

**Reply by Commissioner Phil Hogan to European Parliament Oral
Question* on Measures to alleviate the Crisis in the Dairy Sector**

26/05/2016

Chair, honourable members, I welcome the opportunity to return to this House at a time of continued crisis in the agriculture markets in several Member States, particularly in the dairy and pigmeat sectors.

The situation in the dairy sector in virtually every Member State is acute. The most recent price information available from the Milk Market Observatory shows that the average milk price in the EU in April was 27,62 c/kg, which represents a fall of 11,5 per cent since the same time last year.

The situation is, of course, not one confined to Europe with global demand continuing to outpace demand which is putting pressure on dairy product prices not alone in the EU, but also on the world market.

Experts in the Milk Market Observatory acknowledged at their last meeting on Tuesday acknowledged that *"some improvement in market sentiment was perceptible against the background of slowed down milk production in the coming months and global demand remains healthy."* However, they concluded that market

fundamentals have not really changed and that an improvement in the supply/demand equation remains necessary.

Despite my commitment to identifying new markets and some encouraging export data, opportunities for increased demand are limited. Accordingly, more focus must come on the supply side.

Before looking at the extensive range of measures which the Commission has put in place, I would like to reflect further on both the supply and demand sides of the equation.

Milk deliveries in the EU increased in 2014 and 2015 by 4.4 per cent and 2.6 per cent, respectively. In the first quarter of this year, milk collection grew by 7.2 per cent (part of which is explained by the leap day). As a result, an additional volume of 2.6 million tonnes has been collected in three months.

At a world level, milk production increased by 3.9 per cent in the same period, mainly due to EU production levels. US production was up 1.2 per cent in April, a lower figure than expected. Production in New Zealand is expected to be down 2 per cent for the 2015-2016 season and Australia down 1.2 per cent.

Within the EU, the largest increases in volume terms in the first two months of 2016 were reported in the Netherlands (+330 000 tonnes), Germany (+300 000 tonnes), Poland (+140 000 tonnes) and Ireland

(+110 000 tonnes). In percentage terms, the largest increases have been in Ireland, Cyprus, Luxembourg, Belgium and the Netherlands.

On the demand side, the view of the MMO Economic Board, at its meeting on Tuesday, was that *"world demand remains dynamic, driven by butter and cheese"*.

EU export data supports this view, with dairy exports having increased by some 13 per cent in the first 2 months of the year (in milk equivalent), with particularly good figures for butter (+17 per cent) and cheese (+13.4 per cent). Double digit growth in import data from China confirms its recovery.

The EU has increased cheese exports to all top 10 destinations up to February 2016, including to the US by 9 per cent. Significant increases for butter exports have been reported for Morocco, Canada and Turkey, while SMP exports have also increased significantly in Algeria (+12 per cent), Indonesia (+53 per cent) and China (+71 per cent).

As you know, the 109 000 tonnes ceiling for buying-in of skimmed milk powder at fixed price was reached on 31 March and a tender was operated on 19 April. The maximum buying-in price was fixed at the level of the intervention price and some 27 000 tonnes were additionally bought into intervention. On 20 April, buying-in at fixed price resumed under a doubled ceiling (218 000 tonnes) which was

reached yesterday. In view of this, the Commission will propose a further increase in the ceilings up to 350 000 tonnes.

When I spoke in this House last month about the broader European Agricultural Sector, I outlined the extensive set of measures that I proposed in March. Today, I will focus on some of the specific measures that are providing significant support to the dairy sector and without which the current situation would be considerably worse.

Last year, total private storage aid and public intervention support covered 2.8 million tonnes of product, at a time when EU production increased by 3.5 million tonnes.

We have now effectively deployed all of the tools available in the CAP toolkit, including the activation of Article 222 of the CMO, a measure never previously used. In that regard, I want to commend the Agriculture and Rural Affairs Committee of this House for the organisation of last evening's hearing on the use of this instrument. I hope that those who participated now have a better understanding of the measure and its potential, which I believe should not be underestimated.

This measure is part of a comprehensive and broad-ranging response and can play a significant role, not least given that it covers close to 85 per cent of the EU milk production. The measure encourages

action towards greater market balance in the dairy sector, with producer organisations, interbranch organisations and cooperatives allowed to jointly plan milk production until the middle of October. This initial period can be extended by a further six months to the middle of April 2017.

In order to encourage use of this tool as an effective contribution to this crisis, I have met with COPA-COGECA and the European Dairy Association (EDA) and I will discuss the issue again with COPA-COGECA next week.

This is a voluntary instrument and its use depends ultimately on producers and is now genuinely in the hands of dairy farmers who may, if they so wish, join forces and collectively decide to reduce production.

Before turning briefly to the question of the role of the MMO, I would like to say something about the use by MS of the €420 million targeted aid package, of which 66 per cent (or almost €280 million) was directed at the milk sector. Based on the most recent information reported to my services, just 56 per cent of this money has been spent. The rate of spending is likely to have accelerated in recent weeks and MS have been reminded that they have only until the end of next month to spend all of the money provided.

Finally, I want to acknowledge the role that the MMO is playing in ensuring timely and robust data to all stakeholders in the sector, including the members of this House.

Transparent price information and other related data is essential for forward-planning and ensures that decisions are taken on the basis of accurate information. The MMO provides a unique portal, where the most comprehensive possible set of market data is available. The role of the MMO is to provide such data and not to substitute for the actions of the Institutions.

In conclusion, let me once again acknowledge the depth of the crisis that exists in the dairy sector in Europe today. While this is not a crisis exclusively of our making in the EU nor are its effects confined to Europe, producers must take their responsibility for the continuing increase in production which, given current market conditions, is simply not sustainable.

Despite the deployment of a range of available measures, I must emphasise that I can work only within the constraints of the legislation available, specifically in terms of the exceptional measures available. This was the outcome of the 2013 reform, in which you and the Council reaffirmed the market orientation of the Common Agricultural Policy.

I look forward to listening and responding to your contributions and to continued dialogue with you as the elected representatives of European farmers.

Thank you.

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