



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 19 September 2012**

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**NOTE**

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from: Spanish and Portuguese delegations  
to: Council

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Subject: Situation on the dairy market  
- Request from the Spanish and Portuguese delegations

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Delegations will find attached a note submitted by the Spanish and Portuguese delegations, to be dealt with under "Any other business" at the meeting of the Council (Agriculture and Fisheries) on 24-25 September 2012.

**Proposal by Spain and Portugal concerning the market situation in the dairy sector and the urgent need to adopt corrective measures**

Spain and Portugal wish to express grave concern at the continued deterioration in the market situation for milk and milk products which, far from having shown the signs of improvement forecast by the Commission in its July report, is continuing on a downward spiral that is seriously jeopardising the survival of many farms in both our countries.

Production increases in both Spain and Portugal (similar to the Community average, around 2.5 %) are not being well absorbed by the industry and so the price is unable to recover. The increases are similar and even greater in other neighbouring countries.

The result is that milk prices in Spain and Portugal are falling month on month. Between the beginning of the year and July, prices fell by 9.3 % in Portugal and 10 % in Spain, reaching EUR 29.10/100 kg on the Portuguese market and EUR 29.32/100 kg in Spain.

Average Community prices are also continuing to fall. In fact, according to the data supplied by the Commission at the Management Committee meeting on 30 August, prices fell by 9.9 % between January and June (a 3.7 % fall since April). The situation cannot, therefore, be attributed to the seasonal fall characteristic of the early months of the year, as we might have thought up to a few months ago.

In contrast with previous occasions (such as the price crisis in 2009), the particularly alarming aspect on this occasion is that the sustained fall in prices paid to dairy farmers is compounded by the significant increase in livestock feed prices, especially in recent weeks.

The latest, albeit provisional, data we have in Spain point to an average increase of over 15 % in feedingstuff prices in Spain between January and August 2012. In Portugal, maize prices rose 33 %, with feed wheat and barley prices rising 13 % and 9 % respectively since early January.

These two factors - rising feedingstuff prices and falling milk prices - do more than just reduce milk producer margins. The viability of most Spanish and Portuguese dairy farms is currently under serious threat since they are unable to cover their production costs, even with the revenue from direct CAP payments. Add to that the credit squeeze affecting producers as a result of the current economic crisis.

The situation is critical for the vast majority of dairy farms in Spain and Portugal which cannot meet the costs of feedingstuffs for livestock. We are actually faced with the closure of farms and the destruction of the fabric of production in a sector of great economic and social importance for our rural environment.

The gravity of this situation is such that we are compelled to convey to the Commission the urgent need for action, examining all the possibilities afforded by the common market organisation in order to ease the current tension in the dairy market.

The Spanish and Portuguese delegations therefore propose:

- Temporary reintroduction of export refunds for milk and milk products in order to boost competitiveness in international markets and "release" the tension in the European and national markets.

- The revision of reference prices, and therefore of intervention prices, for butter and skimmed milk powder. On 31 August 2012 public intervention was closed without any dairy products entering the warehouses, despite the market situation. That suggests the mechanism is not functioning as the genuine safety net it was intended to be when it was set up. The reason is that the current levels of the reference prices, which have remained unchanged for several years, are very far removed from the reality of the market and the current climate of extremely high production costs, making it impossible to achieve a minimum degree of viability in relation to the steady increase in the price of oil, fertilisers and feedstuffs.
- Private storage aid for butter is another instrument that would help to strike a balance, which is why we propose that the time frame of this mechanism be extended. Buying in butter and skimmed milk powder, as well as the private storage of butter, could be reopened under Article 191 of Regulation (EU) No 1234/2007 establishing a common organisation of agricultural markets, as was done in 2009.
- Finally, income support for dairy farmers should be ensured in the context of the first pillar of the CAP, as in 2009, for which it is necessary to examine the possibility of using Article 186 of Regulation (EC) No 1234/2007 establishing a common organisation of agricultural markets, as well as Article 68 of Regulation (EC) 73/2009 concerning direct payments, so that Community funds may be directed to the adoption of extraordinary measures. The current situation clearly qualifies as a "serious market disturbance". Taking exceptional measures would hence be fully justified.

The surplus from this year's budget could be used to finance the extraordinary measures, as could part of the funds accrued from the gradual reduction of payments under the first pillar (modulation), which are at present intended entirely for rural development programming measures.

As far as the rising costs of the raw materials for feedingstuffs are concerned, in order to alleviate the situation of the livestock sector in general and the situation of milk producers in particular, imports from third countries should be facilitated to increase the supply of cereals on the Community market. According to the latest data on the Community supply balance for cereals provided by the Commission in the Management Committee, the stocks/consumption ratio is 11 %, one of the lowest levels in the last ten years, whilst the recommended level would be 20 %.

In this marketing year, duties on the import of low and medium quality common wheat have been suspended under the reduced-duty tariff quotas up to the end of 2012. However, the quotas were exhausted immediately following their opening, and the amounts imported are not sufficient.

The suspension of customs duties on cereals, or at least on common wheat, imported quota-free could be considered as an additional measure. In our opinion the recent increase in cereal prices fully justifies the adoption of this measure. The same happened in the 2007/2008 marketing year, when customs duties on the import of certain cereals were suspended in order to relieve tensions caused by very high prices. The situation is exacerbated by the fact that back then world maize and sorghum market prices were acceptable, whereas now they are at record levels.