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Restructure of the Spanish Dairy Sector Boosts U.S. Sales of Bovine Genetics

Report Categories:

Dairy and Products

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Report Highlights:

Over the last two years, the restructure of the Spanish dairy industry significantly increased efficiency in domestic production. The stability of domestic dairy supplies will continue to encourage the use of domestic milk in the manufacturing of dairy products for exports. In addition, Spain has reoriented its exports with a greater focus to non-EU markets. Hence, Post expects Spanish dairy exports to continue their upward trend. Demand for better bovine genetics in support of Spain's dairy industry restructure has boosted U.S. sales of bovine genetics. In 2014, the United States became the largest supplier of bovine genetics to Spain with sales valued at \$4.3 million in the last year. In 2017, Spain's imports of U.S. dairy products were valued at \$13 million.

Executive Summary

Over the last two years, Spain has restructured its dairy industry resulting in higher productivity and more efficient milk farms. Contributing factors increasing animal efficiency include improved animal genetics, nutrition, installations, animal health and animal welfare. This restructure also resulted in higher U.S. bovine genetics exports to Spain. Since 2014, the United States became the largest supplier of bovine semen to Spain reaching record levels in 2017 with sales valued at \$4.2 million.

For 2018 and 2019, Spain's milk production will likely follow its five-year trend and continue growing, primarily to decrease milk and milk equivalent imports from other EU member countries. Also during the next two years, the stability of sufficient domestic supplies will continue to encourage the use of domestic milk in dairy products manufacturing, particularly in anticipation of higher production of cheese, butter, nonfat dry milk (NFD), and other dairy products for export.

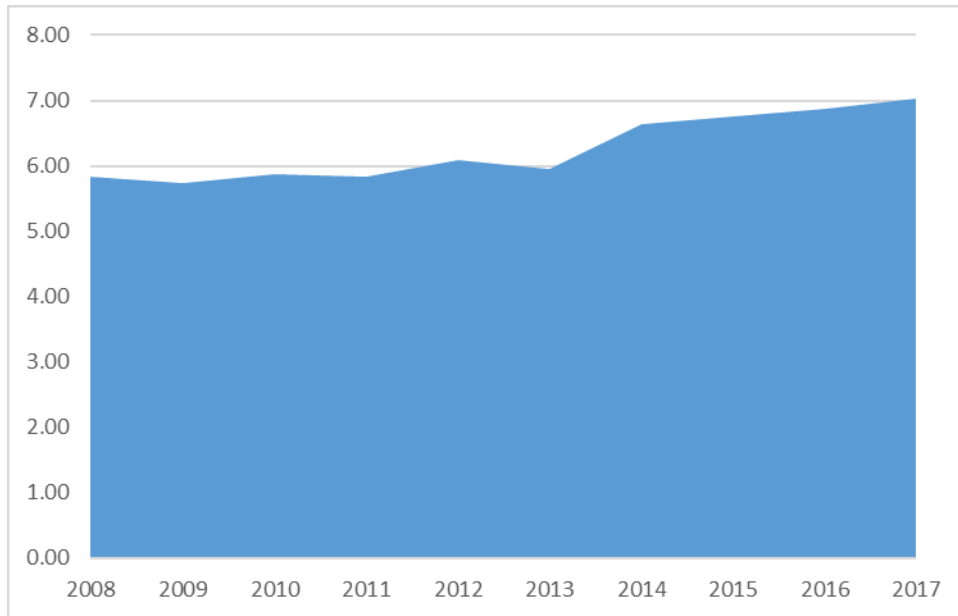
Ninety-eight percent of Spanish dairy imports come from other EU countries. In 2017, Spain's imports of U.S. dairy products were valued at \$13 million. Spain turned into the U.S. second largest dairy export destination within the EU and the United States became Spain's first dairy supplier outside of the EU.

On September 21, 2018, the Spanish Council of Ministers approved the Royal Decree establishing Country of Origin Labeling requirements on fluid milk and milk products made and marketed in Spanish territory. Given the general disposition of this decree and the current composition of U.S. dairy exports to Spain, Post does not anticipate an immediate impact on U.S. dairy trade to this market. For more information, see [GAIN SP1825](#)

General Information

Over the last few years, Spain has restructured its dairy farms and cow's **milk** production. With the ongoing consolidation of the Spanish dairy industry, the number of dairy farmers continued to decline in 2017. The number of dairy cows also decreased by about 10,000 less animals compared to the previous year. However, consolidated farms have increased efficiency and the relocation of farms closer to population centers has decreased logistical costs. In 2017, Spanish milk deliveries grew 1.9 percent compared to previous year to 7,014 thousand MT. For 2018, deliveries are projected to follow the past seven-year trend and continue increasing slightly to 7,100 thousand MT by 2019. Domestic cow's milk deliveries to Spanish dairies have increased more than one million tons since 2010 substituting the use of imported milk and in response to increasing demand for Spanish dairy exports (See chart 1).

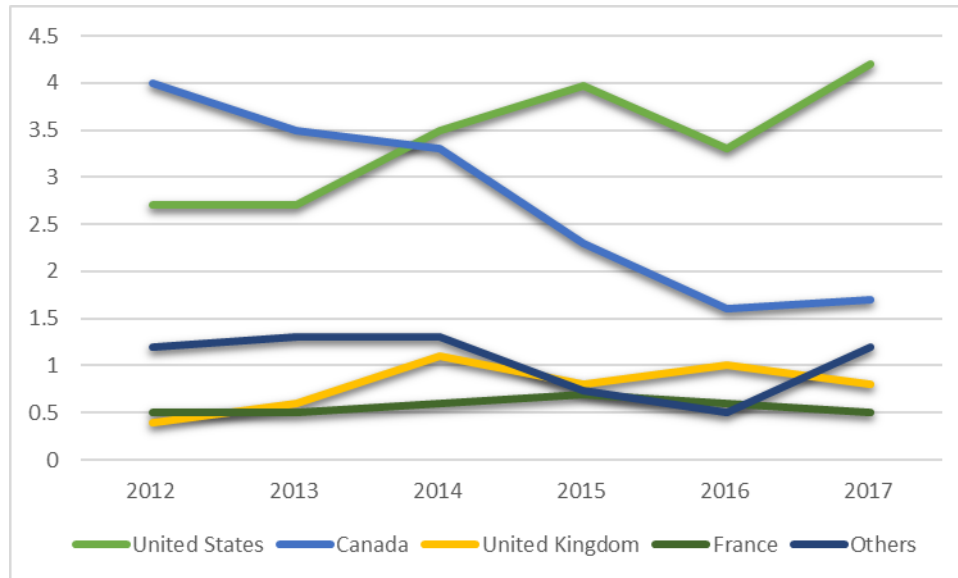
Chart 1. Spanish Raw Cows' Milk Delivered to Dairies (Million Tons)



Source: Eurostat

Over the last five years, the restructuring of the Spanish dairy sector has led to a higher milk/cow ratio. Improvements in agronomical factors such as animal genetics, nutrition, installations, animal health and animal welfare significantly enhanced efficiency and the production of cow milk. This restructure also resulted in higher U.S. bovine semen exports to Spain, which have been increasing by 50 percent over the last five years. According to Global Trade Atlas (GTA) since 2014, the United States has been the largest bovine genetics supplier to Spain (see chart 2). During the first 11 months of 2018, Spain's imports of U.S. bovine genetics continued growing contributing over half of Spain's total imports.

Chart 2. Spain's Total Imports of Bovine Genetics 2013-2017, (Million USD)

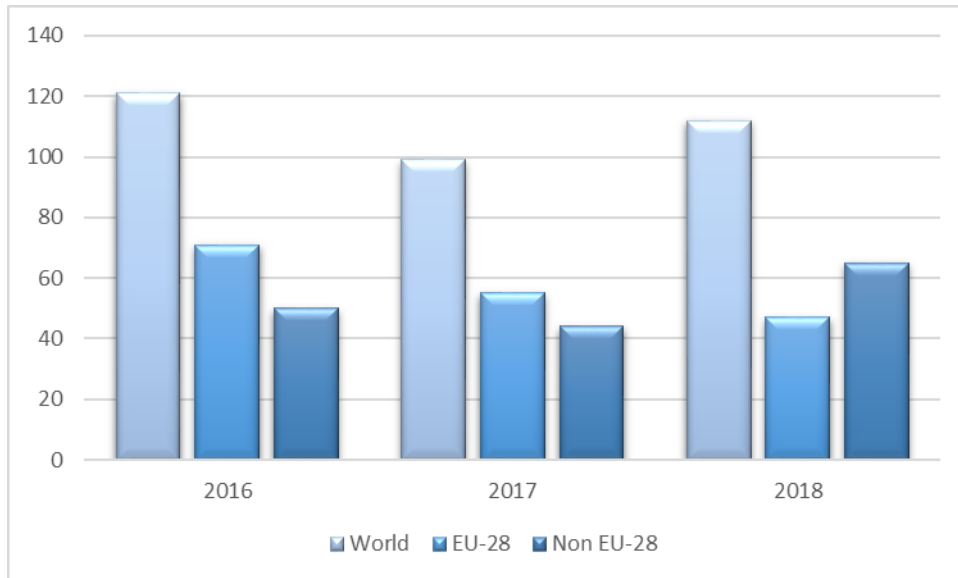


Source: GTA

For 2018 and 2019, the stability of sufficient domestic supplies will continue to encourage the use of domestic milk in dairy products manufacturing, particularly in anticipation of higher production of cheese, butter, nonfat dry milk (NFDm), and other dairy products for export. In 2017, 40 percent of Spanish cow milk was used to produce UHT milk for human consumption, 20 percent to cow cheese, 13 percent to cream, 11 percent to yoghurt, 10 percent to butter, 2 percent to NFDm, and the rest to other dairy products. The Spanish dairy industry aims to reduce the production of UHT milk due to its low profitability, and the overall decrease in Spanish milk consumption. Instead, the Spanish dairy industry will continue to increase production of higher value-added products such as cheese, butter, infant formulas, sports drinks, and other dairy products.

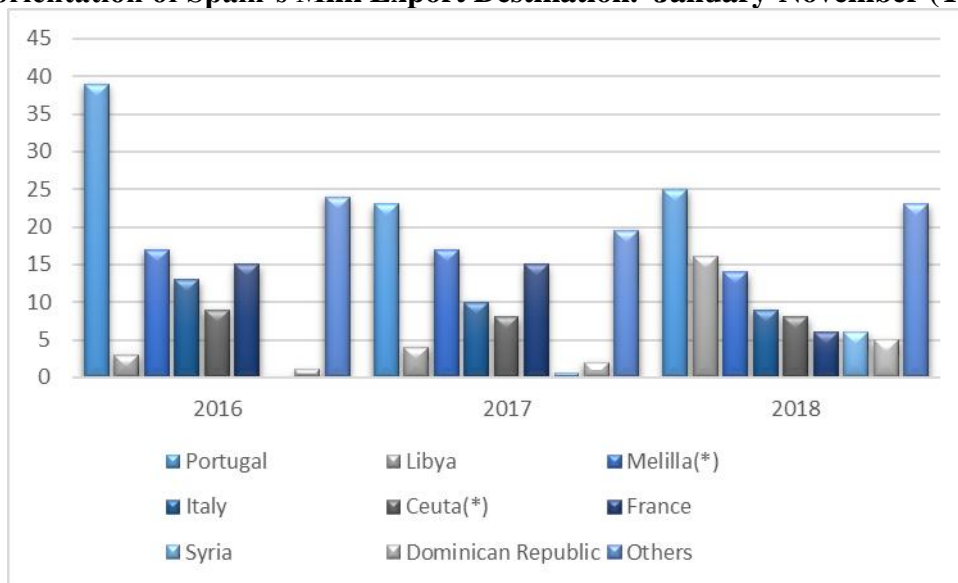
Increased use of domestic cow milk in dairy product manufacturing resulted in lower milk imports in 2017, primarily from France and Portugal. This trend is expected to continue in 2018 and 2019. Spain is now focused on exporting to non-EU markets and developing new strategic markets outside the EU28. According to GTA data, during the 11 months of 2018, Spanish milk imports dropped 22 percent. Conversely, Spanish milk exports grew 12 percent as Spain increased exports to new strategic markets outside the EU such as Libya, Syria, Dominican Republic or Chile (see chart 3 and chart 4). Spanish milk exports to African markets such as Mauritania, Equatorial Guinea and Angola also contributed. By increasing its exports to third countries, roughly about 58 percent of Spain's total milk exports, Spain effectively reoriented its export destinations away from the EU. In contrast, 42 percent of total Spanish milk exports were sent to EU markets, mainly to Portugal.

Chart 3. Spanish Milk Exports January-November (Thousand tons)



Source: GTA

Chart 4. Reorientation of Spain's Milk Export Destination. January-November (Thousand tons)



(*) Spanish territories in North Africa

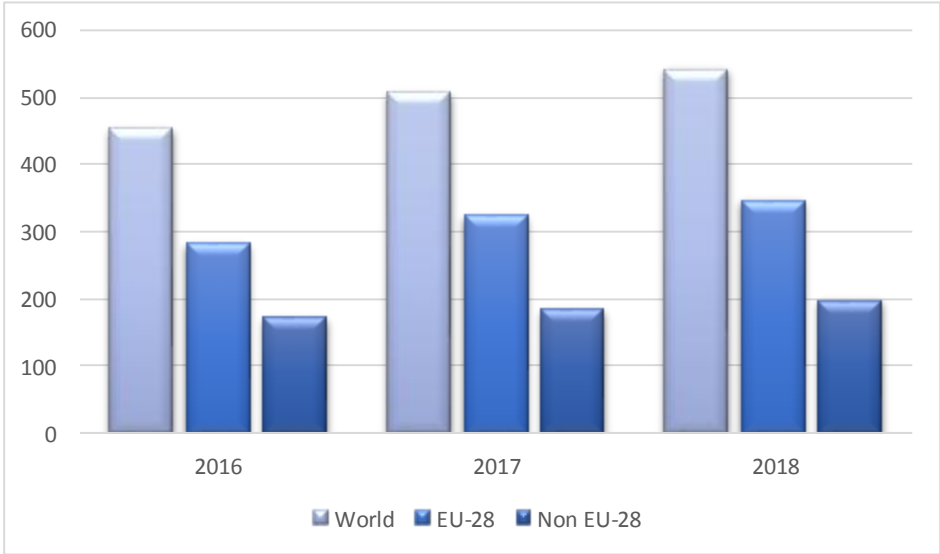
Source: GTA

Over the last five years, Spanish production of **sheep and goat milk** has trended upward, turning Spain into the EU's largest producer of sheep milk and the second producer of goat milk following France. This milk is used to produce a large variety of Spanish mixed cheese with milk from cow, sheep and goat. Spain also exports goat milk primarily to France. Spain's production of sheep and goat milk may also increase in 2018 but it is expected to remain flat in 2019 mainly due to lower prices for sheep and goat milk. Spain's total production of sheep and goat milk is around 1,000 MT.

Spanish dairy products exports have also increased in the last five years. In certain cases, such as cheese or NFDM, exports have grown by as much as 50 percent. In addition, Spanish exports of infant formula have grown significantly thanks to increasing exports to China.

Responding to strong international demand, in 2017, Spanish **cheese** production followed its decade-long upward trend by growing 4.3 percent to 481,120 MT. This trend may continue during 2018 and 2019 in line with the increase in Spanish milk supply and the continued Spanish cheese export demand. In 2017, in spite of Spain is a net importer of European cheese, Spanish total cheese exports increased 12 percent valued at \$552 million. In the first 11 months of 2018, Spanish cheese exports continued their upward trend (see chart 5). Main non-EU destinations for Spanish cheese are the United States, Dominican Republic, Cuba, Mexico, Australia, and Canada. During this period, the United States became Spain’s major export destination for cheese with exports valued at \$96 million. In addition Spain’s cheese exports to Canada jumped 93 percent as a result of the CETA valued at \$3.6 million. In addition, the Middle East, North Africa, and Asia (in particular China) are becoming growing markets for Spanish cheese.

Chart 5. Spanish Cheese Exports January-November 2018 (Million Dollars)



Source: GTA

In 2017, Spain’s imports of U.S. dairy products reached \$13 million. Spain became the second largest EU-market destination for U.S. dairy products after the Netherlands. The United States is the largest non-EU country supplier of dairy products to Spain. However, 98 percent of Spain’s dairy imports are still coming from other EU countries. During the first 11 months of 2018, Spain’s dairy products imports from the United States declined 15 percent compared to the same period last year and valued at \$10 million (see Table 1) due to a slight increase of Spain’s dairy imports from the EU.

During 2018, according to GTA, Spain's imports of U.S. cheese were negligible, dropping from \$508,169 in 2016 to zero in the case of prepared cheese and from \$130,568 in 2016 to \$105 for cheddar cheese. Greater domestic production of Spanish cheese and a greater transshipments through the Netherlands account for the drop in imports from the United States.

Table 1. Spain's Dairy products Imports from The United States January-November, USD

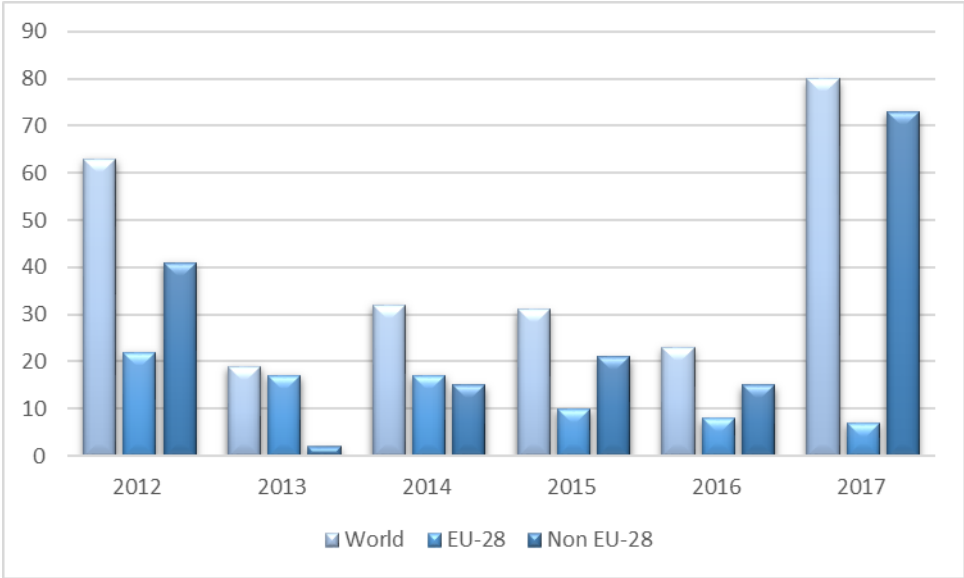
Spain Import Statistics From United States								
Commodity: Dairy Products, (2017)								
Year To Date: January - November								
Commodity	Description	United States Dollars			% Share			% Change
		2016	2017	2018	2016	2017	2018	2018/2017
Dairy Products		15,365,061	12,147,733	10,242,566	100	100	100	-15.68
350220	Milk Albumin,Inc Concen Of 2 Or More Whey Proteins	14,172,348	11,971,999	10,230,553	92.24	98.55	99.88	-14.55
040490	Products Of Natural Milk Constituents, Nesoi	0	0	8,873	0	0	0.09	n/a
190110	Food Preparations For Infants, Retail Sale Nesoi	8,370	1,074	919	0.05	0.01	0.01	-14.39
170219	Lactose In Solid Form And Lactose Syrup, Nesoi	495	257	719	0	0	0.01	180.34
040210	Mlk & Crm,Cntd,Swtd,Powdr,Gran/Solids,Nov 1.5% Fat	382	237	699	0	0	0.01	195.12
170211	Lactose & Lactose Syrup Cont 99% More Lactse By Wt	512,829	732	384	3.34	0.01	0	-47.57
040690	Cheese, Nesoi, Including Cheddar And Colby	130,568	51,510	105	0.85	0.42	0	-99.8
040390	Buttermilk/Kephir/Curdled Fermntd Acidfd Mlk & Crm	8	0	91	0	0	0	n/a
040410	Whey & Modfd Whey Whet/Nt Cncntrtd Cntg Add Sweetn	25,068	31,004	77	0.16	0.26	0	-99.75
210500	Ice Cream And Other Edible Ice, With Cocoa Or Not	0	15,235	53	0	0.13	0	-99.65
040221	Mlk/Cream Cnctrd Nt Swtn Pwd/Oth Solids Ov 1.5% Fa	0	70	40	0	0	0	-42.77
350190	Caseinates & Other Casein Derivatives; Casein Glue	2,210	39	29	0.01	0	0	-25.8
040291	Milk And Cream, Concentrated, Not Sweetened, Nesoi	0	0	23	0	0	0	n/a
040310	Yogurt, W/N Sweetened, Flavored Or Cntg Fruit/Coco	147	523	0	0	0	0	-100
040590	Fats And Oils Derived From Milk, N.E.S.O.I.	4,469	0	0	0.03	0	0	n/a
040630	Cheese, Processed, Not Grated Or Powdered	508,169	75,053	0	3.31	0.62	0	-100

Source: GTA

In 2017, Spanish **NFDM** production went up 22 percent to 19,450 MT due to higher international demand, especially from Mexico. In 2017, total Spanish NFDM exports were 33,644 tons and valued at \$80 million resulting in a growth of 243 percent compared to previous year. Spanish exports grew exponentially in non-EU markets with a rise of 545 percent to Mexico (see chart 6). In 2017, Spain exported 30,000 tons to Mexico turning Mexico into the first export destination for Spanish NFDM and Spain into Mexico's second largest supplier after the United States. In 2018, total Spanish NFDM

export will be lower due to the strong drop to the Mexican market. However, for 2018 and 2019 Spanish NFDM shipments to third countries may also be higher than exports to the EU-28 given new export markets such as North Africa, Colombia and the Middle East. Also, during the first 11 months of 2018, Spanish NFDM imports from the EU, mainly France and the Netherlands, remained stable in volume terms.

Chart 6. Spanish NFDM Exports 2012-2017 (Million Dollars)



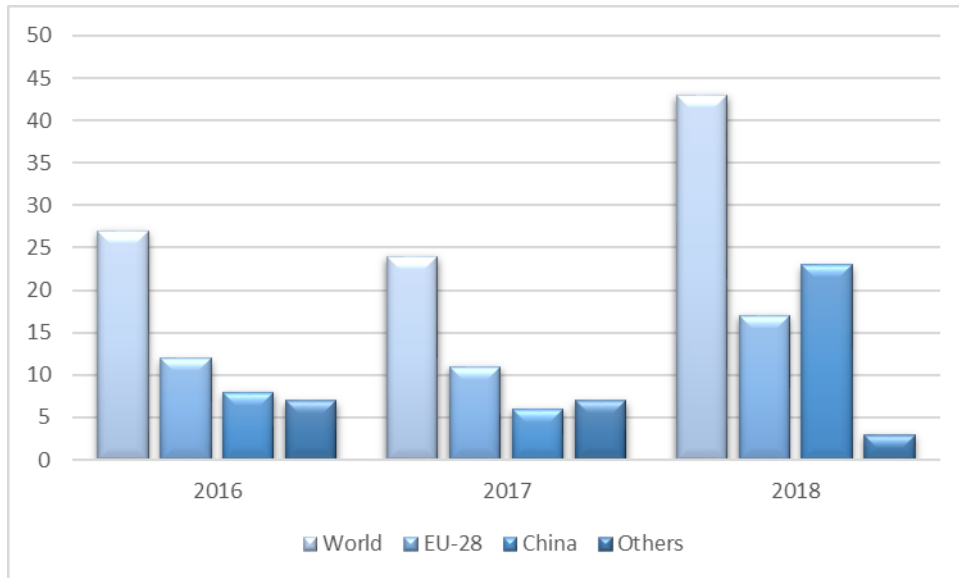
Source: GTA

Continuing on a decade-long upward trend, in 2017, Spanish production of **butter** also grew 30 percent to 41,240 tons. Growing margins and high butter prices continued to stimulate production. In the coming years, in response to growing consumer preferences, Spanish butter consumption is expected to continue on an upward trend as a substitute to vegetable oil (palm) mainly in the food industry.

Spanish butter imports are coming only from other EU member states while only seven percent of Spanish butter exports are going to third countries, mainly to North Africa, and Central America.

Spanish Whole Dry Milk, **WDM**, production is around 9,000 tons. Spanish exports of WDM to China and other third countries have grown significantly (see chart 7). Sixty percent of Spanish WDM exports are going to non-EU countries while 100 percent of Spanish imports of WDM are coming from the EU.

Chart 7. Spanish WDM Exports January November (Million Dollars)



Source: GTA

Policy

On September 21, 2018, the Spanish Council of Ministers approved the Royal Decree establishing Country of Origin Labeling requirements on fluid milk and milk products made and marketed within Spanish territory. Given the general disposition of this decree and the current composition of U.S. dairy exports to Spain, Post does not anticipate an immediate impact on U.S. dairy trade to this market.

The Royal Decree stipulates that the origin of the milk used as an ingredient must be indicated on the label when it represents a percentage higher than fifty percent of the total ingredients used expressed by weight.

The labeling of milk and milk products intended for the final consumer or collectives must include the following compulsory indications, relating to the milk used as an ingredient: the name of the country in which the milk has been milked, by the expression "Milking country" (country name). If it is a country other than Spain, it can be indicated as (EU) or (outside the EU).

However, when several countries are involved in the milking or processing of milk, the name of the countries may be replaced by one of the mentions: "EU", "outside the EU", or "EU and outside the EU", as appropriate.

If the operations (milking and processing) occur in the same country, these can be replaced by a single mention: "Origin of the milk" (name of the country). If it is from the same country, different from Spain, it may be mentioned: "Origin of milk" (EU) or "Origin of milk" (outside the EU), as appropriate. (For more details, please see [GAIN SP1825](#))

