



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 24 April 2012

9056/12

**AGRI 247
AGRIORG 66**

NOTE

from : General Secretariat
to : Delegations

Subject : Situation on the market of milk and dairy products
- Request from the Polish delegation

Delegations will find attached an information note from the Polish delegation to be dealt with under "Any other business" at the Council (Agriculture and Fisheries) on 26-27 April 2012.

Situation in the milk and milk products market and the adoption of necessary measures

The rise in the price of dairy raw materials observed in 2011 led to a rise in milk production and sales both in the EU and Poland. However, since the beginning of 2012 the drop in demand for dairy products on world markets has become increasingly marked. This has led to a significant drop in exporter interest in domestic products. Consequently, between January 2012 and April 2012 the market prices for dairy commodities fell in Poland by roughly 20-30 %. Despite steady growth in the consumption of milk, domestic demand for dairy products is not able to absorb the developing surpluses. This means that stocks of dairy products in Poland are growing steadily. At the beginning of April 2012 they were estimated to be considerably higher than average for that period, amounting to around 20 000 tonnes of milk powder, 10 000 tonnes of butter, around 5 000 tonnes of maturing cheeses and around 3 000 tonnes of whey powder. The drop in the market price for dairy products will lead to a drop in farm-gate prices for milk. Some predict that these prices could fall as low as PLN 1.00 – 1.10/l (i.e. between 14.5 and 22.3 % of the average price recorded in December 2011) which, combined with increasing production costs, would be particularly uncondusive to further milk production.

It is not just Poland which is affected by the unfavourable climate on the market for dairy products. The fact that EU operators have shown much greater interest than last year in the private storage aid mechanism for butter shows that there are problems with selling produce throughout the whole EU. Despite the opening of the private storage aid mechanism, butter prices in individual EU Member States are still falling dramatically, which could soon lead to the launch of intervention buying. The intervention price for butter is EUR 221,75/100kg. It is Poland's view, as indicated on several occasions in the course of the work on reforming the Common Agricultural Policy, that such a level is too low for changing production conditions. Intervention buying of butter may therefore turn out to be insufficient to ensure the intended effects, particularly in the context of the 30 000 tonne limit for butter at EU-27 level. Work on the inclusion of skimmed milk powder in the private storage aid mechanism, as proposed by the European Commission, is only now taking place in the context of the discussions on the CAP reform package.

In view of the above, Poland believes that in order to stabilise the situation on the EU market in milk and milk products it is necessary to adopt measures as soon as possible to reintroduce the export refunds reduced to EUR 0/100kg on 20 November 2009. At that time the European Commission justified its decision to suspend export refunds on the basis of the improvement in the world market for milk and milk products, including the faster rise in world prices than in the EU. We are currently observing a significant fall in prices both on the world market and in the EU. These price decreases could go even further, as shown by the milk futures quotes on the Fonterra website, which will mean a further fall in farm-gate prices for milk. Temporary reintroduction of export refunds would allow milk producers to survive the difficult market situation, boost the competitiveness of EU products, and thus reduce the risk attached to the need to reduce the farm-gate price of milk.

However, in the longer term it is necessary to consider how much the current reference and intervention prices for butter and skimmed milk powder need to be raised by in order to reflect rising production costs and guarantee the proper functioning of intervention mechanisms in situations of market instability.