



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from : General Secretariat of the Council
to : Council

Subject : Situation on the European dairy market

Delegations will find attached a note submitted by the Belgian, Bulgarian, German, Estonian, Irish, French, Latvian, Lithuanian, Luxembourg, Hungarian, Austrian, Portuguese, Romanian, Slovenian, Slovak and Finnish delegations presented at the Council meeting (Agriculture and Fisheries) on 7 September 2009.

Situation on the European dairy market

The global economic crisis continues to have a tight grip on the European dairy market. A lasting improvement of the situation is not yet in sight. The economic situation of the dairy farmers is worrying. Many holdings have by now used up their financial reserves and their very livelihood is seriously threatened.

Existing measures have merely helped to prevent a further collapse of the markets. However, they are not sufficient to improve the situation the holdings are faced with. In order to prevent large-scale closings of holdings, the European Union must take further, substantial measures.

We welcome proposals such as the increase of the ceiling of the "de minimis" state aid to 15 000 euros for a period of three years. However, the national measures preferred by the Commission, as expressed in its report, fail to live up to the European dimension of this challenge. The entire European dairy market is facing serious difficulties which must be countered with compulsory, EU-wide measures accompanied with the necessary EU-budgetary means.

A comprehensive approach is needed, combining short-term measures with new regulation at EU level to accompany the phasing-out of the current milk quota system.

We therefore call upon the European Commission to act without delay and to:

- to submit a proposal for a temporary increase in the intervention price and consequently;
- to increase export refunds for butter, milk powder and cheese, whilst preventing any form of market distortion in developing countries;
- to reactivate the temporary suspended aid for the usage of skim milk and skim milk powder in feeding stuffs;

- to make sure that the disposal of butter and milk powder bought by public intervention occurs only after prices have significantly risen, in order to prevent new disturbances on the milk market;
- to examine the opportunity of a EU program to modernise and adapt the dairy sector.

Furthermore, new forms of regulation at European level will be necessary to ensure that the milk sector does not depend only on the sole rules of the market, but may better face it. The instability of producers' income does not permit an efficient allocation of resources indispensable for future investments in this sector. The crisis in the milk sector requires that the organisation of the sector be strengthened.

It is therefore urgently required to consider how:

- the existing market instruments can be adapted or new ones created in order to be able to react to the increasing price volatilities on a long-term basis, effectively and with more flexibility;
- contractual relations within the food chain as well as producer organisations and economic structures can be facilitated and supported in order to make negotiations between the actors of the dairy food chain more balanced, to stabilise the markets and to protect against market risks. In particular, it should be examined to what extent dispositions currently in place for the fruit and vegetables and wine sectors enabling enhanced producer organisation could be extended to the dairy sector;
- innovation and research, diversification and strategies on market segmentation can be supported through public measures in order to strengthen the competitiveness of agricultural holdings;
- transparency and information of consumers can be strengthened, notably by labelling the product origin (place of farming); this should be possible on a voluntary basis, or might be inscribed in European legislation.

We also stress that the current crisis is not only European, but affects dairy producers and markets throughout the world. In this context, we ask the Commission to provide a report on the functioning of the international markets of dairy products, taking into account notably the effects of policy and dominant market positions. In particular, the report could examine the potential for amelioration of the functioning of international markets through the establishment of a future market.

The European Union must act now. We cannot afford any further delays. Otherwise we will be running the acute risk of the European dairy sector, one of the most important pillars of European agriculture, suffering long-term damage and thus losing the lifeline for many rural areas and structurally weak regions in Europe.

