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Spain

Dairy and Products

Annual

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Report Highlights:
Spain's long-term expansion in cow's milk production continues and should reach 6.6 million tons in 2001 -- a new record. Expansion during the 1990's caused Spain to face levies for exceeding EU production quotas; however, last year's Agenda 2000 agreement added 550,000 tons to the quota, which should give Spain's milk producers ample growing room for the next few years. With fluid milk consumption remaining stable, production gains will go toward offsetting milk imports or augmenting factory use, especially for cheese, yogurt and ice cream production. Although EU restrictions keep most U.S. dairy products out of the Spanish market, the U.S. continues to supply genetics, primarily semen, to Spanish breeders.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Madrid [SP1], SP

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Executive Summary

The Spanish dairy industry's long-running battle with EU production quotas has taken a temporary truce. Under the EU's Agenda 2000 agreement, Spain's EU-assigned dairy quota was increased by 350,000 tons in MY 2000/01 and by another 200,000 tons in MY 2001/2002. As a consequence, cows milk output will be able to expand without incurring the over-quota penalties which have plagued the industry for the past five years. Production should reach a record 6.6 million tons in 2001.

This expansion in production is driven by very profitable producer prices for raw milk. While fluid milk consumption has been flat, factory usage is expanding, thanks to brisk growth in consumption of cheese, yoghurt, and ice cream. Both domestic and multinational dairy companies have made nearly a quarter billion dollars in investment in new plants in Spain during the past three years. Some of these operations are state-of-the-art facilities which are said to be capable of competing throughout the EU market. Most of Spain's dairy product trade is with other EU countries. Good prices for sheep and goats milk, which are not restricted by EU quotas, are encouraging further expansion of production. Cheeses made of these milks, particularly the "appellation of origin" types, command high prices in both domestic and export markets

EU duties on dairy products limit export opportunities for most U.S. dairy products in Spain. The U.S. continues to export genetics to improve Spain's dairy herd. About $3 million of U.S. dairy semen was sold to Spanish breeders in 2000.

(The exchange rate for dairy products applicable for October 2001 is 1 EURO = 166.38 pesetas; U.S. dollar = 182 pesetas.)

Fluid Milk

PSD Table						
Country	Spain					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Cows In Milk	1228	1182	1210	1160	0	1150
Cows Milk Production	6050	6294	6250	6600	0	6650
Other Milk Production	620	661	620	665	0	670
TOTAL Production	6670	6955	6870	7265	0	7320
Intra EC Imports	300	437	280	300	0	250
Other Imports	0	0	0	0	0	0
TOTAL Imports	300	437	280	300	0	250
TOTAL SUPPLY	6970	7392	7150	7565	0	7570
Intra EC Exports	180	197	190	250	0	300
Other Exports	4	3	4	4	0	4
TOTAL Exports	184	200	194	254	0	304
Fluid Use Dom. Consum.	3720	3645	3700	3650	0	3655
Factory Use Consum.	2966	3312	3156	3426	0	3496
Feed Use Dom. Consum.	100	235	100	235	0	115
TOTAL Dom. Consumption	6786	7192	6956	7311	0	7266
TOTAL DISTRIBUTION	6970	7392	7150	7565	0	7570
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Persistent dry weather, which began last spring throughout much of Spain, resulted in poor pasture conditions during the spring and summer of 2001. As a result, the prices of alfalfa and feed grains rose by about 15 percent relative to 2000. Despite higher prices for feeds (which account for about 60 percent of the total cost of milk production), Spanish dairy farmers still made good profits in most of 2000 and in the first ten months of 2001. Current prices paid to

producers are ranging between 55 and 65 pesetas per liter (US$.30 - .36). Costs of production range from about 32 pesetas ($.18) on the larger farms in Southern Spain, to about 40 pesetas ($.22) per liter on the smaller ones in the North. These profit margins, together with Spain's higher EU production quota, have pumped up output in MY 2001/02. Mother Nature has also helped. Timely rains, which began in September 2001, have improved pasture conditions in most dairy areas.

The EU production quota has been the major constraint to Spain's dairy industry. The EU quota sets a limit on the quantity of cows milk which can be sold in commercial channels. The Spanish government assigns an individual quota to each producer. Producers are subject to a penalty for production over quota. For a number of years the penalties were not aggressively collected. A recent report by the EU's Court of Auditors noted that Spanish farmers paid only about 4 percent of the penalty due in MY1995/95 and just 10 percent in MY1996/97. The Spanish Government did not start to crack down on over production until MY1998/99, when 68 percent of the penalty was collected. In MY 1999/2000, dairy farmers paid a penalty of 5.1 billion pesetas ($29 million) on an over-quota production of 87,632 tons.

The EU's Agenda 2000 agreement substantially expanded Spain's quota, which rose from 5.56 million tons for MY 1999/00 to 6.11 million tons for MY 2001/02. The new quota has accommodated further expansion in milk output. In MY 2000/01, milk production increased by about 150,000 tons; yet despite of this increase, total production was still about 200,000 tons lower than the quota.   A expected further expansion of production in MY 2001/02 should also still fall below the new quota.

The 2001/02 quota has been allocated among individual farmers, with an average quota per farm of about 98 tons a year. The penalty for over-production was established at 59,280 pesetas ($325) per ton. Farmers may buy and sell quota rights in a secondary market. A dairy farmer who wishes to expand production must first buy additional quota in order to avoid penalties. The current price per liter of quota is about 70 pesetas. This market for quota sales is apparently providing some encouragement for farmers to leave the business. The number of dairy farms declined to about 62,468 in 2000, some 6,000 less than in 1999.

EU production quotas do not apply to goat and sheep milk. Prices for these milks, which go mainly to higher-priced cheeses, have been very profitable during the last few years. Although the dairy sheep population is said to be declining due to difficulties in finding shepherds, sheep milk production could rise for the next few years due to expected good prices. New statistics published by the Ministry of Agriculture reflect large increases in sheep milk production over the last few years. In 2000, production of goat milk amounted to 358,000 tons and sheep milk, 303,354 tons.

Prices Table

Country	Spain		
Commodity	Dairy, Milk, Fluid		
Prices in	Pesetas	per	liter
Year	1999	2000	% Change
Jan	49	47	-4.08%
Feb	49	47	-4.08%
Mar	49	47	-4.08%
Apr	48	46	-4.17%
May	47	46	-2.13%
Jun	47	45	-4.26%
Jul	46	45	-2.17%
Aug	46	46	0.00%
Sep	45	47	4.44%
Oct	46	47	2.17%
Nov	47	49	4.26%
Dec	47	50	6.38%
Exchange Rate	182	Local currency/US $	

Consumption

Spain has an aging population and minimal population growth. Consequently, total consumption of fluid milk has been slipping for the past few years. Per capita consumption of fluid milk declined from 121 liters in CY 1996 to about 100 in CY 2000. Although refrigerators are found in most Spanish homes, UHT milk, with a long shelf life, continues to account for more than 97 percent of sales. With a stable fluid market, virtually all of the increases in milk supplies have been going to processing. Consumption of cheese, yogurt and ice cream have shown brisk growth during the last few years, rising by about 7 percent in CY 2000 alone. Consumption of yogurt totaled 580,000 tons in 2000, while that for ice cream rose to 270 million liters.

This solid growth in consumption of dairy products has fueled investments in production facilities by both multinational and domestic companies. During 1999-2002, the total investments in new dairy plants have been valued at about 50 billion pesetas ($278 million). The most recent investments were made by the major multinationals, such as Danone, Nestle and Suiza Food Corporation, as well as by the larger domestic companies.

Trade

Almost all of Spain's dairy trade is confined within the EU. Spain maintains a trade deficit with the EU equivalent to about 1 million tons of fluid milk. In CY 2001, fluid milk exports have been increasing (thanks to higher prices in other EU countries), while imports are declining (due to the higher production quota). In fact, Spain may be a net exporter of fluid milk in 2002. Success has its price, however. During the last few months, Spanish farmers' organizations have been protesting against a boycott, organized by French farmers' groups, of sales of Spanish packing milk in France.

With new investments in state-of-the-art production facilities mentioned above, and relatively cheaper price for raw milk, Spain could also increase exports of yogurt, ice cream and dairy desserts to the EU during the next few years.

Milk Import Trade Matrix

Import Trade Matrix			
Country	Spain		
Commodity	Dairy, Milk, Fluid		
Time period	CY	Units:	Metric Tons
Imports for:	1999		2000
U.S.	0	U.S.	
Others		Others	
EU Countries	312798		436339
Australia	128		188
Total for Others	312926		436580
Others not Listed	0		13
Grand Total	312926		436593

Milk Export Trade Matrix

Export Trade Matrix			
Country	Spain		
Commodity	Dairy, Milk, Fluid		
Time period	CY	Units:	Metric Tons
Exports for:	1999		2000
U.S.	0	U.S.	9
Others		Others	
EU Countries	154406		195061
Andorra	1562		3249
Gibraltar	973		1005
Total for Others	156941		195061
Others not Listed	310		5111
Grand Total	157251		200181

Policy

Under the EU's Agenda 2000 package of agricultural reforms, Spain obtained a 550,000-ton increase in its dairy quota to be phased in two parts: 350,000 tons in MY 2000/2001, and 200,000 tons in MY 2001/2002. Consequently, Spain's quota now totals 6.11 million tons. The increases allowed the sector to avoid EU over-quota penalties in MY 2000/01. In fact, fluid milk production in 2000/01 was 207,883 tons below the quota. MY 2000/01 was the first year without penalties for the Spanish dairy sector since the over-quota penalties have been in force. Penalties must to be paid by the dairy farmers who produced over their individual quotas. The penalty per mt produced over the quota was set at 59,280 pesetas ($329) per tons. This high penalty has been working as a powerful stabilizer in milk production. For the next few years, the Spanish milk production will be in line with the quota.

The Spanish Government is implementing a plan to increase productivity by encouraging the retirement old farmers and redistributing their quotas among young farmers. Around 74,000 tons were reallocated under this program MY 1999/2000. An additional 28,000 tons were allocated from the national reserve as well.

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Marketing

EU policies limit opportunities for U.S. dairy exports to Spain. U.S. genetics, primarily semen and embryos, continue to maintain a market. Technical seminars and attendance at selected dairy shows have been the primary marketing tools used by U.S. genetics companies. In 2000, the value of imported semen amounted to about $ 7.2 million, of which about $3 million was from the United States. Improved genetics has a long way to go. Only 362,000 dairy cows (mainly Holstein) are registered in Spain, which amounts to less than a third of the national dairy herd.

Dairy, Cheese

PSD Table						
Country	Spain					
Commodity	Dairy, Cheese				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	30	30	30	28	30	30
Production	210	210	220	220	0	230
Intra EC Imports	105	114	100	115	0	115
Other Imports	1	3	1	3	0	2
TOTAL Imports	106	117	101	118	0	117
TOTAL SUPPLY	346	357	351	366	30	377
Intra EC Exports	35	28	37	28	0	30
Other Exports	3	4	4	5	0	6
TOTAL Exports	38	32	41	33	0	36
Human Dom. Consumption	278	297	280	303	0	309
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	278	297	280	303	0	309
TOTAL Use	316	329	321	336	0	345
Ending Stocks	30	28	30	30	0	32
TOTAL DISTRIBUTION	346	357	351	366	0	377
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	1	1	1	1	1	1

Production

Cheese is by far Spain's most important dairy product. Production is slowly expanding in line with the increases in fluid milk output discussed above. Production for 2000 has been modified due to new statistics recently published by the Ministry of Agriculture in March 2001. In 2000, output totaled 210,000 tons. O f this amount, only 30 percent (64,300 tons) was made entirely from cows milk; about 15 percent (31,000 tons) entirely from sheep milk; and 2 percent (4,700 tons) entirely from goat milk. More than half of Spain's cheese output (110,000 tons) was made from a blend of the three milks. In addition, the production of cottage cheese and other soft curd fresh cheeses amounted to about 84,000 tons.

Spanish cheeses protected under "appellation of origin" rules. amounted to about 13,000 tons in CY 2000. Manchego, a pure sheep milk cheese produced in the region of Castilla-La Mancha made up nearly half of this category. Commanding higher prices and good export demand, these cheeses should register strong growth in coming years.

Trade

The overwhelming majority of Spain's cheese trade is confined to the European Union. Import from the United States is minimal. Spain exported 1,065 tons of sheep cheese (mainly Manchego) to the United States in 2000, up 75 percent from 1999. The expected higher production of cheese in 2001 and 2002 could slow future imports from the EU. A large portion of Spanish high quality cheeses are exported to both EU and non-EU countries.

Cheese Import Trade Matrix

Import Trade Matrix			
Country	Spain		
Commodity	Dairy, Cheese		
Time period	CY	Units:	Metric Tons
Imports for:	1999		2000
U.S.	0	U.S.	1
Others		Others	
EU Countries	106203		113651
Switzerland	1081		1440
Australia	0		1694
New Zealand	0		190
Total for Others	107284		116965
Others not Listed	226		80
Grand Total	107510		117046

Cheese Export Trade Matrix

Export Trade Matrix			
Country	Spain		
Commodity	Dairy, Cheese		
Time period	CY	Units:	Metric Tons
Exports for:	1999		2000
U.S.	609	U.S.	1065
Others		Others	
EU Countries	31716		28457
Andorra	1407		1498
Cuba	0		225
Total for Others	33123		30180
Others not Listed	635		701
Grand Total	34367		31946

Consumption

The consumption of cottage cheese and other soft curd fresh cheeses rose markedly during the last few years as consumers became more health conscious. Consumption of matured cheese remain stable. These trends should continue in the near future.

Dairy, Butter

PSD Table						
Country	Spain					
Commodity	Dairy, Butter				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	11	11	15	16	17	16
Production	39	39	41	41	0	43
Intra EC Imports	5	10	5	8	0	7
Other Imports	3	2	3	2	0	2
TOTAL Imports	8	12	8	10	0	9
TOTAL SUPPLY	58	62	64	67	17	68
Intra EC Exports	14	16	18	20	0	22
Other Exports	2	3	2	4	0	4
TOTAL Exports	16	19	20	24	0	26
Domestic Consumption	27	27	27	27	0	27
TOTAL Use	43	46	47	51	0	53
Ending Stocks	15	16	17	16	0	15
TOTAL DISTRIBUTION	58	62	64	67	0	68
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production/Consumption

Butter is basically a by-product of skim milk production in Spain. Consequently, butter production should increase in 2000/001 and in 2001/02 due to expected higher output of both skim and partly-skim milk. Direct consumption of butter is minimal, as Spanish consumers have a strong preference for olive oil and vegetable margarine. The use of butter in food processing depends primarily on price. Although butter production is relatively small, dairies still managed to sell about one-fifth of their output (7,831 tons) to intervention during CY 2000. Intervention stocks amounted to 16,300 tons at the end of 2000, or about 60 percent of annual consumption..

Trade

The trade of butter is in connection with the amount of stock in intervention. Traditionally, a portion of butter exports have been shipped under food aid programs. Most of the imports from

New Zealand go to the Canary Islands, which are not under the EU duty system. Exports of butter from the EU to the Canaries were carried out with EU subsidies under an EU program to supply food to the Canaries.

Import Trade Matrix			
Country	Spain		
Commodity	Dairy, Butter		
Time period	CY	Units:	Metric Tons
Imports for:	1999		2000
U.S.	0	U.S.	0
Others		Others	
EU Countries	8486		10303
New Zealand	2220		1820
Total for Others	10706		12123
Others not Listed	33		213
Grand Total	10739		12336

Export Trade Matrix			
Country	Spain		
Commodity	Dairy, Butter		
Time period	CY	Units:	Metric Tons
Exports for:	1999		2000
U.S.	0	U.S.	0
Others		Others	
EU Countries	7014		15882
Morocco	945		2951
Cuba	119		85
Total for Others	8078		18918
Others not Listed	192		188
Grand Total	8270		19106

Dairy, Milk, Nonfat Dry

PSD Table						
Country	Spain					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	1	1	0	0	0	0
Production	14	6	16	10	0	14
Intra EC Imports	25	35	24	35	0	33
Other Imports	1	5	1	5	0	4
TOTAL Imports	26	40	25	40	0	37
TOTAL SUPPLY	41	47	41	50	0	51
Intra EC Exports	12	16	12	18	0	18
Other Exports	2	7	2	7	0	7
TOTAL Exports	14	23	14	25	0	25
Human Dom. Consumption	24	21	24	22	0	23
Other Use, Losses	3	3	3	3	0	3
Total Dom. Consumption	27	24	27	25	0	26
TOTAL Use	41	47	41	50	0	51
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	41	47	41	50	0	51
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production/Consumption

In 2000, production of non-fat dry milk (NFDM) declined dramatically to 5,700 tons due to high prices for raw milk in the Spanish market. Production is expected to continue at a low level in 2001 due to profitable prices for raw milk. The production of dry milk (other than NFDM) totaled 10,300 tons in CY 2000. According to trade sources, intervention stocks in Spain are minimal and no sales to intervention are expected in the next few months.

When NFDM is available from intervention, the price is usually very low and the use of NFDM by the food processing industry rises dramatically. Since intervention stocks in the EU are currently minimal, Spanish consumption is expected to be stable for CY 2001 and 2002.

Trade
A large portion of Spanish NFDM imports are duty free shipments to the Canary Islands. The Canaries are a dairy deficit area and this NFDM is used to make fluid milk. Some imports of NFDM grade "A" from the U.S. have been reported in the last few moths. This U.S. NFDM is

used as raw material to produce dairy desserts and yogurt to be re-exported to the U.S. market.

Import Trade Matrix			
Country	Spain		
Commodity	Dairy, Milk, Nonfat Dry		
Time period	CY	Units:	Metric Tons
Imports for:	1999		2000
U.S.	0	U.S.	0
Others		Others	
EU Countries	27367		35221
Switzerland	0		451
Czech Republic	720		1857
Total for Others	28087		37639
Others not Listed	384		1876
Grand Total	28471		39515

Export Trade Matrix			
Country	Spain		
Commodity	Dairy, Milk, Nonfat Dry		
Time period	CY	Units:	Metric Tons
Exports for:	1999		2000
U.S.	0	U.S.	0
Others		Others	
EU Countries	9202		16242
Algeria	0		2225
Morocco	0		1319
Bangladesh	0		1000
Cuba	6551		0
Mauritania	554		0
Total for Others	17007		20786
Others not Listed	2299		2377
Grand Total	19306		23163