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**NOTE**

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

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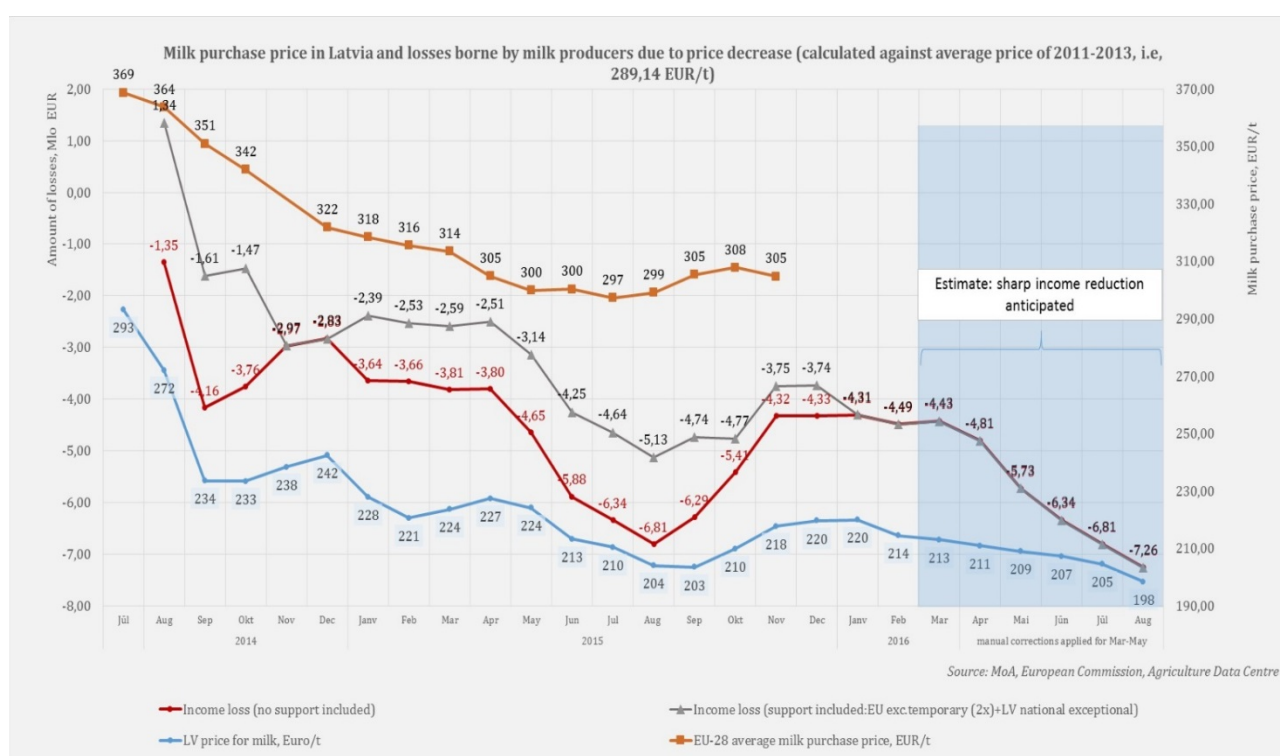
Further to the ministerial lunch discussion held on 15 February 2016 and in preparation of the March "Agriculture and Fisheries" Council, delegations will find attached a note from the Latvian delegation on the above-mentioned subject.

**Proposals by Latvia on additional market and support instruments for tackling the market distortions in dairy and pigmeat sectors**

In response to the request by the Dutch Presidency to prepare the discussion of the AGRIFISH Council on March 14, 2016 Latvia hereby submits its proposals in relation to the market situation.

Dairy and pigmeat sectors are still facing major market problems due to increased competition caused by Russian sanctions and the global overproduction that are factors out of the hand of individual farmers to take a control over. Agri-food sector cannot compensate the loss of Russian market swiftly and instantly by increased exports to other (including new) markets. It must be taken into account that entering new markets requires time-consuming procedures related to different inspections, permissions, certificates etc.

Taking into account that the price decrease has not stopped and, according to estimates for February, is to continue (prices for milk falling even under 0,20 EUR/kg), the losses borne by our producers are building up. Therefore, despite the EU exceptional temporary aid and the national aid, we estimate that the total amount of still uncompensated losses borne by Latvian dairy sector have reached **96 mio EUR** and uncompensated losses borne by Latvian pigmeat sector will reach **24 mio EUR**, estimated for the period from August 2014 to August 2016.



It must be noted also that markets are becoming under pressure also for other agriculture products, for example, poultry.

Having stated the above, Latvia is of opinion that both short-term and long-term measures for solution of the cash flow of farmers and the market stabilization are necessary.

### **Basic assumptions to be taken into account when forming and implementing any type of support measures**

- I. While discussing any support measure, **the market scales and their differences across Member states must be taken into account.** Member states with small-scale economy like Latvia do not possess relative advantages compared to the Member states with significant production volumes. Therefore, these small-scale economy countries feature high fixed costs, which, accompanied by relatively small production volumes, defines the *price takers* role of these countries' enterprises on the global markets.
- II. Severity of the impact of the Russian embargo and global market disturbances on farmers that can be seen in the relevant indicators, such as farm-gate prices, Latvia having at the moment the lowest price of milk in the EU.
- III. In addition, it must be noted that **being placed far away both from export markets and from the EU logistic centers**, is an additional factor influencing the competitiveness of producers compared to producers in other Member states. For example, in pigmeat sector, the distance from logistic centers increases the feed cost, creating in result an additional 10-20 EUR/t cost of production.
- III. As regards the dairy sector, it must be noted that in the process of preparing for milk quota abolition the **sector had invested heavily in development and modernization, in order to be stay competitive in the quota-free market.** For producers these investments mean huge credit payment commitments that must be fulfilled despite the amount of price decrease.
- IV. And, last but not least, while drafting the support measures, the EU should ensure avoiding the situation where the rural areas become abandoned in result of liquidity problems caused by market volatilities.

## EU measures of immediate action

1. **Further exceptional temporary targeted direct support measures are needed** in order to prevent the wave of bankruptcy in both sectors
2. **More flexibility under application of existing rules for the EAFRD funded investment projects:**
  - a) not applying penalties and not recovering the funds already paid for cases when initial objectives stated in the projects cannot be achieved and/or the farm needs to restructure into something else during the durability period of the project;
  - b) temporary derogation from the application of eligibility rule on producers with economic difficulties eligible to receive the investment aid.
3. **Temporary increase ceilings of *de minimis* state aid** from the current EUR 200 000 to EUR 500 000 and from the current EUR 15 000 to EUR 30 000 in the agriculture sector. It would both allow implementing new state aid measures or even without the additional national fresh aid schemes it would allow higher degree of very much needed flexibility under existing schemes.
4. **The market intervention mechanism must be improved:**
  - a) ***Intervention prices must be revised***, so that they better reflect the actual market situation. The possibility for the Commission could be introduced to fix the intervention prices before the opening of intervention buying-in, i.e., adjusting (increasing) the intervention prices set out in the basic act, taking into account the market trends. The adjusted prices should not be lower than those in the basic act (this would maintain the safety net approach towards market operators when the minimum price would be increased where necessary).
  - b) A flexibility should be increased also regarding the ***quantitative limits for products to be bought into public intervention*** - the possibility for the Commission could be introduced to set the product volumes to be bought-in, based on the situation on the market.

c) *The intervention stocks should be disposed of* with a certain aim, for example:

- i. Supplying products to armed forces, establishments of social and medical rehabilitation, medical establishments and other specific consumer categories, or
- ii. Providing the needs of certain agriculture sectors (for example, skimmed milk powder for feed).

The disposing of intervention stocks must take place at a price, comparable to the market price and not lower than the price at which the relevant intervention buying-in was carried out.

**5. An EU-wide instrument for export credits must be created, in order to facilitate the possibility of using export credit guarantees by agri-food producers** in their exports to third countries (for example, by covering the necessary fee for the use of export credit guarantees).

This proposal is based on the recent progress achieved at the 10<sup>th</sup> WTO Ministerial conference in Nairobi, including the agreement that export refunds is not an instrument for the future.

**6. An EU-wide support for acquiring new export markets should be introduced and the conditions for promotion programs should be revised.** It should be allowed to implement the promotion programs only in one country, thus increasing the availability of these programs and simplifying their implementation.

## Medium-term and long-term EU measures

1. **Measures of CMO that have proven their efficiency in the fruit and vegetable sector** should be also applied in other sectors, e.g. a financial support for **creation, operation, and investment of producer organizations and inter-branch organizations in order to increase the motivation for producers to engage in collective contractual negotiations etc.**
  
2. **The possibility should be envisaged for farmers to restructure, by revising the conditions for use of the European Globalization Adjustment Fund (EGF) in order to help farmers (farms) that have, as a result of severe change in the market and trade structure, lost their main source of income or that are undergoing the process of restructuring their operations. In order to facilitate the use of the EGF, several major changes are needed to make to the scheme, in order to adjust it to the needs of the agriculture sector:**
  - a) Reducing the requirement on the number of people losing their jobs;
  - b) Taking into account the number of restructured farms;
  - c) Increasing the level of co-financing;
  - d) Providing for the possibilities to finance restructuring of farms;
  - e) Simplifying the administration measures.

The specific derogations for the agriculture sector should be applied for a certain time period, for example, 2 years.

Also, when revising the EGF conditions, the scale of economy must be taken into account, allowing smaller Member states to make comprehensive use of the support under the EGF.

**3. A new, EU-wide instrument for compensation of income loss to farmers should be established within the CAP**, in order to create a “safety net” aimed directly at farmers’ income in cases of price crises and market volatilities.

The principle of the measure would be to partially (for ex, up to 80%) compensate the amount of income lost in a given year compared to the average level of income in 3 preceding years, provided that the relevant amount of income lost is at least 30%.

Such an instrument could be established also for other agriculture sectors. However, this instrument should, in no way, serve as a constant warranty for certain income level or as a motivator for ineffective production.

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