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Dairy and Products

Annual

2004

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Report Highlights:
Accession of ten New Member States adds 14 percent of milk to EU milk deliveries to total over 132 million MT in 2005. Accession immediately triggered NMS dairy exports to the EU-15 because of significant price differences. NMS markets are expected to adjust to EU markets rapidly. Reductions in intervention prices for butter and NFDM, as agreed in the 2003 Mid Term Review, are expected to lead to a decrease in production and major reductions in intervention stocks by 2005. Strong export demands will enhance this evolution. As a result, production of higher value added cheese and WMP are anticipated to increase. This evolution is stimulated by increasing domestic consumption and good export opportunities.

Includes PSD Changes: Yes
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This is the first dairy report following the accession of ten New Member States (NMS)[1] to the European Union on May 1, 2004. The new EU-25 encompasses 455 million people and land area of over 1.5 million square miles. Consequently this report will focus on the dairy market of the EU-25. However, for better comparison with previous dairy reports separate PS&D's for EU-15 and NMS are provided. Sources of all PS&D tables are the FAS EU-25 offices. Figures for 2004 are early estimates and figures for 2005 are forecasts from FAS EU-25 offices.

[1] Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia

Executive Summary

Dairy Product PS&D's

The accession in 2004 of ten NMS to the European Union will lead to an increase in EU-25 milk deliveries to dairies amounting to 132,300 MT in 2005, adding 14 percent of NMS milk to the EU-15 116 million MT deliveries. Lower milk prices in Northern NMS led to increased milk exports, from Poland and Slovakia mainly, to the EU-15 upon accession on May 1, 2004. This didn't lead to a reduction in deliveries to dairies in the NMS, because of the increase in the percentage of milk going to dairies as a result of producers adapting to European milk quality standards. Milk production in the EU-15 is forecast to increase again in 2005, after a significant decline in 2004 as farmers adjusted milk production to avoid overshooting their quota. However, EU-15 milk deliveries in 2005 are forecast to remain 700,000 MT below 2003 deliveries, but increased deliveries in the NMS will expectedly compensate for this.

Higher domestic consumption and good export opportunities in combination with lower support prices for NFDM and butter lead to increased cheese production in the EU. In the EU-15, a one percent production increase to 5,800 thousand MT is forecast in 2005, on top of the three percent in 2004, compared to 2003. The 2005 NMS cheese production is forecast at 590 thousand MT, an eight percent increase over 2003. Accession increased cheese trade between EU-15 and NMS in both directions.

Butter production in the EU-15 is forecast to further decline by one percent to 1,880 thousand MT in 2005, after a two percent decline in 2004, compared to 2003. This decline reflects difficult market conditions and anticipates to the upcoming cuts in intervention prices as agreed in the 2003 CAP Mid Term Review (MTR). These price cuts offer sufficient incentives to sell butter intervention stocks. As a result, intervention ending stocks in 2005 are forecast to decline to 150 thousand MT, down from 2003 ending stocks of 270 thousand MT. Butter production in the NMS in 2005 is forecast at 305 thousand MT, a two percent increase over the 2003 production. Accession to the EU for butter also immediately led to a significant increase in exports from the NMS to the EU-15.

EU-15 Non-Fat Dry Milk production is set to decrease by 13 percent in 2004 as a result of reduced milk deliveries and increased cheese and casein production. NFDM production in the EU-15 is forecast to recover partly in 2005. The 2004 production decrease is partly offset by imports from the NMS upon accession, at the expense of NMS exports outside the EU. Strong export demand in 2004 is expected to lift exports by more than 15 percent, but this is not forecast to last in 2005. As a result, intervention stocks are expected to halve in 2004, while intervention price cuts agreed in the MTR are forecast to encourage further depletion of stocks in 2005. NFDM production in the NMS is expected to decrease for 2004 and 2005.

In 2005, good export demand for WDM is expected to continue, which will have a positive effect on WDM production. In 2004, EU-15 WDM production will remain stable as increased exports were supplied from commercial stocks. In the NMS, WMP production is expected to decrease slightly through 2005, in line with an expected decrease in domestic consumption.

Consequences of NMS Accession and Mid Term Review

Dairy markets in NMS were very diverse before accession, but are expected to adapt to EU markets relatively fast in 2005. Dairies have mostly already upgraded to EU hygiene standards and farmers will have to do so too in the next few years. It is expected that the MTR will lead to more consolidation in production and processing, but not to a decrease. Dairies are looking at producing more value added products, taking advantage of changing eating habits and new market opportunities in the NMS over the next decade.

Fluid Milk

PSD Table						
Country:	**EU15**					
Commodity:	**Dairy, Milk, Fluid** (in '000 Head; '000 MT)					
Market Year:	**2003**		**2004**		**2005**	
Market Year Begin:	**01/2003**		**01/2004**		**01/2005**	
	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]	USDA Official [old]*	Posts estimates [new]
Cows In Milk	19,678	19,678	19,387	19,376	-	19,075
Cows Milk Deliveries to Dairies	116,509	116,689	116,000	115,500	-	116,000
Other Milk Production	2,501	2,664	2,600	2,750	-	2,850
Imports from NMS		10		50	-	75
Extra EU25 Imports		1		0	-	0
Total imports		11		50	-	75
TOTAL SUPPLY	**119,010**	**119,364**	**118,600**	**118,300**	**-**	**118,925**
Exports to NMS		0		2	-	5
Extra EU25 exports		89		98	-	80
Total Exports		89		100	-	85
Fluid Use Dom. Consumption	30,137	30,399	30,000	30,200	-	30,300
Factory Use Consumption	88,873	88,876	88,600	88,000	-	88,540
Feed Use Dom. Consumption	0	0	0	0	-	0
TOTAL DISTRIBUTION	**119,010**	**119,364**	**118,600**	**118,300**	**-**	**118,925**

* This report offers the first forecast for 2005

Country:	**NMS**					
Commodity:	**Dairy, Milk, Fluid** (in '000 Head; '000 MT)					
Market Year:	**2003**		**2004**		**2005**	
Market Year Begin:	**01/2003**		**01/2004**		**01/2005**	
	[old]*	Posts estimates [new]	[old]*	Posts estimates [new]	[old]*	Posts estimates [new]
Cows In Milk	-	4,905	-	4,739	-	4,688
Cows Milk Deliveries to Dairies	-	15,610	-	15,870	-	16,300
Other Milk Production	-	30	-	30	-	30
Imports from EU15	-	0	-	2	-	5
Extra EU25 Imports	-	0	-	0	-	0
Total imports	-	0	-	2	-	5
TOTAL SUPPLY	**-**	**15,640**	**-**	**15,902**	**-**	**16,335**
Exports to EU15	-	10	-	50	-	75
Extra EU25 exports	-	17	-	15	-	15
Total Exports	-	27	-	65	-	90
Fluid Use Dom. Consumption	-	3,893	-	3,950	-	3,885
Factory Use Consumption	-	11,720	-	11,887	-	12,360
Feed Use Dom. Consumption	-	0	-	0	-	0
TOTAL DISTRIBUTION	**-**	**15,640**	**-**	**15,902**	**-**	**16,335**

* As this is the first consolidated dairy report for the NMS, no old official USDA data exist.

EU-15 Milk Deliveries

EU-15 milk deliveries in 2005 are expected to increase by 0.4 percent to 116 million tons compared to 2004, because of the increasing percentage of milk delivered to dairies. However, this is still 500 thousand tons below 2003 deliveries. Deliveries in 2004 are expected to decrease as farmers reduced their dairy herds at the beginning of the year in an attempt to reduce the impending superlevies to be paid by farmers for exceeding their 2003/2004 production year quota. Final 2003 deliveries were slightly revised upwards compared to previous estimates. Other milk deliveries were also updated. Preliminary figures for 2004 indicate an estimated 50 thousand tons import of milk from Poland, Hungaria and Slovenia into Germany and Italy after the accession as a result of lower prices in these countries. This milk flow is expected to increase in 2005, after which it is expected to fade as milk price levels converge. Extra EU-25 exports from Germany to Mauritania mainly, and from France to Switzerland, Tunisia and Senegal show an increase for 2004 because of lower production in Northern Africa, but this increase is not expected to last. Domestic consumption of fluid milk is expected to stabilize in 2004 and increase again in 2005 as a result of changing consumption trends.

NMS Milk Deliveries

NMS milk deliveries to dairies in 2005 are forecast at 16.3 million tons or just about 13 percent of total EU-25 deliveries. However, that is a 400 thousand ton increase over 2004 and 700 thousand tons over 2003, but still 500 thousand tons shy from their quota agreed at the Copenhagen Council of 2002 (see Policy section of this report). Apparent milk production per cow is 3.3 to 3.5 thousand liters per year only, compared to 6 thousand liters in the EU-15. At the same time domestic consumption of fluid milk from dairies stands somewhat below four million tons or only some 50 liters per capita, versus almost 80 liters per capita in the EU-15. The reason for these seemingly low production efficiency and consumption figures is the large portion of on farm sales in some of the NMS, particularly Slovenia, Poland and the three Baltic states (Eurostat data until 2002 on the deliveries of member state's cow's milk to dairies as a proportion of total production: http://europa.eu.int/comm/agriculture/agrista/2003/table_en/42012.pdf). Hungarian extra EU-25 exports are to Bosnia and Croatia. Hungarian milk production is forecast to decrease in the coming years as lower producer prices than in pre-accession years are expected to make milk production unprofitable.

EU25 Consolidated (in '000 Head; '000 MT)			
Commodity:	**Fluid Milk**		
Market Year	**2003**	**2004**	**2005**
Market Year Begin	**01/2003**	**01/2004**	**01/2005**
	Posts estimates [new]	Posts estimates [new]	Posts estimates [new]
Cows In Milk	24,583	24,115	23,763
Cows Milk Deliveries to Dairies	132,299	131,370	132,300
Other Milk Production	2,694	2,780	2,880
Total imports	1	0	0
TOTAL SUPPLY	**134,994**	**134,150**	**135,180**
Total Exports	106	113	95
Fluid Use Domestic Consumption	34,292	34,150	34,185
Factory Use Consumption	100,596	99,887	100,900
Feed Use Domestic Consumption	0	0	0
TOTAL DISTRIBUTION	**134,994**	**134,150**	**135,180**

Top 6 EU25 Milk Producing Member States* (in '000 MT)			
	2003	2004	2005
Germany	27,563	27,250	27,150
France	23,156	23,000	23,400
United Kingdom	14,554	14,000	14,200
Italy	10,811	10,746	10,700
Netherlands	10,696	10,500	10,550
Poland	7,316	7,668	8,200

* Deliveries to dairies only

Cheese

PSD Table						
Country:	**EU15**					
Commodity:	**Cheese** (in '000 MT)					
Market Year:	**2003**		**2004**		**2005**	
Market Year Begin:	**01/2003**		**01/2004**		**01/2005**	
	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]	USDA Official [old]*	Posts estimates [new]
Beginning Stocks	126	126	130	115	-	120
Production	5,520	5,592	5,550	5,750	-	5,800
Imports from NMS		39		55	-	75
Extra EU25 imports		116		115	-	115
Total imports	156	155	160	170	-	190
TOTAL SUPPLY	**5,802**	**5,873**	**5,840**	**6,035**	**-**	**6,110**
Exports to NMS		19		25	-	30
Extra EU25exports		478		500	-	500
Total Exports	478	497	490	525	-	530
Human Dom. Consumption	4,900	4,964	4,930	5,090	-	5,160
Other Use, Losses	294	297	290	300	-	300
TOTAL Use	5,194	5,261	5,220	5,390	-	5,460
Ending Stocks	130	115	130	120	-	120
TOTAL DISTRIBUTION	**5,802**	**5,873**	**5,840**	**6,035**	**-**	**6,110**

* This report offers the first forecast for 2005

Country:	NMS					
Commodity:	Cheese (in '000 MT)					
Market Year:	2003		2004		2005	
Market Year Begin:	01/2003		01/2004		01/2005	
	[old]*	Posts estimates [new]	[old]*	Posts estimates [new]	[old]*	Posts estimates [new]
Beginning Stocks	-	0	-	0	-	3
Production	-	553	-	570	-	590
Imports from EU15	-	19	-	25	-	30
Extra EU25 imports	-	7	-	7	-	10
Total imports	-	26	-	32	-	40
TOTAL SUPPLY	**-**	**579**	**-**	**602**	**-**	**633**
Exports to EU15	-	39	-	55	-	75
Extra EU25exports	-	71	-	71	-	70
Total Exports	-	110	-	126	-	145
Human Dom. Consumption	-	457	-	461	-	473
Other Use, Losses	-	12	-	12	-	12
TOTAL Use	-	469	-	473	-	485
Ending Stocks	-	0	-	3	-	3
TOTAL DISTRIBUTION	**-**	**579**	**-**	**602**	**-**	**633**

* As this is the first consolidated dairy report for the NMS, no old official USDA data exist.

EU-15 Cheese

Cheese production in the EU-15 is increasing continuously. The 2003 production was ultimately higher than previously estimated. While the previous import figure was maintained from the previous report, cheese export showed some increase. Human consumption was previously underestimated, which resulted in lower ending stocks from private storage.

Cheese production in 2004 is increasing in France, Germany, the BENELUX, Italy and, to a minor extent, Spain and Denmark. Growing domestic consumption and higher exports as a result of lower competition from Oceania fuels this production increase. Member states reporting increasing exports are France, Germany, the BENELUX and Italy. Imports from the NMS are increasing while extra EU-25 imports are expected to remain stable. This growth scenario for production and imports from the NMS is forecast to continue in 2005, pending continued exports and still increasing domestic consumption.

NMS Cheese

Cheese production in the NMS is expected to increase in 2004 and 2005, mainly for export to EU-15 and a moderate increase in domestic consumption. This increase in production is chiefly expected in Poland. Some increase in cheese imports from EU-15 is also expected. Ending stocks are expected to remain low.

EU25 Consolidated			
Commodity:	**Cheese** ('000 MT)		
Market Year:	**2003**	**2004**	**2005**
Market Year Begin:	**01/2003**	**01/2004**	**01/2005**
	Posts estimates [new]	Posts estimates [new]	Posts estimates [new]
Beginning Stocks	126	115	123
Production	6,145	6,320	6,390
Total imports	123	122	125
TOTAL SUPPLY	**6,394**	**6,557**	**6,638**
Total Exports	549	571	570
Human Dom. Consumption	5,421	5,551	5,633
Other Use, Losses	309	312	312
TOTAL Use	5,730	5,863	5,945
Ending Stocks	115	123	123
TOTAL DISTRIBUTION	**6,394**	**6,557**	**6,638**

Top 6 EU25 Cheese Producing Member States (in '000 MT)			
	2003	2004	2005
Germany	1,206	1,255	1,265
France	1,166	1,200	1,200
Italy	916	1,000	1,000
Netherlands	670	690	690
United Kingdom	355	355	355
Denmark	326	335	340

Butter

PSD Table						
Country:	**EU15**					
Commodity:	**Dairy, Butter** (in '000 MT)					
Market Year:	**2003**		**2004**		**2005**	
Market Year Begin:	**01/2003**		**01/2004**		**01/2005**	
	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]	USDA Official [old]*	Posts estimates [new]
Beginning Stocks	242	242	272	270	-	200
Production	1,941	1,941	1,900	1,900	-	1,880
Imports from NMS		29		40	-	45
Extra EU25 imports		95		100	-	100
Total imports	141	124	140	140	-	145
TOTAL SUPPLY	**2,324**	**2,307**	**2,312**	**2,310**	**-**	**2,225**
Exports to NMS		7		7	-	10
Extra EU25 exports		285		293	-	300
Total exports	271	292	260	300	-	310
Domestic consumption		1,745		1,810	-	1,765
Total use	1,781	1,745	1,780	1,810	-	1,765
Ending Stocks	272	270	272	200	-	150
TOTAL DISTRIBUTION	**2,324**	**2,307**	**2,312**	**2,310**	**-**	**2,225**

* This report offers the first forecast for 2005

Country:	NMS					
Commodity:	Butter (in '000 MT)					
Market Year:	2003		2004		2005	
Market Year Begin:	01/2003		01/2004		01/2005	
	[old]*	Posts estimates [new]	[old]*	Posts estimates [new]	[old]*	Posts estimates [new]
Beginning Stocks	-	8	-	6	-	0
Production	-	298	-	300	-	305
Imports from EU15	-	7	-	7	-	10
Extra EU25 imports	-	2	-	0	-	0
Total imports	-	9	-	7	-	10
TOTAL SUPPLY	**-**	**315**	**-**	**313**	**-**	**315**
Exports to EU15	-	29	-	40	-	45
Extra EU25 exports	-	11	-	15	-	15
Total exports	-	40	-	55	-	60
Domestic consumption	-	269	-	258	-	255
Total use	-	269	-	258	-	255
Ending Stocks	-	6	-	0	-	0
TOTAL DISTRIBUTION	**-**	**315**	**-**	**313**	**-**	**315**

* As this is the first consolidated dairy report for the NMS, no old official USDA data exist.

EU-15 Butter

While EU-15 production figures for 2003 were confirmed, imports were lower than previously estimated and exports turned out higher. As a result, domestic consumption figures were lowered. These changes resulted from reductions in commercial stocks in anticipation of decreasing butter intervention prices as agreed in the 2003 CAP Reform.

In 2004, butter production is expected to decrease compared to 2003. Nevertheless, the decrease in butter production is expected to be less than proportional to the reduction in fluid milk deliveries. German imports of industrial cream from NMS, mainly Slovakia, to partly substitute for fluid milk in butter production are the main reason for this. Decreasing market and intervention prices are seeing milk deliveries for butter production increasingly re-directed to other dairy products with higher value added such as cheese, ice cream and yogurt in most EU-15 member states. The only exception to this in 2004 is in the UK where milk deliveries for butter are on the rise at the expense of those for whole milk powder. Imports from NMS tend to increase after EU enlargement as France, Germany and the BENELUX have increased butter imports from Poland and Estonia mainly. Exports are increasing as a result of low domestic prices. At the same time domestic consumption figures increase, including a renewed build-up of commercial stocks, especially in the UK. Ending stocks are expected to decline as EU official intervention stocks are sold at a discount of €5/MT to the established intervention price.

The trend for shifting fluid milk processing from butter to other products, especially cheese and ice cream, is expected to continue in 2005. This should lead to a further reduction in overall butter production, despite possible continued German imports of industrial cream for butter production. Domestic prices for butter are expected to remain low because of continued French, German and BENELUX imports from Poland and Estonia, and because of the sale of commercial and intervention stocks in anticipation of the next cut in intervention price. This will result in an increase of extra EU-25 exports, reduced domestic consumption and decreasing ending intervention stocks.

NMS Butter

In the NMS, existing butter stocks in Poland are expected to be sold after accession in 2004. Butter production in the NMS is forecast to increase as milk deliveries to dairies increase. Lower butter prices than in the EU-15 are creating trade opportunities for exports to the EU-15. Domestic consumption is expected to decrease slightly as consumers increasingly prefer cheaper margarines.

EU25 Consolidated			
Commodity:	**Butter** (in '000 MT)		
Market Year	**2003**	**2004**	**2005**
Market Year Begin	**01/2003**	**01/2004**	**01/2005**
	Posts estimates [new]	Posts estimates [new]	Posts estimates [new]
Beginning Stocks	250	276	200
Production	2,239	2,200	2,185
Total imports	97	100	100
TOTAL SUPPLY	**2,586**	**2,576**	**2,485**
Total exports	296	308	315
Domestic consumption	2,014	2,068	2,020
Ending Stocks	276	200	150
TOTAL DISTRIBUTION	**2,586**	**2,576**	**2,485**

Top 6 EU25 Butter Producing Member States (in '000 MT)			
	2003	2004	2005
Germany	452	440	430
France	435	420	430
Netherlands	238	230	230
Poland	167	170	175
United Kingdom	148	160	140
Ireland	148	142	145

Non Fat Dry Milk (NFDM)

PSD Table						
Country:	**EU15**					
Commodity:	**Milk, Nonfat Dry** (in '000 MT)					
Market Year:	**2003**		**2004**		**2005**	
Market Year Begin:	**01/2003**		**01/2004**		**01/2005**	
	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]	USDA Official [old]*	Posts estimates [new]
Beginning Stocks	140	140	194	193	-	100
Production	1,083	1,085	1,030	940	-	965
Imports from NMS10		42		76	-	60
Extra EU25 imports		53		54	-	55
Total imports	93	95	90	130	-	115
TOTAL SUPPLY	**1,316**	**1,320**	**1,314**	**1,263**	-	**1,180**
Exports to NMS10		2		3	-	5
Extra EU25 exports		222		257	-	235
Total exports	224	224	250	260	-	240
Human Dom. Consumption	325	325	325	325	-	325
Other Use, Losses	573	578	559	578	-	575
TOTAL Domestic Use	898	903	884	903	-	900
Ending Stocks	194	193	180	100	-	40
TOTAL DISTRIBUTION	**1,316**	**1,320**	**1,314**	**1,263**	-	**1,180**

* This report offers the first forecast for 2005

Country:	**NMS**					
Commodity:	**Milk, Nonfat Dry** (in '000 MT)					
Market Year:	**2003**		**2004**		**2005**	
Market Year Begin:	**01/2003**		**01/2004**		**01/2005**	
	[old]*	Posts estimates [new]	[old]*	Posts estimates [new]	[old]*	Posts estimates [new]
Beginning Stocks	-	48	-	23	-	0
Production	-	249	-	235	-	230
Imports from EU15	-	2	-	3	-	5
Extra EU25 imports	-	5	-	5	-	3
Total imports	-	7	-	8	-	8
TOTAL SUPPLY	-	**304**	-	**266**	-	**238**
Exports to EU15	-	42	-	76	-	60
Extra EU25 exports	-	135	-	105	-	85
Total exports	-	177	-	181	-	145
Human Dom. Consumption	-	28	-	27	-	28
Other Use, Losses	-	76	-	58	-	65
TOTAL Domestic Use	-	104	-	85	-	93
Ending Stocks	-	23	-	0	-	0
TOTAL DISTRIBUTION	**-**	**304**	**-**	**266**	**-**	**238**

* As this is the first consolidated dairy report for the NMS, no old official USDA data exist.

EU-15 Non-Fat Dry Milk

Data for NFDM in EU-15 for 2003 were updated marginally to reflect final trade statistics. In 2004, EU-15 NFDM production is projected to decline by 145,000 MT to 940,000 MT. Main

reductions are anticipated in Germany (down 74,000 MT), France (down 33,000 MT) and the UK (down 26,000 MT). Marginal decreases in NFDM production are expected in the BENELUX, Ireland, Denmark and Spain, while an increase of 15,000 MT could occur in Sweden and Finland. Main factors for this decrease are lower milk deliveries and the reduction of the intervention price for NFDM as of July 2004 as decided in the CAP reform. High prices for casein also led to increased production in Germany and France at the expense of NFDM production.

Imports from the NMS are expected to nearly double, mainly as a result of increased German and BENELUX imports from Poland, Estonia and the Czech Republic (see below). Extra EU-25 exports are expected to increase by more than 15 percent because of strong demand on the world market as a result of lack of supply from Oceania. Major increases are expected from the BENELUX (20,000 MT), Sweden and Finland (combined 17,000 MT) and Germany (13,000 MT). Expanded export sales are expected to Asia, particularly Thailand, and Northern Africa, mainly Algeria and Egypt. The combination of lower NFDM production and strong export demands will enable the European Commission (EC) to halve the intervention stock from 193,000 MT to some 100,000 MT.

In 2005, EU-15 NFDM production is forecast to recover slightly by 25,000 MT to 965,000 MT, in response to strong prices and continued world export demand. Export demand is expected to remain solid because new season New Zealand NFDM production is already mostly committed. As a result, EC's NFDM intervention stocks are believed to further diminish to only 40,000 MT.

NMS Non-Fat Dry Milk

NMS NFDM production is expected to decline from 248,000 MT in 2003 to 235,000 MT in 2004, with a further 5,000 MT decrease in 2005. Decreases are mainly expected in Poland, down 7 percent to 140,000 MT, and the Czech Republic, down 10 percent to 35,000 MT. As in the EU-15, dairy processors are switching from NDFM and butter production to the production of cheese and other more value added products. In 2004, NFDM exports to the EU-15 are expected to almost double at the expense of exports outside the EU-25. Some of these recorded exports to the EU-15 could be transshipments, probably to Northern African countries. Remaining government stocks in Poland should be sold to depletion during 2004. As a result of lower production and the lack of stocks, exports in 2005 will decrease.

EU25 Consolidated			
Commodity:	**Milk, Nonfat Dry** (in '000 MT)		
Market Year:	**2003**	**2004**	**2005**
Market Year Begin:	**01/2003**	**01/2004**	**01/2005**
	Posts estimates [new]	Posts estimates [new]	Posts estimates [new]
Beginning Stocks	188	216	100
Production	1,334	1,175	1,195
Total imports	58	59	58
TOTAL SUPPLY	**1,580**	**1,450**	**1,353**
Total exports	357	362	320
Human Dom. Consumption	353	352	353
Other Use, Losses	654	636	640
TOTAL Domestic Use	1,007	988	993
Ending Stocks	216	100	40
TOTAL DISTRIBUTION	**1,580**	**1,450**	**1,353**

Top 6 EU25 NFDM Producing Member States (in '000 MT)			
	2003	2004	2005
Germany	324	250	260
France	273	240	260
Poland	149	140	135
United Kingdom	116	90	90
Belgium	87	88	90
Ireland	89	85	85

Whole Milk Powder (WMP)

PSD Table						
Country:	**EU15**					
Commodity:	**Whole Milk Powder (WMP)** (in '000 MT)					
Market Year:	**2003**		**2004**		**2005**	
Market Year Begin:	**01/2003**		**01/2004**		**01/2005**	
	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]	USDA Official [old]*	Posts estimates [new]
Beginning Stocks	0	0	0	0	-	0
Production	809	809	820	810	-	825
Imports from NMS		9		11	-	12
Extra EU25 imports		2		1	-	1
Total imports	11	11	10	12	-	13
TOTAL SUPPLY	**820**	**820**	**830**	**822**	**-**	**838**
Exports to NMS		3		5	-	5
Extra EU25 exports		475		517	-	525
Total exports	478	478	500	522	-	530
Human Dom. Consumption	342	342	330	300	-	308
Other Use, Losses	0	0	0	0	-	0
TOTAL Use	342	342	330	300	-	308
Ending Stocks	0	0		0	-	0
TOTAL DISTRIBUTION	**820**	**820**	**830**	**822**	**-**	**838**

* This report offers the first forecast for 2005

Country:	NMS					
Commodity:	Whole Milk Powder (WMP) (in '000 MT)					
Market Year:	2003		2004		2005	
Market Year Begin:	01/2003		01/2004		01/2005	
	[old]*	Posts estimates [new]	[old]*	Posts estimates [new]	[old]*	Posts estimates [new]
Beginning Stocks	-	1	-	1	-	0
Production	-	64	-	59	-	58
Imports from EU15	-	3	-	5	-	5
Extra EU25 imports	-	2	-	0	-	0
Total imports	-	5	-	5	-	6
TOTAL SUPPLY	-	**70**	-	**65**	-	**64**
Exports to EU15	-	9	-	11	-	12
Extra EU25 exports	-	8	-	5	-	5
Total exports	-	17	-	16	-	17
Human Dom. Consumption	-	52	-	49	-	47
Other Use, Losses	-	0	-	0	-	0
TOTAL Use	-	52	-	49	-	47
Ending Stocks	-	1	-	0	-	0
TOTAL DISTRIBUTION	-	**70**	-	**65**	-	**64**

* As this is the first consolidated dairy report for the NMS, no old official USDA data exist.

EU-15 Whole Milk Powder

WMP production in the EU-15 is expected to increase slightly in 2004, but less than previously forecast. The production increase in Germany and France is mostly offset by decreases in the BENELUX, Spain and the UK. While imports from the NMS, mainly Poland, expand from 9,000 MT to 11,000 MT, the increase in exports, by Germany (80 percent increase), France (20 percent) and the BENELUX (13 percent), are expected to add up to almost 10 percent to total 522,000 MT. These exports result from strong demand from the Middle East, Algeria and Indonesia. Domestic consumption figures in 2004 are down because of sales from commercial stocks by the UK and the BENELUX.

For 2005, forecasts are that production will expand at the expense of NFDM, because of the reduction in intervention prices for NFDM. Exports will increase further as world demand remains strong and domestic consumption figures increase again as commercial stocks are rebuilt.

NMS Whole Milk Powder

WMP production in the NMS in 2004 is expected to decrease about seven percent compared to 2003, especially in the Czech Republic, due to the decrease in milk deliveries. Exports, mainly from Poland, are shifting from extra EU-25 to EU-15. Domestic consumption in 2004 is expected to decrease compared to 2003. In 2005, the decrease in production is forecast to slow down, as is the decrease in domestic consumption.

EU25 Consolidated			
Commodity:	**Whole Milk Powder (WMP)** (in '000 MT)		
Market Year:	**2003**	**2004**	**2005**
Market Year Begin:	**01/2003**	**01/2004**	**01/2005**
	Posts estimates [new]	Posts estimates [new]	Posts estimates [new]
Beginning Stocks	1	1	0
Production	873	869	883
Total imports	4	1	1
TOTAL SUPPLY	**878**	**872**	**884**
Total exports	483	522	530
Human Dom. Consumption	394	349	355
Other Use, Losses	0	0	0
TOTAL Use	394	349	355
Ending Stocks	1	0	0
TOTAL DISTRIBUTION	**878**	**871**	**885**

Top 6 EU25 WMP Producing Member States (in '000 MT)			
	2003	2004	2005
France	206	215	215
Germany	154	173	175
Netherlands	117	112	110
United Kingdom	102	90	90
Denmark	82	80	80
Belgium	72	68	70

Policy

Mid Term Review (MTR) and its possible consequences for the EU-15

Within the EU-15, decoupling of subsidies and decreasing milk prices, as a result of lower intervention prices agreed upon in the MTR, are expected to lead to further consolidation and a shift of milk production from marginal production areas to the more favorable production areas. It is expected that the tradability of milk quota, though only within member states, will reinforce this process. Milk production in the EU-15 is expected to remain stable, even if, eventually, prices will drop to reflect the consecutive cuts in intervention prices. In meantime, the present hike in world dairy prices offers opportunities for the EU to greatly reduce its intervention stocks. In the coming years, we are likely to see a shift in product mix. Indeed, the drop in prices for butter and milk powder will force dairies to focus on products with higher value added like cheeses, yogurts and other milk drinks. This is possible because expectations are that the trend of increasing consumption of these products will last for many more years. Commissioner Fischler recently forecasted an increase in cheese consumption of 700 thousand tons by 2010. Market expectations as seen by the EU commission for the coming years are outlined in "Prospects for Agricultural Markets 2004-2011 – Update for EU-25" at http://europa.eu.int/comm/agriculture/publi/caprep/prospects2004a/index_en.htm.

Consequences of Accession for the New Member States (NMS)

Introduction of Milk Quota in the NMS

In the NMS-10, it is expected the dairy market will be driven by the adjustment of raw milk production to the production quota allocated for each country and adjustment of raw milk and milk product prices to the former EU-15 level. This process will need substantial changes in structure of production both at the farm and processor's level. In 2002 only 15.4 million MT of milk out of the 22 million MT produced in the NMS was delivered to dairies. Proportion of milk deliveries to dairies was particularly low in Poland and the three Baltic states. Data for 2002 and previous years on the dairy sector in the member states of the EU-15 and NMS, including a table with the proportion of milk delivered to dairies can be consulted at http://europa.eu.int/comm/agriculture/agrista/2003/table_en/en420.htm. Milk quota given to the NMS, as agreed in Copenhagen, totals 18.3 million tons, of which 16.8 million tons is for delivery to the dairy industry and 1.5 million tons is for on farm sales. This allocation will require reduction of on-farm sales especially in Poland, which traditionally had a large portion of raw milk sold directly to consumers.

(in MT)	Quota On Farm Sales	Quota Deliveries to Dairies	Total	Reserves 2006
Poland	464,017	8,500,000	8,964,017	416,126
Czech Republic	68,904	2,613,239	2,682,143	55,787
Hungary	164,630	1,782,650	1,947,280	42,780
Lithuania	390,499	1,256,440	1,646,939	57,900
Slovakia	22,506	990,810	1,013,316	27,472
Latvia	226,452	468,943	695,395	33,253
Estonia	87,365	537,118	624,483	21,885
Slovenia	93,361	467,063	560,424	16,214
Cyprus	3,863	141,337	145,200	0
Malta	0	48,698	48,698	0
Total	**1,521,597**	**16,806,298**	**18,327,895**	**671,417**
EU-15	**1,286,561**	**117,606,472**	**118,893,033**	**-**
EU-25	**2,808,158**	**134,412,770**	**137,220,928**	**-**
Source:	ONILAIT.			

More information on the Copenhagen EU Summit Agreements on NMS Accession can be found in a 2002 EU document "FACT SHEET - Enlargement and agriculture: A fair and tailor-made package which benefits farmers in accession countries" at http://europa.eu.int/rapid/pressReleasesAction.do?reference=MEMO/02/301&format=HTML&aged=0&language=EN&guiLanguage=en

NMS adapting to EU hygiene standards

Expectations are indeed that the adoption of EU quality and hygiene standards for milk production, as a result of the accession, will lead to a fast change in the milk producer profile. While the dairy industry in the NMS has already adjusted to EU standards in the past years, farmers haven't yet. Farms will consolidate as the economically vigorous producers will acquire the milk quota rights from the smaller, which lack the financial resources to make the necessary investments to meet EU quality standards. Milk production shouldn't decrease.

Differences between the New Member States

Wrongfully, the 10 NMS are often seen as one area, but differences among them are much larger than within the EU-15 (See table on page 4 of the EC DG Agriculture fact sheet at http://europa.eu.int/comm/agriculture/publi/fact/sapard/sapa_en_2001.pdf).
The spread of milk prices throughout the NMS is a good example. Milk prices to the producer in the Southern countries of the NMS were higher than in the EU-15 and farmers will inevitably need to increase production efficiency to stay in business. The Northern NMS countries, contrarily, had lower milk prices than in the EU-15, which already led to important milk purchases by German and Dutch dairy companies, mainly from Poland. As a result, availability of milk for local processing has decreased and resulted in significant price increases for dairy products. This price differential between the various NMS countries and EU-15 is expected to fade within the next year or so. In meantime, the milk shortage and the raise in dairy prices have created export opportunities for EU-15 companies; however, at the same time, this price evolution has put a serious brake on dairy consumption in the NMS. In a longer perspective, current low consumption level of dairy products in the NMS creates an opportunity for increase of output in NMS as well as increase of exports from the EU-15 to the NMS markets. A 2004 study "Consumption Trends for Dairy and Animal Products, and the Use of Feeds in Production" from the Institut für AgrarEntwicklung in Mittel- und OstEuropa (IAMO) offers a table with " Expert ratings for the development of dairy consumption in CEEC-10" on page 26 at http://europa.eu.int/comm/agriculture/publi/reports/ccconsumption/fullrep_en.pdf.
As a result, the EU-25 self-sufficiency for dairy would decrease, leaving little product for exports by 2011.

Consolidation and Foreign Investment Opportunities

All these adjustments will not happen without some pain. It is expected that, both at the farmer level and at the dairy processing level, a great deal of consolidation will take place. The need for capital to achieve this will offer opportunities for foreign investors, European and other. It is hard to assess at this point how opportunities for U.S. exports will evolve, but it should offer long-term perspectives, especially for milk powders.

Expected Evolutions in the Most Important Milk Producing New Member States

Poland

Polish dairy sector will undergo the deepest restructuring as a result of EU accession of all NMS. Before 1989, Polish farmers used to produce over 16 million MT of milk, but production has fallen to below 12 million MT in 2000. In the accession negotiations, GOP asked for a milk quota of 13.7 million MT and was granted just below 9 million MT by the commission. Farm sales mainly are poised to decrease, as many small farms will not be able to make the necessary investments to meet EU hygiene investments. Speculations exist that some on farm sales will continue off the record for some time because subsistence farms may remain unregistered. Polish dairies, using SAPARD and Polish Government funds, have already made important progress to meet EU requirements. Approval to sell onto the EU market was granted to 204 dairy cooperatives, of which 144 were granted adjustment transition periods up to the end of 2007. More details on Polish agriculture can be found in the EU 2002 " Country Report on Poland" at http://europa.eu.int/comm/agriculture/external/enlarge/publi/countryrep/poland.pdf.

Hungary

Hungary's dairy farmers are expected to further consolidate rapidly. In the past three years, the number of dairy farms already declined from 12,000 to 7,000 farms. As a result of EU accession, the GOH has terminated the national dairy subsidy programs and although a

"Dairy envelope" of €14.5 million is foreseen in the Hungarian top-up National Direct Payments, it is forecast that profitability of Hungarian milk production will decrease. The weak domestic demand for dairy products, combined with a lack of competitivity on export markets, could cause a failure for Hungarian milk production to fill its EU quota in the coming years. Hungarian farmers are expected to gradually back away from animal production favoring arable crops in the coming years. More details on Hungarian agriculture can be found in the EU 2002 " Country Report on Hungary" at http://europa.eu.int/comm/agriculture/external/enlarge/publi/countryrep/hungary.pdf.

Czech Republic

In 2000, dairy was the largest Czech agricultural sector with 20.6 percent of total agricultural production value. In 2002, milk production amounted to 2.8 million MT, which is only slightly over the 2.7 million MT milk quota allocations. As a result, adapting further to the EU market is not expected to cause major problems. The dairy production amounted to about 120 percent of Czech self-sufficiency. The Czech dairy industry exported most of this surplus production outside the EU, mainly NFDM to Thailand and Algeria and butter to Russia. More details on Czech agriculture can be found in the EU 2002 " Country Report on the Czech Republic" at http://europa.eu.int/comm/agriculture/external/enlarge/publi/countryrep/czech.pdf.

Slovakia

Dairy production in Slovakia is less dominant for farm incomes compared to the Czech Republic. However, farms and dairy industry have already upgraded to EU standards mostly. Milk production in 2002 was 1.16 million MT, while allocated milk quota is 1.0 million MT. Self-sufficiency was 117 percent. Slovakia exports milk and dairy products mostly to the EU-15, mainly Germany, and the Czech Republic. More details on Slovak agriculture can be found in the EU 2002 " Country Report on the Slovakia" at http://europa.eu.int/comm/agriculture/external/enlarge/publi/countryrep/slovak.pdf.

Slovenia

In 2000, dairy in Slovenia was the largest agricultural sector with 16.9 percent of total output. The 2002 milk production was almost 700,000 MT, of which only 70 percent was delivered to dairies. Dairy farms are very small and consolidation is expected to reduce production, mainly for on farm sales, to meet the 560,400 MT quota ceiling granted by the EU. This will greatly trim the milk oversupply of 130 percent of self-sufficiency. Although milk prices were slightly over EU average milk prices, proximity and demand from Croatia, Bosnia-Herzegovina and Italy have spurred export opportunities. Details on Slovenian agriculture can be found in the EU 2002 "Country Report on Slovenia" at http://europa.eu.int/comm/agriculture/external/enlarge/publi/countryrep/slovenia.pdf.

Baltic States

Milk production in the Baltic States Lithuania, Latvia and Estonia, accounted for more than 20 percent of agricultural output in 2000. Although milk production had declined by roughly 40 percent during the nineties, self-sufficiency was still about 130 percent and milk prices to the producer were only 60 percent of EU prices. Farms were very small and production very inefficient, with only some 50 percent of milk being delivered to dairies in Lithuania and Latvia and 80 percent in Estonia by 2002. Although 2002 milk production levels are barely above milk quota allocated by the EU, consolidation and adapting to EU standards are expected to be a major challenge. Dairies mostly have already upgraded to EU standards and are eligible for exports. Dairy product exports vary per country. In 2004, milk exports

are being recorded from Latvia to Estonia; milk cream is currently exported from Lithuania to Germany; cheese is being exported from Lithuania to Russia, U.S. and the EU-15, and from Latvia to the EU-15; butter from Lithuania and Estonia is being exported to the EU-15 mainly; NFDM exports are mainly from Estonia to The Netherlands and little or no WMP is being exported. Details on agriculture in the Baltic States can be found in the EU 2002 "Country Reports on Lithuania, Latvia and Estonia" at the respective websites
http://europa.eu.int/comm/agriculture/external/enlarge/publi/countryrep/lithuania.pdf
http://europa.eu.int/comm/agriculture/external/enlarge/publi/countryrep/latvia.pdf
http://europa.eu.int/comm/agriculture/external/enlarge/publi/countryrep/estonia.pdf

Another Institut für AgrarEntwicklung in Mittel- und OstEuropa (IAMO) study "The Future of Rural Areas in the CEE New Member States" at http://europa.eu.int/comm/agriculture/publi/reports/ccrurdev/annex_en.pdf also offers good additional information on the NMS strengths and weaknesses.

Other Implications on CAP Spending

Another aspect of all these changes is the impact on the EU CAP budget. Expenses on direct payments to farmers, whether included in the Single Farm Payment in the EU-15 or in the Single Area Payment in the NMS, will greatly be compensated by the reduction in cost for intervention and the resulting decrease in export refund spending. The Rural Development policy provided in the 2nd Pillar of the CAP should alleviate much of the economic and social pain that will come with restructuring. This policy is meant to complement the market policies through promotion of the multifunctional character of agriculture and achievement of a balanced territorial development by enhancing economic and social cohesion. However, the budgets for this CAP 2nd Pillar after 2006 will largely depend on the outcome of the overall EU budget ceiling negotiations. Budgets laid out for rural development programs in individual NMS from 2004 through 2006 can be found on page 17 of an EC presentation at http://europa.eu.int/comm/agriculture/events/sofia/courades.pdf.

Other Related Reports:

Report Number	Title	Date Released
E24074	Dairy and Products Semi-Annual	05/14/2004
GM4024	German dairy farmers exceeded their milk quota by 362,000 MT in milk year 2003/04	07/07/2004
PL4037	Poland's EU Accession Dramatically Boosts its Dairy Sector	10/04/2004
These reports can be accessed through our website www.useu.be/agri or through the FAS website http://www.fas.usda.gov/scriptsw/attacherep/default.asp.		

Visit our website: our website **www.useu.be/agri/usda.html** provides a broad range of useful information on EU import rules and food laws and allows easy access to USEU reports, trade information and other practical information.