



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from : Austrian, German, Hungarian, Slovak and Slovenian delegations
to : Council
Subject : Situation on the dairy market

Delegations will find attached a memorandum submitted by the Austrian, German, Hungarian, Slovak and Slovenian delegation to the Council (Agriculture and Fisheries) on 23 March 2009.

Memorandum of Austria, Germany, Hungary, the Slovak Republic and Slovenia
With full commitment for the dairy farmers

The current financial and economic crisis illustrates that appropriate application of market organisation instruments and the provision of public funds will also in the future be necessary to ensure incomes for the dairy industry.

In the course of the past few months the European and the international dairy markets have come under severe pressure and have been characterised by massive imbalance, both of which are also a result of the international financial and economic crisis. The European Commission's analyses, which rely on the Farm Accountancy Data Network (FADN), reveal that in most Member States milk producers recorded losses already in 2006. While milk production costs declined only to a small extent, revenues from milk sale decreased by about 17 percent in December 2008 compared to December 2007, which has led to a strikingly declining contribution margin from milk production. It is not expected that this alarming trend will reverse in the near future, as, with the seasonal peak of the European milk production, further tightening of the critical market situation is to be feared.

1. Expand the necessary market support

In late autumn 2008 the European Commission at the urging of several Member States realised the necessity of market support measures to counteract the negative development on the European dairy market.

Easing the situation on the Single Market by means of exports

The main problem is presently the massive decline in international demand which has to be counteracted. In 2008 the European Union recorded marked export declines for almost all products. For example, compared to the year 2007 7% less cheese, 12% less skimmed milk powder, 29% less butter, and 35% less butter oil were exported. Also the EU's global market shares decreased, for example by 17% for skimmed milk powder and by as much as 20% for butter.

From our point of view the export refunds reintroduced as an emergency measure play a particularly important role in the present situation of the dairy market. With the help of exports the Single Market will not only be temporarily disburdened, but will be finally cleared. As regards subsidised exports of dairy products, sufficient scope is left for the current GATT year 2009 to allow the export of additional quantities. In this context it can and it must be avoided to endanger the own production of LDCs. This is necessary because, due to seasonal factors, the European dairy market will suffer an even greater burden in the course of the next few months.

Raise quantity ceiling for butter to be bought-in at the pre-determined intervention price

Public intervention for butter and skimmed milk powder opened on 1 March 2009. The tendering procedure for the public intervention of butter and skimmed milk powder which will follow may lead to lower intervention prices. As has been requested already in the Health Check discussion, we advocate an increase in the quantities to be bought in at the pre-determined intervention price for butter to offer security at least at the existing level of intervention.

Activate sales promotion programmes

As a consequence of the high product prices of the year 2007/2008 the processing industry substituted large quantities of milk fat and milk protein by raw materials of plant origin. To encourage processors to use more butter and skimmed milk powder again, we request the temporary activation of the sales promotion programmes for butter and skimmed milk powder.

Enhancing the attractiveness of the school milk scheme

First experiences made with the provisions of the Milk and Milk Products (to Pupils in Educational Establishments) Regulation indicate further need for improvement. Especially in the case of yoghurt drinks the stringent provisions on constituents prevent use under the subsidy scheme for school milk. Furthermore, extending the range of eligible products to include also fruit whey drinks would correspond to current dietary patterns.

2. Flexible management of quantities

Due to the current market development the Health Check report for the dairy sector planned for 2010 is needed already in 2009. The present situation requires unconventional approaches to counteract the crisis. In particular, the gradual quota increase is to be checked for its market compatibility once again and, if necessary, is to be postponed.

Member States are to get the opportunity to remove certain quantities of milk temporarily from the market via an incentives scheme (e.g. programme regarding abandonment of delivery). Furthermore, the introduction of the permeability of the national reserve between delivery quota and direct sales quota, requested by Poland and Romania in the framework of the Health Check negotiations, could be a flexible approach to achieve a temporary mitigation of the impacts of the adopted quota increases in the field of deliveries. In the case of a market imbalance it is by far more efficient and cheaper to remove production quantities through incentives schemes than to remove the surpluses from the market at high cost or to artificially spur sales at a later time.

3. Strengthen the European dairy industry

Implementation Recovery Plan

The present market situation requires speedy action. Once a farmer has withdrawn from milk production, he will not return to milk production. The dairy industry is the backbone of the economic development in grassland areas. We therefore support the European Commission's plan to allocate additional funds to the dairy sector in the 2nd pillar already for 2009 by the implementation of the "Recovery Plan".

Push forward the analysis of market power and market spreads

With its Communication to the Council on food prices in Europe and a schedule for a better functioning of the supply chain the European Commission has already started the necessary preparatory work. In particular, the often weak negotiating position of milk producers vis-à-vis processing enterprises and trade has to be taken into account and improved. The implementation of these analyses is to be speeded up.

Enhance marketing activities

The European Commission is requested to present additional marketing activities for the sustainable support of the milk demand in the European Union and on non-EU markets.