**EU Commissioner Phil Hogan on the Agricultural Markets**

**Speaking note to AGRIFISH Council (June 27, 2016) in Luxembourg**

## Introduction

President, I recall that when we discussed the market situation here in the Council last March, we agreed that we would keep the issue on the agenda of the Council, as we have done, and that in June we would look at the latest developments on markets and evaluate the effectiveness of the measures introduced by the Commission in the September and March packages.

I find it somewhat difficult to undertake a full assessment of the measures, particularly as Member States had, at the end of May, reported to the Commission the use of only 60 per cent of the direct targeted aid, which formed the majority of last September's €500 million package.

Before going on to present the latest market developments and the Commission's assessment of the market situation, I would urge those Member States which have yet either to spend the money or to report its use to the Commission to do so as quickly as possible. This will assist us in determining the way forward on how best to help farmers, who are our ultimate concern.

Let's first have a look at the latest market developments.

## Latest market developments

Milk collection grew by 5.6 per cent in the first 4 months of 2016 compared to last year (+4.7 per cent with correction of leap year). As a result, an additional volume of 2.8 million tonnes has been collected by April.

When comparing milk deliveries in April 2016, compared with the same month last year (being the first month after the end of the milk quota system), the increase in milk deliveries has been less remarkable (+1.7 per cent).

Within the Union, the largest increases in volume terms were reported in the Netherlands (+ 668 000t), Germany (+ 608 000 t), Italy (+ 276 000 t), Poland (+275 000 t) and Ireland (+ 233 000 t).

EU average farm gate milk prices approximated 27.3 c/kg in April. A further decrease is expected for May.

However, prices for dairy products generally increased last month, notably for butter, whey powder and WMP. While it is too early to assess whether or not this represents something of a recovery, it is at least an encouraging sign which will be watched carefully in the coming weeks. In any event, it will take some time until these improvements translate into farm gate milk price increases and so will not assist farmers in the short-term.

Building on those encouraging signals, global demand was strong in the first 4 months of the year. EU dairy exports increased in that period by some 9 per cent (in milk equivalent), with particularly good figures for butter/butteroil (+49 per cent) and cheese (+14 per cent). The US, Saudi Arabia, Egypt and Japan are our main outlets for these products.

EU SMP exports have declined in recent months (-8 per cent by April), probably because of the price gap with other exporting countries and the relative attractiveness of public intervention.

Exports to China have nevertheless increased by 38 per cent, making it the EU's second main destination for SMP. China continues to display double digit growth for imports of all main dairy products.

However, the growth in EU exports is still far from being able to cope with the increase in milk production which is seven times higher, demonstrating that, notwithstanding improvements on the demand side, issues on the supply side have got to be addressed.

Experts in the MMO perceive some improvement in market sentiment against the background of limited EU milk production growth in the coming months. However, market fundamentals have not really changed so far, supporting the conclusion that an improvement in the supply/demand equation remains necessary.

While the EU pigmeat market had been under pressure at the beginning of the year, the situation improved considerably in May and June.

The EU pig carcass price is now above €150/100 kg carcass. This is an increase of more than 10 per cent compared to last month and 2 per cent higher than last year. We can now say with some confidence that the pig sector is on course for steady improvement. On the supply side, the increase of slaughter was marginal (0.3 per cent) in the first quarter of the year and we expect declining production towards the end of the year.

The demand side is improving thanks to several factors - exports are going very well (+35 per cent in Jan-Apr). Exports to China nearly doubled compared to last year.

In the light of these developments, **I see no justification for the deployment of a private storage scheme for the pigmeat sector**.

For Fruit & Vegetables, current high volumes of stocks are putting additional pressure on apples and pears. Prices remain very low and below historical levels in Poland (for apples) and Belgium (for pears). Tomato prices are also rather low in the main producing Member States, particularly in the Netherlands. The season for peaches and nectarines, where there is a decrease of EU production, has started with good prospects but prices could be better.

Work in progress since the last Council

I want now to focus briefly on the progress that has been made in implementing the package of measures announced in March and their current use.

The 218 000 tonnes ceiling for buying-in of skimmed milk powder at fixed price was reached on 24 May and two tenders have been operated on 9 and 23 June. The maximum buying-in price was fixed at the level of the intervention price and some 51 000 tonnes were additionally bought into intervention.

On 24 June, the Council adopted the Commission proposal for further increasing the ceiling up to which SMP is bought-in at fixed price (350 000 t). The tender procedure is therefore closed for the moment.

You are aware that voluntary agreements among organised farmers on planning milk production have been possible since 13 April and for a period of 6 months. While the Commission does not have any official feedback from Member States on the potential interest by operators to use the measure, it seems clear that there has been little appetite to take up the measure to date. Given the limited suite of measures available to the Commission and the fact that such a measure was one of the very few unused measures, I believe that its activation has sent a strong signal about the seriousness with which the Commission is considering the present situation.

Let me return briefly to the use of the €420 million targeted aid launched last year. As I said at the outset, notifications received by the end of May suggest that 20 MS have declared expenditure amounting to €251 million, i.e. 60 per cent of the total. Most of this aid has been directed to the milk sector with €222 million, while pigmeat and beef producers have received €24 million and €4.6 million respectively.

Information shared by Member States suggests that close to 100 per cent of the budget will be executed by the deadline. It is clear in this light that this measure has provided cash-flow relief to livestock farmers.

As for the Meat Market Observatory, the members for the "beef" and "pigmeat" sub-sections of its Economic Board have been appointed. The first meeting and the launching of the relevant website will take place on 15th July.

<u>Russian ban and exceptional measures in the Fruit &Vegetables sector</u>

The ban introduced by Russia in summer 2014 continues to hang over the EU market.

The new delegated regulation on fruit and vegetables, which will apply from 1 July, reduces the allocated quantities by group of products to take into account the time elapsed since the beginning of the ban. However, to allow Member States to address specific problems, the additional allocation of 3,000 tonnes to all Member States to withdraw any of the products covered by the exceptional measures remains unchanged. Two new products, cherries and persimmon, are now eligible for this measure.

Since the beginning of the Russian ban, the total aid requested amounts €291 million, corresponding to 1.16 million tons of fruit and vegetables. For the measures in force, at EU level, only 42 per cent of the allocated quantities were effectively used by Member States. However, Italy, Portugal and Romania already used 100 per cent of their allocated quantities, whereas Poland only used 33 per cent of its allocated quantities.

Promotion

The first call for proposals under the new promotion policy was launched on 4 February 2016 with the deadline of 28/04/2016. This provides for €111 million in EU co-financing to be available in 2016 with around 70 per cent earmarked for promotion to third countries.

The response to the call has been very good: more than 220 proposals were submitted from 25 Member States. Applications are currently being evaluated.

The response to the specific priority for milk and pig meat products has been enormous and budget requested is some 4 times higher than the indicated budget in the annual work programme. You will recall that €30 million is earmarked for those sectors in response to the very difficult market situation.

Export credits

At the last meeting of SCA, the Commission, together with the EIB, presented a first factual assessment on the feasibility of an export credit guarantee tool.

An export credit guarantee tool does not offer short term relief to supply in crisis situations. It could possibly support the internationalisation of the EU agri-food sector for those companies and export destinations for which access to trade finance is difficult.

However, Member States have been slow in providing a clear economic case, including their Export Credit Agencies, to introduce such tool for agriculture at EU level.

At the June 20 meeting, Member States were asked by the Presidency to reply to two questions, on the value added of an EU credit guarantee scheme, and on its operational management.

I encourage you to lend all of MS' expertise and support and to answer such questions, in order to enable us to advance on this matter.

Possible Next Steps

The assessment of the market suggests that there is a clear improvement in the pigmeat market and that the improvement seems likely to be maintained. On that basis, there is no clear justification for a private storage scheme for that sector.

Unfortunately, the same cannot be said about the dairy sector. Despite the extensive range of measures taken over the last year or so, the market remains weak and income for producers is severely affected. The income drop affects specifically smaller farms creating difficulties for the cash flow and the survival of these farms. On that basis, the provision of further support for that sector is justified and I am working towards that objective.

We have made progress on the demand side, in particular in growing exports and I'm confident that we will continue to do so. However, that progress is being outstripped by the continuing increase in production. I have said, many times, that the imbalance in the dairy sector is a global one, not confined to Europe. However, that does not mean that we should not take some responsibility. Indeed, we are bound to take our share of responsibility.

**I can, therefore, confirm that the Commission is working on a support package for the dairy sector, with financial resources if necessary, which I expect to be in a position to present to the Council in July. In devising such a support package, we are looking at all options available to us that will help to bring balance to the dairy market**.

Given that there are limitations on what can be done to encourage demand, we must inevitably focus on the supply side of the equation. **While our analysis is still ongoing, we have to look at all of the instruments available to us and consider whether or not or on what terms access to those instruments continues to be available**.

I am, of course, conscious that the crisis in the European dairy sector is one being experienced in every Member State, even if more acutely felt in some than in others. Therefore, any new package will, in addition to addressing stabilisation and reduction of production, also have to be equitable in its treatment of dairy farmers throughout the Union.

Over the next few weeks, my Services will consider a thorough analysis of all of the options available to us, whether in terms of existing or new instruments and access to those instruments.

The objective has to be, as I have said on many previous occasions, to be to re-establish balance in the market. Collectively, we have to take responsibility for the continuing increase in production, which is simply not sustainable in the current market conditions.

Ends.