

Speech by Vice President Jyrki Katainen, at the Extraordinary Agriculture and Fisheries Council – 7 September 2015

Introduction

Mr President, Members of the Council, I should begin by apologising for the absence of Commissioner Hogan today. He has been taken ill and is in hospital. He very much regrets he cannot be here today. He has worked hard over the past months to prepare this Council, analysing the situation, talking to you and stakeholders, and working with his colleagues in the College to put together a comprehensive response from the Commission to the difficult market situation.

I am here today to present that response to you.

Today's debate and the Commission's response

Today's debate is an important debate. It reflects a difficult market situation, particularly in the dairy and pigmeat sectors.

The Commission's response to this difficult market situation reflects the instruments that are available under the Common Agricultural Policy to provide market support.

When the Common Agriculture Policy was created as a partnership between Europe and its farmers, over 50 years ago, one of the CAP's main aims was to ensure that farmers earn a fair living. That remains valid today.

Over the years, the CAP has taken on an increasingly market orientated direction. The 2013 Reform has confirmed and strengthened this approach.

This commitment to a market orientated approach is and remains the basis of the Commission's action.

It is also at the basis of the comprehensive response I will present to you in a moment.

Recognising the difficulties our producers experience, the Commission is announcing today a comprehensive support package worth €500 million.

Market Analysis

The backdrop against which today's debate is taking place includes several elements:

- the continuing impact of the Russian ban, not only for those Member States exposed to that market, but for all Member States;
- weakening demand in a number of key markets, notably China, and others where purchasing power has been hit, for example, by falling oil prices;
- a global oversupply of milk, with increased production recorded in all the major producing regions (Europe, the US, New Zealand and Australia);
- very hot and dry conditions in certain Member States, affecting crops such as maize and other fodder; and
- ongoing problems with African Swine Fever in parts of the EU.

A more detailed market analysis has been distributed to you all, as an annex to my speech.

Measures Taken to Date

It is now over a year since the Russian ban came into effect. It has since been renewed for another year. In response, the Commission took decisive and effective action to provide an additional €220 million to stabilise agricultural markets. We are grateful for the support which you and the European Parliament gave the Commission for that package.

In addition, the Commission announced three measures in July to help the fruit and vegetable and dairy sectors.

New Measures Proposed

Let me now turn to the package I am announcing today.

In response to recent market developments, the Commission has identified a comprehensive package of measures which we believe are the most appropriate and which will have the greatest effect in supporting producers. The measures I am announcing this afternoon look to the immediate needs of farmers. In addition, they also include a longer-term view to improve future conditions, notably with regard to the food chain.

This package will allow for €500 million of EU funds to be used for the benefit of farmers immediately. This is a robust and decisive response. This response demonstrates that the Commission takes its responsibility towards farmers very seriously and is prepared to back it up with the appropriate funds. This is particularly important, given other competing budgetary demands.

The focus of this response is threefold:

1. Addressing the cash-flow difficulties farmers are facing
2. Stabilising markets
3. Addressing the functioning of the supply chain.

In addition, the package will also seek to tackle a number of societal issues.

Let me present the elements of our response in further detail.

Firstly, this response will address the cash-flow difficulties farmers are facing, through

- direct targeted aid for all 28 Member States; and
- the facility for Member States to advance up to 70 per cent of direct payments, including voluntary coupled support and young farmers' payments, and 85 per cent of area-based rural development payments from 16 October. This is a major progress compared to the current rules, which allow Member States to advance up to 50 % of Direct Payments and 75% of Rural Development aid.

Secondly, this response aims to stabilise markets, through

- a new and improved private storage scheme for dairy protein products;
- a new private storage scheme for pigmeat;
- furthermore, additional funding for the promotion of dairy products and pigmeat. The new promotion policy will make it easier to access funding;
- a focus on ensuring that the Milk Market Observatory meets the needs of the market by further focusing the information which the Observatory provides, in terms of its nature, accuracy and timeliness;

- a further intensification of efforts to tackle non-tariff barriers in third countries; and
- a series of missions to third countries to open new markets.

Thirdly, the response we propose will address the functioning of the supply chain, by

- establishing a new, dedicated High Level Group to focus on a number of specific and clearly defined issues. This includes credit for farmers, and financial and risk hedging instruments such as futures markets for agricultural products. Possible improvements for producers in the supply chain will form part of the remit, including whether to legislate for specific agricultural products under the Common Markets Organisations;
- promoting full use of the milk package and similar Common Market Organisation provisions by organising exchange of best practices between Member States, producer organisations etc. For example, as regards unfair trading practices, we can learn from the experiences in member states such as Spain and the UK; and
- bringing forward the report on the milk package originally foreseen for 2018 to 2016, to consider its possible prolongation and improvement, including the extension of its provisions to other sectors.

In addition, I would like to recall that the new European Fund for Strategic Investments opens up new opportunities to support investment in the sector, notably for economically viable projects that are more high risk.

Finally, the package will also address a number of wider societal issues. This includes

- addressing the nutritional needs of specific vulnerable groups, particularly in view of the current refugee crisis. In this extraordinary time of multiple crises, it is more important than ever to make the most of our limited resources. We are proposing to help our farmers by stabilising prices, and address the nutritional needs of the most vulnerable refugees in terms of products such as milk powder.
- further, rapidly concluding the proposal to improve the scheme for school fruit and school milk.

Taken together, we consider that this package offers the most appropriate mix of measures to deal with the current market situation. These measures can be implemented very fast.

Further detail on individual measures

Many of the measures we have identified speak for themselves. However, let me zoom in further on a number of individual measures.

The Commission will propose that the most significant part of the comprehensive package will be provided to all MS in envelopes to support the dairy sector. In determining the distribution of this aid, we will ensure that it is fairly distributed, targeted and effective, having particular regard to those MS and those farmers which have been most affected by the market

developments. The Commission's intention is to provide maximum discretion to Member States to reflect their specific situations.

As an additional measure to address **cashflow difficulties**, the Commission has decided to allow MS to advance direct payments up to 70 per cent from 16 October. As regards modalities, such as controls to be undertaken, the Commission will consider providing some flexibility, such as a scheme by scheme approach, to release the advance payments as early as possible. .

The Commission will also act directly to **stabilise the market**. This must be done in the most effective way, and this means providing concrete support to operators while avoiding any disruption to market orientation. For this reason, the Commission is proposing a new private storage scheme for skimmed milk powder and cheese.

For Skimmed Milk Powder in particular, the intention is to provide an enhanced scheme that focuses on higher aid levels as well as on ways to ensure that the product is stored for the appropriate time to make the scheme even more effective in alleviating pressure on the supply side. The lessons learned from previous schemes will be applied to ensure the effectiveness of this new scheme, which will run in parallel with the scheme that was recently extended.

In an effort to address the current market imbalance, it is also proposed to increase the promotion budget for 2016 . This will be in addition to the €81 million already provided for under the reformed promotion policy. Part of this budget will be dedicated to the dairy and pigmeat sectors. This new promotion policy, which enters into force in 2016, already provide for higher co-financing rates from 50 per cent to between 70 and 80 per cent.

Further, together with Commissioners Andriukaitis and Malmström, Commissioner Hogan is intensifying work on tackling non-tariff barriers to trade in third countries where there is a potential appetite for EU products. This effort will also focus on regaining market access for products that were previously exported to third countries, as is the case with pigmeat and African Swine Fever. Both Commissioners Hogan and Andriukaitis are working to see which additional resources can be provided to help eradicate African Swine Fever. I am particularly pleased that Commissioner Andriukaitis will be here at the end of this debate to respond to issues arising as a result of the outbreak of ASF.

In the last number of years, the EU has actively tried to capitalise on increasing global demand by negotiating a number of free trade agreements. Negotiations are ongoing with significant markets such as the USA and Japan. At the same time, a number of Sanitary and Phytosanitary issues, as well as Technical Barriers to Trade issues have to be resolved with third country partners.

With the increased focus on market orientation, we must find new markets for our product. For all kinds of reasons, well known to you, Europe has enormous potential to grow exports of food and agricultural produce.

As regards measures to address the **functioning of the supply chain**, in the context of the High-Level Forum for the better functioning of the food chain, there are a number of questions that Commissioner Hogan will be raising on the relationship between farmers and retailers. Retailers need to realise that it is in their own interest to deliver a fair return for farmers - without producers, you do not have a product.

Commissioner Hogan is also committed to continuing to work intensively with Commissioner Bienkowska, both on the High-Level Forum and to follow up on the 2014 communication on unfair trading practices.

Intervention

I have just listed a comprehensive series of concrete measures that the Commission is proposing.

I would also want to say something about the idea that the price for public intervention should be increased.

We owe it to farmers to make it clear that this is not the appropriate policy response to the current situation.

In terms of the clear market orientation of the CAP, the Commission does not believe that increasing the price for public intervention is consistent with that approach. And market orientation is a necessary foundation of our policy, to secure the future of European farmers. Moreover, we don't believe that it would solve the current market problem.

At a time when there is a clear market imbalance, increasing the price paid for public intervention will do nothing to restore market balance but would instead create an artificial outlet for EU dairy products. It would weigh on the EU competitiveness for the 10% (or more) of EU milk production that need to be exported. I am also concerned that the very existence of EU public stocks would simply push market prices down further, thus deepening and prolonging the current difficult situation. It would also remove the incentive for a cautious approach on the supply side in times of market turbulences.

I believe it is important to be clear about this.

Conclusion

In conclusion, I want to reiterate the Commission's clear support for European agricultural markets. This is why we are committed to provide a comprehensive support package worth €500 million. This package will 1) address the cashflow problems farmers are facing, 2) serve to stabilising markets, and 3) address the functioning of the supply chain.

We believe firmly that the measures I have outlined today represent the most appropriate mix of immediate and decisive actions coupled with forward-looking measures to deal with the current difficulties in the markets.

The measures announced today allow us also to maintain the market orientation of the CAP.

Finally, they are designed to deliver a response very fast.

I want to reiterate that the Commission stands ready to work with you and the other players to ensure that adequate support is provided for agricultural producers in Europe.

Ends.

**Annex to the speech by Vice President Jyrki Katainen at the Extraordinary
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Market Analysis

Dairy Market

There has been a significant deterioration in average farm gate milk prices over the past eighteen months, with prices falling from the exceptionally high levels of 40.21 cents per kilogram in December 2013 to the most recent figures of 29.66 cents per kilogram in July. For the period from June 2014 to June 2015, the average price for raw milk across the EU fell by 20 per cent.

The difficulties being experienced in the dairy sector are essentially related to a strong global supply-demand imbalance. Global demand for milk and milk products has generally deteriorated throughout 2014 and in the first months of 2015, notably as a result of the loss of the Russian market, the first destination of EU dairy exports, and the slowdown in imports from China, the main world importer of milk products. China decreased its imports of dairy products in the first half of 2015 by 56 per cent for WMP, 38 per cent for butter and 28 per cent for SMP.

At the same time, milk production expanded globally. However, the 2015 oversupply on the world market is not primarily driven by European farmers. In the first half of 2015, European milk production increased by only 0.8 per cent, while, in the same period, milk production increased by 1.6 per cent in the US. Increases were also registered in New Zealand (+ 0.9 per cent) and Australia (+ 2.5 per cent).

Global milk production patterns are not reflecting the market reality. At its last meeting on 28 July, the Economic Board of the Milk Market Observatory

concluded that, in the absence of the necessary supply side correction, there is little prospect of improvement in the short-term. However, prospects for the medium and long-term remain positive, as borne out by all international observers (OECD, FAO etc.).

At the level of the Global Dairy Trade auctions, following ten successive falls in prices, the last two auction results have seen increases of 14.7 per cent and 10.9 per cent. In addition, world dairy quotations improved in the last fortnight for the three regions. The biggest increases for butter and SMP were in the US and for WMP in Oceania.

Pigmeat Market

The market for pigmeat remains under pressure. In the first six months of 2015, the number of pigs slaughtered in the EU was 3.2 per cent higher than in the same period last year. The increase in production by weight was 3.7 per cent. In all, 19 MS increased production.

The increase in production can largely be attributed to good prices in the first half of 2014. As supply increased, prices fell. As with the dairy sector, it is essential that production adjusts. However, the analysis of Commission services is that overall slaughter figures for 2015 will show a 2.5 per cent increase in production.

Obviously, the Russian ban had a very significant impact on the market, particularly given the volume of EU product that was exported to that market. The significance of the ban can be seen from the trade figures which show that trade with Russia declined from just over 740 000 tonnes in 2013 to 65 000 tonnes in 2014 – a drop of 91 per cent.

However, the overall export picture is much more encouraging. In the first six months of the year, EU pigmeat exports increased by almost 4 per cent. In particular, Asian markets performed very well with increases of 32 per cent to China, 32 per cent to South Korea and 38 per cent to Australia.

Notwithstanding the positive developments on export markets, there are residual effects of the Russian ban which continue to impact on the market. In addition, the outbreak of African Swine Fever is having a negative effect in the Baltic States and Poland.

Beef Market

As regards the beef sector, figures for 2014 show that EU production is estimated to have been 2.5 per cent above 2013. With that increase of production last year, prices fell to levels equivalent to those that applied at the beginning of 2012. Since then, however, prices have recovered and, in August 2015, they were 4.5 per cent higher than in 2014.

EU beef production in the first 5 months of 2015 shows an increase of 2.6 per cent. Year-on-year and short-term outlook suggests that total EU production could further increase this year by 1.8 per cent. A potential increase of 0.6 per cent in beef production is also foreseen in 2016. The market situation will continue to be monitored closely.

Measures Taken to Date

Since August 2014, the EU has spent

- €150 million withdrawing 760 000 tonnes of fruit and vegetables from the market;
- €13 million for Private Storage Aid for skimmed milk powder, butter and cheese;
- €40 million in targeted aid to dairy farmers in four Member States particularly hit by the Russian ban;
- €17 million on Private Storage Aid for pigmeat, removing 60 000 tonnes from the market.

In addition, three measures were announced in July 2015: A new exceptional measure for the fruit and vegetable sector, in force since August, as well as the extension of the public intervention and private storage schemes for dairy products beyond their scheduled expiry date of the end of September.

Ends.