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NOTE

From: General Secretariat of the Council
To: Delegations
Subject: Market situation

Further to the ministerial lunch discussion held on 15 February 2016 and in preparation of the March "Agriculture and Fisheries" Council, delegations will find attached a note from the Irish delegation on the above-mentioned subject.

Volatility in commodity markets

Submission by Ireland

Context

- Ireland very much appreciates the measures already taken by the Commission, including those agreed at the September and December Councils last year. Notwithstanding these measures, it is clear that the commodity markets, particularly dairy and pigmeat, remain in difficulty.
- It is timely now, given the scale and duration of the current market downturn, to review these measures and consider all options at our disposal. Ireland believes that market and other measures, appropriately deployed, can help to put a floor under current market prices and reduce the possibility of an already serious situation deteriorating further.
- However commodity markets are cyclical and improved prices will return in due course. The EU's meat and dairy sectors will benefit when the market upturn arrives. The challenge is to deploy measures that will mitigate the worst impacts of downward price volatility and help farmers in the EU to survive this temporary trough.
- Regulating supply in times of price downturns is not an appropriate response. Measures taken only within the EU will disadvantage EU farmers and co-ops, will undermine efficient production and will adversely affect the ability of farmers to benefit when the market turns in their favour. It would be a backward step to consider such measures now.

There are immediate measures we can consider however. In the dairy market, we are proposing:

1. **Revision of the APS Scheme for SMP:** We welcome the recent Commission announcement that the last date for the submission of applications for this scheme has been extended from 29 February to 30 September.

However, it is notable that the level of take-up of the enhanced scheme has been limited, due in the most part to its lack of flexibility. Two SMP schemes now exist: the “normal” scheme for 90-210 days, and the enhanced scheme for 365 days with a minimum of 270 days to respect terms of contract.

The requirement that product must stay in for the full 365 days or suffer a penalty if withdrawn sooner does not allow processors to take advantage of market opportunities that might emerge. A less rigid arrangement for the removal of product from storage would allow for its re-introduction onto the market in a more orderly fashion.

In summary, the two flexibilities requested are:

- Reducing the minimum number of storage days under the “enhanced scheme”.
 - Removing the 10% penalty for product withdrawn from storage before the maximum of 365 days.
- 2. Improved allocations under the APS Cheese Scheme:** We welcome the recent proposed re-allocation of APS quotas under this scheme given the obvious benefits which this has for both the Member State in question as well as the EU market in general. However we would also call for un-used quotas on the next closure deadline of 30 September to be made available to interested MS if un-used.
- 3. Market Analysis/Exceptional Measures:** Ireland welcomes the steps taken by the Commission to date, including the extension of the dates for Aids to Private Storage and targeted aid for affected sectors. The downturn in global milk prices evident since the start of 2014, is proving more prolonged than originally anticipated, and this has been most acutely felt by producers over the past several months. This is having a severe impact on farm incomes.

Ireland considers it appropriate that dairy markets should be kept under close review, taking account of developments in production, production costs, and market trends over the next number of months, bearing in mind the provisions of Article 7.2 of the CMO Regulation in relation to the reference thresholds for intervention. In this context scope to utilise exceptional measures should also be kept under consideration.

4. Intervention Quantitative Ceiling: Under Article 3 (c) of Regulation 1370/2013, adopted in accordance with Article 43(3) of the TFEU, the annual quantitative limit for buying SMP into intervention at a fixed price is 109,000 tonnes. Ireland requests the Commission to bring forward proposals to:

- allow the Council to increase this quantitative limit for the 2016 Scheme to 200,000 tonnes, to provide further stability and encourage a more orderly usage of the intervention mechanism.
- extend the intervention buying-in period to beyond the 30 September deadline to ensure its availability in Q4 2016 and if necessary Q1 2017.

Such provisions may be adopted by the Council through an amendment of Regulation 1370/2013, or through the provisions of Article 219 of Council Regulation, which provides for exceptional measures which “*extend or modify the scope, duration or other aspects of other measures under this Regulation.*”

5. Superlevy

Last year agreement was reached on a facility allowing Member States to defer the collection of superlevy. Given that the dairy price crisis is more prolonged than had been anticipated, Ireland is seeking the deferral of the 2016 and 2017 instalment payments to the Member State by a further year. Such a measure could be provided for under Article 219 of Council Regulation 1308/2013, given the repeal of Council Regulation 1234/2007, and would be cost free from an EU budget perspective, given that superlevy has already been paid in full by Member States.

6. Pigmeat PSA Scheme: The ending of the PSA scheme for pigmeat does not appear justified by the current state of the EU and global pigmeat market. Ireland would therefore request that the decision to terminate the scheme be reversed. This is a sector which does not enjoy direct EU supports and therefore the market support tools available in times of extreme price volatility must be deployed when necessary.

- 7. Russia pigmeat ban:** The adverse effects of the effective closure of the Russian market are still being felt by farmers. While this is a difficult issue, Ireland would request the Commission to continue and intensify its political, technical and diplomatic efforts to unlock the Russian market for EU pigmeat. The previous engagement has unfortunately yielded little progress to date, and the opportunity to re-engage and secure access for products outside the scope of the Presidential decree, such as pig fats and offals should be immediately pursued.
- 8. Increase in de-minimis State Aid levels:** The current de minimis levels for state aid assistance in the agriculture sector for primary producers should be re-examined, in light of the negative impact of price volatility on small scale producers. A modest increase in the de minimis aid level to €20,000 over 3 years would allow Member States additional flexibility in combating the worst impacts of price volatility without undermining the single market.
- 9. Block Exemption Regulations – State Aids:** Extreme price volatility is among the major and continuing challenges facing EU farmers. Despite this, it is notable that there is no provision for volatility management measures under Commission Regulation (EU) No. 702/2014 declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market. Consideration should be given to making specific provision for measures to deal with volatility in these regulations.
- 10. Longer term,** we believe it is necessary to give consideration at EU level to responses to volatility issues in the future such as more price transparency through the EU’s Milk Market Observatory, further consideration of the role that might be played by futures markets, greater provision of fixed-price contracts for producers as well as the use of financial instruments specifically designed to take account of the cash flow impact of downward price cycles in commodity markets.

Finally, Ireland would like to emphasise that it is open to the ideas of other Member States and believes that it can work in collaboration with them and the Commission to ensure that the toolbox available under the Common Market Organisation and other regulations is used to optimal effect to develop measures which will have a stabilising effect, particularly on our dairy and pigmeat markets.
