



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 18 March 2009

7378/09

**AGRI 91
AGRIORG 29**

NOTE

from : The Presidency
to : Council

Subject : Situation on the milk market

In view of the exchange of views under the agenda item “Situation on the milk market” at the Agriculture/Fisheries Council meeting of 23 March 2009, delegations will find attached a Presidency note.

After a brief and unprecedented period of record prices for milk and dairy products in 2007 and early 2008, European producers now face weak and uncertain markets characterized by a sharp drop in global dairy product prices.

With increased supplies on the world market and reduced demand on the internal market, market prices for dairy products have been forced down to close to or even below intervention levels. Obviously, the price paid to milk producers follows the same route with substantial price decreases already recorded and with further falls likely.

In July 2007, skimmed-milk powder was selling for € 3 500 per tonne in the European Union. In January 2009, the average price has been about half of that.

Several factors have led market analysts to forecast a particularly difficult period for the world dairy market: world economic growth is estimated to slow down considerably in 2009, available exportable dairy supplies in the major producer regions have increased markedly, and import demand has faltered in the face of high retail prices and economic uncertainty.

This unfavourable outlook seems particularly alarming given the general development of income in the agricultural sector. According to first estimates issued by Eurostat, the Statistical Office of the European Communities, in December, real agricultural income per worker in the EU27 has decreased by 4.3% in 2008 ¹.

¹ STAT/08/184.

According to the Eurostat estimates, this decrease in EU27 real agricultural income in 2008 is itself the result of:

- an increase in output of agriculture at producer prices in real terms (+4.3%);
- a steep rise in input costs in real terms (+10.8%);
- a decrease in the real value of subsidies net of taxes (-1.5%);
- a rise in depreciation in real terms (+2.4%).

At Community level, the Commission has reacted to this situation with support measures in the framework of the Management Committee procedure, such as the recent reintroduction of export refunds for butter, cheese and whole and skimmed milk powder. In November, the Commission had reintroduced private storage for butter with effect from 1 January 2009 - including for butter produced in December. As regards intervention, buying of butter and skimmed milk powder has resumed on 1 March (with production from February being eligible) and remains available until the end of August. All these were very necessary signals to producers that the existing support instruments are still at hand.

Apart from the market situation, also the legal framework regulating the milk and dairy market has changed considerably over the course of the last two years:

- On 26 September 2007, the Council adopted the so called "mini-milk package" ¹, which provides simplification of a number of rules in the dairy sector;
- On 17 March 2008, the Council adopted Regulation EC 248/2008 ², increasing the national quotas for milk by 2% as from 1.4.2008;
- On 19 January 2008, the "Health Check" package was finally adopted, introducing a whole series of changes to the CAP having direct or indirect influence on the dairy market, be it in the fields of direct payments, common market organisation or rural development ³.

¹ Council Regulation (EC) No 1152/2007/EC amending Regulation (EC) No 1255/1999 on the common organisation of the market in milk and milk products;
Council Regulation (EC) No 1153/2007 amending Regulation (EC) No 2597/97 laying down additional rules on the common organisation of the market in milk and milk products for drinking milk;
Council Directive 2007/61/EC amending Directive 2001/114/EC relating to certain partly or wholly dehydrated preserved milk for human consumption;
OJ L 258, 4.10.2007

² Council Regulation (EC) No 248/2008 amending Regulation (EC) No 1234 as regards the national quotas for milk;
OJ L 76, 19.3.2008

³ Council Regulation (EC) No 72/2009 on modifications to the Common Agricultural Policy by amending Regulations (EC) No 247/2006, (EC) No 320/2006, (EC) No 1405/2006, (EC) No 1234/2007, (EC) No 3/2008 and (EC) No 479/2008 and repealing Regulations (EEC) No 1883/78, (EEC) No 1254/89, (EEC) No 2247/89, (EEC) No 2055/93, (EC) 1868/94, (EC) No 2596/97, (EC) No 1182/2005 and (EC) No 315/2007;
Council Regulation (EC) No 73/2009 establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers, amending Regulation (EC) No 1290/2005, (EC) No 247/2006, (EC) No 378/2007 and repealing Regulation No 1782/2003;
Council Regulation (EC) No 74/2009 amending Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for the Rural Development (EAFRD);
Council Decision 2009/61/EC amending Decision 2006/144/EC on the Community strategic guidelines for rural development (programming period 2007 to 2013);

For the European dairy production sector, this joint effect of volatile world market forces and important changes in the regulatory framework is bound to impose the need for extensive adaptation.

The Presidency, in bringing the present precarious state of the sector to the attention of the Council, would like to recall a few of the basic facts which formed the point of departure for the dairy-related part of the "Health Check":

- In a number of Member States, dairy represents the largest proportion of the total value of national farm production (up to more than 30%). Geographical distribution of production, including disadvantaged areas, has been an important element of discussions in the framework of the "Health Check".
- Dairy farming (be it production or processing) is a business that is less rapidly adaptable and which needs costly long-term investments. As such, it requires a particular degree of predictability.
- Despite the current fluctuations, the milk and industrial dairy products market will continue to offer high potential. European producers want to stay competitive on the internal and export markets with a secure and reliable supply of high-quality milk and dairy products.

With this need for competitiveness in mind, the Presidency invites the Council to an exchange of views on the situation of the sector.
