

The EU dairy sector

Main features, challenges and prospects

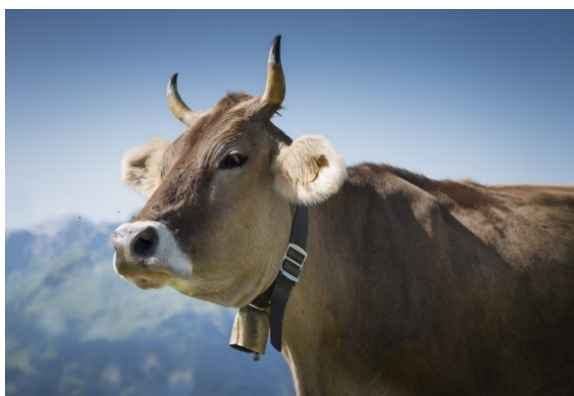
SUMMARY

The EU dairy sector is the second biggest agricultural sector in the EU, representing more than 12 % of total agricultural output. While milk is produced in all Member States, farm and herd sizes, yields and types of farming vary widely across Europe, from free-range farming in Alpine areas to large specialised dairy farms in the north-west and centre of Europe. In 2016, 157 million tonnes of milk were delivered to dairies, where raw milk is processed into fresh products such as cheese or butter.

Part of the common agricultural policy, the EU's dairy policy consists of a range of instruments designed to support farmers and address market imbalances. In particular, it includes common market organisation, public intervention and private storage provisions, direct payments and rural development measures. The policy has been constantly updated over time, one recent development being the suppression of milk quotas in 2015.

The 2014 to 2016 crisis, during which raw milk prices dropped dramatically from around 40 to 25.7 cents per litre, triggered a reaction by the Commission based on public intervention-buying, private storage and a range of exceptional measures. Two aid packages were adopted, including incentives for farmers to reduce production. Recovery was in sight by 2017.

In the coming years, growing EU and global demand is expected to support world dairy markets, without hindering price fluctuations and market imbalances. Resilience and sustainability are key words for the future of the sector. This can be achieved with innovation, as a way to reconcile the need for farmers to earn a decent living, consumer demand for affordable and quality dairy products, and environmental/animal health requirements.



In this Briefing

- Facts and figures about the EU dairy sector
- EU policy framework for the dairy sector
- The 2014-2016 milk crisis and the EU's policy response
- Challenges and prospects for the EU dairy sector
- Parliament's position
- Consultative committees and stakeholders

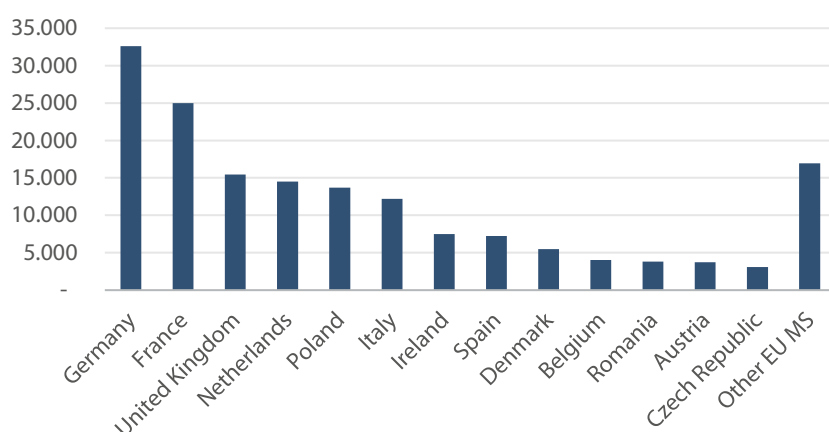
Facts and figures about the EU dairy sector

EU milk production and use

The EU's dairy sector is its second biggest agricultural sector in terms of output value after the vegetable and horticultural plant sector and before cereals. In 2016, European milk farmers produced [168.3 million tonnes](#) of milk, 97 % of which was cows' milk and 3 % milk from ewes, goats and buffalo.

The EU had the [largest production of milk](#) in absolute terms and relative to population size among G20 members in 2016.

Figure 1 – Production of cow's milk on farms at national level, 2017 (thousand tonnes)



Data source: [Eurostat](#).

All 28 Member States produce milk. The [main producers](#) of cow milk are Germany, France, the United Kingdom, the Netherlands, Poland, Italy and Ireland, which together account for three quarters of total EU production. The remaining 21 Member States produce just a quarter of EU production.

Most of the milk produced is delivered to dairies for further processing, the rest being used in other ways on the farms (either

consumed, processed, directly marketed or used as feed). In 2017, around [156 million tonnes](#) of cows' milk were delivered to EU dairies. There are around [12 000 processing plants](#) employing 300 000 people in the EU. The dairy sector is predominantly organised in cooperatives, which hold a 55 % market share. These cooperatives can be as large as a world-leading multinational companies or as small as SMEs or micro-enterprises.

Role and importance of cooperatives in the dairy sector

In 2015, about [64 %](#) of all European cow's milk deliveries were handled by cooperatives. In the dairy sector, cooperatives have an [important market share](#), owing partly to the perishable nature of the product, which entails high transaction costs in trading, and also to the instability of markets. In 2015, the Netherlands was the EU country where the market share of all dairy cooperatives was the highest, reaching 86 %. It was followed by Poland (75 %), Italy (68 %), Germany (67 %) and France (54 %). Whereas the three largest companies in the EU dairy sector are investor-owned firms, the next four are cooperatives. They are [strong competitors](#) on the dairy market and are active in almost every part of the food supply chain. They provide their members with market access and bargaining power. Dairy cooperatives are a [specific form](#) of [producer organisation](#) (PO) often engaging in processing activities. POs are encouraged and supported by the CAP, and governed by the [CMO Regulation](#).

The [milk](#) delivered to dairies is processed into fresh products (drinking milk and other fresh products such as yoghurts, cream, fermented milks) and manufactured products: cheese, milk powder, butter, whey, etc. The production of butter and cream generates skimmed milk as a by-product, which in turn is sold as drinking milk, used to make cheese and other products, or transformed into powder milk.

EU dairy farming sector structure

A diverse range of farm and herd sizes across Europe

[More than half](#) the specialised¹ dairy farms in the EU are large or very large farms. There is wide [range](#) of dairy farms in the EU: those in the EU-15² are much bigger on average and have higher yields than those in the EU-13. The diversity in dairy farm structure is linked to the differences in natural potential as well as in the social economic and regulatory context. The [specialised](#) dairy farms are concentrated mainly in the north-western Member States of the EU. The largest (by economic size) can be found in the UK, the East of Germany, Slovakia and Denmark.

There were [23.4 million dairy cows](#) in the EU in 2015, unevenly distributed across the EU (see Table 1 below). There exist both EU-15 / EU-13 and north / south divides. Germany recorded the [highest number](#) of dairy cows in 2017 with 4.2 million, making up 18 % of the total EU-28 dairy cow population. France ranked second with 3.6 million units (15 %). At the other end of the scale, Malta remained the smallest milk producer with around 6 000 dairy cows in 2017. Dutch regions have particularly high levels of milk production relative to their size. In 2016, 85 % of total EU milk production (168 million tonnes) was produced in the EU-15.

The most common dairy cattle breed in the EU is the Friesian Holstein, but other [breeds](#) include the Normande, the Montbéliarde, the Swiss Brown, the Jersey, the Simmental and the Ayrshire, to name but a few.

Table 1 – The structure of milk production in the EU in 2015

| Region | Dairy cows | | Milk yield | | Milk production | | Milk deliveries | | Share of produced milk delivered to dairies |
|----------|----------------|-------|-----------------|-------------------------------|------------------|-------|------------------|-------|---|
| | Number (1 000) | Share | Amount (kg/cow) | In relation to the EU average | Amount (1 000 t) | Share | Amount (1 000 t) | Share | |
| EU | 23 364 | 100 % | 6 859 | 100 % | 160 258 | 100 % | 152 189 | 100 % | 95 % |
| EU-15 | 18 146 | 78 % | 7 356 | 107 % | 133 491 | 83 % | 130 777 | 86 % | 98 % |
| EU-13 | 5 218 | 22 % | 5 130 | 75 % | 26 767 | 17 % | 21 412 | 14 % | 80 % |
| EU-north | 14 907 | 64 % | 7 175 | 105 % | 106 966 | 67 % | 103 737 | 68 % | 97 % |
| EU-south | 8 457 | 36 % | 6 302 | 92 % | 53 292 | 33 % | 48 452 | 32 % | 91 % |

Data source: [The EU cattle sector: challenges and opportunities – milk and meat](#), European Parliament, 2017.

Yields per dairy cow are 43 % higher in the EU-15 than in the EU-13. Stark contrasts exist between EU countries and regions. At national level, the highest annual yields can be found in Denmark, Sweden, Estonia, Finland, and Portugal (between 8 278 and 9 361 kg per head) and the lowest in Romania, Bulgaria and Croatia (from 3 343 to 4 566 kg per head). At regional level, [milk yield per dairy cow](#) in 2016 was highest in Lombardia (IT) with 9 870 kg per head.

[Specialised milk farms](#) in the EU-15 have a milk yield of 7 264 kg/cow for an average herd of 55 cows, while in the EU-13 the average yield is 5 036 kg/cow for an average herd of nine cows.

Specific types of milk production in the EU

[Organic production](#): in 2016, about 3 % of the milk produced in the EU was [organic](#). In countries like Sweden, Austria, Latvia and Denmark, organic milk accounts for 10 % or more of total milk production whereas in Ireland, Spain and Poland, it represents less than 0.5 %. On organic farms,

cow yields are on average 30 % lower than on conventional farms. Many farm conversions took place in response to the dairy crisis, as organic milk can be sold at a higher price and consumers are also turning strongly towards organic products.

Mountain production: livestock farming, especially dairy farming, is a key activity in the EU's mountain regions, which belong to the category of [disadvantaged areas](#). In its [resolution](#) (2013) on maintaining milk production in mountain areas, Parliament found that, overall, mountain milk accounted for around 10 % of milk produced in the EU. In Austria, Finland and Slovenia it accounts for two thirds of production and three quarters of producers, and is also very significant in another 10 countries.

Mountain dairy farming tends to be small-scale and extensive. It contributes to the sustainable development of mountain areas by delivering public goods (maintaining landscapes and biodiversity) and by having a positive impact on the local economy, helping to keep rural communities alive, notably via synergies with tourism. In these regions with natural handicaps, production, transport and collection costs are higher on average than for lowland dairy farming.

General evolution of the EU dairy sector

[From 1983 to 2013](#), the number of farms with dairy cows **decreased by 81 %** (-1.2 million dairy farms) in the ten (initial) EU Member States, a reduction that was sharper than that registered for all types of farms (-55 %). Over this 30-year period, four out of every five dairy farms disappeared. This was accompanied by [a gradual decline](#) in the number of dairy farmers in the EU (-6 % a year on average). However, the proportion of [specialised dairy farms](#) has increased in the EU. Average herd sizes have tended to increase, as have milk yields, owing to improvements in genetics and feed efficiency. In addition to this consolidation trend, dairy farmers have been working more closely together through cooperatives.

The overall level of milk production has remained generally stable as a result of the quota regime (see box below). The production of greater volumes of added-value products, especially for exports, shows the greater market orientation of the milk sector nowadays. For example, cheese production increased by [26 %](#) between 2003 and 2013 and cheese exports rose by 69 %.

Capping overproduction: milk [quotas](#)

Prior to 1984, dairy farmers in the 10 Member States benefitted from a guaranteed price for their milk that was higher than on world markets, regardless of market demand. This situation led to significant overproduction, surpluses of milk and milk products and the butter mountains and milk lakes of the late 1970s and early 1980s. In 1983, EU-10 milk production peaked at 111.8 million tonnes. **On 2 April 1984**, the CAP introduced milk quotas on all countries to limit the maximum amount of milk delivered to dairies and the amount of direct sales on the farm. Farmers had to pay a levy if they exceeded these limits and (this second condition was introduced later) if the Member State also exceeded its national quota. The quota regime was the **main policy instrument** in the European milk sector.

The system succeeded in capping milk production in the EU. In 2003, it was decided to phase it out by 2015, as the consumption of dairy products had increased considerably, especially on the world market, and EU farmers had to be able to respond to a demand that was expected to keep on growing. Steps were taken to prepare for a 'soft landing' for farmers: from April 2009, quotas were increased by 1 % a year over five years. **On 1 April 2015, milk quotas were abolished.**

EU policy framework for the dairy sector

The Common Market Organisation Regulation

The EU's dairy policy dates from the 1960s. The milk sector is covered by Common Market Organisation (CMO) [Regulation](#) (EU) No 1308/2013 of the European Parliament and of the Council

on agricultural products. For the dairy sector, the regulation includes several market tools providing a safety net in the event of serious market imbalance, as outlined below.

Public intervention

[Public intervention](#) allows the European Commission to buy in 60 000 tonnes of butter at a set price of €2 463/tonne and 109 000 tonnes of skimmed milk powder at a set price of €1 698/tonne between 1 March and 30 September each year.³ The aim is to provide a minimum floor during periods when prices are low. Once the volume limit has been reached, the products can only be offered into public intervention by tender. When market conditions allow, the products can be sold back on the market through a tendering process. Article 16 of the CMO Regulation also provides that products bought in under public intervention may be disposed of by making them available for the EU scheme for [food distribution to the most deprived](#).

Private storage

Private storage is a market tool through which the European Commission grants private operators support for the storage of butter, skimmed milk powder and cheeses with a protected designation of origin or protected geographical indication ([PDO/PGI](#)). This helps private operators, who can temporarily take products off the market for a contractual storage period. They keep ownership of the products and are responsible for selling them when the storage period has expired.

Exceptional measures

Exceptional measures can be mobilised in cases of severe market disturbance as set out in Articles 219 to 222 of the CMO Regulation.

The EU school fruit, vegetables and milk scheme

This [scheme](#) is funded by the CAP and supports the distribution of fruit, vegetables and milk to school children across the EU. The total budget is €250 million per school year, with €100 million for milk and €150 million for fruit and vegetables. The aim is to promote healthy eating among children and reconnect them with farming.

Other support

Promotion programmes relating to the dairy sector

[Promotion programmes](#) are aimed at promoting EU agri-food products in the EU and in third countries. They help producers to communicate about the quality of their production, as part of a vast publicity campaign, in order to strengthen their market share or gain new markets. In 2018, a total of €179 million was available for promotion programmes selected for EU co-financing. Among the [52 new programmes](#) approved at the end of 2017 as a result of the latest call for proposals, some schemes promote dairy products or cheese exclusively, while others promote these as part of a basket of agricultural products.

Direct payments to farmers and rural development measures

Dairy farmers receive [direct payments](#) under the first pillar of the CAP, which can also include support for those working in areas with natural constraints. [Coupled support](#) for milk producers facing difficulties can be granted under certain limited conditions. Currently, 18 Member States operate coupled payments in the dairy sector. Under the CAP's second pillar, dairy farmers can also benefit from various [rural development measures](#). These include the income stabilisation tool, designed to support farmers facing a severe fall in income. However, few Member States have allocated resources to this instrument in their rural development plans. Furthermore, the dairy sector is covered by the EU quality policy and has to comply with a number of constraints and rules, notably relating to public and animal health.

The 2012 Milk Package

From 2010 onwards, the European Commission followed the milk sector closely so as to ensure a smooth transition to the end of quotas in 2015. A major amendment to the CMO Regulation, known as the [Milk Package](#), was adopted in 2012. It is now built into the CMO [Regulation](#) under Articles 148 to 152 and 157. It is a package of measures drafted on the basis of recommendations issued by the high level group on milk, which was set up after the [2009 milk market crisis](#) (when EU average raw milk prices dropped to €24.4 per 100 kg in May 2009). It is generally designed to boost the position of dairy farmers in the supply chain and to prepare the dairy sector for stronger market orientation. The measures include:

- the possibility for Member States to impose written contracts between farmers and dairy processors, and to oblige milk buyers to offer farmers minimum contract durations;
- the possibility for farmers to organise into producer organisations that can negotiate contracts collectively, including on the price of milk. This is intended to strengthen their negotiating power;
- the possibility for Member States to regulate the supply of PDO/PGI cheeses upon the request of a producer organisation;
- specific EU rules for inter-branch organisations⁴ in the milk sector;
- increased transparency in the market and better information.

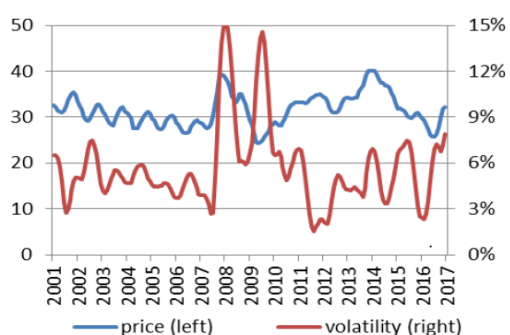
These measures will apply until mid-2020. The second Commission [report](#) on the implementation of the Milk Package, published in November 2016, shows that farmers are increasingly making use of the measures provided for in the package and underlines the need to make dairy farmers more aware of the advantages of joining producer organisations.

Created by the Commission in [2014](#), the [Milk Market Observatory](#) aims to provide the EU dairy sector with more data transparency, complemented by market analysis, and short- and medium-term outlook reports, in a timely manner.

The 2014-2016 milk crisis and the EU's policy response

[EU milk reached](#) historically high prices at the end of 2013 and beginning of 2014 at around 40 cents/litre. This was partly driven by high world demand for dairy products, notably from China, which was expected to last. The EU milk sector responded to the market by significantly increasing its supply as from mid-2014, so even before the end of the quotas in 2015. Between 2013 and 2015, EU milk production increased by close to [10 million tonnes](#). This led to a significant price fall, exacerbated by several factors.

Graph 1 – EU raw milk price (€/100 kg) and volatility



Source: [European Commission](#), Managing risk in the dairy sector.

- In August 2014 Russia banned imports of some agricultural products from the EU, in particular dairy products, to retaliate against EU sanctions following the annexation of Crimea. At the time Russia was an important outlet for EU dairy products.⁵
- The expected growth in world demand did not happen, as oil-exporting countries, which imported large quantities of dairy products, saw their income decrease owing to low-oil prices; furthermore, China imports declined substantially.
- Raw milk and dairy product prices had become more volatile since 2007, after the decrease in intervention prices introduced by the 2003 CAP reform, which brought European and world dairy product prices closer to each other.

This global context led to a dramatic fall in prices for EU milk producers. In July 2016, the raw milk price for the EU-28 fell to [25.7 cents/litre](#). This led to an unsustainable situation for many farmers who received a price for their milk far below their production costs. Producing at a loss over a long period of time, many farmers were struggling to survive, sometimes even facing [bankruptcy](#).

The European Commission's policy response

From September 2014, the Commission used all policy instruments available, including public intervention (for butter and skimmed milk powder) and private storage without disruption.

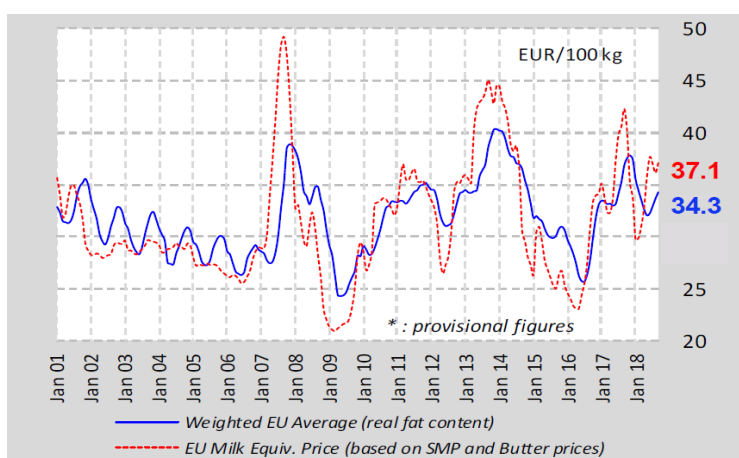
Exceptional measures

An initial comprehensive [aid package](#) was launched in September 2015, aiming to help farmers in short term cash flow difficulties and to address the market imbalance by stimulating demand and reducing supply. Of a total of €500 million, €420 million targeted the dairy sector.

On 18 July 2016, the Commission presented a new comprehensive [€500 million aid package](#) comprising three main elements:

- an EU-wide milk production [reduction scheme](#) allocated €150 million, to support voluntary reduction of EU milk deliveries, running from the last quarter of 2016 to January 2017;
- conditional adjustment aid (€350 million) that could be completed with national co-funding up to an equal amount, not considered as State aid;
- other technical adjustments (including extension of the period for public intervention and private storage for skimmed milk, advances for direct payments and rural development payments).

Graph 2 – EU raw milk price evolution (up to September 2018)



Source: [European Commission, Milk Market Observatory](#).

More than [48 000](#) farmers from across the EU applied for EU support for agreeing to voluntarily lower their milk output, totalling a reduction of nearly 861 000 tonnes of milk over the period. In 2017, [all dairy product prices](#) picked up from the low levels of 2015 and 2016, with the exception of skimmed milk powder (SMP).

This increase resulted from reduced output and strong demand, especially for butter and cheese. The EU average farm gate milk price reached **€37.8/100 kg** in November 2017, a 19% increase compared with November 2016.

Mountains of skimmed milk powder

In late 2017 and early 2018, public intervention SMP stocks in the EU peaked at around [375 000 tonnes](#) as a result of activation of the automatic buying-in mechanism. There were 351 000 tonnes in stock at the end of 2016 and [30 000 additional tonnes](#) were purchased in 2017.

This large overhang of SMP on the market also resulted from strong demand for **butter**. SMP is a by-product of butter: for every tonne of butter produced, two tonnes of SMP are created. More precisely, [skimmed milk](#) is produced during the process of defatting whole milk to obtain cream, the starting point for butter production. It is used in liquid form or in dehydrated form as SMP. SMP is used in the manufacture of other milk products (together with whole milk) and in the food processing industry.

Such huge stocks are weighing on the market and can have a negative impact on dairy prices. They add to the uncertainty on the market in the short term. Also, SMP has a shelf life as a food product of around 15 months, after which it becomes animal feed. As a result, on 29 January 2018, the Council adopted a [regulation](#) suspending the automatic buying-in of SMP during the March to September 2018 period of intervention, in an attempt to prevent a further increase of EU SMP public stocks and to stabilise dairy markets in 2018. However, the EU is still able to buy in SMP via tendering procedures, which gives more control on the quantities to buy and on prices. On 15 October 2018, the Council decided to [confirm these rules](#) in 2019. By September 2018, SMP stocks had been reduced to [280 000 tonnes](#).

Challenges and prospects for the EU dairy sector

Main current challenges for the EU dairy sector

Price volatility following opening of the sector to international markets

As recent EU dairy sector crises show, [price volatility](#) is a major challenge. Successive CAP reforms (including the decrease in intervention prices introduced by the 2003 CAP reform and the end of milk quotas in 2015) have opened the sector up increasingly to global markets, making EU milk prices more susceptible to international price developments. This exposes EU farmers to more competition and makes them more directly dependent on worldwide market movements and trade developments. On the EU domestic market, the conclusion of bilateral free-trade agreements where the EU opens its market to higher quantities of reduced duty or duty free imports, could mean increased competition for EU producers.

Raw milk price formation has changed completely [since 2007](#), from a stable annual seasonal pattern of small price differences of 10 % to 15 % to multiannual cycles oscillating between 40 and 25 cents/litre. These large price variations make it difficult to run a sustainable business (especially when farmers have planned investments based on higher average milk prices).

Challenges relating to EU dairy sector structure

Most EU dairy sector farms are highly specialised. Although specialisation does offer advantages, specialised farm revenues are tied to a single output. Such dependence can become a substantial threat as it increases farmers' vulnerability to income shocks. Mixed farms, with a more varied output, are less vulnerable.

Also vulnerable to challenging market conditions are the very small dairy farms, which are particularly numerous in the EU-13. Their size means that they do not have the resources to buffer economic shocks.

The [ageing demographics](#) of dairy producers is a concern. There are relatively few young farmers. In 2016, a third of farm managers in the EU were over 65, and only 11 % were under 40.

Climate change

The 2018 '[fodder crisis](#)' in the EU dairy sector illustrated the effect of extreme weather conditions on agriculture. The hot and dry weather led to a lack of forage and grazing in several European countries, an acute problem for the EU's livestock sector. The drought prevented normal growth of the grass on which the herds graze, and many farmers had to buy additional quantities of fodder. Also bad grain harvests led to a rise in the price of the straw used to feed and bed the cattle. This crisis is having a severe impact on farmers' incomes.

Cows can also suffer from heat stress in hot weather as a result of a combination of high temperatures and humidity. With climate change developing, this is likely to become an increasingly common problem, including in regions with generally temperate climates. Heat stress has negative effects on milk yields and milk fat percentage, and on the reproductive performance of the cows.

Pasture-based systems of milk production are [particularly sensitive](#) to environmental factors, and grazing cattle are more likely to be affected by the heat than cows that are housed (because they are sheltered and can benefit from heat stress relief technology).

Extreme weather conditions can also lead to outbreaks of disease. For example, very dry or very wet weather and flooding can increase the risk of Anthrax, a contagious zoonotic disease. In the French Alps, 23 separate outbreaks caused the death of 54 cows in the summer of 2018.

Unfair trading practices

Farmers, including dairy farmers, mostly occupy a weak position in the food supply chain and often fall foul of unfair trading practices. They generally have weak bargaining power in comparison with the large operators in the chain: the dairy processing industry and the retail sector are highly concentrated. Also, price transmission along the supply chain is uneven. Market shocks are fully transmitted to farmers, while price fluctuations are much more limited for processors and consumers. With its [proposal](#) for a directive of the European Parliament and of the Council of April 2018, on unfair trading practices in business-to-business relationships in the food supply chain, the Commission aims to improve the role of farmers in the food supply chain by banning some of the most common unfair trading practices, which include: late payment for perishable food products; last minute order cancellations and unilateral or retroactive changes to contracts. On 25 October 2018, Parliament approved its [negotiating mandate](#), which broadens the scope of the draft law. On the same day, trilogue talks began with the Commission and the Council.

Consumer and society requirements

Consumer and society requirements constitute a challenge for the sector as some of these requirements can appear irreconcilable. Milk farmers are asked to produce quality milk that meets high environmental standards and animal welfare requirements, while the market demands cheap products.

EU dairy trade and market outlook

Short-term outlook

According to the Commission's [short-term outlook](#) on EU agricultural markets in 2018 and 2019, lower than anticipated growth in EU production together with sustained EU and global demand for dairy products will probably lead to higher milk prices in the second half of 2018. The butter market remains undersupplied, owing to very low stocks and lower milk collection in France, the Netherlands and Ireland. In 2018, EU milk collection is expected to increase by 1.2 % compared with 2017. This growth is driven in particular by Germany, Poland, Belgium and Italy. Milk collections are likely to grow further in 2019.

The milk yield is likely to increase further by 1.7 % in 2018, while the number of dairy cows should decline slightly (-0.6 %). In 2018, EU cheese production is expected to increase by over 2 %, driven by domestic and world demand.

Global demand for dairy products is sustained and in the first quarter of 2018, the **global** dairy trade expanded by 8 % compared with the first quarter of 2017. EU exports increased at a slower rate and accounted for 33 % of world exports.

Medium-term outlook

The Commission 2017 [EU agricultural outlook](#) for the agricultural markets and income 2017-2030 indicates that growing EU and global demand are expected to support world dairy markets in the longer term. However, world market price volatility should continue and short-term market unbalances could be expected.

Global trade in whole milk powder, SMP, cheese and butter is expected to expand on average at a rate that is significantly below that of the last 10 years (with the exception of trade in butter, which will grow faster). China should remain the world's top importer of dairy products. The EU should supply 30 % of the increase in world import demand for these products.

Growth in EU domestic consumption of dairy products will require the production of close to 900 000 tonnes of milk per year. However, direct consumption of liquid milk is expected to further decrease. Sustained EU and global demand is expected to drive a moderate average increase in EU milk production, by 1 % per year, or 1.4 million tonnes.

Finally, the increase in EU milk production will be limited by the need to use resources in a sustainable way. Production systems will gradually evolve and organic production should rise significantly to meet consumers' expectations.

The EU as a global player in the dairy trade

The EU is the world's biggest exporter of cheese and, more generally, one of the world's top three players for dairy exports, along with New Zealand and the United States. The EU's main dairy products for [exportation](#) are cheese, skimmed milk powder (SMP) and packed milk. In 2017, the United States was by far the top importer of EU cheese, followed by Japan and Switzerland. China was the top importer of packed milk and second top importer of SMP after Algeria. EU dairy exports have been increasing steadily over the three years since the abolition of milk quotas. 2017 was a [strong year](#) for these exports (cheese, milk powders, butter, condensed milk, milk, cream and yogurt), which exceeded 20 million tonnes in milk equivalent,¹ an increase of 14.5 % compared with 2016. EU was also the world's top SMP exporter in 2017, recording an increase of 36.7 % in volume compared with 2016.

The Brexit issue

The UK's exit from the EU could have a major impact on the EU dairy industry. According to a 2017 [study](#) conducted for the Committee on Agriculture and Rural Development, the main trading sectors potentially affected, in the context of agriculture, are processed food, **dairy** and meat. Ireland and France are the main exporters of products that are likely to be the most heavily affected, such as cheese, fresh cheese, butter, buttermilk and some processed cheese. Disruptions caused by Brexit may have particularly negative impacts on Irish agri-food trade: Ireland's exports of dairy products to the UK totalled close to [€1 billion](#) in 2017, while imports amounted to around €569 million.

Innovation for a more resilient and sustainable EU dairy sector

Facing a number of challenges, the EU dairy sector must become **more resilient and sustainable**. From an economic point of view, it is necessary to lower production costs to improve competitiveness, while also increasing the economic resilience of dairy farms confronted with high price volatility and market uncertainty. At the same time, the dairy sector must be more efficient in the use of natural resources such as water and feed, and do more to control the environmental impact of breeding activities (reducing greenhouse gas emissions, water pollution, etc.). Resilient dairy farming also means taking good care of herds and meeting health requirements (the second worst animal welfare problem in Europe now is the [poor welfare of dairy cows](#) because of leg disorders, mastitis and reproductive problems).

A 2018 EIP-AGRI [report](#) explores three key areas through which to achieve robust and resilient production systems. At the level of the **cow**, genetics and precision livestock farming (PLF)⁶ are areas with a high potential to enhance robustness and resilience. At the level of the **farm**, the report looks at ways to increase the capacity of a farm to absorb impacts caused by changes in environmental, social or economic conditions. Finally, for the dairy **sector**, the report identifies the essential role of information, communication and dialogue between farmers and consumers, which requires better

knowledge and understanding of dairy production and better ways to benchmark it, as well as proper translation of this in a way that the final consumer can understand and appreciate.

The future European policy framework for the dairy sector

On 1 June 2018, the Commission published proposals for three regulations in the area of common agricultural policy for the 2021 to 2027 period. The proposed [regulation](#) on 'CAP strategic plans' covers direct payments to farmers, rural development support and sectoral support programmes. It appears that while decoupled direct payments should remain the basis of CAP support to farmers for the next programming period, coupled direct payments will continue to exist, including for milk production (Article 30 of the regulation).

Most of the present CMO rules, including provisions on public intervention, private storage and exceptional measures, should remain unchanged in the future CAP. One [major change](#) is that operational programmes would have to be included in each country's CAP strategic plan. Member States would be able to set up schemes for the support of specific sectors, including dairy, via operational programmes prepared by producer organisations (as is currently the case with fruit and vegetables).

Parliament's position

Parliament has adopted resolutions and organised several hearings on the dairy sector in the course of the last few years. A 2015 [resolution](#) examined the challenges and opportunities facing the dairy sector and assessed the operation of the Milk Package launched in 2012. In particular, Parliament considered that price volatility would be a continuing challenge for the sector. The resolution pointed out that dairy farmers were vulnerable to income variations because of high capital costs, volatile prices, and fluctuating input and energy costs. They occupied a weak position in the food supply chain and were particularly exposed to unfair trading practices.⁷ Another concern was the ageing demographic of this farmer category, which called for encouragement and support for generational renewal. On the Milk Package, the resolution found implementation of the measures had been uneven across the EU and that take-up had been disappointing, while it welcomed the establishment of the Milk Market Observatory.

Consultative committees and stakeholders

In its 2015 [opinion](#) 'The future of the dairy industry', the **European Committee of the Regions** (CoR) proposed that the Commission revise the intervention price, unchanged since 2008, to make it more reflective of production costs and better attuned to market changes. Among other recommendations, the CoR called for improvements to the operation of the European Milk Market Observatory and for it to be turned into a genuine steering mechanism. It recommended developing support for milk production in disadvantaged regions. With respect for mountainous areas, the CoR called for convergence in compensation payments for natural handicaps, the restoration of milk collection aid and support for the implementation of a 'Mountain Produce' label for dairy products originating from these regions.

On 21 January 2015, the **European Economic and Social Committee** (EESC) adopted an own-initiative [opinion](#) entitled 'Situation after the expiry of the milk-quota system in 2015'. In this document, the EESC argued that EU policy post-2015 should allow for growth and expansion while providing support for smaller farmers, especially in disadvantaged areas and mountainous regions. It advocated making full use of CAP pillar II and the Milk Package provisions, and encouraging farmers to take part in producer organisations so as to improve their position in the food supply chain. It considered that additional measures would be required to ensure that farmers received viable incomes and a fair share of market returns. Commercial and competitive dairy farms should be allowed to expand to respond to fast rising global demand, generating employment in rural areas. In a context of sharp price volatility, they should benefit from taxation solutions and have easy

access to simple hedging instruments. Finally, the crucial role of dairy co-operatives should be recognised and fostered.

The [European Milk Board](#) (EMB), an umbrella organisation of European dairy farmer associations representing 100 000 milk producers and with members in 15 European countries, [criticised](#) the Commission for reacting to overproduction following the end of milk quotas by extending buying periods and intervention volumes in 2015 and 2016. EIB considered that this had sent the wrong signal to milk producers and it lobbied for a general reduction in the current intervention volume of 109 000 tonnes per year and an increase in intervention price. On 21 August 2018, the EMB [called](#) for crisis management instruments to relieve farmers of the 'direct effects of the drought' and in particular the lack of self-produced feed.

MAIN REFERENCES

[The EU cattle sector: challenges and opportunities - milk and meat](#), February 2017.

[Robust and resilient dairy production systems](#), April 2018, EIP-AGRI focus group.

[EU Dairy farms report](#), 2016, European Commission.

ENDNOTES

- ¹ A specialised dairy farm is one on which dairy accounts for at least two thirds of production (in standard output).
- ² EU-15 and EU-13 indicate the groups of countries that joined the EU before 2004 and in 2004 or after, respectively.
- ³ However, in January 2018, the Council suspended automatic buying-in for the year 2018 owing to very high levels of SMP stocks, as explained later in the briefing.
- ⁴ [Interbranch](#) organisations are vertically integrated organisations which comprise producers and at least one member of the processing or trading part of the supply chain.
- ⁵ The food ban was extended in June 2017 until the end of 2018.
- ⁶ Precision livestock farming (PLF) can be [defined](#) as livestock farm management using continuous automated real-time monitoring or control of production, reproduction, health and welfare of livestock and environmental impact.
- ⁷ In its [resolution](#) of 7 June 2016 on unfair trading practices in the food supply chain, Parliament noted that large-scale retailers misused some basic agricultural foods such as dairy products as 'loss leaders' (sold below the cost of production to attract consumers), which threatened the long-term sustainability of EU production of those products.

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