

**Annex to the speech by Vice President Jyrki Katainen at the Extraordinary
Agriculture and Fisheries Council – 7 September 2015**

Market Analysis

Dairy Market

There has been a significant deterioration in average farm gate milk prices over the past eighteen months, with prices falling from the exceptionally high levels of 40.21 cents per kilogram in December 2013 to the most recent figures of 29.66 cents per kilogram in July. For the period from June 2014 to June 2015, the average price for raw milk across the EU fell by 20 per cent.

The difficulties being experienced in the dairy sector are essentially related to a strong global supply-demand imbalance. Global demand for milk and milk products has generally deteriorated throughout 2014 and in the first months of 2015, notably as a result of the loss of the Russian market, the first destination of EU dairy exports, and the slowdown in imports from China, the main world importer of milk products. China decreased its imports of dairy products in the first half of 2015 by 56 per cent for WMP, 38 per cent for butter and 28 per cent for SMP.

At the same time, milk production expanded globally. However, the 2015 oversupply on the world market is not primarily driven by European farmers. In the first half of 2015, European milk production increased by only 0.8 per cent, while, in the same period, milk production increased by 1.6 per cent in the US. Increases were also registered in New Zealand (+ 0.9 per cent) and Australia (+ 2.5 per cent).

Global milk production patterns are not reflecting the market reality. At its last meeting on 28 July, the Economic Board of the Milk Market Observatory

concluded that, in the absence of the necessary supply side correction, there is little prospect of improvement in the short-term. However, prospects for the medium and long-term remain positive, as borne out by all international observers (OECD, FAO etc.).

At the level of the Global Dairy Trade auctions, following ten successive falls in prices, the last two auction results have seen increases of 14.7 per cent and 10.9 per cent. In addition, world dairy quotations improved in the last fortnight for the three regions. The biggest increases for butter and SMP were in the US and for WMP in Oceania.

Pigmeat Market

The market for pigmeat remains under pressure. In the first six months of 2015, the number of pigs slaughtered in the EU was 3.2 per cent higher than in the same period last year. The increase in production by weight was 3.7 per cent. In all, 19 MS increased production.

The increase in production can largely be attributed to good prices in the first half of 2014. As supply increased, prices fell. As with the dairy sector, it is essential that production adjusts. However, the analysis of Commission services is that overall slaughter figures for 2015 will show a 2.5 per cent increase in production.

Obviously, the Russian ban had a very significant impact on the market, particularly given the volume of EU product that was exported to that market. The significance of the ban can be seen from the trade figures which show that trade with Russia declined from just over 740 000 tonnes in 2013 to 65 000 tonnes in 2014 – a drop of 91 per cent.

However, the overall export picture is much more encouraging. In the first six months of the year, EU pigmeat exports increased by almost 4 per cent. In particular, Asian markets performed very well with increases of 32 per cent to China, 32 per cent to South Korea and 38 per cent to Australia.

Notwithstanding the positive developments on export markets, there are residual effects of the Russian ban which continue to impact on the market. In addition, the outbreak of African Swine Fever is having a negative effect in the Baltic States and Poland.

Beef Market

As regards the beef sector, figures for 2014 show that EU production is estimated to have been 2.5 per cent above 2013. With that increase of production last year, prices fell to levels equivalent to those that applied at the beginning of 2012. Since then, however, prices have recovered and, in August 2015, they were 4.5 per cent higher than in 2014.

EU beef production in the first 5 months of 2015 shows an increase of 2.6 per cent. Year-on-year and short-term outlook suggests that total EU production could further increase this year by 1.8 per cent. A potential increase of 0.6 per cent in beef production is also foreseen in 2016. The market situation will continue to be monitored closely.

Measures Taken to Date

Since August 2014, the EU has spent

- €150 million withdrawing 760 000 tonnes of fruit and vegetables from the market;
- €13 million for Private Storage Aid for skimmed milk powder, butter and cheese;
- €40 million in targeted aid to dairy farmers in four Member States particularly hit by the Russian ban;
- €17 million on Private Storage Aid for pigmeat, removing 60 000 tonnes from the market.

In addition, three measures were announced in July 2015: A new exceptional measure for the fruit and vegetable sector, in force since August, as well as the extension of the public intervention and private storage schemes for dairy products beyond their scheduled expiry date of the end of September.

Ends.