NOTE
From: General Secretariat of the Council
To: Delegations
Subject: Non paper from the Commission services on provisions of the new CAP for the dairy sector

With a view to the Special Committee on Agriculture on 3 March 2014, delegations will find in Annex a non paper from the Commission services.
Discussion on the dairy sector
Special Committee on Agriculture of 3 March 2014
Non paper on provisions of the new CAP for the dairy sector

From 1 April 2015, milk production will no longer be bound by milk quotas. Producer decisions and investments will be guided by market signals along with natural and environmental constraints. Demand prospects on the medium and long term are favourable worldwide, but the European dairy sector has to cope with increased price volatility.

In order to increase transparency and allow for a closer follow up of market developments in the dairy sector, a Milk Market Observatory will be set up. Its work will help highlight opportunities and challenges on the dairy market.

The measures agreed under the "Milk Package" contribute to stability for dairy farmers (possibility for Member States to provide for compulsory contracts), reinforce the bargaining power of farmers (possibility for farmers to jointly negotiate via Producer Organisations contracts, including the price, for the delivery of raw milk) and help preserve the added value of milk production in vulnerable rural regions (possibility for Member States to apply supply regulation rules for cheese with a Protected Designation of Origin (PDO) or a Protected Geographical Indication (PGI)).

Under the new CAP, the dairy sector is equipped with a safety net, coupled with a regulatory framework for the Commission to react swiftly to exceptional circumstances. The following measures are available:

- **Buy-in butter and skimmed milk powder (SMP) into public intervention**:

  *CMO Regulation 1308/2013, Art. 7-16 & Fixing Regulation 1370/2013, Art. 2-3*

  Public intervention is open each year from 1 March till 30 September. The buying-in occurs at fixed price up to 50 000 t butter and 109 000 t SMP, and automatically continues by tender once those quantitative limits are reached.
• **Activate a private storage aid scheme for butter, SMP and cheeses covered by a Protected Designation of Origin (PDO) or a Protected Geographical Indication (PGI):**

  *CMO Regulation 1308/2013, Art. 17-18 & Fixing Regulation 1370/2013, Art. 4*

Eligible products are (1) butter produced from cream obtained directly and exclusively from cow's milk, (2) skimmed milk powder made from cow's milk and (3) cheese benefitting from a PDO or a PGI that is stored beyond the period of maturation laid down in its product specification and/or a period of maturation that contributes to increasing its value.

If those safety net measures do not prove sufficient to counter an adverse situation, the Commission can take exceptional measures, such as:

• **Extend the buying-in period of butter and SMP into intervention beyond 30 September:**

  *CMO Regulation 1308/2013, Art. 219*

If necessary, the buying-in period can be extended until 1 March of the following year, allowing for continuous intervention all year round.

• **Activate a private storage aid scheme for other dairy products:**

  *CMO Regulation 1308/2013, Art. 219*

In addition to butter, SMP and PDO/PGI cheeses, a private storage aid scheme can be activated for other storable dairy products, like whole milk powder or long keeping cheeses.

• **Activate export refunds for some or all dairy products:**

  *CMO Regulation 1308/2013, Art. 196*

To the extent necessary to enable exports on the basis of world market prices, when conditions on the internal market are such as to justify exceptional measures, and within the limits resulting from international agreements, the difference between world and internal market prices may be covered by export refunds.
• **Authorise agreements and decisions during periods of severe market imbalance:**

*CMO Regulation 1308/2013, Art. 222*

The Commission may authorise recognised producer organisations, their associations and recognised interbranch organisations to take a series of measures, provided that they do not undermine the proper functioning of the internal market and strictly aim to stabilise the sector concerned. Such measures include (1) market withdrawal or free distribution of products, (2) transformation and processing, (3) storage by private operators, (4) joint promotion measures, (5) agreements on quality requirements, (6) joint purchasing of inputs under specific circumstances and (7) temporary planning of production taking into account the specific nature of the production cycle.

This applies only if the Commission has already adopted an exceptional measure, if products have been bought in under public intervention or if aid for private storage has been granted.

• **Allow for an exceptional counter-cyclical payment:**

*CMO Regulation 1308/2013, Art. 219*

In case of a severe crisis affecting dairy farmers, a decision could be taken to allocate exceptional support on the basis of objective criteria.

In addition to the above mentioned measures aimed at addressing adverse market developments (the list is not exhaustive), milk producers also benefit from direct payments and rural development programmes, under which Member States enjoy a considerable leeway to target measures specifically to the milk sector.

• **Direct payments:**

*DP Regulation 1307/2013*

If they meet the eligibility criteria, dairy farmers may benefit from all layers of the new system of direct payments: compulsory payment such as the basic payment (basic payment scheme or SAPS), the greening payment, the payment for young farmers, and optional payments for Member States: the redistributive payment, the payments for areas with natural constraints, the voluntary coupled support and the small farmers scheme.
The basic payment scheme, together with the greening payment, constitutes a direct support to income of farmers in general, including dairy farmers. In addition, the voluntary coupled support, the payment for areas with natural constraints and the redistributive payment are especially relevant for dairy farmers.

As regards the voluntary coupled support, Members States may provide coupled support, for dairy farmers, up to a certain limit of the national enveloppe. This support will be targeted at sectors or regions which undergo certain difficulties and are particularly important for economic and/or social and/or environmental reasons. This optional tool will be useful to address specific needs, if any, of dairy farmers.

Moreover, Member State may decide to grant a payment for areas with natural constraints, up to 5% of the national envelope. Dairy being an important activity for some less favoured areas such as mountainous areas, this is another relevant element of the reform for dairy farmers.

Additionally, Member States may allocate a redistributive payment for the first hectares in the limit of 30% of their national budget. The number of hectares is limited to 30 hectares or the average farm size if the latter is more than 30 ha. Dairy farms are in many cases smaller than the national average and would therefore potentially benefit from this payment.

Finally, farms with a significant share of grassland may be exempted from the crop diversification and Ecological Focus Area obligations established under greening.

- Rural development measures:

  *RD Regulation 1305/2013, Art. 7, Art. 14–19, 27-33, 35-44*

In addition to the well-known measures under Rural Development Policy, like investment support for physical assets, several measures have been introduced in the new CAP that can also support sustainable milk production.

A new risk management toolkit has been introduced in the second pillar, which includes an income stabilisation tool to deal with income fluctuations deriving from instable markets.
The new programming period features an increased payment ceiling for areas facing natural or other specific constraints – from 250 to 450 €/ha in mountain areas and from 150 to 250 €/ha in other areas.

Support for the setting up of producer groups has been extended to producer organisations in the period 2014-2020. To better target the measures, support is limited to SMEs.

The new measure on cooperation provides for possibilities to support e.g. the development of new products, short supply chains and local markets as well as the cooperation of small operators in organising joint work processes and sharing facilities.

Groups of farmers can benefit from a series of rural development measures, such as investment support, participation in quality schemes and information/promotion activities, agro-environment commitments, etc.

In order to address the needs of the dairy sector with a strategic approach Member States can draw up tailored thematic sub-programs targeted e.g. at restructuring of milk production if the sector has a specific impact on the development of the rural area or at mountain areas.

The present non-paper does not aim at being comprehensive. It lists a number of measures available for the dairy sector under the new CAP, for explanatory purposes.