

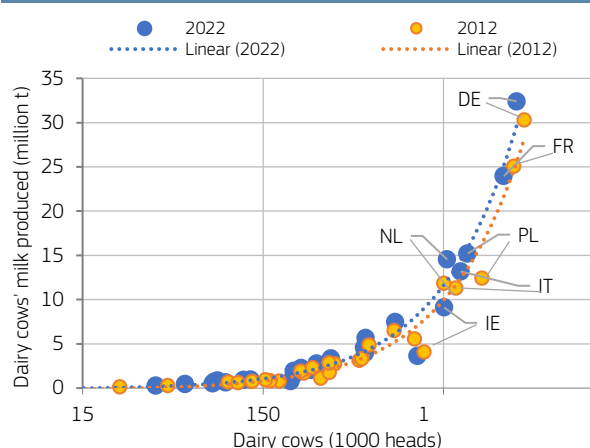
MILK AND DAIRY PRODUCTS

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This chapter presents the drivers of the EU dairy market and introduces projections for EU milk production and dairy products in more detail. The presented outlook takes into account developments towards a more sustainable and segmented dairy market which could add value to the sector through both domestic consumption and exports.

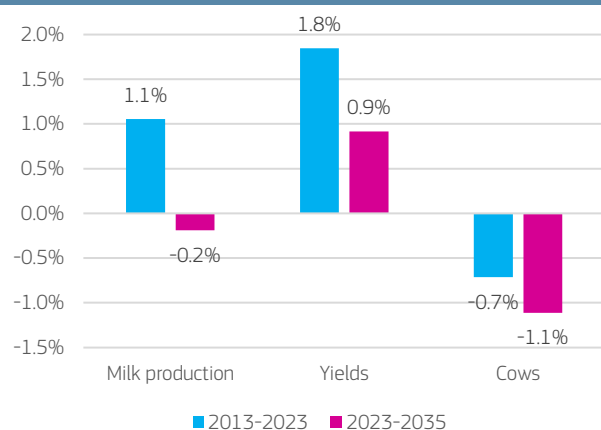
On the other hand, the outlook presented in this chapter also reflects the increasing pressure from national and EU environmental policies which could lead to some production declines. To cope with these challenges and reflect an expected increase in the added value of milk and dairy products, the raw milk price in the EU is likely to increase in the future.

MILK

GRAPH 3.1 Productivity increase by EU countries between 2012 and 2022

Note: for comparison purposes between the periods, RO and LU were excluded. Trend lines indicate the increase in EU milk yield.

Source: DG Agriculture and Rural Development, based on Eurostat.

GRAPH 3.2 Developments in EU milk production, yield and dairy cows' numbers**GRAPH 3.3** Milk production in EU-14 and EU-13 countries, in selected years (million t)

Note: EU-13 countries which entered into the EU in 2004 and later.

The EU dairy sector is proving its resilience

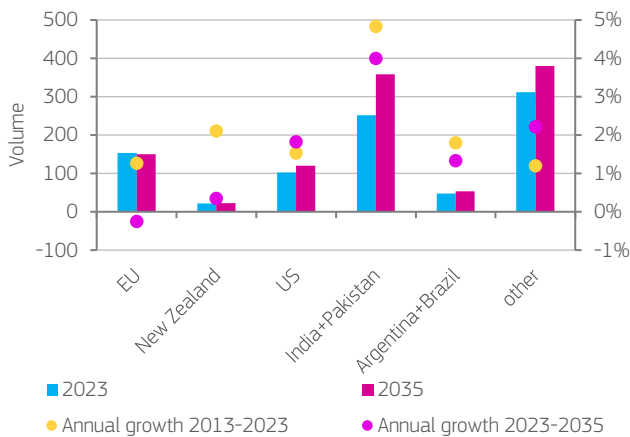
The EU's milk and dairy sector showed remarkable resilience in the last few years when many significant disturbances tested the sector. The COVID-19 pandemic caused changes in the demand for dairy products, globally. Furthermore, geopolitical tensions have led to increasing input costs (energy, feed, fertilisers, transport), high food-price inflation that exceeded the level of general inflation in most EU countries, and high interest rates, which negatively affect the investments often required for productivity improvements. In some EU countries, the dairy sector is also challenged by long-term structural problems, difficulties with generational renewal, and a lack of workers. At the same time, there is increasing policy and legislative pressure for a greater contribution from the livestock sectors to reach ambitious national and EU-wide environmental objectives, and to further increase animal welfare standards.

Despite the above difficulties, EU milk deliveries steadily increased in the last decade, and the EU preserved its position as a world-leading dairy exporter. The increase in yields is also expected to continue in the coming years albeit at a slower pace than in the past. Many of the drivers that have led to a highly specialised and efficient EU dairy production system are either reaching a tipping point (for example, the closure of the productivity gap between the EU countries has slowed down) or could be counter-balanced by new drivers (for example, extensive, low-input, organic and other alternative livestock production systems that would limit growth in average milk yields).

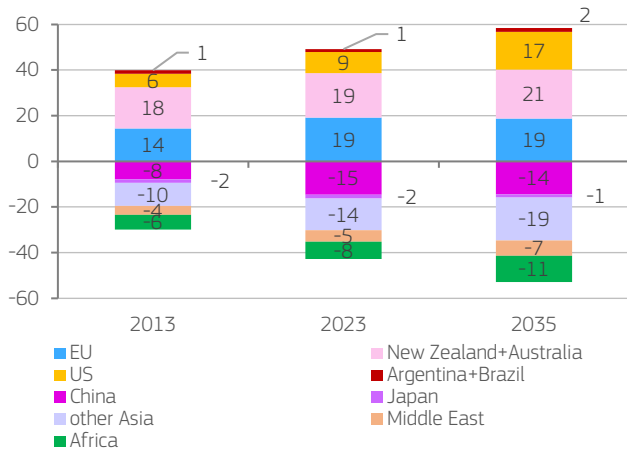
EU milk production is now at a turning point and is headed towards increasing sustainability

Sustainability drivers will continue to shape EU milk production in the next years. High quality standards, sustainability standards and diversified production systems (e.g. organic, quality schemes) will also generate more added value in the sector. Expectations for stricter EU and national environmental policies will likely force the EU dairy herd to shrink (-13% by 2035 compared with the 2021-2023 average). Social sustainability considerations, such as more attention being paid to animal welfare (and thus better animal health and well-being), could also contribute to increasing yields to some extent. However, yield growth is expected to slow down (0.9% per year), reaching only half the growth rate seen in the past decade. The underlying drivers of growth in milk yields in the past (i.e. productivity gap and the ending of other structural differences between EU countries) are gradually becoming less impactful. As a result, EU milk production could decline by 0.2% per year on average between now and 2035.

GRAPH 3.4 Milk production volume (million t) and growth rates (%) in given period for selected countries

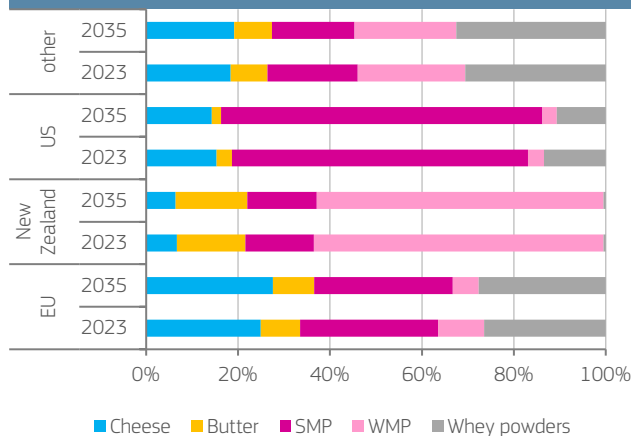


GRAPH 3.5 Milk surplus and deficit in selected countries and regions (million t of milk equivalent)



Note: surplus/deficit is calculated as domestic consumption - domestic production

GRAPH 3.6 Trade shares of main dairy exporters in selected dairy products



Global growth in milk production is expected to shift

The growth in global milk production will increase at a similar rate as in the last decade (1.6% per year). Although the EU contributed substantially to this past growth, future increases in global milk production will likely be driven by other countries and regions as some larger consumer countries are set to increase their efforts to become more self-sufficient. For example, south-east Asian and north African countries are expected to increase their milk production by around 3% per year by 2035. While around 8% of the milk remains traded, the additional production capacities in Africa and Asia will be mostly absorbed by domestic markets. Population and economic growth remain the key drivers of growth. In China, however, population growth is expected to halt, slowing down the demand growth of the past decade. Any dynamic increase in Asian dairy consumption in the future will likely come from the south-east Asia region.

The EU remains the world's largest exporter

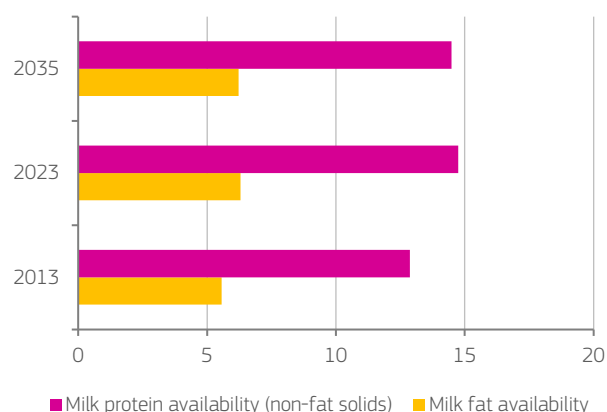
Despite increasing self-sufficiency rates, the main importing countries will still need to import dairy products to satisfy their domestic demand. Nevertheless, growth in total global imports of dairy products is expected to slow down to roughly 2% annual milk deficit growth between 2023 and 2035, compared with 4% in the past decade. The EU and New Zealand will remain the world's top two exporters of dairy products, with each accounting for around 24%. The EU is expected to keep its export volumes stable despite the decreasing milk production. The increase in New Zealand's milk production will also likely slow down, as the potential growth in milk yields is limited in grassland-based systems, and increasing pressure from environmental policies disfavours a larger cow herd. US production, facing less strict sustainability constraints, will grow the most among the large dairy exporters and reinforce its third position as global dairy exporter (20% share of global exports in 2035, compared with 14%). Argentina could also strengthen its exporter position.

Differentiation of global imports set to support EU trade

The expected slowdown of global growth in imports of dairy products will mostly impact milk powders. As they are mainly used as an input for processing, increasing milk production in the main importer regions will slow down the strong import growth achieved in past, for both skimmed and whole milk powders. By contrast, cheese, and whey exports could grow at a similar rate as in the last decade, while global butter exports could grow even more quickly. These market developments are likely to affect the main exporter countries in different ways. For example, New Zealand will likely be the most impacted by decreasing demand in China, potentially leading to some changes in their export portfolio. Apart from the above trends in traded volumes, the product portfolio of EU exports will also need to adapt to changing global demand, driven by demographic trends (e.g. an ageing population) and income growth, both favouring dairy products of a higher added value.

DAIRY PRODUCTS

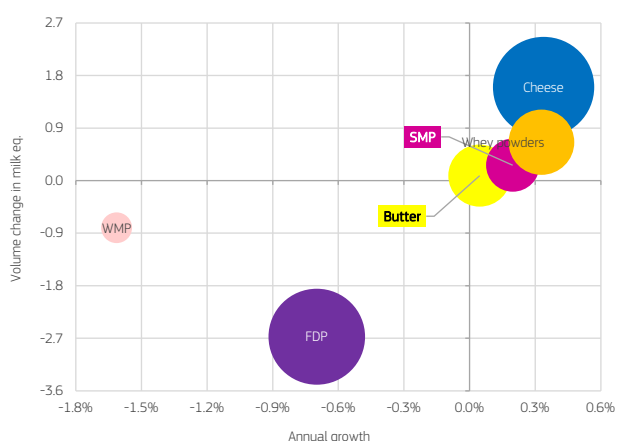
GRAPH 3.7 Availability of milk fat and milk protein in the EU (million t)



Only limited growth in milk solids

Feeding strategies and some herd replacement (e.g. more dairy cow breeds offering more butterfat and protein content) could still help milk content improve. However, the progress of the past decade is likely not to be repeated, as it was mainly driven by EU countries with dairy herds composed of cows producing milk with a higher milk solids content (e.g. Austria, Denmark and Ireland). On the other hand, climate change induced fluctuations in feed availability, feed quality and caused heat stress to cows. These factors could contribute to reduced milk solids also in the future. Overall, despite a slight increase, the greater availability of milk solids cannot compensate for the reduction in EU raw milk supply, leading to a forecast of 1% decrease in milk fat and an almost 2% decrease in non-fat solids by 2035.

GRAPH 3.8 EU production of selected dairy products change (million t of milk equivalent) and annual growth (%) in 2023-2035

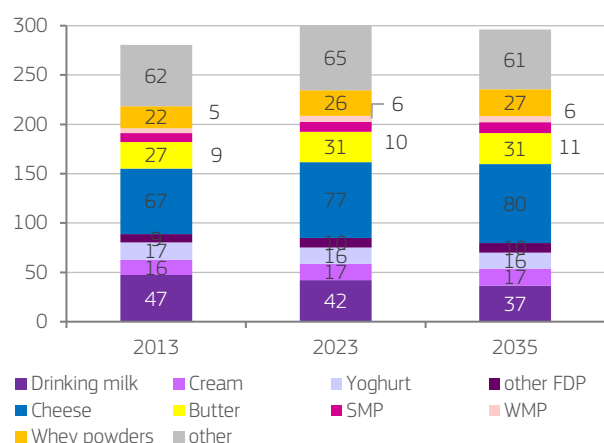


Note: sizes of circles correspond to the volume of milk (in milk equivalent) used for their production in 2021-2023

Cheese and whey are set to remain the preferred production stream

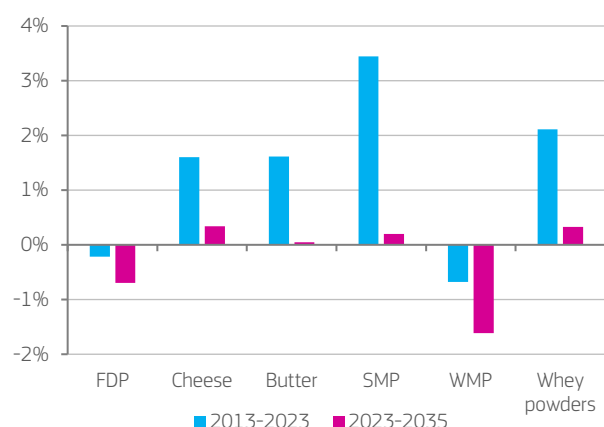
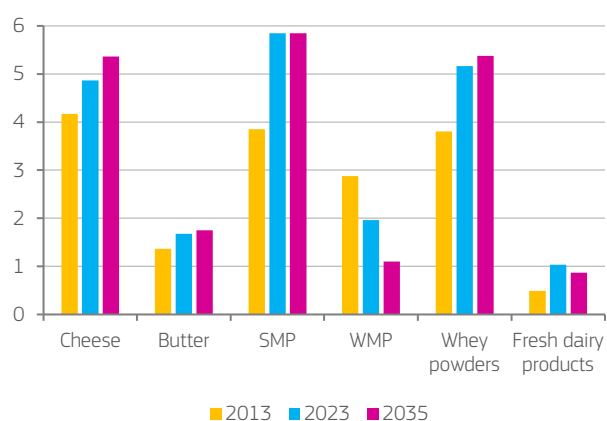
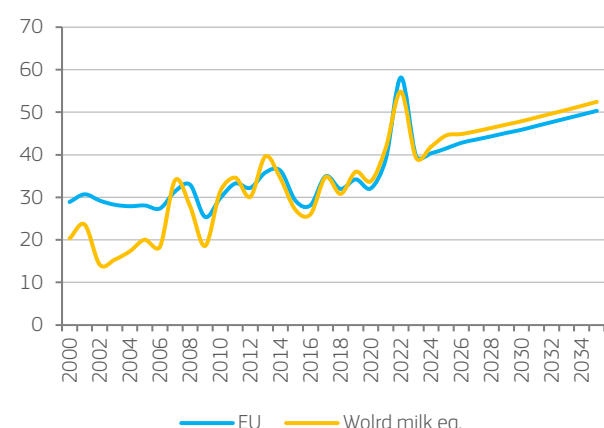
The portfolio of EU dairy products will have to adjust to this. The main drivers of change in the EU's dairy industry include changes in consumer preferences, competition with other global suppliers and increasing processing costs, which reduce margins for traditional dairy products and force processors to produce more - and higher value added - commodities. The cheese and whey production stream are expected to grow by around 2.3 million t of milk equivalent and could absorb 36 % of the EU milk pool by 2035. Skimmed milk powder (SMP) could achieve a limited growth (+2.3 % by 2035 compared with 2021-2023), and butter production could remain stable, while other dairy products are likely to decline for different reasons. For example, production of whole milk powder (WMP) is expected to decline, mostly due to decreasing EU competitiveness; while the consumption of drinking milk is likely to continue its long-term declining trend. And whey products are affected by reduced global demand, due to increasing domestic production in China.

GRAPH 3.9 EU per capita consumption total and selected dairy products (kg of milk equivalent)



Fortified and functional dairy products on the rise

The domestic market remains the most important outlet (set to account for 88 % of EU milk production in 2035). And EU per capita consumption of dairy products will likely remain stable (falling by only -0.1 % per year by 2035), relative to high level achieved in 2021-2023. Changing consumer preferences will continue affecting dairy consumption. Younger consumers are expected to opt for dairy products with lower fat and sugar content or products addressing food intolerances (e.g. lactose intolerance). Lifestyle choices and the health requirements of an ageing population will likely further increase demand for fortified (with vitamins and minerals) and functional products (addressing specific nutritional needs) and plant-based alternatives.

GRAPH 3.10 Annual change in use of selected dairy products in the EU**GRAPH 3.11** EU exports of selected dairy products (million t of milk equivalent)**GRAPH 3.12** Raw milk prices in the EU and world (EUR/100 kg)

Cheese market set to continue growing

Cheese is, and will likely remain, the EU's flagship export product, with exports further increasing (by 0.8 % per year between now and 2035). EU consumption could also increase (by 0.3 % per year), relative to already-high levels in 2021-2023, although recent food-price inflation has slowed down the post-COVID-19 recovery to some extent. Within the fresh dairy products (FDP) category, drinking milk consumption is also expected to further decline in coming years. And the consumption of yoghurts and cream could remain stable, or even slightly increase, in part due to novel product lines that address consumer interest in fortified (e.g. yoghurts with added proteins) or convenience products (e.g. drinkable yoghurts). However, total FDP consumption in the EU is to decline (by -0.7 % per year between now and 2035), while exports of FDP will likely decrease after the high levels of 2021-2023, in part due to decreasing demand in China. EU consumption and exports of butter are expected to remain relatively stable, due to strong demand from the processing. However, butter could face greater competition from other (vegetable) fats in home cooking and foodservice (e.g. olive oil).

More value added for EU whey powder production

The prospects for EU whey powder production are set to be boosted by strong global demand, driven by increasing food use and new product lines covering nutritional or health functions. EU whey production could increase by 0.3 % per year between now and 2035, while EU whey exports could increase by 0.4% per year over the same period. Competition on global markets is expected to increase for SMP, but EU production and exports are expected to remain stable. At the same time, domestic use could grow by around 0.4 % per year by 2035. These market developments are forecast to gradually alter the formerly export-oriented SMP market in the EU, increasing the share of domestic use. Both reduced global demand and low EU competitiveness are set to contribute to a production decline in WMP (-18 % by 2035, compared with the relatively low level in 2021-2023), with EU WMP exports likely to experience a pronounced fall of 5 % annually. However, domestic use of WMP could remain stable, supported by food processing. Overall, while total EU dairy exports are forecast to remain stable in volume terms, they are still expected to increase in value. This is partly due to expectations for a greater share of added-value products in the export portfolio, and partly due to rising export prices.

EU raw milk price reaching a new, higher, equilibrium

Dairy prices are likely set to follow an increasing path after they have decreased rapidly in the first half of 2023 following the historical high of 2021/2022, and the EU raw milk price is expected to remain well above pre-2022 levels by 2035. However, this will largely be due to the inflationary effect, and the price development in real terms will likely remain rather flat. EU cheese prices are expected to increase the most of the dairy products, while EU butter and SMP prices could also significantly increase.