

## **Speaking Points for Commissioner Phil Hogan at meeting of COMAGRI, Tuesday 19 July 2016**

### Introduction

Chairman, honourable members, I am grateful that as many of you as possible have managed to be here this morning and to allow me the opportunity to outline to you the package of support measures that I presented to the Council yesterday.

I appreciate that it is important that both co-legislators have the opportunity to hear the terms of any support measures directly and that you have the opportunity to engage directly with me in relation to the details of those measures and the overall package.

In addition, I would like to explain briefly the state of play on our simplification efforts for greening.

### Background

Before outlining the specific measures that make up the current support package, it is worth recalling that the Commission has repeatedly and consistently responded to the crisis in the agricultural markets and has mobilised significantly more than €1 billion since my appointment as Commissioner to support a number of sectors,

particularly the dairy, pigmeat and fruit and vegetable sectors. Indeed, since 2014, the Commission has now provided in excess of €1.5 billion in support for European farmers.

Last September, I proposed a support package of €500 million in response to the market crisis. In March, I announced a further package of concrete proposals aimed at further assisting the most affected sectors and I'm pleased to say that there is evidence that this assistance is paying benefits, particularly in relation to pigmeat, to which I will return shortly.

Let me return though to the September 2015 package, the main element of which was the allocation of €420 million in direct targeted aid to Member States. Regrettably, and despite my best encouragement, it has taken many MS until June to spend or at least notify to the Commission what was done with that financial assistance. It is, at least, encouraging to know now that MS have finally spent 98.7 per cent of the total allocated.

It is sometimes easy for critics to lay the blame at the door of the Commission, when perhaps they ought to be looking more closely at the role of the MS in terms of the speed of the implementation of measures for which the Commission has made available the necessary resources several months previously.

That said, I do accept that some MS were more focused than others on some form of restructuring, which does take more time.

### Today's Package

The package of measures which I am presenting to you today is worth another €500 million in EU funding and can be topped-up buy MS to the value of €350 million, thus potentially providing a further €850 million in public taxpayer support for hard-pressed farmers throughout the Union.

I am happy to announce that we are now in a position to propose another €500 million, without recourse to the crisis reserve. I am grateful to my colleagues in the College of Commissioners for their acknowledgement of the crisis and their acceptance of the need to provide support.

I want, in that regard, to particularly acknowledge the support of President Juncker (whose State of the Union speech last year acknowledged the extent of the problem) and the budget Commissioner, Vice-President Georgieva, without whose support and engagement this package could not have been presented today.

However, it is important also to stress that mobilising periodic financial packages is not the way to deal with market crises of this nature. We cannot simply expect that the Commission will keep

finding substantial sums of money. This is and has to be seen as an exceptional response on the part of the Commission and not one which it is assumed can be repeated.

Instead, we have to consider whether the CAP, with its greater market-orientation, provides the necessary market management tools and if not, we should work to ensure that they are available, including legislating for such tools if appropriate.

### Markets situation

Before detailing the particular elements of this package, it is worth reflecting on some recent market developments which suggest that the measures already taken by the Commission are paying dividends and contributing to a more positive market sentiment.

This is particularly the case in relation to the pigmeat market, which has shown considerable improvement in May and June. The latest price report shows an average pig carcass price of €162/100 kg, which is increase of 7.9 per cent in four weeks and 9.9 per cent over the previous year. These figures confirm a steady recovery in prices.

After some recovery in its average weekly level at the beginning of the year, piglet prices stabilised at around €40 between February and

May, but have since risen to over €44, up 17.5 per cent over the past year.

Pigmeat exports are expected to reach a record level of 2.4 million tonnes this year, which is an 18 per cent increase on an annual basis. Strong demand from China has seen pigmeat exports to that market increase by 40 per cent in the first four months of the year.

All of this was achieved at a time when almost all of the 90 000 tonnes of product offered into the private storage scheme opened in January 2016 was successfully placed back on the market and in a way that did not compromise the recovery in prices. At the end of May, only 2 000 tonnes remained in storage.

On the basis of the recovery in prices, which seems likely to be maintained, I have concluded that the support we have provided has proved sufficient.

Unfortunately, and as you all know, the situation in the dairy sector is not as positive, though it is not a picture without some encouraging signs.

Average EU farm gate milk prices are currently at 25.87c/kg. This is a more than 20 per cent decrease compared to the 5-year average. With farm gate prices still falling, experts quoted by the Milk Market Observatory do not expect any improvement in prices before

September 2016. Another recent analysis, which foresees a light at the end of the tunnel, doesn't see producer prices improving until the first half of 2017.

More positively, dairy product prices have generally improved since May, notably for butter and WMP.

In acknowledging the crisis in the dairy sector, I have also pointed out that it is not a crisis confined to the EU. It is a problem of global oversupply. Global milk production increased by 3 per cent in the first four months of the year and the FAO outlook for 2016 is for a 1.6 per cent increase in world milk production.

DG AGRI now forecasts that milk deliveries in the EU 2016 could grow by more than 1 per cent. The USDA forecast is for an increase in production in 2016 of 1.9 per cent, while production figures in Australia and New Zealand will fall this season.

However, my focus is on the producer and protecting his or her income. Therefore, based on an analysis of the dairy market and the continuing fall in producer prices, I accept and agree with the conclusion of the MMO Economic Board last month that *"despite the overall improvement of market sentiment, a correction on the supply side is still considered necessary."*

It is on the basis of this conclusion that I am putting forward a new support package today, aimed primarily but not exclusively at the dairy sector.

### **Elements of new package**

My objective has been to boost the incomes of farmers, through higher prices. That can, in my view, only happen when greater balance is restored to the market. The Commission has, therefore, been working on a new measure for the dairy sector, designed with the main objective of bringing that much-needed balance to the market. The following are the key elements of the new package.

#### **Production Reduction**

**The first element of the package is a €150 million EU-wide and fully EU-funded measure, aimed at incentivising a significant reduction in production by the end of the year.**

This will be a simple, direct EU-wide scheme, designed to provide a direct financial incentive to farmers who voluntarily reduce production. Full details of this measure will be presented to a meeting of MS experts this Wednesday and I

hope that the necessary legislation will be in place by mid-September.

I believe that, with this unprecedented measure, I am answering to the calls of all stakeholders, including members of this House, to incentivise a voluntary reduction of supply, in order to do all in our power to re-balance the market.

In addition to this measure, Member States will also have the possibility, through the use of the conditional adjustment aid and any top-up they may decide to make, to implement complementary measures with the same objective of incentivising a reduction of production.

#### Conditional adjustment aid

**The second main financial element of the package is the allocation of €350 million in MS national envelopes,** which the MS may themselves top-up by 100 per cent, thus potentially increasing the value of this measure to €700 million.

This measure reflects a demand that we provide support for farmers in all EU Member States, in an equitable manner, to accompany adjustments that will themselves contribute to re-balancing the market.

The support measures financed by this scheme will be implemented at the level of Member States. I am relying, therefore, on the MS to identify the most appropriate measures or mix of measures to contribute to the restoration of balance and proper functioning in the market.

To achieve the goal of reducing the oversupply situation, which is often a factor of attempting to maintain cash-flow, this complementary aid needs to be conditional and paid only in return for specific commitments.

These commitments should aim, by their very nature, at freezing or reducing production. In addition, help for small farms that are often severely exposed to the crisis should receive specific attention.

The primary allocation key for the MS envelopes reflected the need to assist the dairy sector in particular. Reflecting also the fact that the drop in farm incomes has caused particular difficulties for smaller farms, specific weighting was also given to those MS with a very high proportion of small farms.

However, acknowledging that the current market difficulties are not necessarily confined to the dairy sector in each MS, **I propose to allow MS maximum flexibility to support vulnerable livestock sectors.**

The full details of the measures which will contribute to adjustment of farmers and satisfy the conditionalities will be provided for in a Commission Delegated Act.

Commitments will be linked to

- support of small farms;
- extensive production methods;
- environmental undertakings;
- cooperation projects;
- value-added quality schemes; and
- training in financial instruments.

Our common aim must be to make these measures effective for farmers and contribute to the recovery of the market.

### **Voluntary Coupled Support**

There are a considerable number of MS which provide coupled support for their dairy sectors and some evidence that farmers may consider keeping cows simply to get the coupled support, thus contributing to the oversupply of milk.

**Member States will, therefore, now have the option to review the VCS arrangements for the dairy sector and if they wish,**

**effectively decouple payments.** In practice, this means that farmers, having complied with the eligibility conditions applicable to voluntary coupled support in 2016, could continue to get the aid in 2017 without the obligation to maintain the size of the herd.

### **Public Intervention**

As you will recall, at the end of June the Commission proposed an increase in the ceiling up to which SMP is bought-in at fixed price to 350 000 tonnes from 30 June.

The current volume of SMP in intervention is 348 000 tonnes (40 000 tonnes bought-in in 2015, the rest in 2016). Offers to public intervention show signs of slowing down and are likely to decline further over the coming weeks.

Of course, public intervention for butter and SMP would normally expire at the end of September. In view of the persisting difficulties with SMP and reflecting the improvement in the butter market, **the Commission will propose that the intervention period for SMP be extended until the end of February 2017.**

However, there will be no further increase in the ceiling up to which SMP is bought-in at fixed price. Therefore, should the 350

000 tonne ceiling be reached, a system of tendering will apply until the end of December. From January, the original ceiling of 109 000 tonnes at which fixed prices are paid will restart.

I regard the Commission's proposal to extend public intervention beyond the end of September as an important signal that the Commission will continue the dairy sector and it should be seen as a confidence-providing measure at what is still a very difficult time for primary producers.

### **Private Storage Aid**

As with public intervention, the private storage aid schemes for dairy products are also due to expire on 30 September. For the same reason that public intervention is being extended, private storage aid for SMP will also be extended until the end of February 2017. **Both the standard (between 90 and 210 days storage) and the enhanced (365 days' storage) schemes will be extended.** The current market situation for butter and cheese does not justify an extension of private storage aid for these products.

## **Advance Payments**

As part of the September 2015 package, the Commission allowed MS to increase the rate of advances to 70 per cent for direct payments from 16 October and 85 per cent for area-based rural development payments even before this date if Member States want it, without the necessity of completing the on-the-spot checks. In response to some concerns that the announcement was made too late last year to be effective, **I am announcing today that the same arrangement will be available to MS this year.**

## **F&V Withdrawal Prices**

In recent months, a number of you have raised the issue of the withdrawal prices for fruit and vegetables. Reflecting concerns expressed in this House and elsewhere, **I intend to update the support for withdrawals made by producer organisations.**

These changes will provide producers with a more effective safety net in cases of severe crisis.

## **Meat Market Observatory**

Though not part of the package of measures being announced today, I would like to advise the Committee that **the first meeting of the Economic Board of the newly-established Meat Market Observatory took place last Friday.**

It is modelled on the successful Milk Market Observatory and its objective is to assess and highlight market developments for the benefit of economic operators as well as my services. To that effect, a dedicated website is online and I invite anybody with an interest in the meat sectors to engage with it.

## **Greening proposal**

In addition to explaining this package and the logic behind the proposal, I would like to introduce and explain to you another important aspect of the ongoing work: the simplification proposals for the green direct payment.

It is important, from the outset, to recall that the introduction of greening represented a major policy shift in EU support which, at the same time, introduced a major challenge in terms of policy design, policy implementation, administration and controls.

For these reasons, in spring 2015, I announced that the greening review would be part of CAP simplification. It is important to emphasize that this assessment is also included in the Commission REFIT exercise in order to improve its effectiveness and performance.

This review of greening after the first year of implementation delivers on the commitment made by my predecessor in April 2014 to undertake a review of the experience with the implementation of the Ecological Focus Areas, in particular regarding the administrative burden, impact on the level playing field and impact on the production potential at EU level.

On my initiative, the scope of this review was enlarged to cover all greening measures.

In response to the public consultation launched on the performance of greening, more than 3 300 responses were received. The level of submissions reflects the considerable public interest generated by the introduction of greening.

### *Main results of the review of greening after one year*

**Firstly, most of the agricultural area in the EU is covered by at least one greening obligation.**

This **wide area coverage** indicates the potential for greening to **deliver genuine environmental and climate benefits on a large share of EU farmland at present and in the future.**

The impact of greening on the environment is however difficult to assess at this stage due to the lack of relevant data after only one year of implementation and the need for measures to bring benefits on the long term.

What is clear, however, is that the **environmental performance depends on choices made by Member States and farmers.**

Greening has to enable a more effective integration of environmental objectives into the CAP, thereby contributing to the EU biodiversity strategy.

### *Possible ways forward/ simplification and improvement ideas*

The first results of the implementation of greening show that **greening is working but, like so many other areas, can certainly be improved to work better and deliver more.**

The Staff Working Document identifies four aspects of greening which require action in the short-term and I have asked my services to focus on these areas:

- **we need to better specify or clarify what is required by farmers for certain provisions –**
  - Specifically, certain EFA landscape features and strips are very similar to each other while the associated requirements are different. This is confusing and requires a streamlining of conditions, for instance in relation to maximum allowed dimensions.
  
- **Some technical requirements linked to EFAs are burdensome and are difficult to justify in terms of environmental benefits. In the absence of such justification, they should be reduced or eliminated.**
  
- **We can, in some areas, provide more flexibility or consider alternative options without changing the basic rules, thereby increasing the environmental and climate benefits of the policy.**
  - For instance, I have asked DG AGRI to review the manner in which EFA landscape features that exceed the maximum dimensions could be accepted.

- **Finally, some requirements need additional harmonisation at EU level to achieve a better policy performance.**
  - This includes, inter alia, a general ban of use of plant protection products on productive EFAs. A ban on use of pesticides on EFAs is considered a most effective requirement from the environmental perspective.

**In response to these particular needs, my services have developed a series of concrete proposals.**

Three meetings of the relevant expert group have taken place over the last weeks in order to discuss the proposals. The last meeting took place yesterday and another is planned at the end of August with a view to adopting the new delegated regulation in time for the new rules to apply as of 2017.

**I believe that this package of proposals will be a balanced one that will make greening:**

- **simpler for our farmers and administrations;**

- **more effective in order to make the farming sector more sustainable;**
- **more credible and performant;**

### **Closing Remarks**

Chairman, honourable members, my objective this morning was to provide you with comprehensive details of the latest in a series of robust support packages and to update you on our greening discussions.

The European Commission has now provided in excess of €1.5 billion in additional support for farmers, over and above the €56 billion CAP support provided every year.

I would also point out that the provision of €1.5 billion in direct EU funding far outstrips the support of some €300 million provided in response to the last dairy crisis in 2009.

Since my appointment as Commissioner, we have proposed three separate packages of concrete, EU-funded measures and, notwithstanding the opinions of some critics, there is evidence that these measures are working. I have clearly spelt out the evident improvement in pigmeat prices, as a result of which there is

widespread agreement among stakeholders in the sector that a distinct measure to further support the sector is not justified.

There is some more optimism that things are turning in the dairy sector, with indications of more balance coming into the market. However, these improvements are not happening quickly enough for the primary producers and so today's measures are aimed at rebalancing supply so that we see genuine increases in farmgate prices, thus improving the incomes of European dairy farmers, an objective to which I hope we can subscribe.

The 2013 CAP reaffirmed the market-orientation of the policy, a direction of travel with which I agree. However, the past two years, in particular, have tested the policy in terms of the adequacy of the market management measures available to deal with the type of sustained crisis we have experienced.

Notwithstanding the very significant response taken by the Commission in response to the markets' crisis, such a series of interventions is not sustainable. It is vital that we use this package to solve the problem of market imbalance. There is no intention and no money available to repeat such financial support.

In this context, collectively we must look at and assess the adequacy of the suite of measures available to manage the markets, while maintaining the market orientation of the policy.

As part of the co-legislature, you have a particular responsibility in this regard. I will play my part in assessing the adequacy of the market management instruments available to me and, where appropriate, I am prepared to propose either new measures or changes to those that currently exist to improve their responsiveness. In such circumstances, I count on your support and that of the Council to ensure that we are adequately equipped to deal with future disruption to the markets.

In the meantime, I look forward to the notification by the MS of the particular measures they propose to implement, reflecting the specificities that apply in those MS. I am confident that the measures will help maintain the sustained recovery in the pigmeat market and contribute to an acceleration of the greens hoots of recovery in the dairy market.

Perhaps, towards the end of the year there will be merit in my coming to meet the Committee again to assess the implementation of the measures and their effectiveness and I would, again in that regard, remind you that, following the presentation of this

comprehensive package, the responsibility has now passed to the Member States.

Thank you.