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NOTE

From:	Presidency
To:	Council
Subject:	Milk sector: market situation, trends and EU measures - State of play

With a view to the Council ("Agriculture and Fisheries") session on 16 March 2015, delegations will find in Annex a note from the Presidency on the above subject.

Milk sector: market situation, trends and EU measures

The European dairy sector is of great importance to European agriculture and to the economy in a wider sense because of its potential in terms of growth and jobs, especially in rural areas. For more than three decades since its introduction in 1984, the sector has been governed by the milk quota system, which comes to an end this month. Milk quotas have conditioned the activity of an entire generation of European dairy farmers, most of which have never produced in an environment free from quantitative limits.

The decision to abolish the quota system was taken by the Council back in 2003, as part of the market orientation approach, in combination with the gradual reduction of institutional prices for butter and skimmed milk powder (partially compensated by direct payments). Ever since, there has been a convergence between European and world dairy commodity prices reflecting improved competitiveness of the EU dairy sector and allowing for some 11% of EU milk production being exported, without any export subsidies. Milk quota abolition materialises at a timely moment for the EU dairy sector to benefit from the projected 2% annual increase of global demand for dairy products.

In the past decade farmers have been preparing to be ready to seize the benefits of the policy change and the demand in the world market, as well as to mitigate the possible risks that market orientation entails. The European dairy sector has already proven in the past its maturity in terms of capability to adapt to changing conditions and new challenges. There are no reasons to expect a different behaviour in the post-quota era, also in view of the measures in both the first and the second pillar of the CAP that Member States have decided to implement targeting the dairy sector specifically.

At the same time, the sector has been subject to significant price volatility and market fluctuations. The 2009 milk market crisis hit European farmers and triggered a policy response embodied in the "Milk package", aimed at boosting the position of dairy producers in the dairy supply chain and preparing the sector for a more market-oriented and sustainable future. It is too early to evaluate the impact of these measures.

The issues of increasing the resilience of the sector and of better preparing for the end of milk quotas have been a matter of deep interest and debate in the Council in the last year. A series of discussions were held throughout 2014 and, more recently, both in the Special Committee on Agriculture and Council at its January session in relation to the market effects of the Russian ban on EU food imports. On those occasions, delegations expressed concerns about the further decline of dairy prices already subject to downward pressure.

The favourable market situation with record high prices in the first half of 2014 due to a strong global demand, lead to a strong increase in milk production. A slowdown in global demand, exacerbated by the Russian ban on food imports in August 2014 lead to a decrease in prices, particularly strong in certain Member States and regions. At present prices of dairy products seem to start bottoming out. Raw milk prices in few of Member states seem to be stabilising, however in number of Member States it is still in decreasing trend.

In order to better monitor market developments and respond to the possible worsening of market conditions, the Commission has recently taken a series of additional measures, such as strengthening the activities of the Milk Market Observatory and drafting an implementing act allowing farmers to pay the surplus-levy due under the milk quota regime in interest-free instalments over three years.

Against this background, the Commission is invited to provide a state of play on the dairy market situation and trends, and on current and future EU measures.

Delegations wishing to ask questions or comment will have the opportunity to do so after the Commission presentation.

Since the January discussion already allowed for a table round discussion on the market situation and measures taken, including in the milk sector, delegations are kindly invited not to repeat their positions and interventions, but to add new elements or positions to the discussion as appropriate.