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Delegations will find attached document C(2016) 5663 final.

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Brussels, 8.9.2016
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COMMISSION DELEGATED REGULATION (EU) .../...

of 8.9.2016

**providing for exceptional adjustment aid to milk producers and farmers in other
livestock sectors**

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE DELEGATED ACT

The milk sector is confronted with market disturbance due to worldwide supply-demand imbalance. While global demand for milk and milk products slightly increased in 2015 (+0.2%) and in the first months of 2016 (+0.1% in January-April 2016), it was more than outpaced by milk production growth. In addition, the Russian ban on imports of dairy products, in force since August 2014, has been extended until the end of 2017. EU dairy product exports to Russia represented the equivalent of some 2.2 million t milk on an annual basis before the ban came into force.

After a limited increase in global production in 2013 due to unfavourable weather conditions, major exporters (EU, US, New Zealand) increased their supply by some 10 million t in 2014 and some 4.5 million t in 2015. This increase in supply coincided with the introduction of the Russian import ban in August 2014 and a strong decrease in Chinese purchases. Therefore, despite significant increases in domestic use and good exports in 2013 and 2014, the surplus of milk originating from these 3 regions cumulated to close to 6 million t in 3 years.

While global milk supply was increasing throughout 2015, total exports by the main three world exporting regions in milk equivalent decreased by some 200 000 t. In the first 4 months of 2016, milk production in the EU, the US and New Zealand increased by some 3.6 million t, with less than 1% of that volume being absorbed by additional exports.

Unlike previous years, when production increase concentrated mostly in New Zealand and the US, the EU contributed recently much more to the increase in global supply: high dairy product prices in 2013, in a context of milk quotas soon to be removed (as of April 2015), gave a strong incentive to EU farmers to invest and in the last 3 years EU milk deliveries increased by 11 million t.

As a consequence, pressure on milk and milk product prices increased throughout the year 2015 and in the first months of 2016, generating significant economic losses for milk producers.

Farm gate milk prices declined in 2015 by 8% and by a further 15% in the first 5 months of 2016. The EU average milk price in May was 22% lower than the average of the last 5 years for the month of May. In parallel, the gap between Member States further widened, with some Member States reporting prices 30% lower than the EU average.

The safety net for the milk sector (intervention and private storage aid for both butter and skimmed milk powder) has remained available without disruption since September 2014. It helped mitigate the crisis' impact by setting a floor to the continuous deterioration of commodity prices (notably milk powder) but global imbalance persisted.

Other livestock sectors, in particular pig meat and beef, experience market difficulties as well, mainly related to the Russian import ban with regard to pig meat notably linked to the outbreak of African swine fever in certain Member States, and as a side-effect of the milk market disturbance for beef. The income drop particularly affects smaller farms, creating severe cash-flow difficulties.

In order to cater for a situation where prices would further deteriorate and deepen market disturbances, it is essential that support is made available to EU milk producers and farmers in other livestock sectors affected by market disturbances. In order to improve farmers' resilience, access to this support should be confined to more sustainable farming methods. Particular attention should be given to small farms which form the backbone of rural economy.

Therefore, it is appropriate to grant Member States one-off financial envelopes in order to support milk producers and farmers in other livestock sectors that are severely affected by the market disturbance. Since the impact of the market disturbance varies across Member States and since there are Member States in which sectors other than the dairy sector are under pressure, these should describe the concrete measures to be taken, allowing Member States flexibility to support vulnerable livestock sectors, including the beef, pigmeat, and the sheepmeat and goatmeat sectors.

Given the critical financial situation currently endeavoured by many milk producers and farmers in other livestock sectors, and in order to assure a timely and effective impact at farmer level, the support measure should be adopted as quickly as possible and on the basis of the urgency procedure provided for in Article 219(1) in conjunction with Article 228 of Regulation (EU) No 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of the markets in agricultural products and repealing Council Regulations (EEC) No 922/72, (EEC) No 234/79, (EC) No 1037/2001 and (EC) No 1234/2007.

2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

The measure is to be adopted on the basis of Article 219(1) of Regulation (EU) No 1308/2013 and in an urgency procedure. DG AGRI has carried out an Inter-Service Consultation. Technical meetings to discuss the situation with experts from Member States took place on 20 July 2016 and 25 August 2016.

3. LEGAL ELEMENTS OF THE DELEGATED ACT

The delegated Act is based on Article 219(1) of Regulation (EU) No 1308/2013. It should be adopted by means of the urgency procedure according to Article 219(1) second subparagraph and Article 228 of Regulation (EU) No 1308/2013. This means that the delegated act enters immediately into force without delay.

The aid provided for in this delegated Act should be deemed to be a measure supporting agricultural markets within the meaning of Article 4(1)(a) of Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008.

It will apply as long as no objection is expressed by the European Parliament or the Council within a period of two months (or - if one of the institutions asks for an extension for two additional months - within a period of 4 months). If objections are expressed, the Commission shall repeal the act without delay.

COMMISSION DELEGATED REGULATION (EU) .../...

of 8.9.2016

providing for exceptional adjustment aid to milk producers and farmers in other livestock sectors

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of the markets in agricultural products and repealing Council Regulations (EEC) No 922/72, (EEC) No 234/79, (EC) No 1037/2001 and (EC) No 1234/2007¹, and in particular Article 219(1) in conjunction with Article 228 thereof,

Having regard to Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008², and in particular Article 106(5) thereof,

Whereas:

- (1) The milk sector is confronted with market disturbance due to a worldwide supply-demand imbalance, in which the prolongation until the end of 2017 of the Russian ban on the import of agricultural products and foodstuffs originating in the Union plays a role.
- (2) Global demand for milk and milk products slightly increased in 2015 and in the first months of 2016, but at a much lower rate than production.
- (3) Global milk supply generally increased throughout 2015, with a combined production growth in the Union, the United States and New Zealand amounting to some 4.5 million t, while total exports from the Union and those two third countries in milk equivalent decreased by some 200 000 t.
- (4) In the first four months of 2016, milk production in the Union, the United States and New Zealand increased by some 3.6 million t, with less than 1% of that volume being absorbed by additional exports.
- (5) As a consequence, prices of raw milk in the Union have further decreased and downward pressure is likely to continue, reaching unsustainable levels for milk

¹ OJ L 347, 20.12.2013, p. 671.

² OJ L 347, 20.12.2013, p. 549.

producers. In May 2016, average farm gate milk prices in the Union were 22% below the average price in May of the years 2011 to 2015.

- (6) In parallel, milk price disparities have widened between Member States. Small farmers are particularly hit, putting at risk the social fabric of rural areas.
- (7) Other livestock sectors, in particular the pigmeat, beef and veal, and sheepmeat and goatmeat sectors, experience market difficulties as well. With regard to pigmeat those difficulties are mainly related to the Russian import ban notably linked to the outbreak of African swine fever in certain Member States, while for the beef and veal sector they are a side-effect of the milk market disturbance.
- (8) Market intervention instruments in the form of public intervention and private storage for butter and skimmed milk powder have remained available without interruption since September 2014. Those instruments have mitigated the crisis' impact and have set a floor to the continuous decrease of milk product prices, but global imbalance persists.
- (9) As the normal measures available under Regulation (EU) No 1308/2013 appear to be insufficient and in order to cater for a situation where prices would further deteriorate and deepen market disturbances, it is essential that aid is made available to milk producers and farmers in other livestock sectors in the Union affected by market disturbances that severely weakened profitability and liquidity. Member States should choose one or more of the sectors concerned, or part of them, to support producers and farmers who suffer most from market disturbances.
- (10) In order to improve farmers' resilience, that aid should be confined to more sustainable farming methods. Particular attention should be given to small farms, which form the backbone of rural economy.
- (11) To alleviate the current crisis, it is appropriate to provide Member States with a one-time financial grant to support milk producers and/or farmers in other livestock sectors engaging in activities fostering economic sustainability and market stabilisation.
- (12) The financial grant available to each Member State should take into account the main features of their sectors including production, market prices and the weight of small farmers.
- (13) Member States should design measures based on one or more of the following activities fostering economic sustainability and market stabilisation: freezing or reducing production, small scale farming, extensive production, environmental and climate friendly production, cooperation between farmers, improvement of quality and added value, and training in sound management methods.
- (14) Taking account of the particular situation of milk producers and farmers in other livestock sectors, which varies across the Union, Member States should choose the most appropriate measures, in particular in terms of market stabilisation and economic sustainability, and should provide a description of the concrete measures to be taken.
- (15) As the amount allocated to each Member State will compensate only a limited portion of the actual loss suffered by milk producers and farmers in other livestock sectors, Member States should be allowed to grant additional support to those farmers, under

the same conditions of objectiveness, non-discrimination and non-distortion of competition.

- (16) The aid provided for in this Regulation should be granted as a measure supporting agricultural markets in accordance with Article 4(1)(a) of Regulation (EU) No 1306/2013.
- (17) In order to give them the flexibility to distribute the aid as circumstances require to cope with the difficulties, Member States should be allowed to cumulate it with other support financed by the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development.
- (18) As the financial grant is fixed in euro, it is necessary, in order to ensure a uniform and simultaneous application, to fix a date for the conversion of the amount allocated to Member States not having adopted the euro into their national currencies. It is therefore appropriate to determine the operative event for the exchange rate in accordance with Article 106 of Regulation (EU) No 1306/2013. In view of the principle referred to in paragraph (2)(b) of that Article and the criteria laid down in paragraph (5)(c) of that Article, the operative event should be the date of the entry into force of this Regulation.
- (19) For budgetary reasons, the Union should finance the expenditure incurred by Member States in relation to milk producers and farmers in other livestock sectors only where such expenditure is made by a certain deadline.
- (20) In order to ensure transparency and the monitoring and proper administration of the amount available to them, Member States should inform the Commission of the concrete measures to be taken, the objective criteria used, the rationale for supporting livestock sectors other than milk, the measures taken to avoid distortion of the market, the intended impact of the measures and the methods to check that it is reached.
- (21) In order to ensure that milk producers and farmers in other livestock sectors receive the aid as soon as possible, Member States should be enabled to implement this Regulation without delay. Therefore, this Regulation should enter into force on the day following that of its publication,

HAS ADOPTED THIS REGULATION:

Article 1

1. Union aid of a total amount of EUR 350 000 000 shall be available to Member States to provide exceptional adjustment aid to milk producers and/or to farmers in the beef and veal, pigmeat and sheepmeat and goatmeat sectors ('farmers in other livestock sectors').

Member States shall use the amounts available to them as set out in the Annex for measures taken on the basis of objective and non-discriminatory criteria, provided that the resulting payments do not cause distortion of competition.

The measures taken by the Member States shall support milk producers and/or farmers in other livestock sectors who engage in one or more of the following

activities that aim at fostering the economic sustainability of their holdings and that contribute to market stabilisation:

- (a) production reduction beyond that covered by Commission Delegated Regulation (EU) 2016/x³ or not increasing production;
- (b) small-scale farming;
- (c) the application of extensive production methods;
- (d) the application of environmental and climate friendly production methods;
- (e) the implementation of cooperation projects;
- (f) the implementation of quality schemes or projects aiming at promoting quality and value added;
- (g) training in financial instruments and risk management tools.

Member States shall ensure that, when milk producers and farmers in other livestock sectors are not the direct beneficiaries of the payments, the economic benefit of the aid is passed on to them in full.

Member States' expenditure in relation to the payments under this Regulation shall only be eligible for Union aid if those payments have been made by 30 September 2017 at the latest.

2. In respect of Bulgaria, the Czech Republic, Denmark, Croatia, Hungary, Poland, Romania, Sweden and the United Kingdom, the operative event for the exchange rate as regards the amounts set out in the Annex shall be the date of entry into force of this Regulation.
3. Measures under this Regulation may be cumulated with other support financed by the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development.

Article 2

Member States may grant additional support for the measures taken under Article 1 up to a maximum of 100% of the corresponding amount as set out in the Annex, under the same conditions of objectiveness, non-discrimination and non-distortion of competition as laid down in Article 1.

Member States shall pay the additional support by 30 September 2017 at the latest.

Article 3

Member States shall notify the Commission of the following:

³ Commission Delegated Regulation (EU) 2016/xxx of [...] providing aid for milk production reduction (OJ L).

- (a) without delay and no later than 30 November 2016:
- (i) a description of the concrete measures to be taken;
 - (ii) the objective criteria used to determine the methods for granting the aid and, where appropriate, the rationale for using the aid for other livestock sectors than the milk sector;
 - (iii) the intended impact of the measures in view of stabilising the market;
 - (iv) the measures taken to check that the intended impact is reached;
 - (v) the measures taken to avoid distortion of competition;
 - (vi) the level of additional support granted pursuant to Article 2;
- (b) no later than 15 October 2017, the total amounts paid per measure, the number and type of beneficiaries and the assessment of the effectiveness of the measure.

Article 4

This Regulation shall enter into force on the day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 8.9.2016

For the Commission
The President
Jean-Claude JUNCKER