

**(CAB-MALMSTROM)**

**From:** MALMSTROM Cecilia (CAB-MALMSTROM)  
**Sent:** Friday 7 November 2014 15:44  
**To:** CAB MALMSTROM ARCHIVES  
**Subject:** FW: Letter from Copa-Cogeca concerning disturbances on the European markets – action plan in order to anticipate potential crises  
**Attachments:** CC(14)7593EN[1].pdf; PR(14)7651EN[3].docx

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**From:** [REDACTED]@copa-cogeca.eu]  
**Sent:** Friday, November 07, 2014 3:41 PM  
**To:** HOGAN Phil (CAB-HOGAN)  
**Cc:** MALMSTROM Cecilia (CAB-MALMSTROM); [REDACTED]  
**Subject:** Letter from Copa-Cogeca concerning disturbances on the European markets – action plan in order to anticipate potential crises

Dear Mr Hogan,

Please find enclosed a "Letter from Copa-Cogeca concerning disturbances on the European markets – action plan in order to anticipate potential crises" as well as a document: "EU MARKET DISTURBANCES, ACTION PLAN TO ANTICIPATE POTENTIAL CRISES".

Kind Regards,

On behalf of / De la part de [REDACTED]  
[REDACTED]

Copa - Cogeca  
Rue de Trèves 61  
B-1040 Bruxelles  
Tél : + 32 (0)2 287 27 80  
Fax : + 32(0)2 287 27 00

Visit our web page :



[www.copa-cogeca.eu](http://www.copa-cogeca.eu)

Copa - European farmers  
Cogeca - European agri-cooperatives



CC(14)7593:1 – AP/mvs

Mr Phil Hogan  
Commissioner for Agriculture  
and Rural Development  
European Commission  
200, Rue de la Loi  
BE-1049 Brussels

Brussels, 7th November 2014

**Re: Disturbances on the European markets – action plan in order to anticipate potential crises**

Dear Commissioner,

Copa-Cogeca welcomed your services' swift reaction in order to try to stem the crisis which has been gathering steam in the fruit and vegetables sector, and to try to remove the uncertainty on the dairy market. However, the current measures are worth developing in greater depth.

At the present time, several other markets are also beginning to show signs of uncertainty in terms of price development. These disturbances are linked to several factors, such as developments on the world market, higher production than was forecast and the implementation of sanitary and phytosanitary barriers by the European Union's main clients.

Copa-Cogeca requests that you act to anticipate a potentially significant crisis in the pigmeat sector. Already in 2013 this sector was facing difficulties in exporting to Russia and a sanitary embargo on all pigmeat products has been in place since February 2014.

In the attached document we propose an action plan which could be developed by your services, which would respond to the needs of the sectors that are affected.

We would also like to underscore the fact that the Russian authorities' decision on 7th August 2014 to establish an embargo does not confirm with WTO rules. However, it must be noted that the panel open at the WTO concerning the Russian sanitary embargo on pigmeat has not enabled a return to the negotiating table with the competent authorities in Russia, and has further delayed the discussions on the approval of a new health certificate.

We would therefore like to draw your attention to the medium-term repercussions that a European initiative in the WTO could have on the agricultural sector.

I wish to inform you that a copy of this letter has been sent to your colleague, Ms Cecilia Malmström, Commissioner for Trade.

Yours sincerely,

  
Copa

  
Cogeca

Cc: Cecilia Malmström

Attached: Working Document - EU market disturbances – action plan to anticipate potential crises [PR(14)7651 (rev.3)]



## **EU MARKET DISTURBANCES**

### **ACTION PLAN TO ANTICIPATE POTENTIAL CRISES**

Copa-Cogeca welcomed the Commission's proactive response in August to tackle the severe crisis in the fruit and vegetables sector. EU farmers and their cooperatives believe that the EU farming community cannot wait for a further severe crisis to develop, affecting other market products, before the EU opens the debate on new support measures.

The present document lists the priorities that need to be explored by the EU Institutions to develop an action plan to anticipate potential severe crises on EU markets. The following list was established on the basis of the market situation in October and may be updated depending on whether the market deteriorates.

This document is not exclusive of possible specific measures the Commission should take in the national framework in order to support primary producers in the regions directly affected by the Russian embargo on European agri-food products.

# THE PIGMEAT SECTOR

The EU-28 produces 22.3 million tonnes of pigmeat annually, with an approximate self-sufficiency rate of 110%. About 10% of this total production is exported. EU production has decreased over the past years from 22.9 million tonnes in 2011 to 22.3 in 2013, due to new production constraints in the EU.

Pigmeat producers have been grappling with the consequences of the Russian ban since the end of January. Russia has banned imports of all pigs and pig products from the whole of the EU.

## I. MARKET DEVELOPMENT

On average, the EU exports 800,000 tonnes of pigmeat products to Russia, totalling 1.4 billion EUR (or 24% of the total value of EU pigmeat exports). In terms of volume, the main exporters are Germany, Denmark, Spain, France, the Netherlands and Poland, which supply the Russian market with a total of 625,000 tonnes, or 80% of EU pigmeat exports to Russia.

Market prices remained resilient during the summer period, yet operators have stored large quantities of certain low-value products, such as fat and offal, for which it was not possible to find alternative markets. The majority of products exported from the EU to Russia are frozen meat (43%), lard (32%) and offal (15%).

The price of pigmeat has decreased drastically over the past 3 weeks and is currently below the average price for 2009-2013, which is a low reference price for the EU market.

## II. PRINCIPLE AVENUES

1. It is crucial to facilitate the removal of the high quantities of low-value products that are currently in storage, such as pig fat and offal (0206 3000 and 0209 10 – pig fat) in order to free up the storage capacity that will be needed in the coming months. The quality of these goods for food purposes drops quickly. It has been estimated that the Russian market absorbed around 350,000 tonnes of these products per year (carcass weight).

The EU should develop an emergency measure to allow this type of product to be used for non-food purposes, such as for biofuel production.

2. Alternative new markets and removing SPS barriers

- Remove SPS barriers and accelerate the approval procedure (for example by increasing the number of inspectors who can approve slaughterhouses). Priority countries are Chile, Mexico and Brazil.
- Increase all avenues of support to help EU pig companies tap alternative global markets (for example speed up the process for export and health certificates).
- Coordinate an EU plan to analyse new export markets. Priority areas are South America, India (FTA under negotiation) and Central America, notably those countries that have signed Free Trade Agreements with the EU (starting with Chile).

### 3. Promotion

- Allow the transfer of promotion programmes that targeted the Russian market to other countries.
- Speed up the approval of promotion programmes that were presented before 30<sup>th</sup> September.
- Approve the co-financing of generic promotion for pigmeat on the internal market, as per the generic promotion campaign for sheepmeat.
- Include pig products in the priority list for new promotion schemes VP(13)9952 (rev.3). The new promotion policy is expected to come into force in December 2015, but this should be anticipated and strengthened by increasing flexibility:
  - Increase EU co-financing from 50% to 85%.
  - Increase the number of application periods in order to adapt to a surge in new trade opportunities.
  - Adapt administrative procedures to trade opportunities.

### 4. Temporary aid for storage schemes<sup>1</sup> only for the following tariff lines (0206 3000 – edible offal and 0209 10 – pig fat)<sup>2</sup>

- Following the collapse of market outlets in Russia, Belarus and Ukraine for these products, the EU pigmeat market is lacking any veritable alternatives in the short term. Storage schemes could be used as a temporary stopgap measure until the emergence of new markets in third countries. This scheme should include the possibility for the operator to destock as soon as (e.g. within one month) an opportunity to export arises.

## III. MEASURES TAKEN BY THE COMMISSION

- a) The Commission opened a WTO panel in order to lift the ban (the probable delay until a resolution is reached is 3 years).
- b) The Commission decided to compensate farmers in the area affected by African Swine Fever by 30% for preventative slaughters and stopping production for one year.

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<sup>1</sup> Reserve from ASAJA and CCAE

<sup>2</sup> The UECBV calculated that an appropriated level of aid would mitigate the predicted drop in market prices and may provide an extra 8 Euros per 100 kg carcass weight.

# THE DAIRY SECTOR

According to 2013 end-of-year statistics, in terms of volume (tonnes) and value, 13% and 13.4% respectively of EU dairy exports went to Russia. Cheese is the product that is most affected. 257,000 tonnes were exported to Russia in 2013 (accounting for 33% of total EU cheese exports). 37,000 tonnes of butter were exported (28% of total EU butter exports), which represents around 1.5% of total EU milk production (out of the 9% exported by the EU). EU milk and milk product imports accounted for 37.4% of Russian imports from all destinations.

## I. MARKET SITUATION

In the first seven months of 2014, EU milk deliveries were 5.4% higher than in 2013.

Germany, the Netherlands, Poland, Denmark, Austria, Ireland, Cyprus, and Luxembourg all exceeded their national milk quotas in 2013/2014. The super-levy to be paid totalled 409 million Euros (for a quantity of 1,469,000 tonnes).

Since the Russian embargo and the measures introduced by the Commission, the following quantities have been placed in storage:

- Public intervention for butter and skimmed milk powder: 0 tonnes
- Private storage for butter: 11,823 tonnes (IE, NL, BE, UK, DE, LT, PL)
- Private storage for skimmed milk powder: 5,617 tonnes (DE, ES, LT, IE)
- Private storage for cheese: 100,803 tonnes (IT, IE NL, SE, FR, AT, LT, DE, LV)

EU stocks of SMP and cheese are rather high. The level of butter stocks is less concerning. Cheese stocks are expected to reduce due to a drop in cheese production in a number of MS.

Milk prices have been following a decreasing trend in all EU countries since the beginning of 2014. Milk prices were placed under additional pressure due to the introduction of the Russian ban and, in some countries, are 30-40% lower than at the beginning of the year. Current contracts have helped maintain a certain level of prices, yet seeing as contracts are set to end from the beginning of October, more downward pressure is expected.

Since the announcement of the Russian import ban, EU average prices for dairy products have decreased by 9% for butter, 18.5% for SMP, 14.6% for WMP, 8% for Cheddar cheese, 3% for Edam, 1% for Gouda and 6.2% for whey powder.

Looking at the global situation, in the first month of the new 2014/15 season (June 2014 to May 2015), New Zealand increased its milk production by 11.5% compared to 2012/13. In Australia, in the first month of the 2014/2015 season (July 2014 to May 2015), milk production increased by 1.5%. In the first seven months of 2014, milk production in the USA increased by 1.7%.

On the other hand, prices are under pressure in the EU and Oceania, making Oceania the most competitive area for butter, WMP and Cheddar. In the USA, butter and cheese prices are increasing, which makes the USA the least competitive region. There is a surplus of milk powders globally, combined with uncertainty on Chinese imports, which puts milk powder prices under significant pressure.

As prices are on a downward trend, buyers are delaying purchasing decisions as long as possible, depending on the status of their stocks.

## II. PRINCIPLE AVENUES

1. Continue with private storage aid for butter and skimmed milk powder.
2. We were disappointed that the period for private storage aid for cheese was suddenly ended. Given the quantities involved, some of which could remain in the EU, this scheme is important for the entire EU market. Removing it may cause further uncertainty on said market. Many operators are still seeking ways to cope with the effects of the Russian ban. It is therefore important to allow the remaining 50,000 tonnes to be used (only ~100,000 of the 150,000 tonnes fixed by the delegated act have been used). What's more, it is necessary to further hone the scheme and address its functionality so that it can be applied by countries that were directly hit by the ban.
3. In order to avoid financial risks for milk producers and given the low intervention price for milk (equivalent intervention price 217 Euros/tonne), there is a danger that the internal market could drag milk prices down to this level, which is way below the production costs of milk producers. Therefore, the Commission and the Council should address the possibility to update the reference price for public intervention for dairy products.
4. Target SPS or anti-dumping measures that could limit the accessibility of third country markets for European products (for example anti-dumping measures on butter and milk powder from Brazil) and accompany this by strong promotion campaigns.
5. Support businesses' new export strategies under promotion campaigns.
6. Against the backdrop of decreasing prices, increasing fixed costs and lower turnover for farms, the way in which the super levy is applied will seriously hit farmers' cash flow. A large number of farmers respected the allocated volumes. Others reacted to the increasing global demand and a time when EU milk producers' revenues were only 3% higher compared to 2005. Flexibility should be granted to Member States during the 3-5 year period in which the super levy is applied at farm level, in order to limit the impact of this super levy on farmers' cash flow during such uncertain times, which are exacerbated by the Russian ban.

## III. MEASURES TAKEN BY THE COMMISSION

On 28<sup>th</sup> August, the European Commission announced that it would open **private storage aid for butter, skimmed milk powder (SMP) and cheeses** in order to alleviate the impact of Russian restrictions on imports of EU dairy products and to limit the negative effects on the internal market. Member States supported this approach.

Rules under the Common Market Organisation (Regulation 1308/2013) provide for various market management tools to stabilise the market at such times. The Council and European Parliament empowered the Commission to take "exceptional measures" if necessary, without having to first consult the Member States. In cases of market disruption, these would be in the form of "delegated acts". This procedure under Article 219 was used for private storage aid for cheese. However, this measure has been suspended due to a disproportionate use of the scheme.

# THE FRUIT AND VEGETABLES SECTOR

## I. MARKET SITUATION<sup>3</sup>

Russia is the main export market for EU fruit and vegetables production, currently importing about one third (34%) of our fresh fruit exports (EUR 1,225 million) and one quarter (26%) of fresh vegetable exports (EUR 734 million). Russia is the primary destination for many fruit and vegetable products, such as cherries, mushrooms and cabbages (70% of extra-EU exports in terms of quantity), pears, peaches, aubergines, tomatoes and carrots (60-64%), nectarines, strawberries, apples and cucumbers (around 50%), and apricots, potatoes and sweet peppers (40%). One third of lemon and table grape exports are also sent to Russia.

Between 2011 and 2013, exports to Russia significantly increased for some products, especially apples, cherries, strawberries, melons, watermelons, tomatoes, cucumbers, sweet peppers, cauliflowers, broccoli and aubergines. Yet exports decreased in other areas, for example pears, peaches, nectarines, apricots, potatoes, cabbages and onions. In the same period, fruit and vegetable production in the EU remained quite stable.

The main EU exporters of fresh fruit to Russia are Poland, Belgium, Lithuania and Spain. Poland provides 41% of these exports, whereas the other three countries account for 10-13% each (in terms of quantity). For vegetables, the main exporters to Russia are the Netherlands, Lithuania and Poland, representing 34%, 25% and 16% of exports respectively (in terms of quantity). Nonetheless, these figures (based on Comext data), do not always reflect the true origin of the products (i.e. the producing country), as this is influenced by intra-EU trade. Indeed, Lithuania produces comparatively little – compared to some EU countries, it mainly produces fruit for its domestic market, whereas vegetable production is important for both the internal and external markets. Nonetheless, it is an important channel for re-exports to Russia of fresh fruit and vegetables, which are imported from other EU countries such as Spain, the Netherlands and Germany. Poland and Belgium play a similar role for specific products. Without considering this internal trade, the main EU suppliers of fresh fruit to Russia are Poland (7%), Spain (6%), Greece (4%), Italy (3%) and Belgium (2%). For fresh vegetables, the main suppliers are the Netherlands (10%), Poland (9%), Spain (8%) and Belgium (2%). All of these figures are in terms of value and taken from the 2012/2013 average, based on Comtrade data.

Market trends for the main products that are exported to Russia from the main EU exporting countries up until the third week of September can be summarised as follows:

- The recent positive trend observed over the past weeks for tomatoes should be taken with a pinch of salt, as the marketing year has not really started in the EU's main producer countries, or in Morocco. Prices for peaches and nectarines are recovering from serious lows in August, yet this should not mask the disastrous marketing year that was seen for these products. Indeed, the season is almost over for these fruits.
- Prices for pears, apples and table grapes have been falling since August, with a slight recovery last week. Prices are still lower than in previous marketing years.
- For peppers, prices are following previous trends.

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<sup>3</sup> DG AGRI statistics from 26/09/2014 [http://ec.europa.eu/agriculture/russian-import-ban/pdf/fv-production\\_en.pdf](http://ec.europa.eu/agriculture/russian-import-ban/pdf/fv-production_en.pdf)

## II. PRINCIPLE AVENUES

Copa-Cogeca urges the European Commission to establish a consistent action plan and consider the following measures:

1. Retroactively apply Regulation (EU) No 1031/2014 for the period from 4<sup>th</sup>-30<sup>th</sup> September.
2. Reintroduce a grubbing up programme targeting certain species and varieties of fruit<sup>4</sup>.
3. Introduce a third package of temporary exceptional measures before 31<sup>st</sup> December 2014, applicable to all eligible fruit and vegetables under the single CMO, until the end of the embargo. When calculating the maximum quantities, it is necessary to consider re-exports and production levels, because all fruit and vegetable production is indirectly affected. Support to producers must be granted, similarly to what was established by the EHEC crisis regulation.
4. Revise the maximum amounts of withdrawal compensation to reflect production costs.
5. Allow producer organisations (POs) and their associations (APOs), as well as interbranch organisations (IBOs) apply Article 222 of Regulation (EU) No 1308/2013 for a maximum of 6 months. Concerning market measures, the European Commission should allow POs, APOs and IBOs to withdraw category II and III products from the market.
6. Allow state aid for export credit insurance.
7. Bring forward the implementation of the regulation on promotion, in particular campaigns targeting third countries, because of the more beneficial contribution from the private sector. This measure would make it possible to help processed fruit and vegetable-based products that are also impacted by the Russian embargo. Alternatively, the European Commission could establish an ad hoc EU campaign, financed using its own resources.
8. The Commission must be politically involved, so that it can take the reins when it comes to removing plant health barriers in third countries. It must also make the most of negotiations for trade agreements to break down barriers with the signatory countries.
9. Increase the budgetary envelope allocated to the School Fruit Scheme for Member States that have used up all available funding.

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<sup>4</sup> Reserve placed by Confcooperative and LTO.

### III. MEASURES TAKEN BY THE COMMISSION

The market situation varies depending on products and areas. The exceptional temporary support measures published on 29<sup>th</sup> August 2014 (Regulation (EU) No 932/2014) and suspended on 10<sup>th</sup> September 2014 probably contributed to remedying market issues for certain products, such as tomatoes. However, given the high perishability of peaches and nectarines and the fact that the harvest period is drawing to an end (limited production for late varieties), these exceptional temporary support measures came too late to have an effect on the income of producers who have had to sell most of their production at a loss during the high season.

Prices for pears and apples fell so low that the support measures did not make it possible to re-establish average levels on the market for the current marketing year. Moreover, the tardy date of publication of Regulation (EU) No 1031/2014 sent a negative signal to the markets.

The additional exceptional temporary support measures for fruit and vegetable producers (Regulation (EU) No 1031/2014) are a step in the right direction. However, they cannot resolve all of the problems encountered by farmers and their organisations. Copa-Cogeca therefore has the following remarks:

- a) Withdrawal, non-harvesting and green harvesting operations that were actually carried out between 4<sup>th</sup> and 30<sup>th</sup> September are not covered by Regulation (EU) No 1031/2014. Consequently, these operations will have to be compensated by producer organisations' operational programmes or by state aid, as long as the individual ceiling has not been reached.
- b) In Eastern Europe, the "Idared" variety of apple accounts for 20% of apple production and is grown by 7,000 producers. This variety is almost exclusively intended for the Russian market. The absence of a market outlet for this variety is likely to see stock levels increase to such an extent that pressure will be exerted on prices in central and eastern European Member States.
- c) 10% of persimmon production is exported to Russia, yet this fruit variety does not fall under the scope of Regulation (EU) No 1031/2014.
- d) The volumes of fruits and vegetables exported to Russia are higher from January to May, yet the additional exceptional temporary measures will only apply until 31/12/2014.
- e) The effects of the embargo will probably continue well beyond a year.

# THE BEEF AND VEAL SECTOR

Beefmeat represents 8% of the total value of agricultural production in the EU-28. With a total yearly production of nigh on 7.7 million tonnes (2011-2013 average), the EU is the third largest global producer of beef and veal, after the USA and Brazil. The EU's share of global beef and veal exports amounts to 2% in terms of quantity and value, while its share of global imports represents 5% in terms of quantity and 9% in value.

Between 2011 and 2013, the EU exported some 233,000 tonnes of beefmeat (which included 138,000 tonnes of live cattle). The largest shares went to Russia (29%, including 68,000 tonnes of fresh and frozen beefmeat), Switzerland (13%) and Bosnia and Herzegovina (11%). Turkey was the main destination for EU beefmeat and live animal exports in 2011 and 2012. However, due to trade restrictions imposed on EU beefmeat exports, levels dropped by more than 90% in 2013. Volumes to Russia have also been on a downward trend since 2010, as South American beefmeat has been becoming more attractive. The authorities in the Russian Federation recently decided to close their market to offal from bovine animals.

## I. MARKET SITUATION

Beefmeat prices have been on a downward trend since March 2014 and are below 2013 levels. The situation has been recovering since July 2014. World prices are on the up because of a limited supply in the USA and strong demand in Asia.

EU beefmeat production has been decreasing since 2010. Between January and June 2014, EU meat production (in heads) was 0.9% lower than the same period of the previous year. Production in tonnes was 0.1% lower. The European herd has increased by 0.9% (according to a June survey) and the number of dairy cows has risen by 1.7%.

Slaughterings remained more or less stable during the first two quarters of the year, but are set to increase in October and November.

No longer being able to create value for bovine offal will have economic consequences on the value of the carcass. Currently, few markets could offer a veritable alternative in the short to medium term.

## II. PRINCIPAL AVENUES

As it stands, the market is not showing signs of weakness because of the Russian ban.

However, due to the expected increase in slaughterings in October and November, and the fact that 25% of the annual quantities exported to Russia are exported in October and November, this impact may be felt later on in the year. In addition, it is worth taking into account that the number of dairy cows has also increased over the past year, which means that there will be more veal on the market. At the same time, now that Russia has closed its borders to imports of dairy products, there will soon be a drop in milk prices, which will lead to an influx of dairy cows to be slaughtered in the autumn.

In addition, the EU has lost nearly all of its Mediterranean outlets for cattle as a consequence of bluetongue developing in South-Eastern Europe, particularly in Romania, Bulgaria and Greece (Israel, Jordan and Libya have suspended their imports from Romania); FMD (foot and mouth disease) in Tunisia; and financial shortcomings in Libya.

Consequently, the market is expected to be under pressure in the last quarter of 2014. We should have measures in place to support targeting our exports, such as:

1. Reopening the Turkish market, which, for now, is still merely theoretical. This may mitigate the impact of adverse trade factors. However, more needs to be done regarding import requirements (these are too strict and will only allow limited quantities of young cattle to be exported from the EU).
2. The USDA has decided to bring American legislation in line with international standards for BSE, thus allowing EU beefmeat and other bovine products to be exported to the USA (the market has been closed since January 1998). The Commission should therefore put pressure on the American authorities to ensure that this decision is implemented in practice, since it will positively impact EU veal and offal exports.
3. Reopening the Japanese market to several European countries. This would also boost exports of more noble cuts of meat. Nonetheless, exporting offal is still just as complicated and should be included as a discussion point during EU-Japan negotiations.

Many third countries are maintaining their import restrictions despite the outstanding improvement of the epidemiological situation in the EU concerning BSE.

### **III. MEASURES TAKEN BY THE COMMISSION**

No measure has been taken by the Commission so far. However, the Commission is constantly monitoring changes on the beef and veal market.

## **EXPORT SUPPORT POLICY**

To access new market opportunities, a strong export policy should include the following 3 measures:

- Identify key markets and address sanitary and phytosanitary barriers,
  - Develop a promotion policy targeting third countries, in addition to SPS matters,
  - Explore how to develop export credit insurance via Article 219 of the single CMO in order to cover some financial risks related to new markets.
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