



Council of the
European Union

Brussels, 25 February 2016
(OR. en)

6484/16
ADD 11

AGRI 93
AGRIFIN 17
AGRIORG 12

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 Bulgarian delegation on the above-mentioned subject.

PROPOSALS FROM THE REPUBLIC OF BULGARIA FOR POSSIBLE MEASURES FOR OVERCOMING THE DIFFICULT MARKET SITUATION IN DIFFERENT AGRICULTURAL SECTORS

In Bulgaria the most affected sectors by the Russian embargo are the dairy and fruit and vegetables sectors.

Milk and milk products sector

Since September 2014 there is clear trend of decrease in the purchasing prices of cow's milk in Bulgaria. A main factor for this decrease is the increased supply of milk and milk products on the EU market (for which the Russian ban is partly responsible), coupled with increase of supply and delay in demand on global level due to the termination of the quota system and the substantial reduction of requests from China for EU dairy products.

The average purchasing price of raw cow's milk in 2015 for the EU was 30,70 euro/100 kg, while in Bulgaria was 28,54 euro/100 kg or 7% lower than the average for EU.

The price of raw milk in Bulgaria follows the price trends in the EU. After a certain trend for slow increase in August – November 2015, since December 2015 there is again reduction of the milk prices.

From the preliminary data the average purchase price in Bulgaria for the month of January 2016 will be lower than the levels in December 2015 with 1.8 % which makes it 9% lower than the price in January 2015. Another interesting fact which is not typical for Bulgaria is the higher amounts of milk received for processing in December 2015 in contrast to November the same year. During December 2015 buyers have purchased more cow's milk from Bulgarian producers than in November which is not typical for the winter months. The normal seasonal dynamics of cow's milk production in Bulgaria shows that production's increases can be expected to occur not earlier than March. The higher rate of deliveries in December along with the unfavourable market situation in the EU is one of the preconditions for a much lower prognostic price than the price announced for January 2016. If the trend of production increase remains the same during January and February 2016, without improvement in the marketing and the prices of dairy products, then the producers in their turn will increase the milk production as compensation in order to preserve their incomes which will worsen the crisis.

Similar is the situation with the "ex-works" prices of monitored cow's-milk cheeses in 2015, which also marked a declining trend. The average price of white brine cheese decreased from 272,78 euro/100 kg in 2014 to 256.36 euro/100 kg in 2015 that is 6.1% decrease. The decrease by the yellow cheese (kashkaval) was 9.5% in 2015. For both cheeses the reported price in December 2015 was the lowest price for December since 2012.

The post-quota period and the continuing Russian embargo create particularly negative situation in the mountain areas and disadvantaged areas. With the European Parliament Resolution of 11 December 2013 on maintaining milk production in mountain areas, disadvantaged areas and outermost regions after the expiry of the milk quota (2013/2097 (INI), the Commission was urged to take certain measures with which to respond to the concerns expressed in this resolution. Bulgaria insists for actions to be taken in relation with this resolution also in regard to the adaptation of the hygiene rules and marketing regulations to the size and needs of the market itself.

We consider that the hygiene standards should be relevant and applicable to farmers and milk processors in mountainous and disadvantaged areas. In these areas there are 4058 small and medium-sized farms with 31 527 dairy cows, which milk is purchased at a price below 0.22 euro cents per kg reaching even 0.11 euro cents. The situation is further aggravated by difficulties in transportation, respectively increased costs of production due to the relief specificities and the infrastructure. According to information from local producers in the recent months in some places the milk is not even purchased. The deepening of the political and financial crisis in Greece also shouldn't be ignored. In recent months the conditions for realization of Bulgarian products on the Greek market, which is traditional for our country, is deteriorating.

Fruit and vegetables sector

Bulgaria would like to express concerns regarding the situation on the market of fruit and vegetables in terms of the inability to export to Russia. Russian ban was extended toward the import of agricultural production from Turkey which carries a risk of further increase in the tension and pressure on prices in the EU. Turkey exports to Russia annually 360 000 tones tomatoes and 250 000 tones citrus fruits, as well as other fruit and vegetables. After the imposed ban it is expected that most of these products will be targeted to the European market.

However, we consider that focusing on short-term actions is not able to guarantee achievement of the intended stabilization in the sector. Therefore we appeal the Commission for working in perspective to enhance the viability and competitiveness in the sector of fruit and vegetables. Basis for such action can be the report on fruit and vegetables regime drawn up by the Commission in 2014, where it was recommended that measures for correcting the weaknesses identified should be undertaken by reviewing the current regime in order to ensure better targeting of the support in all Member States.

In this regard, the reducing of imbalance within the EU is a question of crucial importance concerning the degree of organization in the sector. The continuing low level of organization as well as the lack of producer's organizations in some Member States requires the adoption of urgent additional measures in order to maintain even the minimum level of fruit and vegetables production. The producers, who are not members of producer organizations and generally are amid the small producers, have very weak bargaining power within the supply chain and are exposed to the market risk crisis.

The main reason for lack of operational programmes in Bulgaria is the amount of European funding and its coupling with the value of the market production. The low value of the production is a result of low level of organization of the fruit and vegetables producers, small size of the established producer organizations and lower prices of the fruit and vegetables on the country's internal market. That's why the recognized producer organizations do not implement any operational programmes as the amount of the support, which they will receive, does not allow them to make real investments and more often it is almost equal to the costs for preparation and administration of the programmes. This in turn makes the use of the instruments for prevention and management of crisis impossible.

Pig meat sector

Bulgaria considers that the granting of aid for private storage is a suitable instrument to support the sector. Although the scheme for private storage of pig meat is not applied in our country, finding an effective mechanism for its implementation in order to ensure sustained recovery of prices and alleviation of the situation in the EU, will have a positive impact on the market in Bulgaria.

Proposal for sector measures

DAIRY SECTOR MEASURES

Short-term measures and actions

1. To stimulate the EU producers to reduce the production of cow's milk.

The measure should be developed and introduced as soon as possible making it obligatory for all producers in EU with the exception of the smallest farm holdings with less than 10 dairy cows and those holdings implementing an investment project with bank credits whose business plan requires an increase of the production. The measure should target only the decrease of raw cow's milk supply. The direct sales do not have significant impact on the milk realization and should not be included. We propose a reduction of the production for 12 month period with 2 % for the producers in Member states where the milk supply in 2015 has decreased or increased with 2 % in comparison with 2014 and 5 % for the producers in Member states where the supply has increased over 2 % for the same period. At the same time the producers should be obliged not to increase the number of dairy cows for 12 month.

Considering the duration of the milk market crisis and the difficult situation of the producers the measure's implementation should be accompanied by financial compensations. We propose a compensation of 0,30 EUR/kg, which is the average EU buying-in price for kg milk in 2015.

2. To encourage the transfer of production from cow's milk to sheep/goat milk or sheep/goat meat.

This measure should target mainly the small farm holdings with less than 10 dairy cows, as they are more constrained by the crisis while there is no surplus of sheep and goat milk or sheep and goat meat. The measure should be applied voluntarily for holdings which are opting out of the cow's milk market. The measure could be implemented as single aid for farmers declaring their leaving the cow's milk market.

3. Measure for maintaining the production of cow's milk in the mountainous and other disadvantaged areas.

The drop of milk demand and the crisis had strongest impact on the producers in mountainous regions. Therefore the operators should be required to continue buying the cow milk produced in these regions. We propose a refund of 10 % of the transportation costs of the purchasers in these regions if the distance between the farms and processing facilities is less than 100 km and 20 % if the processing facilities are at a distance over 100 km.

4. Measure for market support of producer organization in the milk sector. The milk producer organizations should receive financial aid through their operational programmes. Supporting the operational programmes in the milk sector will improve the financial standing of these organizations thus increasing the competitiveness of the producers on the European and global markets. Besides through the operational programmes as in the fruit and vegetables sector the milk producer organizations could implement crisis management measures, which will lead to the recovery of the market balance.

5. Increase of the aid for products included in the school milk scheme for school year 2016/2017 till it is leveled with the amount provided for in the draft regulation for school schemes – 27 EUR for 100 kg.

The financing of the measures for the dairy sector should be derived from the EU budget.

If the crisis conditions have not been mitigated after the 12 month period then the next stage will be restriction of the production and super levy payment by the producers for another 12 months.

In the last 2 years of the quota system it was obvious that the super levy amount does not stop producers in some Member states to increase their production. Therefore by the implementation of this temporary restrictive measure a higher amount of the super levy should be foreseen.

Midterm measures and actions:

1. To establish working party, whose main task is to determine the value of the production on one kg cow milk in EU and set a minimum price of the raw milk, under which the holdings will not be viable.
2. To introduce constant monitoring and develop warning system of emerging crisis, while developing and implementing adequate anti crisis measures. In this regard we consider that the proposal of the European milk board for Monitoring agency and monitoring instruments is suitable for this purpose.

FRUIT AND VEGETABLE SECTOR MEASURES

Immediate measures and actions

- 1. Review of the quantities eligible for implementing the exceptional measures as defined in Commission Delegated Regulation 1369/2015, by providing a possibility for re-distribution of the quantities not used, as well as for including of new eligible products.** Bulgaria implemented exceptional measures with respect to the eligible for our country 3 000 tons of products. Regarding peaches and nectarines, a quantity of 950 tons was fixed for our country, but no exceptional measures were implemented according to them, as these measures started at the end of the harvesting campaign for these fruits. Given that the deadline for implementing the measures is end of June 2016, we request again in the list of eligible products to be included **cherries**, as they are particularly sensitive and an important product for our country. **We propose, in order to meet the specific needs of Bulgaria, the non-used quantities that were intended for peaches and nectarines to be used for implementing exceptional measures in respect of cherries. This transfer will not create an additional burden for the EU budget.**

Midterm measures and actions:

- 1. Introduction of certain changes concerning the scheme of support for fruit and vegetable producer organizations by operational programmes which would allow their successful implementation by the producer organizations having low costs of the marketed production. A possible solution for the producer organizations which have value of marketing products below certain amount, under 1 000 000 euro for instance, is to raise the percentage of the European funding by at least 10 percent.** This could be introduced as an exception – only for Member states with low level of organization, below a certain percentage. Another possible way of dealing with this matter is the **coupling of the amount of the annual investments with the number of members in this organization together with determining a maximum level the investments that a producer organization can make.** To ensure the neutrality of the budget, national ceilings for the member states can be introduced.

PIG MEAT SECTOR MEASURES

Immediate measures and actions

- 1. Adjustment of the periods of implementation of the scheme for the private storage of pig meat.** We think it is necessary to adjust the periods that are now up to three weeks. Obviously such a short period is not sufficient and the scheme does not have the expected positive impact for the recovery of price balance.