



EU Dairy Quota Sunset

Part II: Potential Impacts on World Exports

By Blimling and Associates

Key Points:

- *On April 1, 2015, EU dairy farmers will be allowed to produce as much milk as they wish. But ultimately, it is the EU dairy processors who hold the key to unlocking the vast potential of incremental post-quota milk supplies.*
- *Since the European Commission began phasing out dairy quotas, EU processors have been positioning themselves to maximize returns on impending incremental milk volume. In the process, they have invested billions of euros for capacity expansions and new plants.*
- *In the coming 12 to 18 months, U.S. and other non-EU dairy product exporters will likely confront increased competition from European products in key global destination markets, particularly for cheese and SMP.*
- *EU cheese makers are expected to install 500 million pounds of additional capacity by year-end 2015, a 3 percent supply-side expansion. With domestic demand relatively flat, virtually all of this new capacity should find its way into exports, expanding shipments by almost a third. This could present a major challenge to rival cheese exporters, including those in the U.S.*
- *As EU cheese exports ramp up, U.S. exporters will encounter varying degrees of exposure. Those who have built global supply chains or produce specialized cheese products with loyal customer bases should find their market shares less vulnerable to the intensified competition.*
- *EU producers of SMP are expected to install 420 million pounds of additional capacity by year-end 2015, most of which will likely be exported – amounting to nearly a 50 percent increase in EU exports. Such a substantial boost in EU exports could be highly disruptive to the global SMP trade.*
- *Two new EU butter plants are being built – one in the UK and the other in Ireland to service the UK market. This new butter capacity is likely to displace UK imports drawn from elsewhere in the EU, causing ripple effects within the global market. However, most of the displaced butter will likely end up being absorbed primarily within the intra-EU market.*

Inside this Issue...

Introduction	2
Cheese Analysis	2
SMP Analysis	7
WMP Analysis	12
Closing Remarks	16

This is the second of two reports that examine the sunset of the EU dairy quota system. The first one was published in November 2014 and focused on how much the EU's total milk production will likely expand when the quota restraint is lifted. This second report will focus first on how the incremental growth in EU milk production will be allocated among such dairy processed products as cheese, milk powders, and butter; and then on how the global dairy product markets will be affected.