



## 2009/0094(CNS) - 07/07/2009 Legislative proposal

**PURPOSE:** in view of the foreseeable dairy market situation and the drop in market prices, to provide for a continuation of the public intervention for butter and skimmed milk powder beyond 31 August 2009, if necessary until 28 February 2010.

**PROPOSED ACT:** Council Regulation.

**BACKGROUND:** the situation on the dairy market has deteriorated dramatically during the last 12 months. After a price spike in 2007 alongside the high food prices in the EU and on the world market, there has in the last six months of 2008 and in 2009 been a substantial drop in prices affecting dairy producers' income. Prices for milk delivered to the dairies have significantly decreased.

This drop in world market prices has had a direct effect on market prices in the EU with prices coming down from the range of 30-40 cents per litre of milk to around the EU safety net level of 21 cents per litre. At this price level variable costs of production might be covered, but not the fixed costs for many lesser efficient dairy producers, and certainly not the full costs including own land, labour and capital.

As a result of a combination of market measures taken since the beginning of this year community prices have stabilized around support price levels. It is essential that these market support measures, notably public intervention, continue to apply as long as necessary in order to avoid further deterioration of prices and disturbance of the community market.

**CONTENT:** Council Regulation (EC) No 1234/2007 ("Single CMO" Regulation) provides that for butter and skimmed milk powder, public intervention is available from 1 March to 31 August. Closing intervention on 31 August 2009 is likely to cause prices to fall below intervention level and thus create a serious disturbance on the market with repercussions for the already very low farm gate prices.

Because of the exceptional situation public intervention for butter and skimmed milk powder should be **extended** through a tendering procedure for the running intervention period **until 28 February 2010**. Furthermore, given the uncertainty with regard to the timing of the expected recovery of the dairy market, the Commission should be authorised to extend the intervention period for the 2010/11 intervention season if the market situation would require so, equally through a tendering procedure.

These measures will signal confidence in the future of the dairy market. Indeed, in the medium and long term it is expected that demand will pick up and prices would be expected to normalise once the economic and financial situation will improve and buyers' behaviour will return to normal.

**BUDGETARY IMPLICATION:** the cost related to this extension of the period in which intervention buying-in can continue has been based on the following assumption: based on the consumption pattern in spring 2009 and expected production pattern in September 2009 to January 2010, it has been estimated that 50 000 tonnes of Skim Milk Powder (SMP) and 31 000 tonnes of butter will be bought into intervention during this extended period. Furthermore it has been assumed that this supplementary quantity will be stocked during 2 years and hereafter sold at the market at the intervention price level. For the technical costs the amounts applicable in budget 2009 have been used.

Based on these assumptions and estimates, the estimated expenditure for butter will be **EUR 12.5 million** over the budget years 2010 to 2012. For SMP the total expenditure will be **EUR 14.4 million** over the same years.