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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 Luxembourg delegation on the above-mentioned subject.

Reflections of the Grand Duchy of Luxembourg on measures to be taken to counteract the difficulties in the dairy and pig meat markets

The price and income situation is difficult especially in the milk and pork markets. The measures taken by the European Commission consisting of an aid to producers and of intervention measures for the dairy market and private storage for pig and dairy markets could prevent further degradation of the markets. However, after low prices throughout the year 2015, the prospect of price recovery is not in sight. Given this difficult situation, it is necessary to react by approaching the problem from different angles.

Measures to consider:

1. **Address the problem of liquidity of holdings.** Dairy farms have invested in view of the end of quotas and are now in a difficult financial situation due to the decrease in prices paid to producers and yet important expenses. Although the Grand Duchy welcomes targeted aid allocated to Member States in September 2015, the 669,120€ allocated to Luxembourg, increased by national top-up is not a real solution to the problem of cash and revenue of 2,042 farms in Luxembourg. Therefore, an increase in the de minimis rule should be temporarily allowed for the Member States.
2. Continue efforts to open new markets in countries that could provide opportunities for agricultural exports from the EU and remove non-tariff barriers in place in some countries.
3. **Strengthen the position and the share of income of the primary production sector within the food chain.**
4. Consider **voluntary steps to decrease production** by producers and strengthening the role of dairies and cooperatives vis-à-vis producers in regards of transmitting the market indicators to the producers.

5. Secure the price of milk by a greater use of commodity **futures markets** and involve producers to a greater extent.
6. Storage measures are already in place and temporarily reduce supply. However, in the long-term, the presence of stocks and their return to the market might jeopardize the re-establishment of market balance. These instruments should therefore be used carefully.

Measures that should not be taken into consideration:

1. Do not return to a production quota system at EU level. It was decided in 2003 to extend quotas for the last time until 2015. The decision was made well in advance to enable the dairy sector to gradually adjust to the elimination of quotas. Reintroduction of a system similar to that of quota is not a realistic option.
2. Do not impose a mandatory indication of origin of the Member state on food products. Luxembourg welcomes the use of production and regional marketing. However the mandatory indication of origin of the Member State on food products would have negative consequences for producers of a small country like Luxembourg, which has many borders with other Member states and a significant transformation and marketing outside the country.
3. Do not use the crisis reserve since this action would involve a reduction in direct payments.