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**NOTE**

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

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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 Romanian delegation on the above-mentioned subject.

**Romania's proposals regarding possible support measures to address  
the difficult market situation**

Given the global market situation generated by the Russian embargo or by the decrease of demand from traditional trading partners, Romania is facing severe problems mainly in the pig meat sector, milk sector, as well as in the fruit and vegetable sector.

Romanian producers are facing major losses in this negative global context, they are affected indirectly by the Russian embargo due to the extra-pressure of products that have entered the Romanian market at low prices, thus creating an unlevelled playing field for our producers. At the same time, they are directly affected by the decrease in global demand (i.e. exports to Asia) which yielded in high trade flows on the EU market.

In addition, spring and summer crop productivity was severely affected because of drought, while in the same time production costs increased significantly while sales price remained at low values.

**Pig meat sector**

Although before 2014, Romania was not one of the EU countries exporting pig meat and pig meat products to the Russian Federation, the embargo during summer 2014 has affected Romanian producers indirectly because of surplus products on the EU market. As a result, severe price declines were recorded even in periods in which prices normally reach peak of season.

In Romania, falling prices in the pig meat sector following the Russian Federation embargo, ranged as follows: 13.2% during 2014 (160.94 euro/100 kg carcass E), in comparison with 2013 (185.42 euro/100 kg carcass E). Also, during December 2015 the price of pig carcasses Class S was by 13.3% lower than December 2014 (the price dropped from 150.32 euro/100 kg carcass S at 133.31 euro/100 kg carcass S). The price of carcasses Class E decreased in December 2015 by 9.5% compared to the same month of 2014 (from 144 euro/100 kg carcass E in 2014 to 130.49 euro/100 kg carcass E in 2015).

Moreover, the decrease in pig meat prices in Romania continued in the first weeks of 2016, being in week 4 (25-31 January 2016) 118.87 euro/100 kg carcass S (below EU average of 128.88 euro/100 kg carcass S) and, respective 115.8 euro/100 kg carcass E (below EU average of 128.63 euro/100 kg carcass E). In week 6 (8-14 February 2016), the prices for pig carcasses class S and E fell more, being 116.44 euro/100 kg carcass S (below EU average in the same week of 128.77 euro/100 kg carcass S), respective 114.07 euro/100 kg carcass E (below EU average in the same week of 128.14 euro/100 kg carcass E).

Consequently, we consider the following:

- Private storage aid mechanism operated at European level between 4 to 21 January 2016 (Commission Implementing Regulation (EU) 2015/2334 of 14 December 2015 opening private storage for pig meat and fixing in advance the amount of aid) did not achieved the expected goal - to stabilize the pig meat market in terms of prices. The allocated time for applications was too short. We emphasise that our producers applied to the PIAA for 1,000 tons storage products, at storage closing date (January 21, 2016 in accordance with Commission Implementing Regulation (EU) 2016/85 of 25 January 2016 suspending the submission of applications for the private storage aid for pig meat provided for in Implementing Regulation (EU) 2015/2334 respectively, Commission Implementing Regulation (EU) 2016/132 of 1 February 2016 fixing the closing date for the submission of applications for private storage aid for pig meat under Implementing Regulation (EU) 2015/2334), our producers expressing their intention for further applications, according to PIAA.
- Temporary exceptional aid current in place at EU level (Commission Delegated Regulation (EU) 2015/1853 of 15 October 2015 providing for temporary exceptional aid to farmers in the livestock sectors) was welcomed by the sector, although insufficient covering only a very small part of the farmers' income losses. *According to our producers' calculations, the total loss per production unit (head) in 2015 and January 2016 is 26.73 euro/head. EU exceptional aid will cover only 5% of the income losses beard by the pig sector in first eight months of 2015.*

Taking into account the above mentioned, Romania proposes the following measures that should be taken at European level in order to address the difficult situation in pig meat sector:

- Allocation of additional financial resources as part of a new exceptional support addressed to pig meat sector affected by the crisis, in order to fairly compensate the income losses suffered by the producers due to market disturbances – considering the total loss per production unit (head) estimated to represent at least 27 euro/head.
- Re-launching private storage aid mechanism for pig meat and adjustment the implementation periods. (The current period of its functioning, less than three weeks, did not result in the improvement of the market situation). Romania considers that a new private storage scheme should be approved for a longer period of application and with an extended list of products.
- Launching mechanisms for promoting and encouraging exports with a view to removing existing permanent surpluses on the EU market;
- Intensifying efforts to find new third markets and the dismantling of non-tariff barriers;
- Taking urgent measures on the EU scale leading to lifting Russian embargo and re-opening of the Russian market for EU pig meat products;
- Creating in pig meat sector, similarly to milk sector, of a permanent observer to monitor the market situation
- Setting up a crisis management tool funded by savings from the Single CMO budget for tackling market disturbance, in order to reduce severe variations of income due to unforeseen circumstances, which affect the prices of both inputs and outputs

### Dairy sector

The dairy sector in Romania is also severely affected by the difficult market situation (besides the Russian embargo, there are extra pressures for the dairy sector, i.e. slowdown in the Chinese economy, expiry of dairy quota). This entire context resulted in a strong EU overproduction, huge intervention stocks, price volatility.

While purchase prices for raw milk are varying a lot between member states, Romania is experiencing a sharp price decrease and the prospects for the following months do not look optimistic at all.

The duration of the current crisis is affecting the sustainability of many dairy agricultural holdings, thus putting in danger a whole segment of value-generating economic activity, particularly in the most vulnerable areas.

Romania recorded, between March 2014 - May 2015, the lowest price for raw milk from the last 5 years (-20%). The minimum level was reached in June 2015 when the price was 20% lower than in June 2014 ( 23.56 eurocents/kg compared to 29.14 eurocents/kg). In December 2015, the price was 11% lower than in December 2014 (27.01eurocents/kg to 30.35 eurocents/kg), while the EU average price was 30.47 eurocents/kg.

Considering the low level of organisation and limited number of PO's/cooperatives in Romania and the pressure of milk and dairy products entering our market, the sector was forced in several situations to reduce their productivity, thus severely affecting their only income.

Romania appreciates the measures taken so far, including the possibility of using exceptional support provided for within the framework of the Commission Delegated Regulation (EU) No 2015/1853, however, the envisaged financial resources are not sufficient to significantly support the milk sector.

As regards the market support measures available under the safety net and implemented up to present, they have not produced the expected effects since they have failed to solve the need to place the products on third markets.

*Therefore, the support measures should be targeted at:*

- Adopting in 2016 measures similar to the exceptional temporary support granted in 2015, in order to cover part income loss;
- Similar to the provision that states for the obligation of PO's to negotiate an amount of raw milk up to 33% from the national production, based on art. 149 from Regulation EU 1308/2013, **it would be necessary to adopt a provision, stating that first buyers shall buy-in a certain percentage of raw milk produced locally** (no additional EU cost);

- Adopting specific measures for the mountainous areas, by encouraging the operators to buy milk, produced in these areas, for example by EU financing the transport costs;
- Increasing the aid level (euro/100kg), for the current and the following year, under school milk scheme;
- Launching certain mechanisms to promote and encourage exports, in order to constantly ease on the surplus of products in the EU market;
- Identifying new markets and lifting up non-tariff barriers.

We consider that the COM should have an integrated approach when designing the new support mechanisms. The measures should have in view both the EU market as a whole and the particularities of the Member states markets, mainly the specific structures (small-size farms, vulnerable regions) which lead to different degrees of integration of their milk sector within the food chain.

### **Fruit and vegetable sector**

In order to diminish the impact of the Russian ban on fruits and vegetables, the European Commission has adopted the first exceptional measures in 2014, (Regulation 932) applying a method of direct allocation of the budget towards the affected producers. Afterwards, the EC changed the method of budget allocation, switching to quantities allocations per MS calculated on the basis of traditional exports to Russia.

The approach led to a considerable imbalance between EU producers as significant quantities were allocated to the traditional exporters. Taking into account the long period of quantities' availability (R1369/2015 applies from 8 August 2015 to 30 June 2016), MS with traditional exports on the Russian market have turned these exceptional support measures into commercial opportunities (débouchés). Therefore, only a third of the allocated budget through R1369/2015 was used.

In the most likely possibility of the extension of the Russian ban and therefore of the exceptional support measures, Romania asks the Commission to review the method of budget/quantities allocation, so that the principle of traditional exporter would not prevail. After 2 years of Russian ban, the main exporters have redirected their products towards the internal market and at the same time they have identified new markets.

Consequently, Romania encourages the Commission to identify and promote new support measures/schemes, such as: **compensation for income loss**, in order to ensure a fair treatment and a balanced access to EU financial support for all producers.

Several of the proposals are meant to support the sectors, but only on a medium and long term. Our analyses reveal that, both at EU and global level, the situation is not likely to improve in any of the sectors involved in 2016. Thus, it makes two consecutive years of constraints for the placing of products on the market and prices at producer level. Therefore, in order to maintain the activity of our farmers and save their businesses, it is absolutely necessary to compensate their income losses, from EU funds, not affecting direct payments and if necessary, from other sources than EAGF and EARDF.