A possible shortage of milk in the EU

What will it do to the EU's role in the global market?

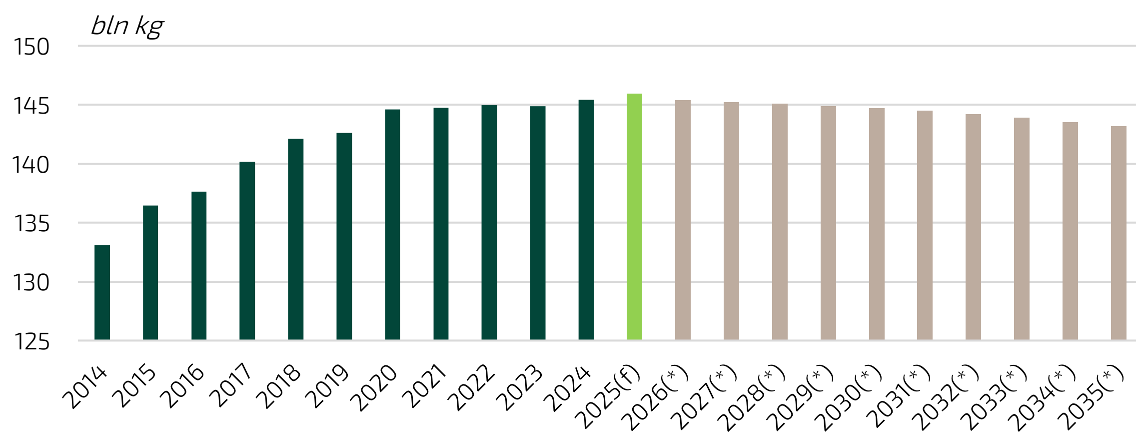
Introduction

The EU market is slowly waking up to the reality that milk as a raw material will no longer be always available in abundance. Milk prices paid to farmers have averaged between €0.45 and € 0.60 per kg in the EU over the last couple of years but milk production has hardly increased since 2021. This new reality firstly creates some interesting challenges for EU processors in years to come. The combined output profile of the EU processors will require some re-evaluation and eventually we will most likely see a restructuring of processing assets across the EU region. Secondly, it seems inevitable that the EU will become a more attractive target market for exporting regions across the world in certain product categories. In this Insight we will explore some scenarios and considerations of how the EU's output profile might change and how this may affect the EU's role in the global dairy economy.

The EU commission's Agricultural Outlook, is it realistic?

The initial incentive to compile this Insight came when the EU Commission published its latest Agricultural Outlook last December. In this report, the EU Commission presents the outlook for EU milk deliveries until 2035 (see figure 1). This scenario assumes milk deliveries to peak this year at close to 146 billion kilograms after which a gradual decline follows to eventually a level of about 143 billion kilograms in 2035.

Figure 1. EU milk deliveries going forward according to the EU Agricultural Outlook



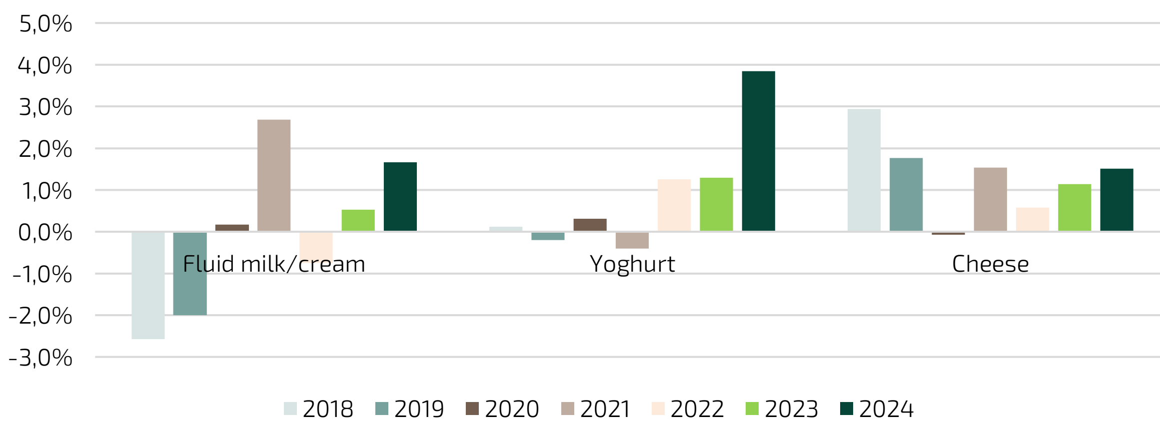
Source: ZMB data until 2024, (f) 2025-forecast by Dairyntel, (*) 2026 – 2035 forecast by "EU Agricultural Outlook" December 2024.

A scenario of gradual decline appears likely given the many challenges related to environment, sustainability, labor availability and generational succession, although several studies have also suggested the possibility of a stronger decline going forward.

How will the EU's dairy output profile change?

Things get interesting when we consider how a backdrop of slowly declining milk production might affect the output profile of the EU processing industry. After all, several product categories still require a growing volume of milk year after year. Cheese consumption rarely skips a beat and consistently grows every year. What's even more surprising is the rejuvenation of liquid dairy demand in recent years. After many years of declining consumption of milk and yoghurts, recent years indicate a reversal of that trend of declining popularity. The main reason probably is the protein boom, as protein-fortification made dairy drinks and yoghurts very popular again. Figure 2 gives an overview of consumption growth in these product categories since 2018.

Figure 2. EU-consumption growth by product category (2018-2024, %)



Source: ZMB/AMI data, Dairyntel analysis

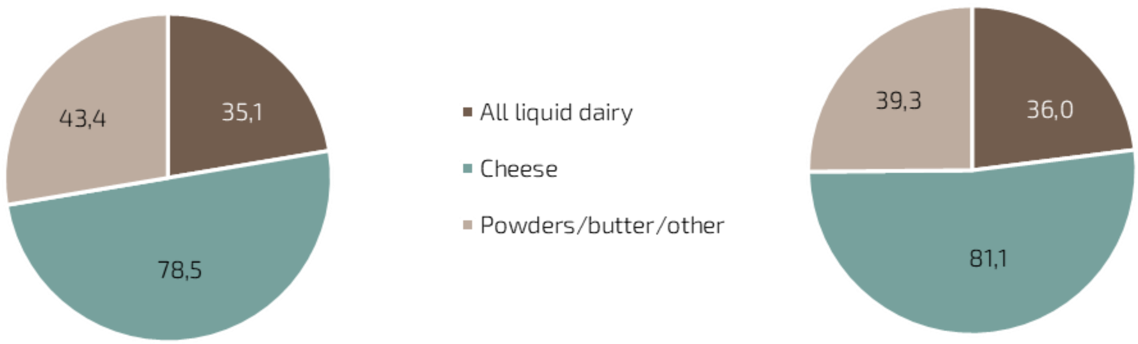
We don't know if the protein-boom will continue to boost consumption of liquid dairy. In addition, cheese consumption may not continue to grow with a rate of around 1 % forever. But even at more conservative growth rates it is inevitable that the volume of milk available for other products will go down quite rapidly.

To give an idea about what happens with milk availability for other product categories than cheese and liquid dairy products we will conservatively assume:

- cheese consumption growth to slow to 0.8%;
- liquid milk consumption to only grow in line with population growth;
- yoghurts and other fresh dairy to grow by 1 % on average.

If we take the milk production scenario of the EU Agricultural Outlook as a given and assume production of cheese and liquid dairy to grow in line with this conservative consumption growth outlook then figure 3 visualizes the resulting change in the milk allocation pie between 2024 and 2028.

Figure 3. EU milk allocation pie (2024 and 2028, bln kg)



Source: ZMB/AMI data, Dairyntel analysis

Under the assumptions above the milk volume that is available for products like milk powders, butter, casein and condensed milk declines by almost 10% in 4 years. This is quite a dramatic drop that is bound to have an impact on investment decisions by processors at the factory level. Of course, we will see adjustments in product formulations that use dairy proteins and fats that may soften the impact, but availability of these products inside the EU is definitely going to decline. If we have to draw one conclusion from all of this, then it is that the current tightness in the milk fat balance will very likely be structural. In this context, we also refer to our previously published Insight: Cheese wins the fat battle over butter www.dairyntel.nl/inzichten/cheese-wins-the-fat-battle-over-butter

Potential investment dynamics resulting inside and outside the EU

It seems safe to assume that the two big dairy mergers that were announced in the last six months between FrieslandCampina and Milcobel and between Arla Foods and DMK were at least partially driven by the developments addressed in this Insight so far. The kind of required decisions about milk allocation prioritization and resulting factory restructuring can more efficiently be achieved within the context of such large-scale mergers. But still we haven't seen the end of the EU-wide factory restructuring that will inevitably follow from a declining milk pool.

We may also see more fat filled dairy and other hybrid dairy formulations in years to come. The Netherlands recently witnessed the introduction of a hybrid liquid dairy product range where some 40% of the dairy components are replaced by fava beans. Especially in the milk fat category it is likely that we will see more vegetable fat-filled and hybrid alternatives appearing on the retail shelves. After all, hybrid spreads have been available for decades already.

The EU's role as an exporter will surely diminish considerably in the next decade but even more than that; dairy imports into the EU will inevitably grow. Also outside the EU processors are starting to look with more interest at the fortress that the EU dairy market once was. The FTA with New Zealand that is in place since May 2024 was initially frowned upon by EU processors. However we may probably need imports in years to come as certain pockets of demand that absorb butter and cheese can better be served by more favorably priced imports. That is if manufacturers want to avoid demand being killed by too high prices for butter and cheese. As we are moving towards a structurally tighter dairy market balance in the EU, it makes sense to let commodity imports help meet demand in lower-value ingredient segments. Particularly as the EU is overall quite an attractive destination for exports. Prices and margins are generally higher than in many other markets. Even the lower end of the EU dairy market can be a very attractive target for potential exporters.

If you are interested in our in-depth market insights or data underlying this analysis, please feel free to contact us.