herd reductions and lower milk production over the end of 2026 and early 2027. EU average farm gate milk prices declined over 2026 and by August were 10 percent below the 5-year average. This drop allowed EU production to improve their competitiveness on the global market. Fluid milk domestic consumption is expected to decline to 23.2 MMT in 2027, down 0.1 percent. With lower milk production, factory use consumption is also forecast to decline slightly by 0.3 percent in 2027. Therefore, dairy processors will need to determine which products to make with available milk.

Cheese production continues to be the EU dairy processing industry's primary goal, supported by strong domestic consumption and solid export demand, but also additional revenues from whey powder sales. With less available milk, EU27 cheese production in 2027 is expected to increase only by 0.3 percent over 2026 levels, reaching 11.2 MMT. Increasing consumption, boosted by retail price discounts and development of the ready-to-eat meals sector, will account for most of the increased production. In 2027, cheese exports from the EU are forecast to reach 1.44 MMT, a decrease of 2.5 percent. This is because international trade tensions and price pressures from other competitors are forecast to constrain exports, despite new opportunities posed by EU free trade agreements negotiated with other countries.

2027 EU27 butter production is forecast at 2.26 MMT, 1.7 percent lower than 2026, as higher revenues will favor cheese production and high butter stocks leftover from 2026 will help meet domestic and export demand. This decline in production is expected with a slight decline in domestic consumption of butter in 2027, down 1.5 percent. This is a decrease from higher levels in 2026, when reduced butter prices passed on to consumers supported demand growth, but also increased butter stocks. 2027 EU27 butter exports are forecast to decline by 1.5 percent from 2026 with steady domestic consumption absorbing the majority of EU27 production.

EU27 skim milk powder (SMP) production in 2027 is forecast at 1.55 MMT, down 1.9 percent from 2026, due to increased cheese production lowering milk availability for other products. In 2027, EU27 exports of SMP are expected to decrease by 4.8 percent, with domestic consumption absorbing a large part of declining production. Domestic consumption in 2027 is estimated at 0.8 MMT, up 1.3 percent from 2026, based on growing demand for protein powders from food industry to increase protein content in line with the recent market trends. Food sector demand offsets lower demand in the feed sector resulting from a reduction in EU livestock inventories.

EU27 whole milk powder (WMP) production in 2027 is forecast to fall to 520,000 MT, a decline of 5.5 percent from 2026, with cheese production favored over other products. In 2027, EU27 WMP exports are expected to decrease from 2026, with most of the production destined for the domestic market, paired with a lack of price-competitiveness on global markets against Oceania. Simultaneously, domestic consumption in 2027 is forecast to decrease by 5.3 percent, prompted by competition from cheaper alternatives in the food industry.

In 2027, several trade policy measures are expected to affect the EU dairy sector. Free trade agreements (FTAs) (with Mexico and Mercosur) include better access for EU dairy products to those markets, with expectations to compensate for lower exports to the U.S. market, particularly for cheese. Additionally, tariff changes may influence dairy product trade flows.

**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.
- SMP covered by HTS Code: 040210.
- WMP covered by HTS Codes: 040221 and 040229.

Until 2024, the official figures on production used in this report were sourced from the EUROSTAT database: Milk collection (all milks) and dairy products obtained, however this database has been discontinued. As a result, revision of historical data in Production, Supply, and Distribution (PSD) database was necessary in line with EUROSTAT database: Cow milk collection and products obtained.

From 2025, only the EUROSTAT database: Cow milk collection and products obtained will be used. Cows milk production data will be sourced from “Raw cows' milk delivered to dairies” data. “Other” milk production data will be sourced from national databases by FAS colleagues in EU Member States. Cheese production data will be sourced from “Production of main cows' milk products - Cheese from cows' milk (pure)” data supplemented from national databases by FAS colleagues in EU Member States. Butter production data will be sourced from “Production of main cows' milk products - Butter, incl. dehydrated butter and ghee, and other fats and oils derived from milk; dairy spreads” data supplemented from national databases by FAS colleagues in EU Member States, where necessary. SMP production data will be sourced from “Production of main cows' milk products - Skimmed milk powder” data supplemented from national databases by FAS colleagues in EU Member States, where necessary. WMP production data will be sourced from “Production of main cows' milk products - Milk and cream powders, excluding skimmed milk powders” data supplemented from national databases by FAS colleagues in EU Member States, where necessary.

For trends, estimates, and the forecast EUROSTAT database: Cow milk collection and products obtained is used, which is updated monthly, 45 days after the end of the reported month. The EUROSTAT numbers are supplemented by information from FAS colleagues in EU Member States.

The official figures on trade are sourced from Trade Data Monitor, LLC. For EU27 trade numbers the database is updated around 45 days after the end of the reported month.

Euro to U.S. dollar (EUR/USD) exchange rates are sourced from the Federal Reserve. In September 2026, the average rate of exchange was $1.15 (in USDs per currency unit).

# Fluid Milk

Table 1. Fluid Milk Production, Supply, and Distribution

| Dairy, Milk, Fluid | 2025 | | 2026 | | 2027 | |
|---|---|---|---|---|---|---|
| Market Year Begins | Jan 2025 | | Jan 2026 | | Jan 2027 | |
| European Union | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| **Cows In Milk** (1000 HEAD) | 19,222 | 19,222 | 19,085 | 19,015 | 0 | 18,820 |
| **Cows Milk Production** (1000 MT) | 148,500 | 147,358 | 150,000 | 149,500 | 0 | 149,000 |
| **Other Milk Production** (1000 MT) | 4,220 | 4,315 | 4,200 | 4,240 | 0 | 4,250 |
| **Total Production** (1000 MT) | 152,720 | 151,673 | 154,200 | 153,740 | 0 | 153,250 |
| **Other Imports** (1000 MT) | 800 | 827 | 725 | 725 | 0 | 750 |
| **Total Imports** (1000 MT) | 800 | 827 | 725 | 725 | 0 | 750 |
| **Total Supply** (1000 MT) | 153,520 | 152,500 | 154,925 | 154,465 | 0 | 154,000 |
| **Other Exports** (1000 MT) | 1,102 | 1,104 | 1,030 | 1,130 | 0 | 1,100 |
| **Total Exports** (1000 MT) | 1,102 | 1,104 | 1,030 | 1,130 | 0 | 1,100 |
| **Fluid Use Dom. Consum.** (1000 MT) | 23,210 | 23,287 | 23,500 | 23,215 | 0 | 23,200 |
| **Factory Use Consum.** (1000 MT) | 129,208 | 128,109 | 130,395 | 130,120 | 0 | 129,700 |
| **Feed Use Dom. Consum.** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Dom. Consumption** (1000 MT) | 152,418 | 151,396 | 153,895 | 153,335 | 0 | 152,900 |
| **Total Distribution** (1000 MT) | 153,520 | 152,500 | 154,925 | 154,465 | 0 | 154,000 |
| | | | | | | |
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## Production

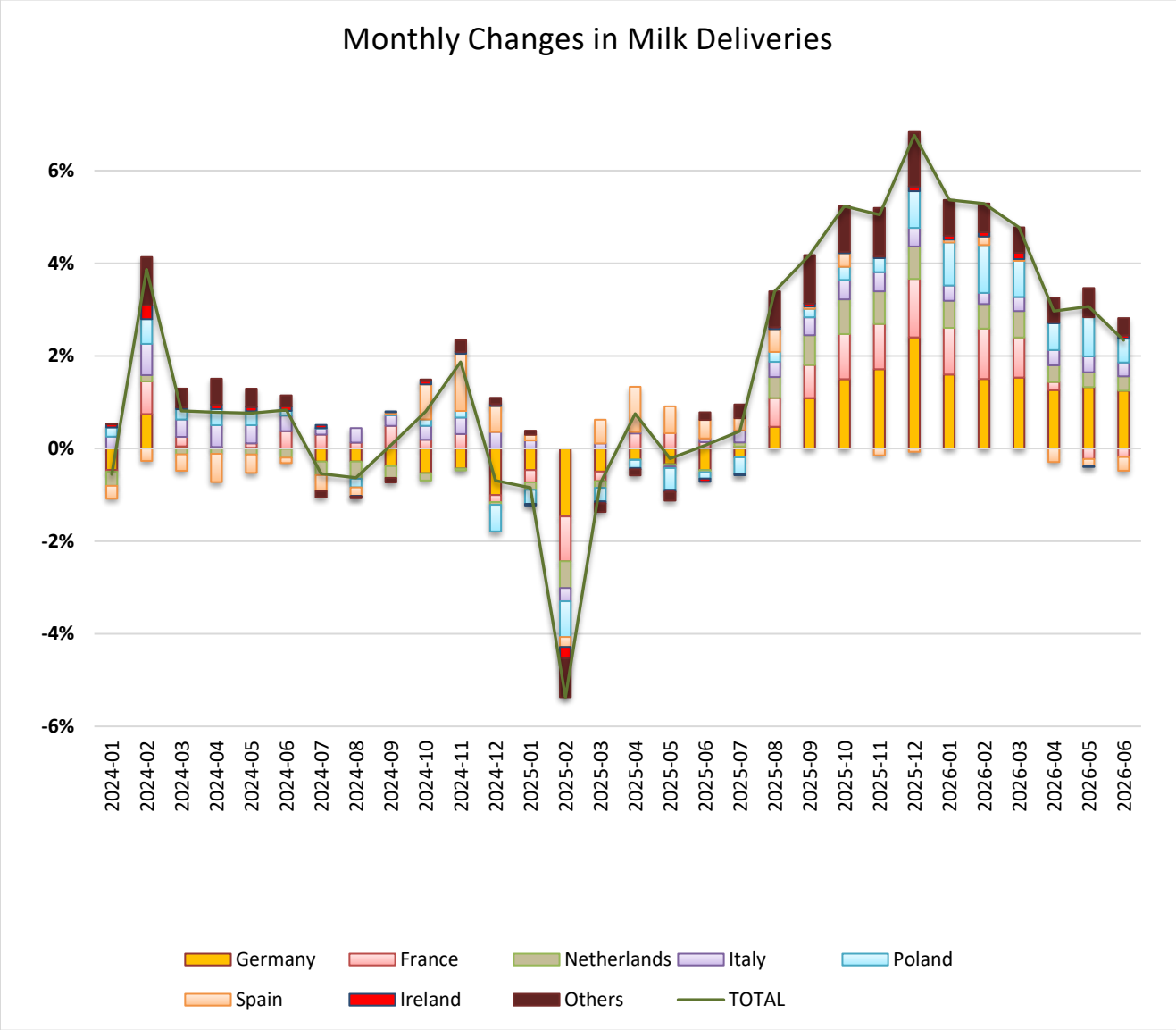
At the beginning of 2027, dairy cow numbers are forecast to reach 18.8 million cows in milk, down 1 percent from 2026, continuing a declining trend. Low profitability of milk production in 2026, paired with concerns on feed quality contributed to the EU dairy herd reduction. Additionally, environmental policies, the possible impact of animal diseases on herd fertility (especially in Western European countries), and the restructuring of cattle farming (especially in Central-Eastern Europe, where investments in improved cow genetics have been increasing) prompted farmers to slaughter dairy cows. Because these losses are expected mainly in smaller and less efficient farms, while larger and more professional farms are forecast to maintain herd numbers, future reductions in cow numbers are forecast to slow.

The continuing increase in cows' productivity is not expected to offset shrinking cow herds in 2027, even with strong productivity gains in Central-Eastern Europe. Feed availability and quality are also forecast to contribute to lower milk production. As a result, EU27 cow milk production in 2027 is forecast to decline slightly by 0.3 percent to 149 MMT, a reverse of the trends in 2025 and 2026.

Cow milk delivery in 2026 is estimated at 149.5 MMT, 1.5 percent above 2025. In January-June 2026, cow milk deliveries to dairies increased by 3.5 percent compared to the same period in 2025. This

increase is based on productivity gains, resulting from the high quality of on-farm feed (grass, hay, silage), stable feed costs, investments in automatization, and delayed calving in Western Europe caused by Bluetongue virus (BTV) infections. However, growth is forecast to slow in coming months, prompted by declining farm-gate milk prices paired with feed availability and increasing costs of energy and fertilizers, squeezing farmer profits. Dairy farmers face many difficulties, including national policies responding to EU environmental regulations, disease outbreaks, and generation renewal (i.e., young farmers not continuing milk production due to heavy workloads and uncertain profits). As a result, the number of dairy farms is expected to continue to decrease in 2026 and 2027 in many EU Member States.

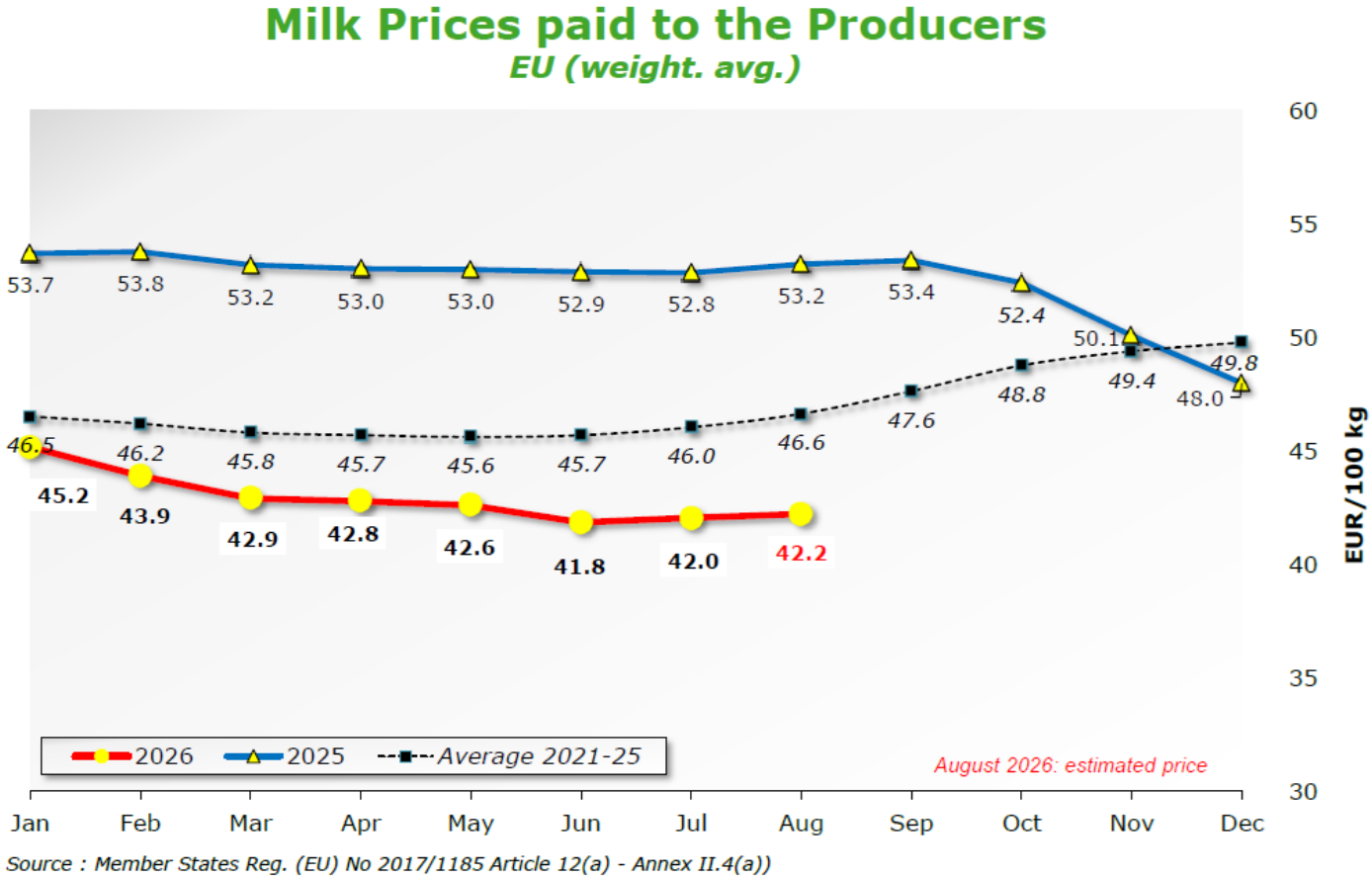
Graph 1. EU Cow's Milk Deliveries by Members States Monthly, as of June 2026 Compared to the Same Period of Previous Years




Source: FAS based on EUROSTAT and Milk Market Observatory data (Luxemburg data is not available)

EU farm gate milk prices averaged EUR 52.5 per 100 kilograms (kg) in 2025, a record high for annual EU prices. Elevated European production caused a sharp drop of EU27 milk prices beginning in the third quarter of 2025, and which continued through 2026. In July 2026, the first increase in average EU farm gate milk prices was noted. In August 2026, dairy processors offered EUR 42.2 per 100 kg of raw milk, 0.5 percent above July 2026 prices, but 21 percent lower than August 2025 and 10 percent below the 5-year average (2021-2025).

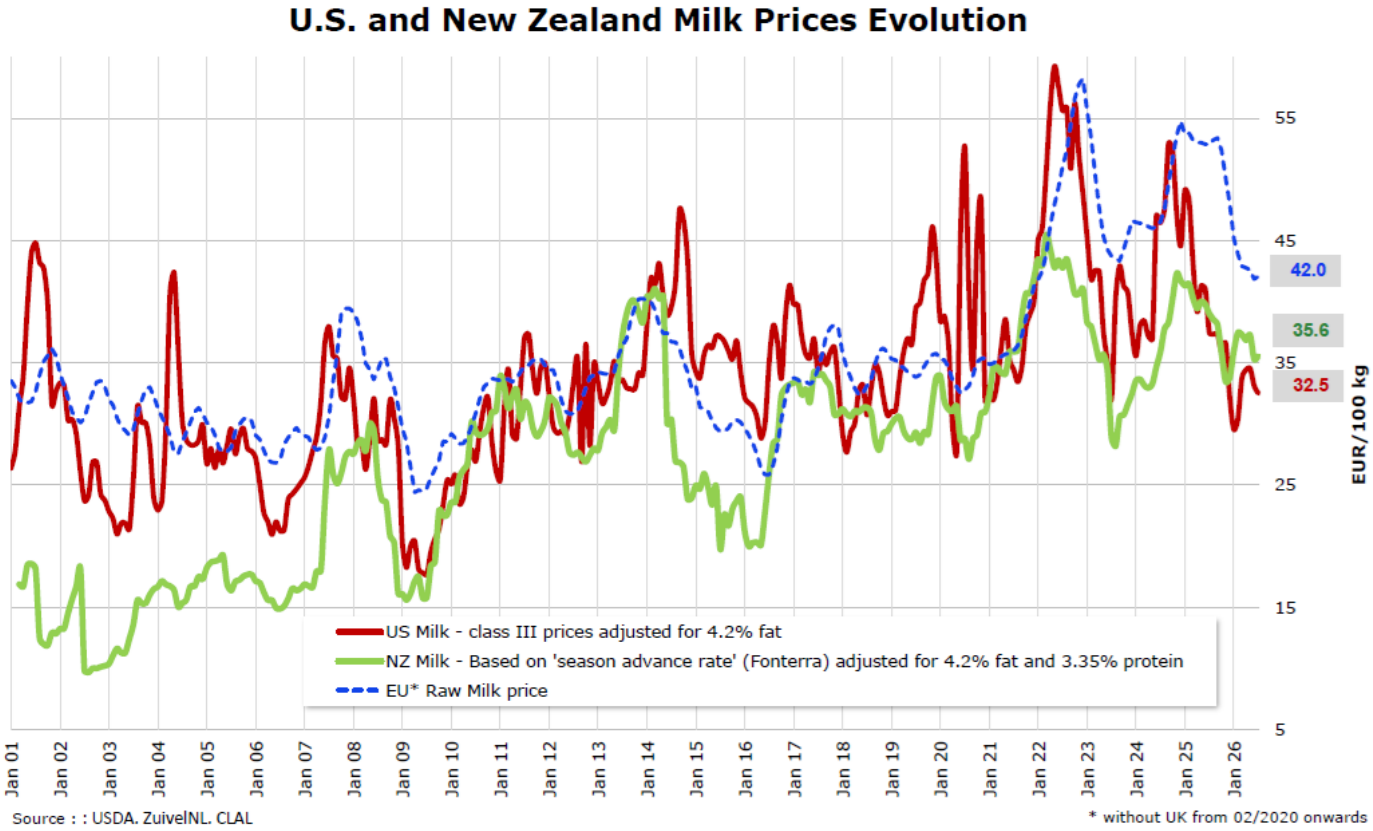
Graph 2. Monthly EU Average Farm Gate Milk Prices, as of August 2026




Source: European Commission

Although EU27 production was less competitive than other major world producers between January to July 2026, dropping farm-gate milk prices narrowed the gap with the EU's competitors. In July 2026, EU milk prices were 18 percent higher than New Zealand prices and 29 percent higher than U.S. prices.

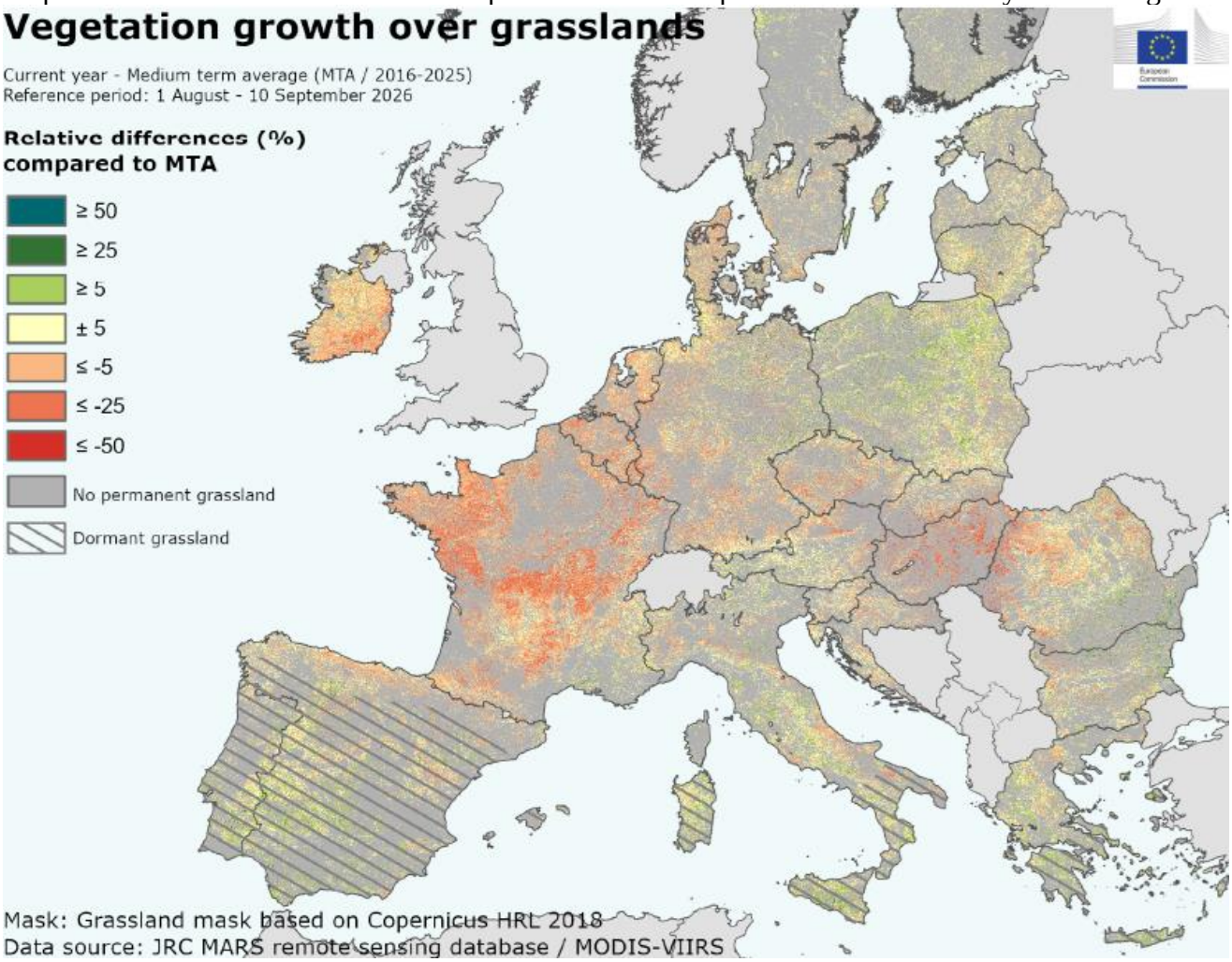
Graph 3. Milk Prices by Major World Exporters as of July 2026




Source: European Commission

Dairy farmer profits are determined by the price received for milk delivered to dairies minus feed and operational costs. Fodder quality and availability in the second half of 2026 remain a challenge. According to the European Commission (EC)'s crop monitoring, after a good start to the season, prolonged heat and water deficits in western and central Europe caused grass growth to decline rapidly, coming to standstill in some regions. At the same time, the quality of green corn for silage, another important source of animal feed, worsened considerably. The EC assessed biomass production in September 2026 as below average across large parts of western and central Europe despite rainfall returning in several regions. The EC also reported fodder growth remained more favorable in north-eastern Europe. Such conditions lead to less grass for animals to graze, less grass to harvest for winter feed, and lower production of green corn for silage among the major milk-producing EU Member States. Together, these factors are forecast to substantially reduce the availability of animal feed, leading to herd reductions and lower milk production over the end of 2026 and early 2027.

Map 1. Biomass Growth in the EU in September 2026 Compared With the Past 10-years Average



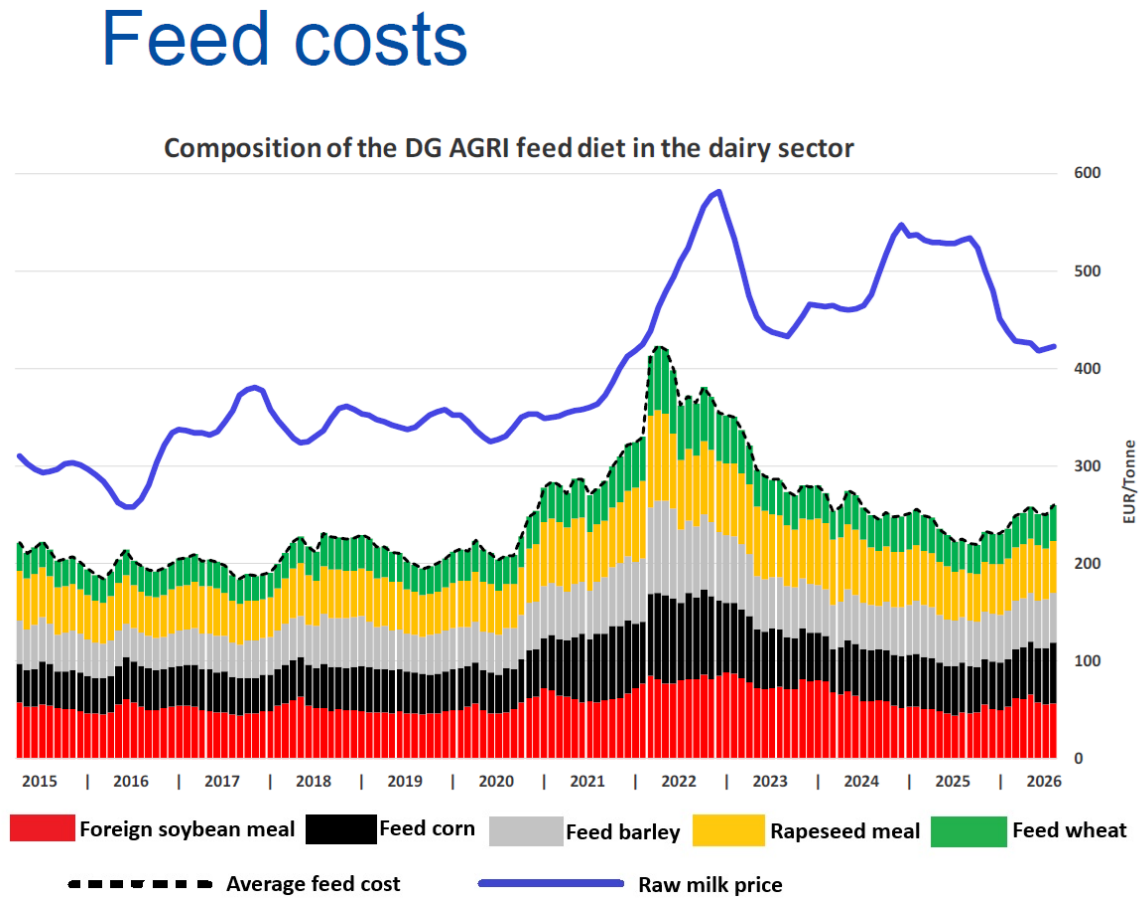

*The map displays the relative differences (in percentages) between the cumulative fraction of absorbed photosynthetically active radiation (fAPAR) from August 1 to September 10, 2026, and the medium-term average (MTA, 2016–2025) for the same period. Positive anomalies (in green) reflect above-average crop biomass, while negative anomalies (in red) reflect below-average biomass or late crop development*

Source: European Commission

The EC assessed industrial feed costs (based on a mix of cereals and oilseeds) as rising since November 2025. As a result, July 2026 feed costs were 26 percent higher than July 2025 (see Graph 4). Combined with falling milk prices, this adds more pressure on farmer margins.

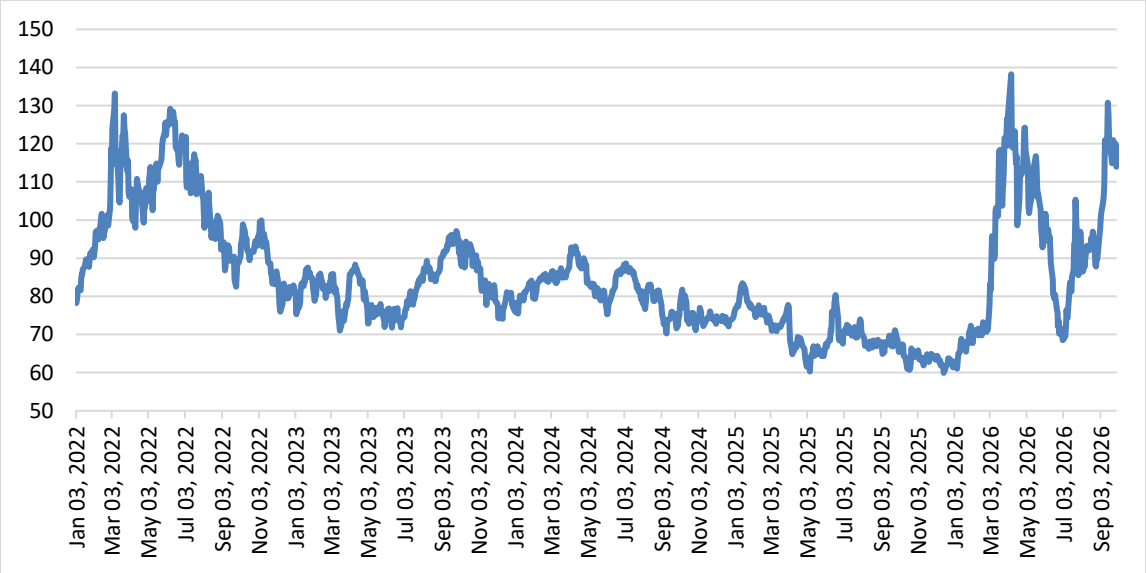
Low fertilizer costs supported farmer margins in 2025. However, the Middle East conflict that started in March 2026 resulted in lower availability and higher prices of mineral fertilizers during the spring field work and which has continued into fall sowings. Additionally, oil prices remain elevated since March 2026, sharply rising in July 2026 (Graph 5), increasing fuel and energy costs. Those elevated costs negatively weigh on farmer margins.

Graph 4. Feed Prices, as of July 2026




Source: European Commission

Graph 5. Oil Prices per Europe Brent Spot Price FOB (Dollars per Barrel)




*Latest quotations:* ***$113.96*** *per barrel on* ***September 29, 2026***
Source: The U.S. Energy Information Administration (EIA)

In addition to diminishing margins for farmers since the beginning of 2026, tighter environmental restrictions and increased animal welfare requirements may prompt dairy cow farm closures over the long term. In the Netherlands, the loss of an EU derogation allowing the spread of surplus manure on pastures (called a "nitrates derogation"), related to water quality regulations, prompted dairy farmers to slaughter some of their herds. Additionally, in April 2026, the EC approved a Dutch subsidy program that gives dairy farmers the option to keep 10 to 20 percent fewer cows on the same amount of grassland in exchange for compensation. The program is expected to remove around 64,000 cows from Dutch livestock. On June 26, 2026, the new Dutch Governmental Cabinet also proposed a dairy production limiting policy worth €20 billion until 2035 that would reduce nitrogen emissions from agriculture and other sectors and restore nature. The plan introduces new farm-level ammonia emission standards, a maximum of 2.6 livestock units per hectare by 2035 for dairy farming, and nitrogen-sensitive zones around Natura2000 areas (15 areas with one-kilometer zones and around 85 areas with 500-meter zones). The proposed buffer zones could affect an estimated 4,000 livestock farmers, most of them dairy. However, the ultimate effect remains unclear, as the plan will require approval from the Dutch Senate. In Denmark, a government climate agreement passed on November 18, 2024, introducing pivotal changes with an agricultural carbon tax and changing 15 percent of agricultural land (back) into forest, require dairy and beef farmers to pay about EUR 130 per cow per year. This legislation will likely lead to more intensive and larger-scale farming after 2027. In Germany, strict environmental protection regulations and increased participation in retailers' animal welfare labeling programs that require more space per animal, are also contributing to declining cattle inventories.

Animal disease outbreaks have been another challenge to milk deliveries in 2026. BTV has been spreading to the south of Europe since the late 1990s, with new serotypes also present in northern Europe since 2006. In 2023, a new serotype (BTV-3) was detected in northern and western Europe, spreading further to the neighboring countries. Currently, only some eastern EU member states are recognized as BTV free (for more information see the EC website), however many affected member states apply vaccination. In the Netherlands, BTV has not been detected in 2026, reportedly due to the immunity built up by undergoing the disease and vaccinations. In Germany, BTV cases considerably declined compared to the previous 2 years. In France, BTV-8 outbreaks declined sharply, but BTV-3 serotype is still spreading. Epizootic hemorrhagic disease (EHD) was confirmed in western France in 2025, but in decreasing numbers (no new EHD outbreaks since June 1, 2026). In 2025, lumpy skin disease (LSD) outbreaks were detected in the EU, initially in Italy, followed by outbreaks reported in France and Spain. In France, no new outbreaks of LSD have been detected since January 2, 2026. In 2026, Spain and Italy reported outbreaks of LSD, with strict control measures and vaccination campaigns in place. In Spain, restrictions were lifted on April 29, 2026. Additionally, the new Shamonda virus spread rapidly across France throughout 2026, with confirmed cases in 16 departments as of August 20, 2026, and indications that nationwide circulation is imminent. Similarly, in Spain, type 1 Shamonda virus has been detected in the cattle farms in the provinces of Cordoba, Toledo, Avila and Madrid, Type 2 has been confirmed in the region of Cantabria. In Germany, cases of Shamonda virus in cattle have been detected mostly in Southern Germany (Baden-Wuerttemberg). Transmitted mainly by culicoides midges and the movement of infected, often asymptomatic animals, the virus affects cattle of all ages and reproductive stages, causing variable clinical signs and raising concerns about an impending wave of abortions in both dairy and beef herds. However, it remains unclear how prevalent the virus is in the dairy herd as Shamonda infections are not mandated to be reported. While the symptoms of BTV, LSD, and the Shamonda virus are commonly mild in dairy cows, these diseases can cause a temporary

drop in milk yield, fertility problems, and elevated mortality rates, which negatively affect cattle inventories and milk production.

These factors, combined with the previously mentioned problems of generation renewal of young farmers, will likely lead to further market consolidation and farm closures throughout 2026. On June 1, 2026, the Danish Arla Food and the German dairy processor DMK merged under the Arla name to form Europe's leading dairy cooperative. The merger was approved by farmer members of both cooperatives in June 2025 and cleared by the EC in May 2026. In addition, the Dutch FrieslandCampina and Belgian Milcobel finalized their merger on January 1, 2026, after receiving regulatory approval from the EC in October 2025.

Non-cow (mainly sheep and goats) milk production is forecast to increase marginally by 0.2 percent in 2027, due to the improving animal disease situation affecting herds and productivity, as well as support through growing consumer demand. Non-cow milk is generally used for high-value cheeses prized for their perceived health qualities. Despite rebounding consumer demand for premium products, animal diseases and structural changes are expected to lead to a contraction in production in 2026. Non-cow milk deliveries are estimated at 4.24 MMT for 2026, a decrease of 1.7 percent from 2025. Among major producers, in Spain, sheep and goat milk farmers are dealing with eroding margins and the additional difficulty of generation renewal, restricting further development. Additionally, in spring 2026, poor pasture conditions and higher feed prices eroded producer margins. In Greece, the outbreak of the contagious ovine rinderpest disease (Peste des Petits Ruminants [PPR]) among sheep and goats was contained, resulting in Greece regaining a "PPR-free country" status from the World Organization for Animal Health on August 18, 2026. However, current sheep and goat pox epidemics affecting mainland Greece are expected to reduce animal numbers and, as a result, lower sheep and goat milk deliveries. PPR and sheep and goat pox have also negatively affected non-cow milk deliveries in Romania. In France, goat and sheep milk production is expected to remain stable despite the repetitive heatwaves and the severe drought between May and August 2026 and their negative impacts on feed availability. This is because these two main milks producing species are known for being more heat resistant compared to cows. However, French milk deliveries are not expected to offset 2026 declines among other major producers.

## Trade

Fluid milk imports from outside the EU are minimal, with over 98 percent from the United Kingdom (UK) (specifically from Northern Ireland) for processing in Ireland. 2027 imports are forecast at 750,000 MT, a 3.4 percent increase from low levels in 2026 as, with expected growth in milk production in the UK, dairies are forecast to direct more milk for processing in Ireland. 2026 imports are expected down 12.3 percent from 2025, as declining UK milk deliveries, resulting from drought, could have a knock-on effect on trade with the EU.

EU27 fluid milk exports are forecast to decline in 2027 by 2.7 percent from 2026, due to declining demand from the main importers. The People's Republic of China (PRC) and the UK are anticipated to remain the main recipients; however other Asian countries are gaining importance for EU27 exports. In 2026, EU27 fluid milk exports are expected to amount to 1.13 MMT, up 2.4 percent from 2025, with export growth trimmed by declining demand from the main importers. In January-July 2026, EU27 fluid milk exports were up 5.2 percent, despite declining exports to the PRC (down 1.3 percent) and the UK (down 5 percent). However, these drops were more than compensated by increased exports to other

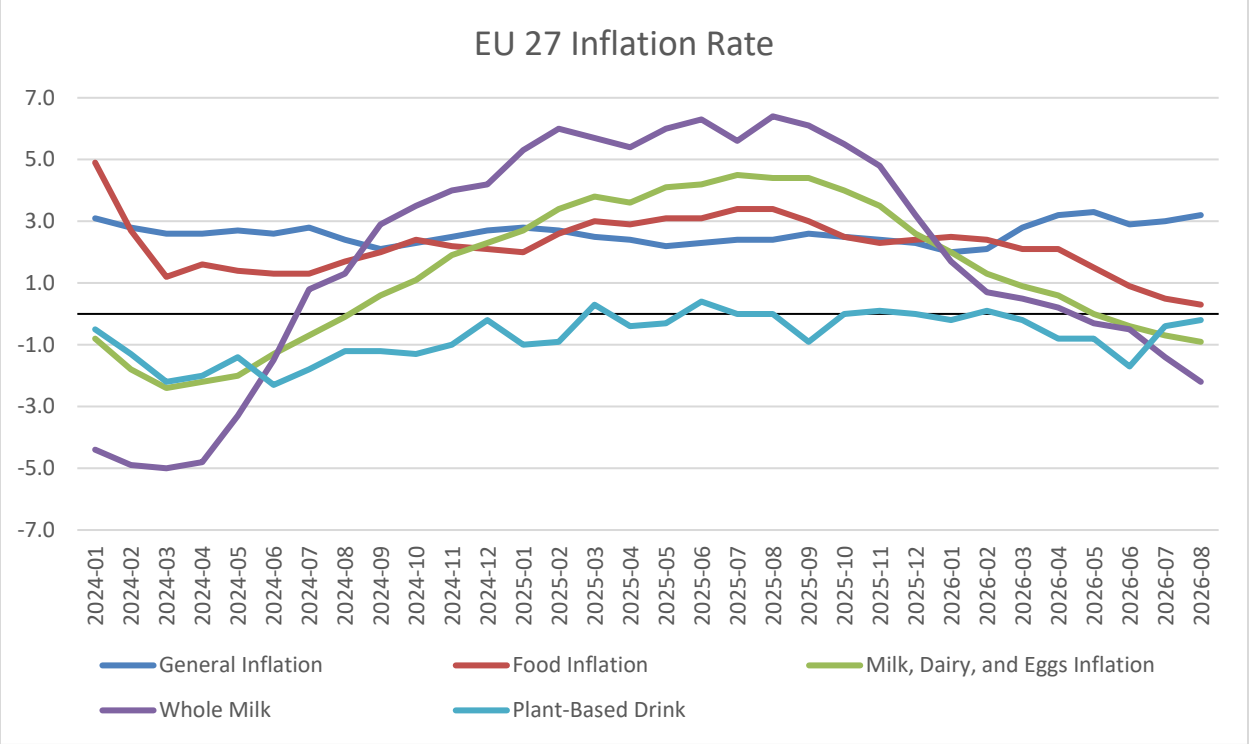
Asian counties, with South Korea (up 1 percent), Philippines (up 40 percent), and Vietnam (up 37 percent) among the major destinations. The EU is the least price-competitive among other major milk exporters, which prevents significant export gains.

## Domestic Consumption

Fluid milk domestic consumption in 2027 is forecast at 23.2 MMT, down 0.1 percent from 2026, continuing the downward trend of recent years, as diet preferences shift and milk alternatives gain popularity and become cheaper. However, the declining trend in milk consumption has been slowing down as consumers continue to look for more natural and less processed products that are rich in protein. 2026 EU fluid milk consumption is estimated at 23.22 MMT, down 0.3 percent from 2025, driven by ongoing smaller household consumption.

Price remains the primary factor influencing consumer food choices. In August 2026, the average EU27 inflation rate was 3.2 percent, down from its peak of 11.5 percent in October 2022, but up from 3 percent in July 2026. In contrast to the general inflation rate trend, food inflation in the EU has been in decline since August 2025, reaching 0.3 percent in August 2026.

Graph 6. EU Average Inflation Evolution, Annual Rate of Change




Source: Eurostat

The EU27 average inflation rate for milk and dairy products was increasing until July 2025 but has reversed since then and reached a negative level of -0.9 percent by August 2026. This was below both the food inflation and general inflation rates, due to declining farm-gate milk prices passed on to consumers. Consumers comparing prices of whole milk and milk alternatives continue to see declining prices of plant-based drinks (inflation rate of -0.2 percent in August 2026), while whole milk prices have been in decline since May 2025, with inflation rate of -2.2 percent in August 2026.

## Factory Use Consumption

With declining milk production, factory use consumption is also forecast slightly lower by 0.1 percent in 2027, after an increase of 1.6 percent in 2026. As a result, dairy processors will need to assess which products they will make with available milk. Cheese continues to be a growth area of factory use, at the expense of other products. In 2026, increased milk deliveries are expected to lead to higher production of longer shelf-life products (butter and SMP) in addition to cheese production increase, resulting in higher stocks of those products. This adds to a forecast decline in production of those commodities in 2027.

# Cheese

Table 2. Cheese Production, Supply, and Distribution

| **Dairy, Cheese** | **2025** | | **2026** | | **2027** | |
|---|---|---|---|---|---|---|
| **Market Year Begins** | **Jan 2025** | | **Jan 2026** | | **Jan 2027** | |
| **European Union** | **USDA Official** | **New Post** | **USDA Official** | **New Post** | **USDA Official** | **New Post** |
| **Beginning Stocks** (1000 MT) | 0 | 0 | 0 | 0 | | 0 |
| **Production** (1000 MT) | 10,910 | 10,974 | 11,100 | 11,130 | | 11,160 |
| **Other Imports** (1000 MT) | 200 | 199 | 205 | 205 | | 225 |
| **Total Imports** (1000 MT) | 200 | 199 | 205 | 205 | | 225 |
| **Total Supply** (1000 MT) | 11,110 | 11,173 | 11,305 | 11,335 | | 11,385 |
| **Other Exports** (1000 MT) | 1,421 | 1,420 | 1,475 | 1,475 | | 1,440 |
| **Total Exports** (1000 MT) | 1,421 | 1,420 | 1,475 | 1,475 | | 1,440 |
| **Human Dom. Consumption** (1000 MT) | 9,689 | 9,753 | 9,830 | 9,860 | | 9,945 |
| **Other Use, Losses** (1000 MT) | 0 | | 0 | | | 0 |
| **Total Dom. Consumption** (1000 MT) | 9,689 | 9,753 | 9,830 | 9,860 | | 9,945 |
| **Total Use** (1000 MT) | 11,110 | 11,173 | 11,305 | 11,335 | | 11,385 |
| **Ending Stocks** (1000 MT) | 0 | 0 | 0 | 0 | | 0 |
| **Total Distribution** (1000 MT) | 11,110 | 11,173 | 11,305 | 11,335 | | 11,385 |
| | | | | | | |
| OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query | | | | | | |

## Production

In 2027, EU27 cheese production is forecast to increase to 11.2 MMT, up 0.3 percent from 2026. Cheese production continues to be the primary output goal of the European dairy processing industry, supported by strong domestic consumption and solid export demand. However, the smaller milk pool available for factory production in 2027 is forecast to slow this increasing trend.

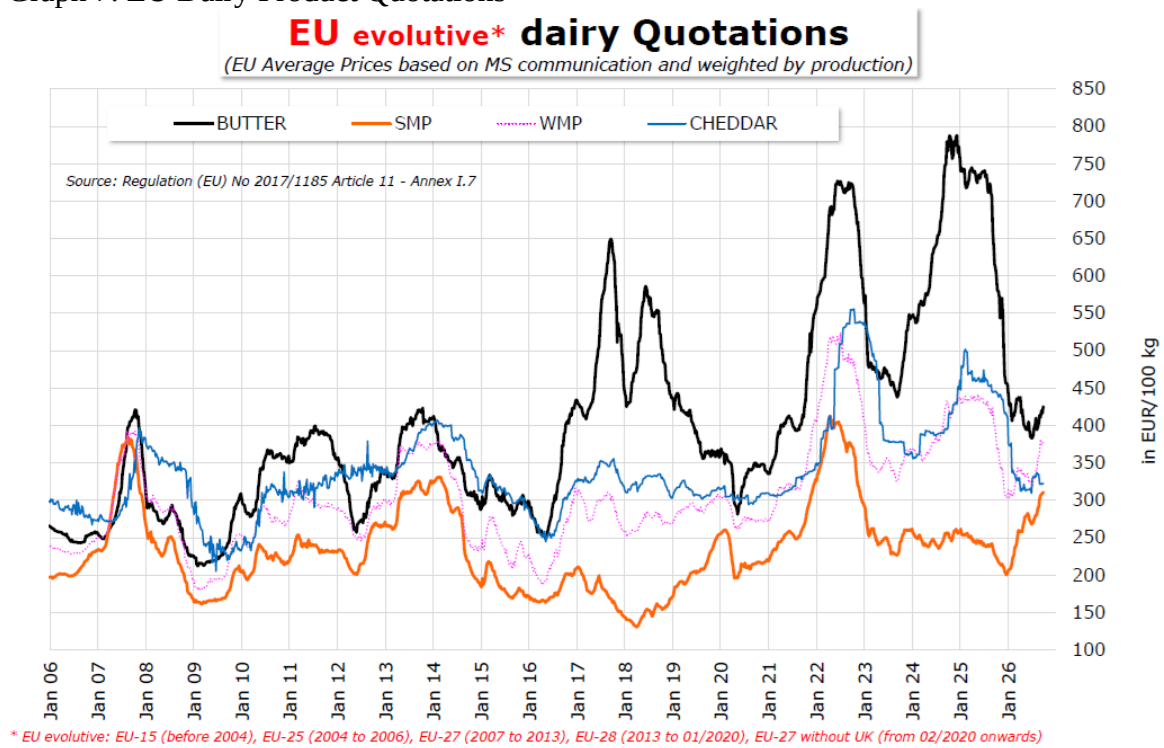
In 2026, cheese production was estimated at 11.1 MMT, up 1.4 percent from 2025. Dairy processors constantly shift their production toward higher value-added products. Strong European domestic market and global demand are expected to drive production up.

Germany, France, Italy, Poland, and the Netherlands remain the major producers, accounting for approximately 75 percent of total EU27 cheese production.

In the EU, the legal registration of product names plays an important role, especially for agricultural products, wines, and spirits. This is also true for specialty cheeses and, as a result, there are 278 cheeses and curds registered in the EU under geographical indications (GIs). This allows for higher pricing, improving producers' margins and supporting decisions for higher production.

EU cheddar prices declined sharply throughout 2025, but started to rebound in 2026, although still lower than a year ago. In September 2026 EU cheddar was priced at EUR 323 per 100 kg, down 28 percent year-on-year. This downward pricing stimulates domestic consumption and improves EU competitiveness in the global market.

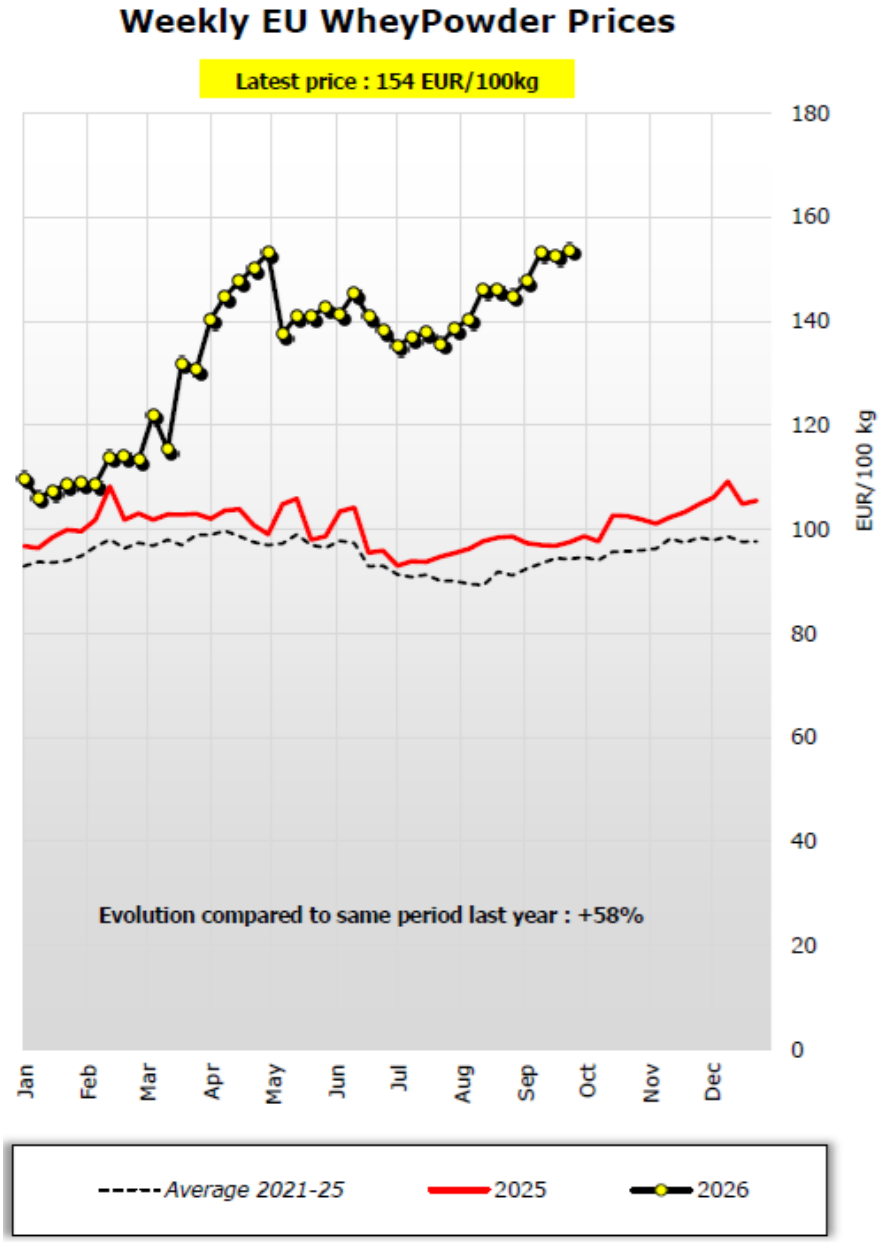
Graph 7. EU Dairy Product Quotations




SMP – Skimmed Milk Powder
WMP – Whole Milk Powder
Source: European Commission

Cheese valorization was supported by strong revenues in whey products, which were not affected by overall price pressures that prevailed in the milk market in 2025 and the first half of 2026. September 2026 whey powder prices were 58 percent higher than in September 2025, in response to growing consumer demand for protein.

Graph 8. EU Weekly Whey Powder Prices

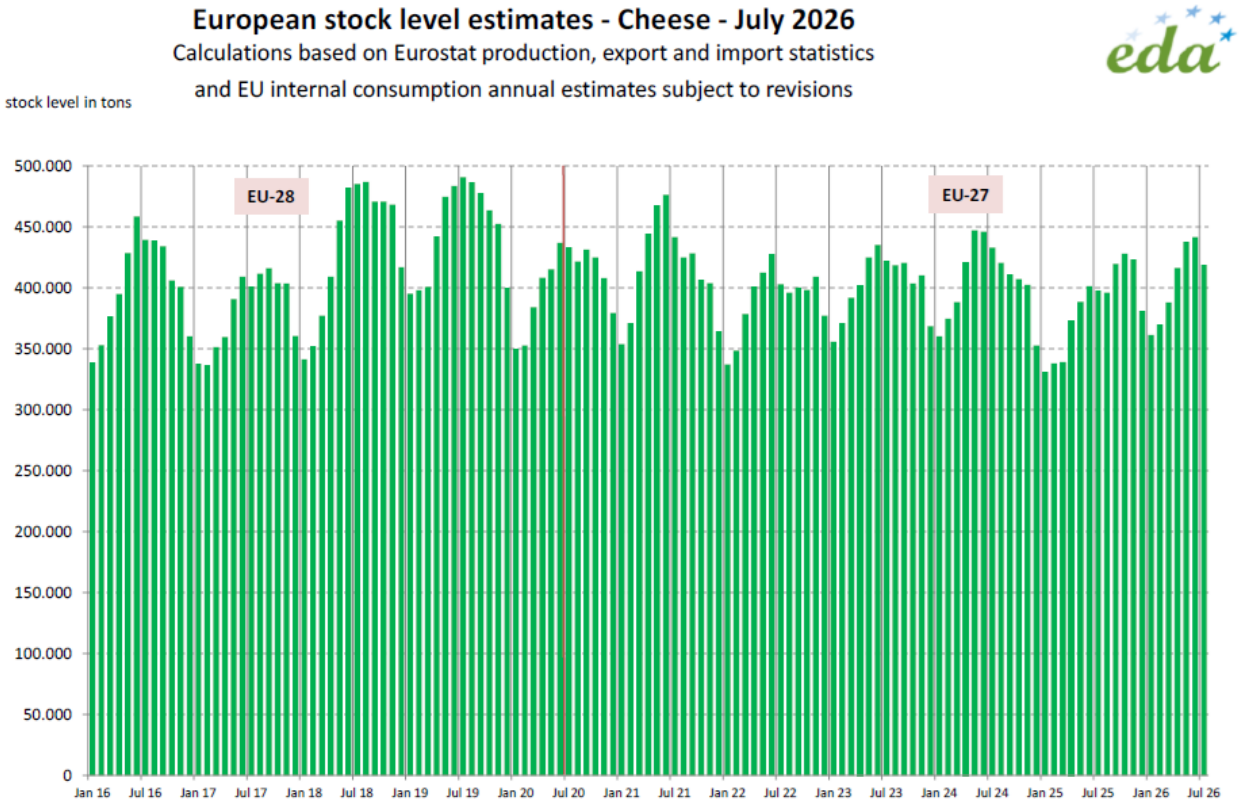



Source: European Commission

Substantial investments are required to meet the growing demand for protein powders. In May 2026, FrieslandCampina announced it would invest €90 million in factories that process whey into edible powders. At the beginning of 2026, the company doubled its production capacity for whey protein isolate with the expansion of a factory in Borculo, the Netherlands. In 2026, FrieslandCampina also completed the acquisition of Wisconsin Whey Protein, an U.S. producer of protein powders. The Danish dairy cooperative Arla, as well as major German dairy companies, are also heavily investing in the production of whey powders.

The European Dairy Association (EDA) noted industry cheese stocks at their normal level in July 2026. Increased production was paired with strong consumption, balancing the market and leveling stock building.

Graph 9. EDA Estimates of Monthly EU Cheese Stockpiles




Source: EDA

## Trade

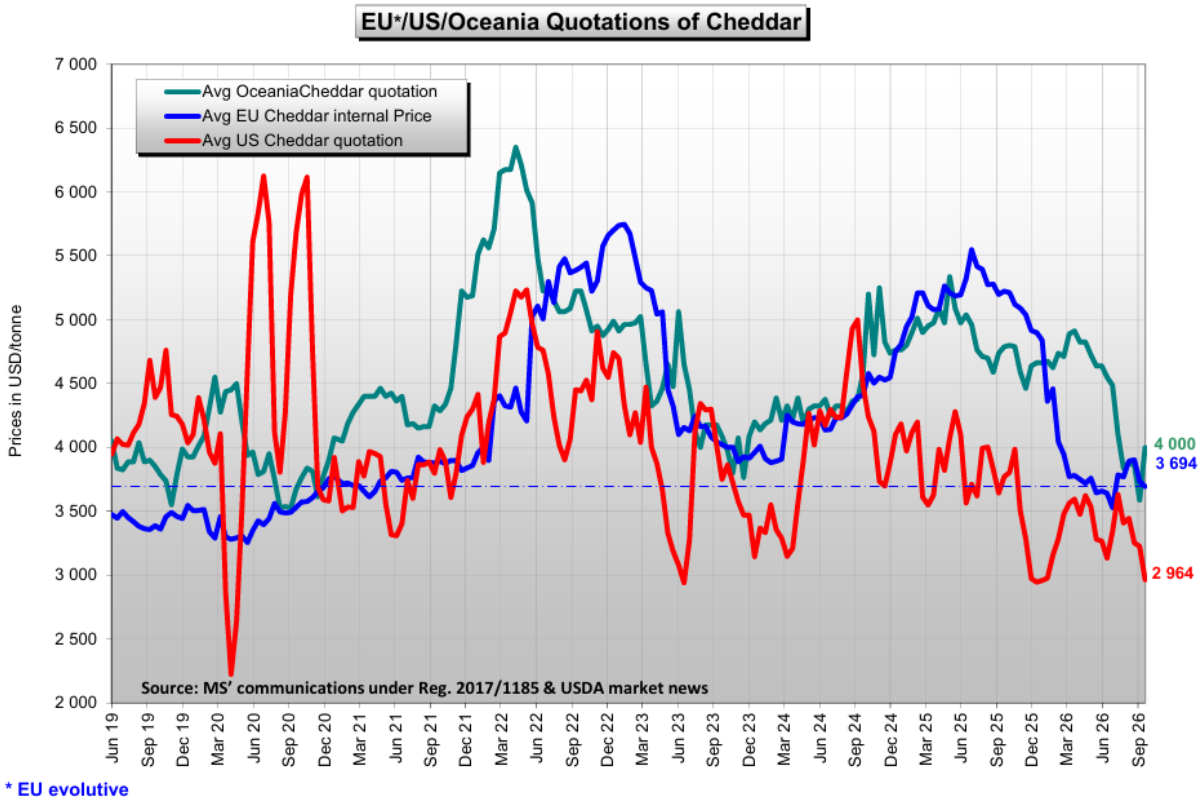
Cheese imports to the EU are relatively small (less than 2 percent of domestic production) and mainly originate from the UK and Switzerland. In 2027, EU27 cheese imports are forecast to increase by 9.8 percent as reduced EU27 cheese production growth could lead to more demand for imported cheese. Additional growth is forecast for cheese imports from the United States, benefitting from the tariff rate quota (TRQ) of 10,000 MT for cheese (for more information see the Policy Section). EU27 2026 cheese imports are expected to grow by 2.5 percent. In January-July 2026, cheese imports were 7 percent higher than the same period in 2025, with growing UK (up 5 percent) and Swiss (up 4 percent) deliveries. This increase was due to higher demand in the hospitality sector and growing consumption of high-value cheeses. However, with a potential increase in inflation, consumers may lose purchasing power and become more price sensitive. As a result, 2026 cheese import growth is estimated to be moderate.

About 13 percent of EU27 cheese production is exported, with the UK, the United States, and Japan being the top three destinations. The EU remains the world's largest cheese exporter, followed by the United States and New Zealand. In 2027, EU exports are forecast to contract by 2.4 percent, reaching

1.44 MMT. This decline is expected to result from international trade tensions and price pressure from other competitors, mainly the United States. New trade opportunities offered by the EU's FTAs with other countries will require more time before any gains occur (for more details see the EU Policy section).

In 2026, EU exports are estimated to increase by 3.9 percent, reaching 1.48 MMT, prompted by higher demand in the UK, Japan, Switzerland, and Ukraine, which should offset declining exports to the United States. In January-July 2026, EU27 cheese exports increased by 6 percent, due to increased shipments to the major importers in the UK (up 3 percent), Japan (up 29 percent), and Switzerland (up 2 percent). Demand also picked up in Ukraine, and Middle East and North Africa (MENA) countries (Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, and Yemen) benefitting from declining EU cheese prices. Exports to the United States declined by 1 percent, resulting from tariffs and lower demand for EU high-value cheeses. Exports to the PRC were also 1 percent lower than the same period of 2025, in line with the previous years' trend of limiting purchase by the Chinese importers and effects of an EU-PRC trade dispute on dairy products (for more details see the EU Policy section). The continued decline in exports to those markets and price competition with the United States on the global market are expected to limit the EU27 cheese export growth in 2026.

Graph 10. Comparison of Cheddar Quotations of the EU, the United States, and Oceania




Source: European Commission

In September 2026, EU cheese prices were competitive on the global market, below Oceania prices, while U.S. prices were still lower. With over 50 percent of their exports directed to four countries (the

UK, the United States, Japan, and Switzerland), EU exporters continue to focus on these markets. However, with growing geopolitical uncertainties, EU exporters are looking for other markets, including those offered by newly concluded FTAs. However, as noted earlier, more time is required before any export gains are realized.

## Domestic Consumption

EU27 domestic cheese consumption has continued to increase since 2023, and is expected to grow further in 2027, up 0.9 percent from 2026 levels, with the cheese consumption drivers continuing from the previous year.

In 2026, domestic consumption is forecast to increase by 1.1 percent, stimulated by consumer demand for more natural and less processed products that are rich in protein. Cheese price discounts also contribute to stronger demand. Additionally, cheese consumption is supported by the development of the ready-to-eat meals sector, using larger volumes of cheese.

The top cheese-consuming member states are Germany, France, Italy, Poland, and Spain.

# Butter

Table 3. Butter Production, Supply, and Distribution

| **Dairy, Butter** | **2025** | | **2026** | | **2027** | |
|---|---|---|---|---|---|---|
| **Market Year Begins** | **Jan 2025** | | **Jan 2026** | | **Jan 2027** | |
| **European Union** | **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) | 2,150 | 2,236 | 2,200 | 2,300 | 0 | 2,260 |
| **Other Imports** (1000 MT) | 80 | 84 | 90 | 75 | 0 | 80 |
| **Total Imports** (1000 MT) | 80 | 84 | 90 | 75 | 0 | 80 |
| **Total Supply** (1000 MT) | 2,230 | 2,320 | 2,290 | 2,375 | 0 | 2,340 |
| **Other Exports** (1000 MT) | 270 | 269 | 325 | 325 | 0 | 320 |
| **Total Exports** (1000 MT) | 270 | 269 | 325 | 325 | 0 | 320 |
| **Domestic Consumption** (1000 MT) | 1,960 | 2,051 | 1,965 | 2,050 | 0 | 2,020 |
| **Total Use** (1000 MT) | 2,230 | 2,320 | 2,290 | 2,375 | 0 | 2,340 |
| **Ending Stocks** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Distribution** (1000 MT) | 2,230 | 2,320 | 2,290 | 2,375 | 0 | 2,340 |
| | | | | | | |
| OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query | | | | | | |

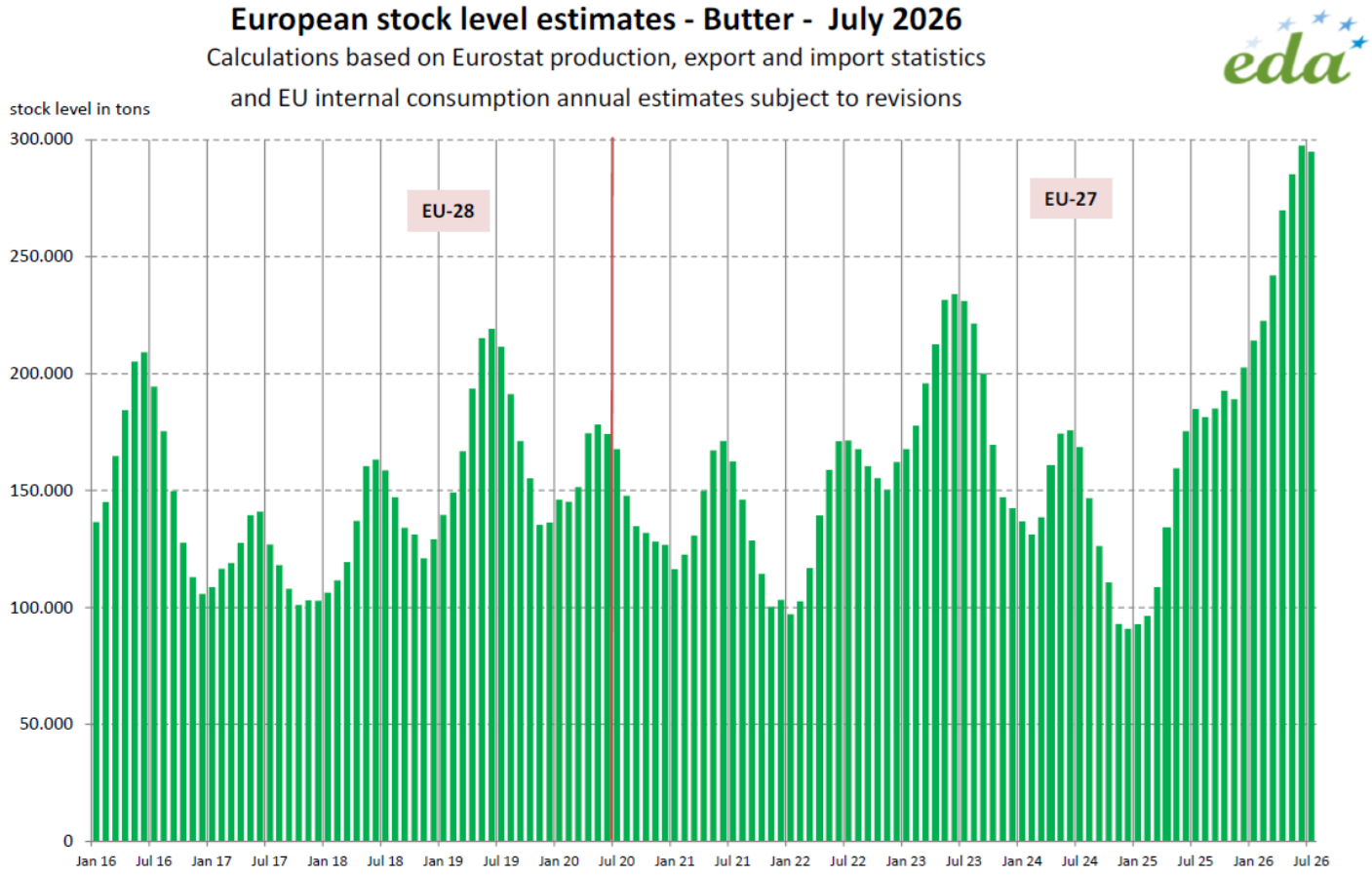
## Production

EU27 butter production in 2027 is forecast at 2.26 MMT, a decline of 1.7 percent from 2026, as higher revenues favor cheese production and high butter stocks from 2026 helping meet domestic and export demand.

In 2026, EU27 butter production is estimated up 2.9 percent as improved milk deliveries will lead to higher production of longer shelf-life products (butter and SMP). This is paired with strong domestic demand, specifically in the retail sector. In January-June 2026, butter production increased by 9.2 percent as compared to the same period of 2025 in order to allocate excess milk to longer shelf-life products. However, declining milk deliveries during the second half of 2026 are expected to lead to a significant drop in butter production, reducing all-year production growth.

The EDA reported industry stocks of butter have increased since 2025 due to higher production, resulting from increased milk deliveries and higher fat content in processed milk. This led to an increase in butter stocks in July 2026, despite higher exports to international markets. According to the EDA's analysis, the European stock level of butter in June 2026 was the highest in 10 years.

Graph 11. European Butter Stockpiles Estimates in July 2026




Source: EDA

Germany, France, Ireland, Poland, Belgium, and the Netherlands are the EU's largest butter producers, providing around 75 percent of the EU27's butter production.

## Trade

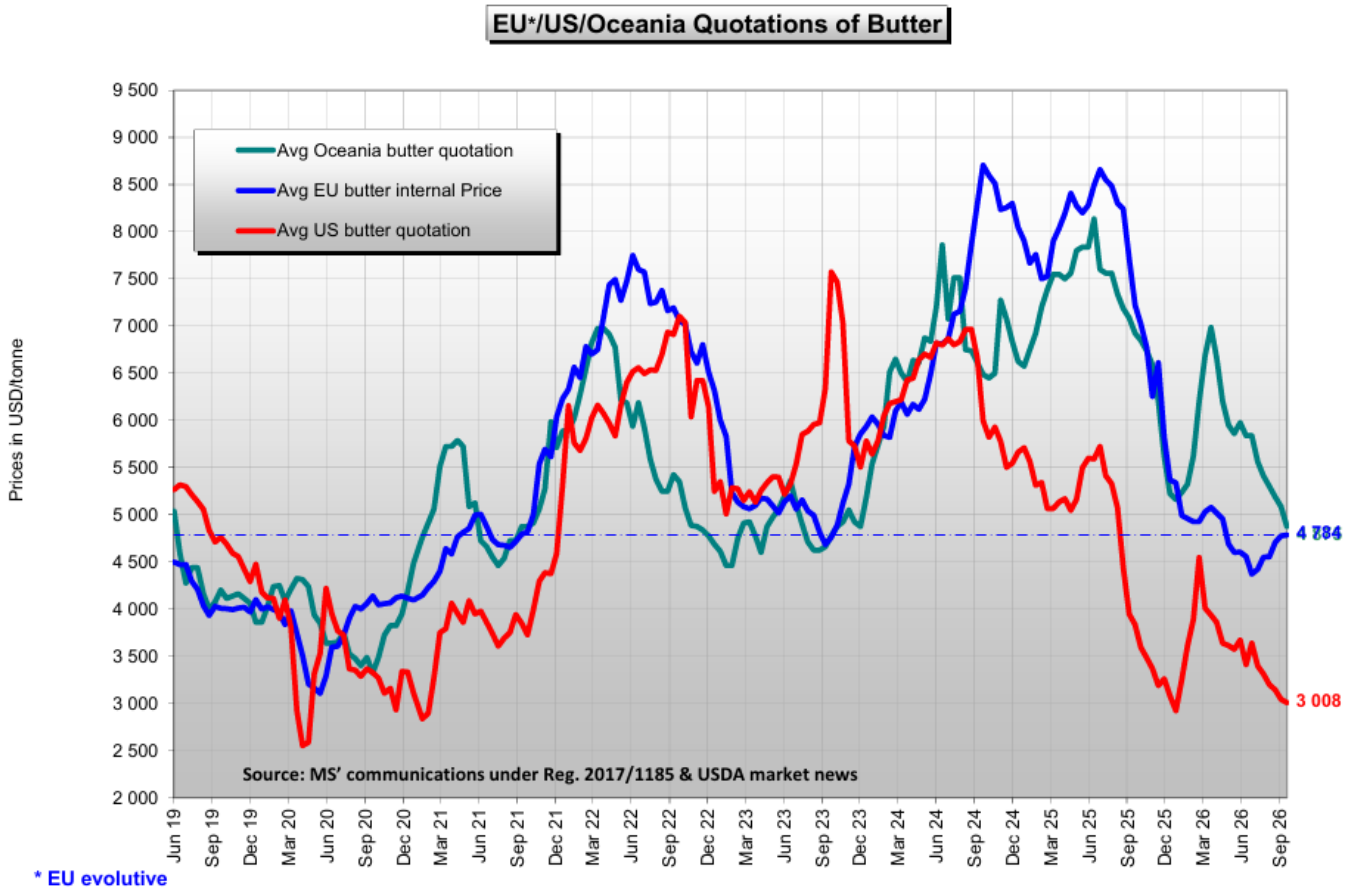
EU27 butter imports are very small compared to overall production and are dominated by the UK. Butter imports are forecast up in 2027 by 6.7 percent from 2026 levels, due to continued price competitiveness of the United States on the global market, paired with TRQ of 10,000 MT for dairy products (including butter) for the EU market.

In 2026, imports are estimated 10.7 percent down from 2025 levels, a result of lower imports from New Zealand, Ukraine, Switzerland, and Norway, as the domestic EU butter price decline weakens import competitiveness. In January-July 2026, EU27 butter imports declined by 9.3 percent, however, this decrease is expected to slow later in the year due to the ongoing increase in imports from the United States. In January-July 2026, butter imports from the United States increased by 37 percent, with more potential for growth due to the price gap between the United States and the EU, as well as the TRQ of 10,000 MT for U.S. dairy products (including butter), which was open as of June 30, 2026. As a result, the United States continues to rank as the third largest exporter of butter to the EU.

2027 EU27 butter exports are forecast to decline by 1.5 percent from 2026, with steady domestic consumption absorbing most of the EU27 production, also expected lower in 2027. In 2026, butter exports are estimated up 20.8 percent from 2025, driven by exceptionally strong exports in the first half of the year due to improved EU price competitiveness on the global market. In January-July 2026, EU butter exports increased by 39 percent, reaching 79 percent of the entire 2025 export quantity. The main destinations were the United States (up 21 percent), the UK (up 4 percent), the PRC (up 37 percent), Türkiye (up 1,549 percent), Saudi Arabia (up 50 percent), and South Korea (up 4 percent). Supplies to the United States increased as U.S. importers continued to value European (mostly Irish) butter, even with increased prices due to higher tariffs.

Until June 2026, EU butter prices had been in decline, due to large volumes in stock and European butter quotations being competitive with both Oceania and the United States. However, increasing energy costs and EUR/USD exchange rates led to higher prices for EU butter. In September 2026, EU butter was valued at $4,784 per MT, slightly below Oceania price ($4,875 per MT), and significantly above the U.S. price ($3,008 per MT). As a result, all-year export growth is expected to decrease.

Graph. 12. Comparison of Butter Quotations of the EU, the United States, and Oceania




Source: European Commission

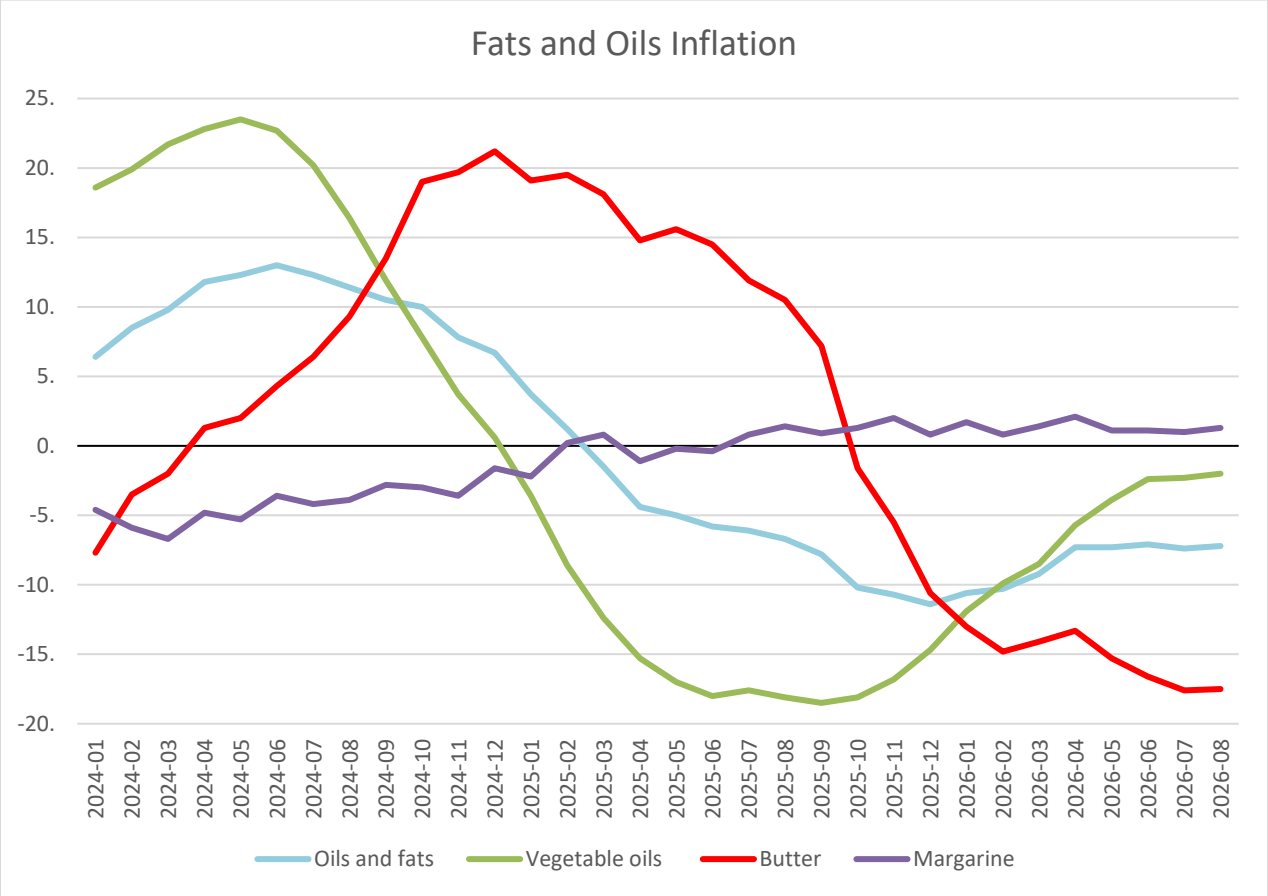
## Domestic Consumption

2027 EU27 butter consumption is forecast to decrease from its higher levels in 2026 by 1.5 percent, amounting to 2.02 MMT. Despite certain health concerns, butter continues to meet consumer needs for natural, whole foods and is used for specific occasions, such as baking. Additionally, butter price declines, observed in late 2025, were passed on to consumers, positively influencing the retail sector. As a result, butter consumption is expected to remain high, but smaller than in 2026 when inflated butter stocks are reported in consumption.

In 2026, butter consumption is estimated at 2.05 MMT, flat with exceptionally strong 2025 consumption. Declining retail butter prices are expected to support consumption growth. However, similarly as in 2025, part of this consumption number accounts for higher stocks kept by the industry.

In August 2026, butter price inflation was negative, -17.5 percent year-on-year, continuing a declining trend from peak prices in December 2024 (inflation at 21.3 percent). Despite lower prices, butter faces competition from other fats and oils. In August 2026, an inflation rate of -7.2 percent on prices of all fats and oils was recorded, margarine price inflation was at 1.4 percent, and vegetable oils price inflation was at -2.0 percent.

Graph 13. Comparison of Fats and Oils Inflation Rate




Source: Eurostat

It is important to note that butter consumption patterns vary across the EU, driven by local cooking and eating habits. Member states around the Mediterranean Sea typically consume less butter, as cooking there mostly involves olive oil, while those in the central and eastern parts of the EU consume more plant-based spreads because of lower prices.

# Skim Milk Powder

Table 4. SMP Production, Supply, and Distribution

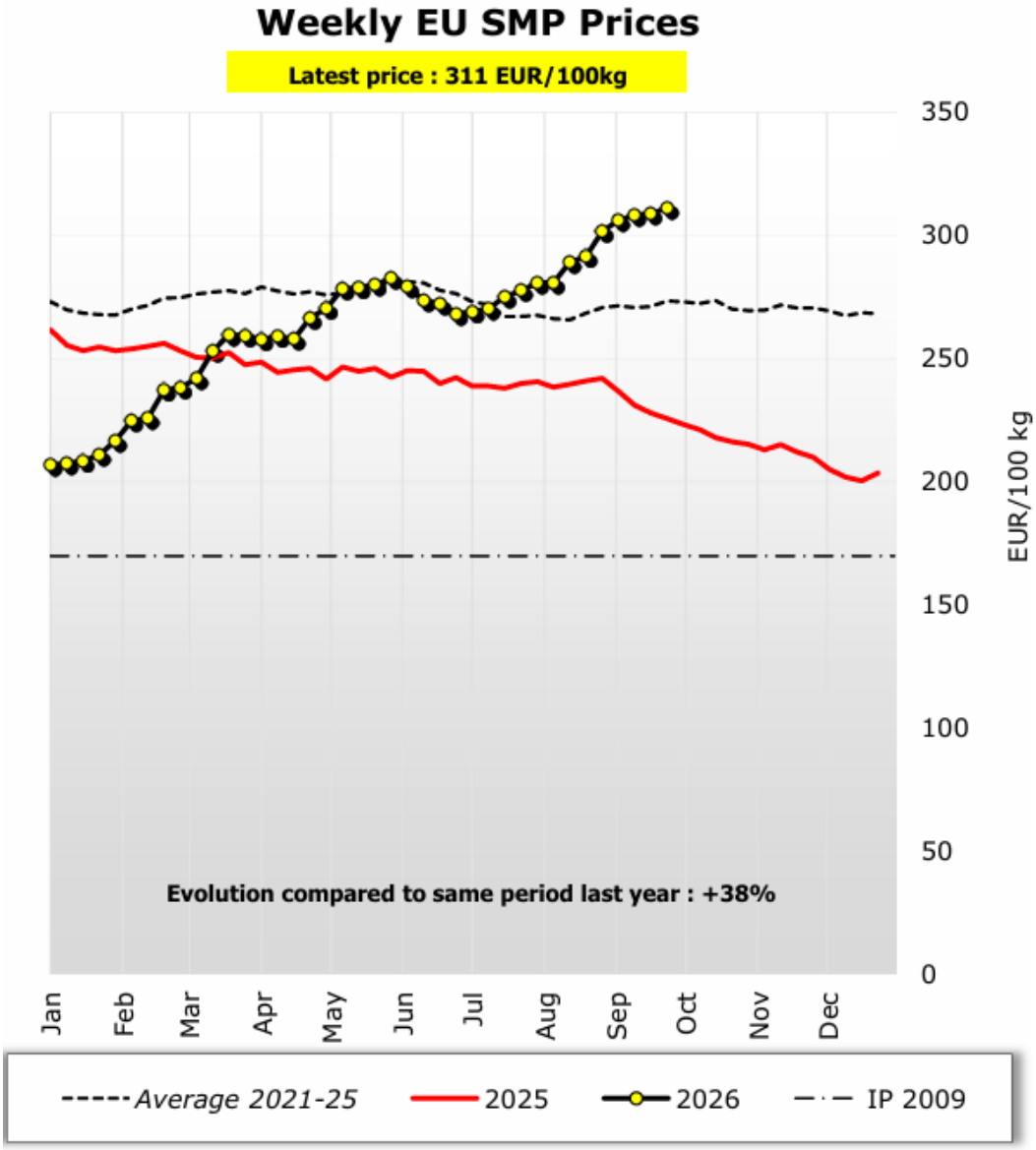
| Dairy, Milk, Nonfat Dry | 2025 | | 2026 | | 2027 | |
|---|---|---|---|---|---|---|
| Market Year Begins | Jan 2025 | | Jan 2026 | | Jan 2027 | |
| European Union | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| **Beginning Stocks** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Production** (1000 MT) | 1,530 | 1,531 | 1,480 | 1,580 | 0 | 1,550 |
| **Other Imports** (1000 MT) | 45 | 45 | 45 | 45 | 0 | 45 |
| **Total Imports** (1000 MT) | 45 | 45 | 45 | 45 | 0 | 45 |
| **Total Supply** (1000 MT) | 1,575 | 1,576 | 1,525 | 1,625 | 0 | 1,595 |
| **Other Exports** (1000 MT) | 796 | 796 | 840 | 835 | 0 | 795 |
| **Total Exports** (1000 MT) | 796 | 796 | 840 | 835 | 0 | 795 |
| **Human Dom. Consumption** (1000 MT) | 779 | 780 | 685 | 790 | 0 | 800 |
| **Other Use, Losses** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Dom. Consumption** (1000 MT) | 779 | 780 | 685 | 790 | 0 | 800 |
| **Total Use** (1000 MT) | 1,575 | 1,576 | 1,525 | 1,625 | 0 | 1,595 |
| **Ending Stocks** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Distribution** (1000 MT) | 1,575 | 1,576 | 1,525 | 1,625 | 0 | 1,595 |
| | | | | | | |
| OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query | | | | | | |

## Production

The 2027 SMP production is forecast to shrink to 1.55 MMT, down 1.9 percent from 2026 levels, resulting from increased cheese production leaving less milk available for other dairy products. In 2026, SMP production is estimated at 1.58 MMT, an increase of 3.2 percent from 2025, as higher milk deliveries go to the production of longer shelf-life products, benefiting SMP and butter. SMP production in the EU27 is usually tied to butter production and not a production goal on its own. However, growing consumer demand for protein powders translates into higher revenues from SMP, also supporting butter production. In January-June 2026, production increased by 11.1 percent over the same period of 2025, however, declining milk deliveries in the second half of 2026 are expected to lead to significant drop in butter and SMP production.

European SMP prices picked up at the beginning of 2026, reaching EUR 311 per 100 kg by the end of September 2026, a 38-percent increase over the same period of 2025. Since July 2026, SMP prices have been above the EU average for 2021-2025, which is also supporting production growth.

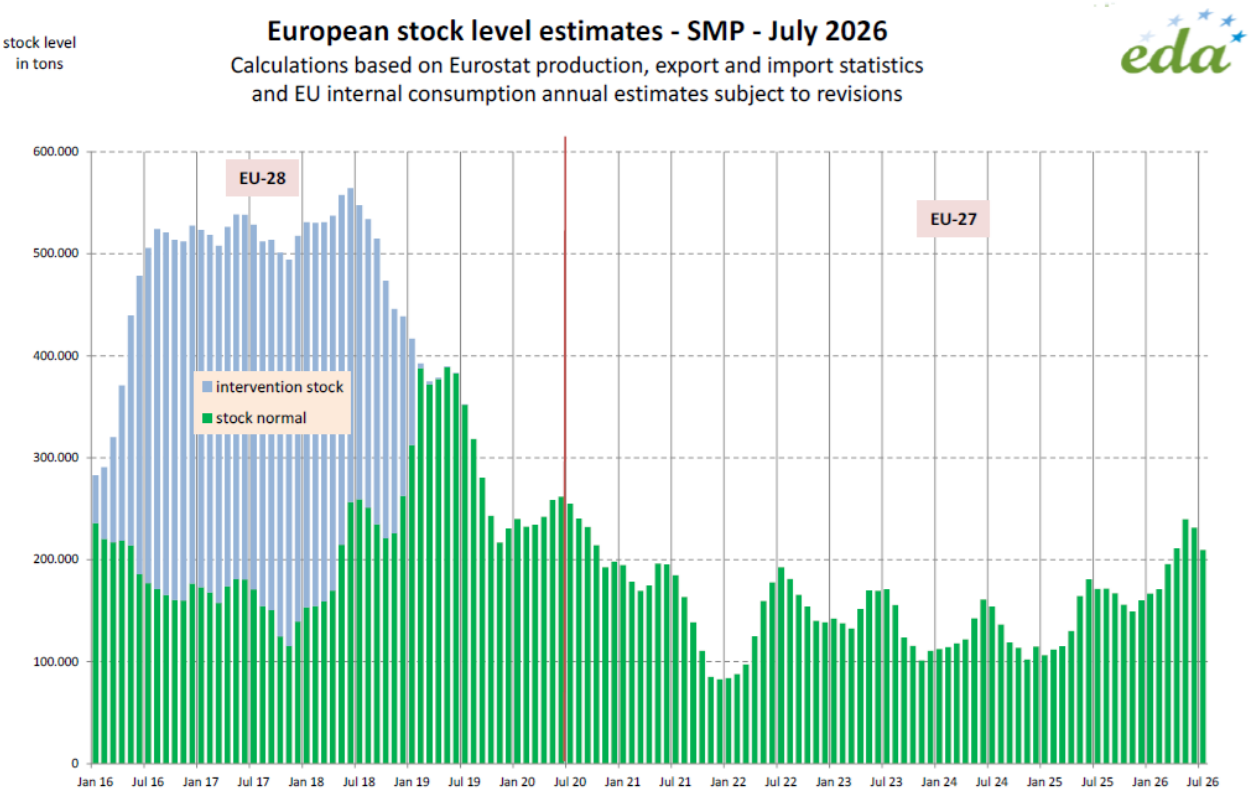
Graph 14. Average SMP Prices in the EU Market




Source: European Commission.

The EDA reports that, despite increased production in in the first half of 2026, EU industry SMP stocks remain at normal levels. This results from increasing exports and strong domestic demand. However, the EDA also notes substantial production declines in July. Those declines, paired with continued demand from domestic and international markets, are expected to lower stocks and lead to further price increases.

Graph 15. European SMP Stockpiles Estimates in July 2026




Source: EDA

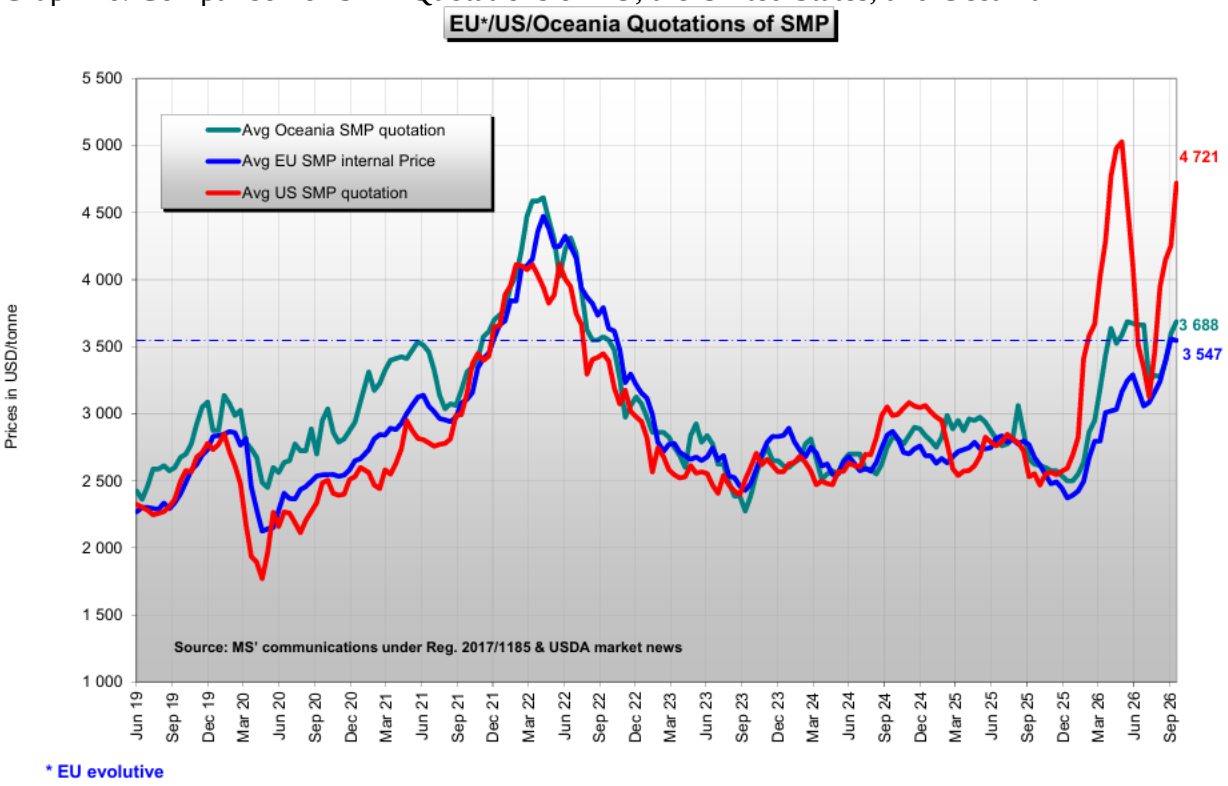
## Trade

The EU imports little SMP, and 2027 imports are forecast to stagnate at 2026 levels, as lower production will be sufficient to satisfy domestic consumption demand. Until 2021, almost all imported SMP was sourced from the UK. However, UK imports declined after the 2016 Brexit. Imports from Ukraine increased starting in 2022, the result of quota and tariff-free access to the EU market that were granted to Ukraine until June 5, 2025. Since then, the EU-Ukraine trade has reverted to the revised Deep and Comprehensive Free Trade Agreement, which limits Ukrainian exports to the EU of sensitive agricultural products, including milk powders (For more details, see the EU Policy section). The United States was the third largest supplier of SMP to the EU in 2025, although only accounting for 2 percent of all EU imports. In 2026, EU27 SMP imports are estimated to stagnate at 2025 levels. In January-July 2026, imports increased by 5 percent as compared to the same period in 2025, driven by higher supplies from the UK (up 53 percent), which offset declining imports from Ukraine.

In 2027, EU27 exports are forecast to decline 4.8 percent from 2026, with declining production limiting availability of SMP for exports. In 2026, EU27 exports are estimated to increase by 4.9 percent from 2025, as EU prices are competitive on the global market. In January-July 2026, SMP exports increased by 16 percent from the previous year. Expanded deliveries to Southeast Asia and the MENA region more than offset declining exports to Algeria (down 21 percent), the largest EU27 export market.

For the EU, the traditional buyers are North Africa (Algeria topping the list), the PRC, the Middle East, and Southeast Asia. However, EU SMP exports compete heavily with exports from the United States and New Zealand, with the EUR/USD exchange rate and the market proximity being important factors.

Graph 16. Comparison of SMP Quotations of EU, the United States, and Oceania




Source: European Commission

Around half of EU SMP production is exported, but this amount fluctuates depending on the EU's competitiveness on global markets. The main SMP exporting EU Member States are Germany, France, Belgium, the Netherlands, Ireland, and Poland.

## Domestic Consumption

Domestic consumption of SMP in the EU is mainly in the food industry, where it is added to dairy products such as ultra-high temperature (UHT) milk, yogurts, or cheeses, as well as non-fat milk solids in chocolate and bakery goods. Consumer demand for high protein is a recent trend supporting SMP consumption. Calf feed for veal production is another outlet on the domestic market. 2027 SMP domestic consumption is forecast at 0.8 MMT, up 1.3 percent from 2026, continuing the previous trends.

Domestic consumption in 2026 is estimated up 1.3 percent from 2025 levels, due to growing demand for protein powders by food manufacturers to increase protein content in line with recent market trends. Food sector demand offsets lower demand in the feed sector, resulting from the forecasted reduction in animal numbers.

# Whole Milk Powder

Table 5. WMP Production, Supply, and Distribution

| Dairy, Dry Whole Milk Powder | 2025 | | 2026 | | 2027 | |
|---|---|---|---|---|---|---|
| Market Year Begins | Jan 2025 | | Jan 2026 | | Jan 2027 | |
| European Union | 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) | 560 | 569 | 530 | 550 | 0 | 520 |
| **Other Imports** (1000 MT) | 17 | 17 | 10 | 15 | 0 | 15 |
| **Total Imports** (1000 MT) | 17 | 17 | 10 | 15 | 0 | 15 |
| **Total Supply** (1000 MT) | 577 | 586 | 540 | 565 | 0 | 535 |
| **Other Exports** (1000 MT) | 178 | 178 | 160 | 185 | 0 | 175 |
| **Total Exports** (1000 MT) | 178 | 178 | 160 | 185 | 0 | 175 |
| **Human Dom. Consumption** (1000 MT) | 399 | 408 | 380 | 380 | 0 | 360 |
| **Other Use, Losses** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Dom. Consumption** (1000 MT) | 399 | 408 | 380 | 380 | 0 | 360 |
| **Total Use** (1000 MT) | 577 | 586 | 540 | 565 | 0 | 535 |
| **Ending Stocks** (1000 MT) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Distribution** (1000 MT) | 577 | 586 | 540 | 565 | 0 | 535 |
| | | | | | | |
| OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query | | | | | | |

## Production

EU27 2027 WMP production is forecast to decline by 5.5 percent from 2026, with higher revenues favoring cheese over other products. This follows an estimated 3.3 percent decrease in 2026, caused by preferences for cheese, butter, and SMP production with available milk. In January-June 2026, WMP production declined by 3.4 percent as compared to January-June 2025 and this trend is expected to continue throughout the year.

As WMP production usually generates the lowest processing margins, EU processors generally prioritize cheese production, which offers the most stable long-term returns. Additionally, for the food industry, WMP faces competition from fat-filled milk powders (FFMPs), which are produced by blending vegetable fats with high-quality SMP. FFMP is used to replace full cream milk powder while being more economical than WMP.

## Trade

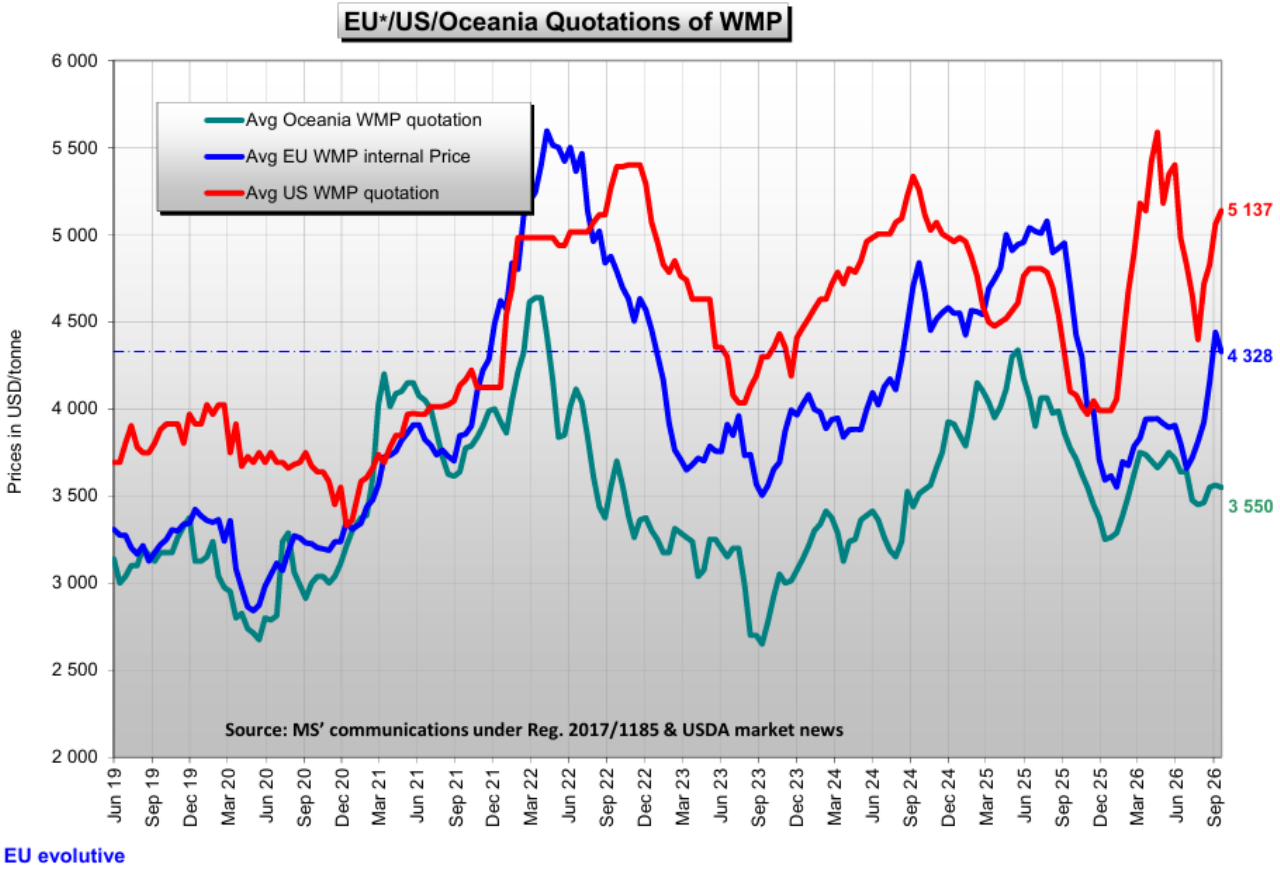
EU27 imports of WMP, sourced historically from the UK, are negligible. Since 2022, New Zealand and Ukraine have consistently increased WMP deliveries to the EU27, resulting in New Zealand becoming the largest supplier in 2025, exceeding deliveries from the UK and Ukraine. In 2027, despite lower

production, EU27 imports of WMP are forecast to amount to 15,000 MT, 12 percent below 2026, as domestic consumption is shrinking.

In 2027, EU27 WMP exports are forecast to decrease by 5.4 percent from 2026 due to the lack of competitiveness with Oceania on global markets. Traditional export markets are MENA countries, the PRC, and the UK. In 2026, EU27 WMP exports are estimated to increase by 3.9 percent from 2025 levels, driven mostly by revived demand in major markets. In January-July 2026, increased demand in the UK (up 35 percent), the PRC (up 12 percent), and other MENA countries compensated for lower deliveries to Oman (down 6 percent), the top importer of EU WMP, and Kuwait (down 25 percent).

EU WMP prices have not been competitive against Oceania since 2021. However, in September 2026, EU WMP was priced lower than U.S. products.

Graph 17. Comparison of WMP Quotations of EU, the United States, and Oceania




Source: European Commission

## Domestic Consumption

EU27 WMP domestic consumption is mainly in the food processing industry, which is usually stable. However, price levels affect domestic consumption with cheaper FFMP replacing full cream milk powder in formulations.

2027 consumption is forecast to be 5.3 percent lower than 2026. This is a continuation of the 6.9 percent decline in domestic consumption expected in 2026. In September 2026, WMP prices stabilized around EUR 380 per 100 kg and were 2 percent lower than the previous year and below the 5-year average (2021-2025).

# EU Policy

**EU Vision for Agriculture and Food**
On February 19, 2025, the EC published a Communication to the European Parliament and Council laying down its Vision for Agriculture and Food for the 2024-2029 Von der Leyen II mandate. This document will be the basis of upcoming legislative proposals and other actions taken by the EU executive. The Vision lays down the need for the EU to ensure "a global level playing field" for its farmers and improve their competitiveness. To do so, the EC proposes the adoption of mirror clauses, notably with regards to pesticide residues, increased border controls, and the signature of FTAs with more trading partners. The Vision calls for boosting domestic production and diversifying import suppliers to reduce strategic dependencies for products like protein-rich animal feed.

**Common Agricultural Policy**
On May 14, 2025, the EC published a proposal to simplify the Common Agricultural Policy (CAP). The CAP is the EU's main agricultural support framework that is renewed every 7 years and provides income support to farmers, funds rural development, and regulates agricultural markets across Member States. The simplification was driven by widespread farmer protests over excessive red tape and administrative burdens. The proposed measures target administrative burdens, controls, and implementation of the CAP, as well as the CAP crisis management tools. Notably, the proposal simplifies environmental requirements (GAECs for good agro-environmental conditions) linked to eco-payments for farmers. The proposal was adopted by the co-legislators in December 2025, published as Regulation (EU) 2025/2649, and entered into force on January 1, 2026.

On July 16, 2025, the EC unveiled the much-anticipated plan for the next CAP as part of its 2028–2034 EU budget. The proposal marks a major reform, scrapping the CAP's two-pillar structure and merging farm funding into broader National and Regional Partnership Plans. The new CAP aims to prioritize performance-based spending, tighter targeting of income support, and greater Member State control. While environmental objectives remain, implementation would shift largely to national discretion. The proposal is currently going through the EU legislative process. The European Parliament adopted its negotiating position on the EU budget in April 2026, and negotiations with the Council are ongoing, with a political agreement targeted by the end of 2026. The dairy sector relies on dedicated CAP market instruments, including public intervention and private storage aid for butter and skimmed milk powder. The tools will remain under the next CAP, while the former agricultural reserve would be replaced by a strengthened "Unity Safety Net" backed by a EUR 6.3 billion fund for market disturbances, an instrument dairy producers are watching closely amid softening milk prices. More information in GAIN report: European Commission Unveils CAP Reform with Budget Cut and Structural Change.

**EU Deforestation Regulation**
In June 2023, the EU adopted Regulation 2023/1115, also known as the EU Deforestation Regulation (EUDR), aimed to prevent products causing deforestation from entering the EU. The EUDR targets

products identified as main drivers of deforestation, including cattle, raw hides and skins of cattle, and leather. In December 2024, the EU postponed the date of entry into force of the EUDR by one year to December 30, 2025.

In December 2025, the EU published Regulation 2025/2650 which further delayed the EUDR's entry into force for another year (until December 30, 2026). The Regulation also creates new definitions that provide simplifications to some (primarily EU) operators. For more information about the changes introduced by Regulation 2025/2650, please see GAIN report: EU Adopts Changes to Deforestation Regulation.

On May 4, 2026, the EC published a simplification review report on EUDR, delivering a package of measures aimed at reducing administrative burden while maintaining the regulation's environmental objectives. The package includes an updated guidance document, revised Frequently Asked Questions, and updates to the Information System. The package also includes a delegated act proposing changes to product scope: it removes cattle hides, skins, and leather from the scope but adds frozen cattle tongues. To allow businesses sufficient time to prepare, the new products added to the scope will become subject to the Regulation from December 30, 2027. Despite U.S. requests, the EC has not addressed key U.S. concerns with EUDR, including a request that producers in countries posing negligible risk not be required to produce due diligence statements or provide onerous geolocation data. For more information, please see GAIN report: EU Commission Publishes Simplification Review Report on Deforestation Regulation.

**Trade Policy**

***EU Free Trade Agreements (FTAs)***
The EU is negotiating and has implemented several FTAs with other countries and regions, with implications for the dairy sector. Additional information is available on the website of the EC at: https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/

Mercosur**:** On December 6, 2024, the EC announced that the EU and the four Mercosur countries (Brazil, Argentina, Paraguay, and Uruguay) finalized negotiations and reached a political agreement for an EU-Mercosur partnership agreement. In 2019, the EC reached a preliminary agreement with Mercosur countries, but amendments were made to several sectors, including agriculture. The agreement includes a bilateral safeguard clause in case increased imports cause (or even threaten to cause) serious injury to relevant sectors, including agriculture. This safeguard clause also covers imports under TRQs in the agreement. The FTA entered into provisional application on May 1, 2026, while formal entry into force still requires European Parliament consent. The agreement is currently undergoing legal review by the European Court of Justice following a referral from the Parliament. Under the agreement, there is a gradual phase out duties on 91 percent of EU exports to Mercosur and 92 percent of Mercosur exports to the EU.

For dairy, the agreement establishes reciprocal duty-free TRQs, phased in over ten years, against current Mercosur tariffs of around 28 percent (18 percent for infant formula):

- Cheese: 30,000 metric tons
- Milk powder: 10,000 metric tons
- Infant formula: 5,000 metric tons

Mexico**:** On January 17, 2025, the EU and Mexico announced the conclusion of a new FTA (the Modernized Global Agreement), which was signed in May 2026 and is expected to enter into force by the end of 2026. The FTA abolishes customs duties for most goods, including agricultural products. Mexican tariffs on EU dairy, currently as high as 45 percent, are removed as follows: free access for EU blue cheese, a TRQ of 5,000 metric tons for fresh and processed cheese, a TRQ of 20,000 metric tons for other cheeses, and elimination of the 20 percent duty on EU yogurt. Mexico has also agreed to protect European GIs.

Australia**:** On March 24, 2026, the EU and Australia concluded negotiations on an FTA, with entry into force anticipated in late 2027. The FTA operates in both directions for dairy. On the import side, the EU opened duty-free TRQs for Australian product: 8,000 metric tons for skimmed milk powder (around 1.1 percent of EU consumption), 5,000 metric tons for butter (0.25 percent), and 2,000 metric tons for high-protein whey. On the export side, Australia will eliminate tariffs on EU cheese, whole milk powder, dairy spreads, and ice cream over three years.

Indonesia**:** On September 23, 2025, the EU and Indonesia concluded negotiations on a Comprehensive Economic Partnership Agreement (CEPA), signed the same month, with proposals for signature and conclusion presented in June 2026. The FTA removes Indonesian duties (currently up to 10 percent) on most EU dairy exports, including milk powders, cheeses, and infant formula. The EU excludes its own sensitive products from liberalization. EU dairy exports to Indonesia were worth around EUR 300 million in 2025.

India**:** On January 27, 2026, the EU and India concluded negotiations on an FTA. Dairy is excluded from liberalization on both sides: India offered no access for dairy products, and the EU maintained its existing tariffs on milk powder. The agreement therefore creates no new dairy market access in either direction.

Thailand**:** Negotiations toward an EU-Thailand FTA remain ongoing. As of the ninth negotiating round in June 2026, 15 of 24 chapters have been concluded, with agriculture still outstanding. Both sides target conclusion by the end of 2026.

***EU Trade Measures in Response to the War in Ukraine***

The EU granted Ukraine a temporary liberalization of trade with its Autonomous Trade Measures (ATMs) Regulation, which was in effect from June 4, 2022, until June 5, 2025. This regulation suspended import duties, quotas, and trade defense measures on Ukrainian exports to the EU, providing significant economic support during the Russia-Ukraine war.

Between June 6 and October 29, 2025, the EU-Ukraine trade relationship reverted to the 2014 Deep and Comprehensive Free Trade Area (DCFTA) via Regulation 1132/2025 reintroducing import quotas on Ukrainian agricultural goods.

On October 29, 2025, the revised EU-Ukraine Deep and Comprehensive Free Trade Agreement (DCFTA) entered into force (Regulation (EU) 2025/2199). The new DCFTA updates the original 2014 agreement. Compared to the 2014 agreement, the revised DCFTA increases market access in both directions, but limits EU imports of sensitive agricultural products compared to the levels under the ATMs. It also enshrines a new safeguard clause and provides for the alignment of Ukrainian and EU

production standards. Calendar year (CY) 2025 TRQs were applied proportionally from June 6 to December 31, 2025, to the amount of 7/12 of the annual TRQ volumes. For more information, please see GAIN Report European Union Revises Import Quotas for Agricultural Products from Ukraine.

Table 6. TRQs for Ukraine as of October 29, 2025

| **Product** | **Annual Quantity (MT)** | **Quantity (MT) Jun 6 to Dec 31, 2025** | **Period** |
|---|---|---|---|
| Milk, cream and condensed milk | 15,000 MT | 8,750 MT | Jan-Dec |
| Skimmed milk powder | 15,400 MT | 8,983 MT | Jan-Dec |
| Butter and dairy spreads | 7,000 MT | 4,083 MT | Jan-Dec |

***EU Tariff Reductions Under EU-US Trade Deal***

On June 30, 2026, the EU published Regulation (EU) 2026/1455 on the adjustment of customs duties on the import of certain goods originating in the United States in the Official Journal. This Regulation entered into force on July 1, 2026. The Regulation will cease to apply on December 31, 2029, but the text foresees an extension of the period of application following a comprehensive assessment of the effects of this Regulation that the EC shall publish by June 30, 2029.

Regulation 2026/1455 implements the U.S.-EU Framework Agreement of Reciprocal, Fair, and Balanced Trade by eliminating tariffs on most U.S. industrial goods and on a basket of agricultural goods. In addition, this regulation creates 20 new TRQs for agricultural products, including:

- 10,000 MT for dairy products
- 10,000 MT for cheeses
- 250,000 MT food preparations of Chapter 21 including ice creams

For more information, please see GAIN report: Tariff Implementation of US-EU Agreement

***EU-PRC Trade Dispute on Dairy Products***

In February 2026, the Chinese Ministry of Commerce announced its final ruling on EU dairy products at rates up to 11.7 percent. Most exporters faced an 11.7 percent tariff, while over 50 companies, including French dairy giant Lactalis, Denmark's Arla, and Italy's Zanetti, received a reduced rate of 9.5 percent.

This announcement was the result of an investigation on imported EU dairy products, launched by the PRC on August 21, 2024 and which examined EU agricultural subsidies and their subsequent industrial damage to Chinese producers during the period from January 1, 2020 to March 31, 2024. Dairy products subject to investigation included: fresh cheese (including whey cheese) and curd; processed cheese (whether or not ground or pulverized); blue cheese; and other textured cheese produced by *Penicillium loudi*; other cheese not otherwise named; milk; and cream (with a fat content of more than 10 percent by weight) that is not concentrated and unsweetened or otherwise sweetened (HS codes: 04015000, 04061000, 04062000, 04063000, 04064000, and 04069000). Those products were covered by higher tariffs.

**New EU Animal Welfare Legislation (AW)**
In February 2025, as part of its Vision for Agriculture and Food, the EC announced intention to revise the existing EU animal welfare legislation, including its commitment to phase out cages. This includes:

- Regulation (EC) No 1/2005 on the protection of animals during transport.
- Regulation (EC) No 1099/2009 on the protection of animals at the time of killing.
- Directives on on-farm welfare, including:
    - Directive 98/58/EC (horizontal)
    - Directive 2008/119/EC on calves

The EC aims to present a legislative proposal for the first sectors by Q4 2026, building on the call for evidence and public consultation contributions collected 2025.

The 2023 EC's proposal on the protection of animals during transport is currently progressing through the legislative process and is under review by both the European Parliament and the Council. The proposal introduces new requirements for animals imported from third party countries into the EU, necessitating additional training for inspectors, transporters, veterinarians. As such, it may potentially increase administrative and financial burdens across the entire process. The European Parliament is expected to vote on the file, including amendments (2023/0448(COD)) in 2026, while Council discussions continue in parallel.

**Veterinary Medicinal Products Regulation (VMP Regulation)**
On January 28, 2022, the EU implemented the new framework for the Regulation (EU) 2019/6 on Veterinary Medicinal Products (VMPs). The main objectives of the legislation are as follows:

- to establish a modern, innovative and fit for purpose legal framework for VMPs,
- to provide incentives to stimulate innovation for VMPs and increase their availability,
- to strengthen the EU´s efforts to fight antimicrobial resistance.

On July 20, 2022, the EC adopted Implementing Regulation (EU) 2022/1255 that provided a list of antimicrobials reserved for human medicine. In February 2023, the EC adopted Delegated Act 2023/905 implementing Article 118 of the Veterinary Medicinal Products Regulation imposing limitations on the use of antimicrobials for animals exported from third countries into the EU.

On February 12, 2024, Commission Implementing Regulation (EU) 2024/399 was published in the Official Journal amending model certificates for the entry into the Union of consignments of certain products of animal origin and certain categories of animals. The new models will be implemented by the respective exporting countries.

On October 7, 2024, the EU published Regulation (EU) 2024/2598 laying down a list of third party countries or regions authorized for the entry of certain animals and products of animal origin intended for human consumption, including the United States. This Regulation took effect on September 3, 2026.

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**Attachments:**

No Attachments