NOTE

from: Latvian delegation

to: Council

Subject: Re-establishment of export refunds for certain milk products

Delegations will find attached a note from the Latvian delegation concerning the situation in the milk sector.
LATVIAN DELEGATION

Re-establishment of export refunds for certain milk products

Latvia would like to draw attention to the recent developments in the Latvian dairy sector owing to a decrease in world market prices for milk products and a further increase in input costs.

Following the rapid increase in the price of raw milk and milk products in the second half of 2007, the average purchasing price of milk rose by 30% in December 2007 as compared with June 2007, although additional income were spent to cover increasing input costs.

According to information received from Latvian exporters, the price difference between export markets and the Latvian market is at least 7% in the case of cheese and 20% in the case of whey powder.

As a result, stocks of dairy products are increasing considerably: compared with the situation in March 2007 whey powder stocks have increased 29.8 times, whole milk powder stocks 1.9 times and skimmed milk powder stocks 4.6 times.

Export at competitive prices will therefore only be possible by means of a reduction in the milk purchase price, which was already reduced in April by 15-20%.
However, purchase prices may not be reduced to the levels of the first half of 2007, as input costs are increasing and those also have to be borne by producers. For example, the price of diesel in Latvia increased by 25% in the first quarter of 2008 compared to the same period in 2007, and the price of feed increased by 50%. Therefore, the income of milk producers is constantly falling and there is a high risk of bankruptcy, as producers will not be able to support the bank loans necessary for their investment projects.

Taking into account the expected further decrease in world market prices, we see a need to protect the sector from the jeopardizing effects of a further reduction in purchase prices for raw milk and an increase in input costs so as to maintain the dairy sector as one of the major agricultural sectors in the EU. To this end, we request the re-establishment of export refunds above zero level for certain milk products, in particular, cheese, butter, whey powder and milk powders.