



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from:	Polish delegation
to:	Council
Subject:	Situation on the milk and dairy market and necessary measures to be undertaken

Delegations will find attached a note submitted by the Polish delegation, to be dealt with under "Any other business" at the meeting of the Council (Agriculture and Fisheries) on 18 June 2012.

***Resubmission of the Polish proposal concerning discussion of the situation on the milk and dairy market and necessary measures to be undertaken
(AOB of the meeting of Agriculture and Fisheries Council on 18 June 2012)***

Poland desires to resume the issue that was pointed out to the Council at the meeting held in April 2012. At the meeting Poland pointed at the systematically deteriorating situation in the milk and dairy products market, leading to a rapid deterioration of the economic downturn in the dairy sector and growing pressure on milk purchase price.

At present, despite a considerably greater interest of the EU operators in the system of aid for private storage of butter than in the previous year, the situation in the milk and dairy products market not only has not improved but rather further deteriorated since April this year.

The quoted market prices of the basic dairy products of 27 May 2012 show that the average market prices of milk and skimmed milk powder (SMP) are still falling. At the end of May 2012 the prices were higher by 16% and 18% above the intervention prices of butter and SMP, respectively, whereas they exceeded these prices by 60% and 36%, respectively, at the beginning of 2012. With a view to the fact that the current level of intervention prices has not been made more realistic for many years and it does not take into account the growing production cost, the current level of selling prices of basic dairy products has reached the borderline profitability. In this situation that we have already pointed out several times during work on the CAP reform, Poland believes that even if the intervention buying-in of butter and SMP is launched it will not be sufficient to ensure the expected results, i.e. to guarantee the minimum level of production profitability.

The milk producers, particularly those who took on high loans for modernization of their holdings start to feel more and more acutely the market downturn in the dairy sector. They are threatened by the loss of business liquidity and this may lead to a mass bankruptcy. In view of the fact that the majority of milk purchased in Poland is processed in the cooperative system the problems faced by the milk producers will adversely affect the situation of the processing sector which already is difficult.

In April 2012 the farm-gate milk price fell by 3.8% compared to March this year and reached the level of PLN 120.27/100 kg. Generally, this price was lower by about 5% compared to that paid in January 2012, however, it should be noted that this the milk price has only started to fall as the most dramatic falls are expected in summer. Only the fact the Polish currency has weakened in relation to EUR contributed to maintaining the milk price (expressed in EUR) at the level of EUR 28.8/100 kg in April this year.

In the opinion of Poland the current situation on the milk market may be already compared to the 2007-2008 crisis. At the same time it is feared that the lack of balance, even if it occurs in respect of one element of milk production and processing chain, may jeopardize the whole sector. The problems may arise at the contact point between the processor and retail chains. The retail chains which are perfectly aware of the situation in the sector may take advantage of the processors' weaknesses even to greater extent than they have been doing so far and may have greater influence on the dairy products prices.

Lack of a definite response of the European Commission and the use of private storage scheme only may lead to disastrous collapse in the milk productions sector.

In view of the above, Poland calls again for the fastest possible undertaking of measures aimed at launching of export refunds in order to stabilize the EU milk and dairy products market. We would like to stress that in our opinion a temporary reintroducing of the export refunds is needed to enable the milk establishments to endure the difficult market situation, to improve the competitiveness of the EU products, and, eventually, to reduce to a minimum the pressure on drastic reduction of farm-gate milk prices.

Obviously, a temporary restoration of the export refunds will not solve all problems of the EU milk sector. Therefore, Poland calls for considering in the long-term perspective the increment for the current reference and intervention prices of butter and skimmed milk-powder so that they could correspond to the increasing production costs and guarantee the correct operation of intervention schemes in the situation of market fragility.