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## COVER NOTE

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From:	General Secretariat of the Council
To:	Delegations
Subject:	European Court of Auditors' Special Report N°11/2021: Exceptional support for EU milk producers in 2014-2016 - Potential to improve future efficiency - <i>Presentation</i>

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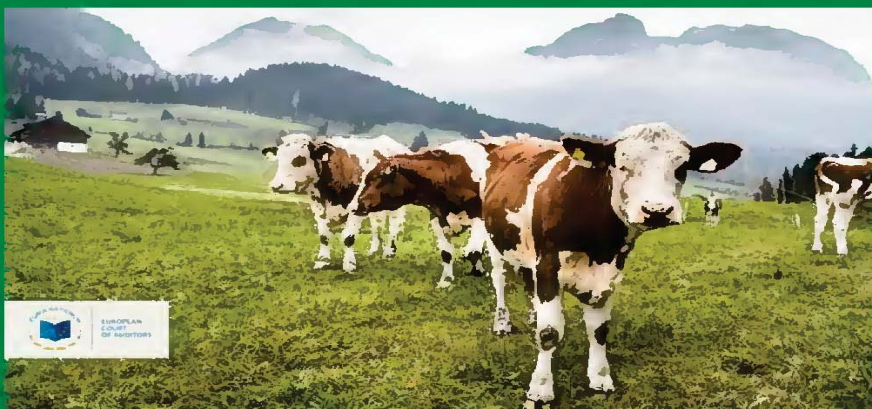
Delegations will find attached the presentation by the European Court of Auditors on its Special Report 11/2021: Exceptional support for EU milk producers in 2014-2016 - Potential to improve future efficiency, which will be presented at the Informal videoconference of the members of Working Party on Financial Agricultural Questions on the 22 September 2021.

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22 September 2021

## Special Report N°11/2021:

# Exceptional support for EU milk producers in 2014–2016 - Potential to improve future efficiency



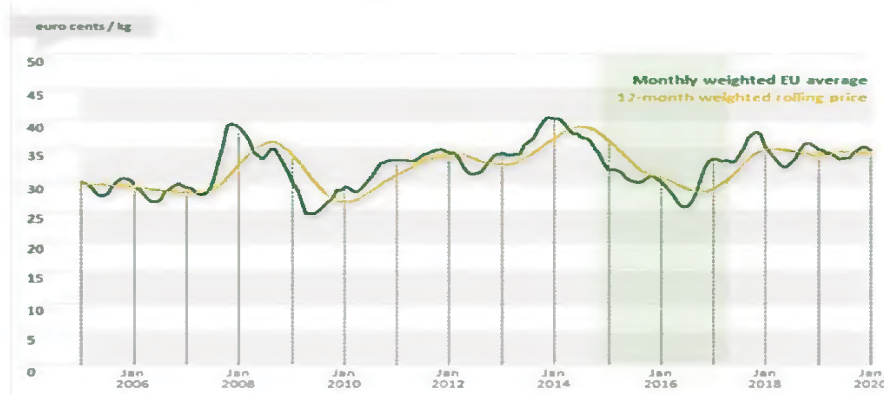
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## Why did we do this audit?

Figure – EU raw milk prices, 2005-2020



Source: Member States' communications

- Milk is one of the EU's top two agricultural sectors by value (€59.3 billion in 2019), accounting for around **14 % of agricultural output**.
- Having reached historically high prices at the beginning of 2014, the milk sector entered a phase of global supply-demand **imbalance** throughout 2015 and the first half of 2016.

- Production increased faster than internal consumption. **Exports** did not grow sufficiently to absorb the extra production, and were affected by the Russian ban and slower evolution in China.
- The CMO Regulation allows the Commission to adopt **exceptional measures** against threats of market disturbance.



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## What questions did we ask?

### Audit question

### Was the EU response to the dairy market disturbances in 2014-2016 well managed?

**We examined how the Commission reacted to the market disturbance, assessed the need for exceptional measures and targeted these measures and how the Member States implemented them by:**

- Interviews and key documentation (Commission and Member States)
- Questionnaires to 16 Member States (reply rate: 100%) and 56 professional bodies (reply rate: 44.6%)
- We covered in more depth Germany, Ireland, France, Italy and Finland

### Audit approach



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## What did we find?

**Overall,  
we found that...**

- ...the Commission and the Member States had taken broad measures to help farmers during the market disturbance,
- ...but that the analysis they made was generally insufficient to decide on the level of support needed and target it.



## Observations

1

**The Commission reacted quickly to the Russian ban, but took longer to address underlying market imbalances**

**The Commission reacted quickly to the Russian ban**

- First package in 2014
- Finland and three Baltic states: 1/3 of EU exports to Russia

**Public stocks of SMP overhung the market during the recovery period**

- high quantities bought-in smoothed the price decline...
- ....but may contribute to delay SMP price recovery

**Voluntary production reduction: when production had started to decrease**

- Milk production had already been decreasing since June 2016
- Lack of estimation of the effects of the reduction (1,1 mio t)
- April 2016, voluntary joint agreements failed

**Coupled support reduces incentives to adjust production during market disturbance**

- A payment per head reducing the incentive to reduce the herd
- Rules adopted by the Commission from 2017 onwards\

## Observations

### 2

**The Commission produced an overall assessment of the impact of the market disturbance leaving targeting of the support to national authorities**

#### **The Commission sought to address farmers' liquidity issues**

- Role of direct payments
- Price fall can create liquidity issues
- No assessment of the scale of dairy farms' cash-flow difficulties

#### **Little targeting in the initial Commission's delegated regulations**

- Funding to Member States mainly in proportion to each country's milk production quota
- Despite some indications, lack of specification of how national authorities were to target funding...

#### **Unclear results of the Commission's attempt to target sustainability in dairy farming**

- Milk production: implications for environmental and climate policy
- Regulation 2016/1613 introduced some sustainability targeting...
- ...but a lack of information to assess uptake or impact

#### **Risks of moral hazard and deadweight**

- Moral hazard: known but not clearly addressed
- Risk of deadweight (DW) implied by lower milk prices
- Lack of safeguards against DW despite examples found

## Observations

### 3

## Member States favoured simplicity and a wide distribution of support

### The Member states reviewed used a mix of measures

- Payments in 2014-2015 in proportion to deliveries, animals or as a lump sum (70% of the funding)
- More than 50% of the payments in 2016 for reducing or not increasing milk production

### Cases of administrative simplification

- Beneficiaries did not have to submit any specific applications for support – use of existing databases
- No additional national implementing rules

### Regulations gave Member States significant discretion in targeting support

- No targeting criteria for almost half of the Member States (survey)
- Lump-sum payments
- The proportional approach
- Our assessment of targeting where it took place revealed a mixed picture
- However, cases of strong targeting: specific criteria used in France

### Some “innovative” schemes in subsidising bank loans to farmers

- Help to re-finance farms
- The “Agriculture CashFlow Support Loan Scheme” in Ireland: leverage effect and focus on the working capital



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## Observations

4

**The Commission has learned from the experience, but has not completed its assessment of the measures**

**The Commission has learned from the experience**

- Amending rules for risk management tools (RD policy)
- Amending its internal procedures (risk scenarios)
- Strengthening the role of the reserve for crises
- In response to the COVID-19 outbreak, allowing more flexibility in the use of EU funding : the issue of the working capital (see Ireland)

**The Commission has not completed its assessment of the measures**

- Funded studies did not focus on the effects of the aid arrangements made by Member States
- A majority of the reviewed Member states had not carried out an assessment of the exceptional measures



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# What do we recommend?

1

## Dealing with future market imbalances

- ✓ reduce the risk of deadweight by considering the inclusion of appropriate safeguards in the regulations
- ✓ examine whether conditions attached to CAP support, for example coupled support, contribute to oversupply

2

## Improving budgeting and targeting

- ✓ establish thresholds for analysing potentially significant market disturbances
- ✓ link support to clear objectives and targets

3

## Increased preparedness for future market disturbances

- ✓ together with the role of risk management by producers and dairies, the Commission should analyse the effects of the various models for delivering exceptional aid on:
  - dairy farms' behaviour and liquidity
  - market stabilisation
  - the environment



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# THANK YOU

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