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The EU response to the dairy market disturbances of 2014-2017

October 2019

Milk production is the EU's top agricultural sector by value (€58 billion in 2018), currently accounting for around 14 % of agricultural output.

Between 2014 and 2015, the price received by EU milk producers decreased from around 40 cents per litre to around 30 cents.

Measures were taken to counteract disturbances in the dairy market. These measures, which were known as the "safety net", entail the public and private purchase and storage of butter and skimmed milk powder, the aim being to remove surpluses from the market.

The EU also adopted several exceptional measures to counteract the disturbances that affected the dairy market in 2014-2017. The cost of these measures to the EU budget was €740 million.

We are currently examining whether these exceptional measures were properly designed and whether they had the intended effect. We are also looking at whether the Commission and the Member States have taken appropriate action to ensure that they are better prepared to deal with future dairy market disturbances.

If you wish to contact the audit team, you may do so at the following email address:

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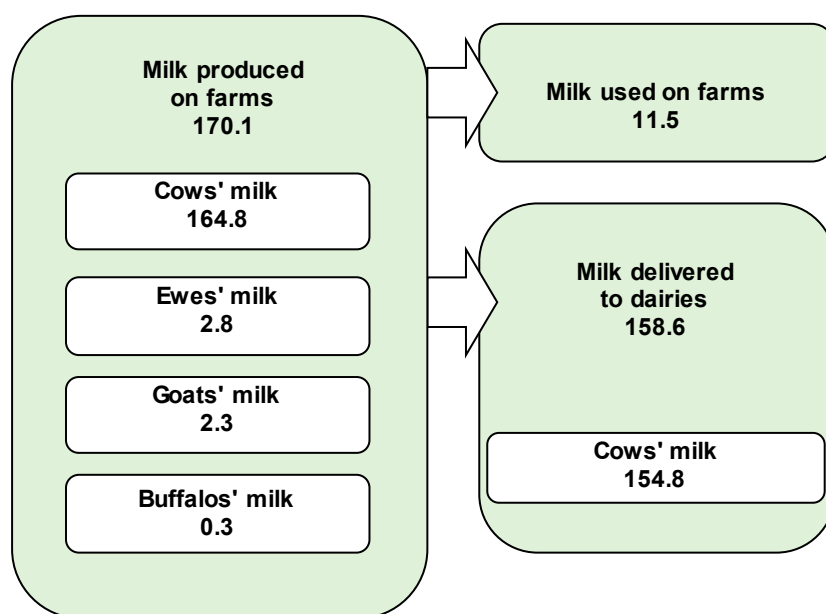
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Background

Milk is the EU's top agricultural sector by value (€58 billion in 2018), currently accounting for around 14 % of agricultural output¹. Cows' milk delivered to dairies in 2017 amounted to 154.8 million tonnes, i.e. 91 % of total raw milk production in the EU (see [Figure 1](#)).

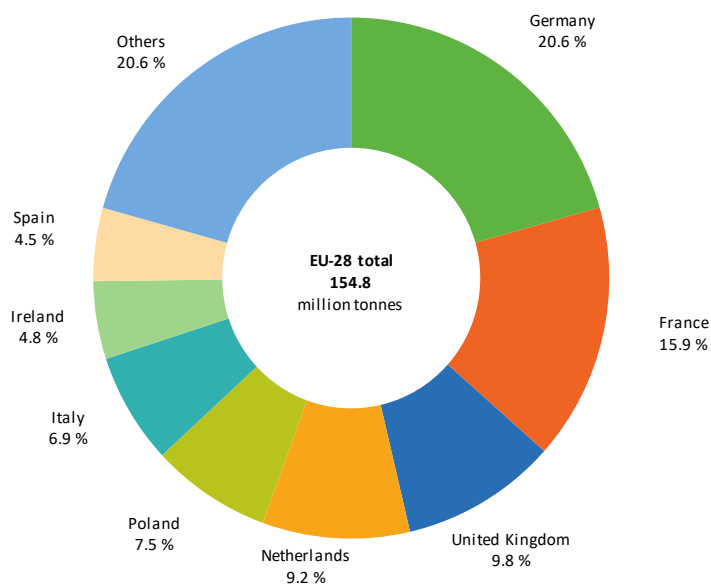
Figure 1 – Milk production, EU-28, 2017 (million tonnes)



Source: Adapted from Eurostat.

The main producers of cows' milk are Germany, France, the United Kingdom, the Netherlands, Poland and Italy. In 2017, these Member States together accounted for around 70 % of milk deliveries to dairies (see [Figure 2](#)).

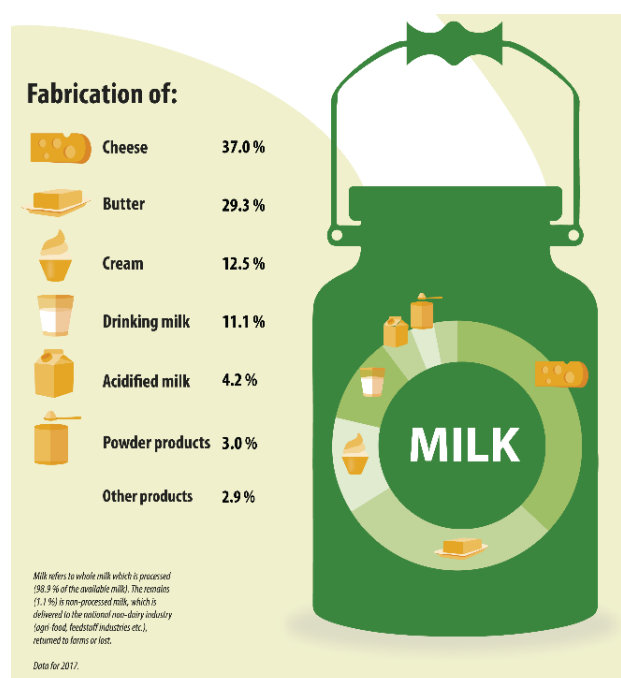
**Figure 2 – Collection of cows' milk by dairies, 2017
(% share of EU-28 total, tonnes)**



Source: Eurostat.

Two-thirds (66.3 %) of all the milk processed by dairies is used to produce cheese and butter. Drinking milk accounted for about one tenth (11.1 %) of all the milk processed by dairies in 2017 (see [Figure 3](#)).

Figure 3 – What is the EU's milk used for?



Source: Eurostat.

Until 2015, the EU operated a system of milk quotas, which sought to cap overall EU milk production. This system was abolished on 1 April 2015 after a gradual increase in Member States' quotas (the “soft landing”).

The EU legislative framework for the dairy sector

Regulation (EU) No 1308/2013 – CMO² provides the legal basis for the instruments available to stabilise agricultural markets and tackle potential market disturbances.

The following two instruments are known collectively as the “safety net” (see **Box**):

- public intervention for butter and skimmed milk powder (SMP) made from cows' milk (Article 11);
- aid for private storage for butter, skimmed milk powder made from cows' milk, and PDO/PGI cheese (Article 17).

Box

The safety net is intended to stabilise the market for dairy products in case of significant fluctuations

Raw milk is a highly perishable product that is not easy to store or transport. Market support focuses on first-stage processing products, principally butter and SMP.

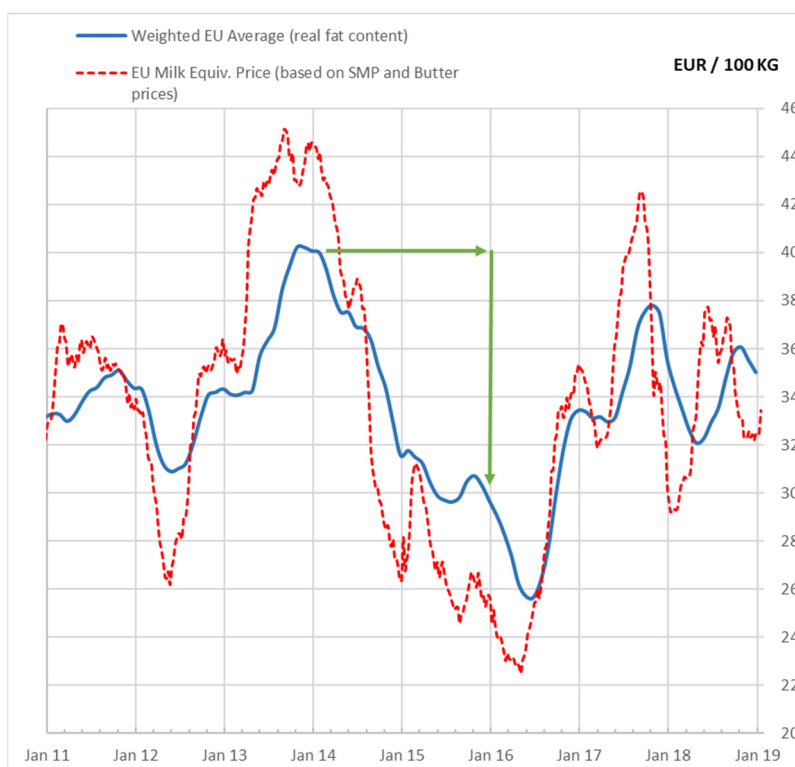
The intervention system – public and private storage – is meant to prevent dairy prices from decreasing to unsustainable levels. The maximum quantities purchased for public stocks are set by the Council (50 000 t butter and 109 000 t SMP on an annual basis). Larger quantities can be bought under public intervention in crisis times.

The Commission can also adopt delegated regulations so that it can take exceptional measures to address market disturbances (Article 219).

The EU response to the dairy market disturbances of 2014-2017

Between 2014 and 2015, the price received by EU milk producers decreased from a peak of around 40 cents per litre to around 30 cents (see **Figure 4**).

Figure 4 – Change in EU raw milk prices



Source: Member States' communications under Article 12(a) of Regulation (EU) 2017/1185 – Annex II.4(a).

Considering that “the milk sector is confronted with market disturbance due to a worldwide supply-demand imbalance, in which the prolongation until the end of 2017 of the Russian ban on the import of agricultural products and foodstuffs originating in the Union plays a role”³, the Commission took exceptional measures to supplement the safety net. These measures also supported other livestock sectors.

The Commission adopted five regulations under the urgency procedure, in line with Article 228 of the CMO Regulation:

- Commission Delegated Regulation (EU) No 1263/2014 of 26 November 2014 providing for temporary exceptional aid to milk producers in Estonia, Latvia and Lithuania;
- Commission Delegated Regulation (EU) No 1370/2014 of 19 December 2014 providing for temporary exceptional aid to milk producers in Finland;
- Commission Delegated Regulation (EU) 2015/1853 of 15 October 2015 providing for temporary exceptional aid to farmers in the livestock sector;
- Commission Delegated Regulation (EU) 2016/1612 of 8 September 2016 providing aid for milk production reduction;

- o Commission Delegated Regulation (EU) 2016/1613 of 8 September 2016 providing for exceptional adjustment aid to milk producers and farmers in other livestock sectors.

These exceptional measures are listed together with the safety net and other measures in [Table 1](#).

Table 1 – Measures adopted by the Commission to support the dairy and other livestock sectors

Safety net	Exceptional market measures	Other measures
Prolongation of the intervention period and increase up to 350 000 tonnes of the SMP ceiling determining the quantities that can be bought at a fixed price (169.8 EUR/100 kg).	Private storage aid scheme for cheese.	Establishment of a task force on agricultural markets.
Private storage-aided scheme for SMP and butter.	38 million EUR of exceptional aid to Baltic countries and Finland, particularly affected by the Russian import ban, also with the possibility of national top-up (2014).	Temporary increase in state aid.
Enhanced private storage-aided scheme for SMP (higher support rate with longer storage period – 365 days).	420 million EUR of targeted aid for the livestock sector, with the option of a 100 % top-up using national funds.	Increased rates of advanced payments under the direct payment scheme.
	Possibility of voluntary agreements between farmers to limit milk supply for a 6 month period, starting from 13 April 2016 and extended until 13 April 2017 (based on Article 222 of the Common Market Organisation).	Increased funds for food promotion programme.
	150 million EUR aid for a cut in milk production (2016).	Bringing the Milk Package report forward from 2018 to 2016
	350 million EUR support package for the livestock sector targeted to activities of market stabilisation and economic sustainability, with the option of a 100 % top-up using national funds (2016).	Milk for Syrian school children.

Source: European Commission, EU Agricultural Market Briefs No 11/March 2017 – Managing risk in the dairy sector: how future markets could help.

Funding

The EU budget for the safety net was €45.3 million for the 2015-2017 period.

The EU also budgeted around €960 million for exceptional measures in the livestock sectors for 2015, 2016 and 2017⁴, of which €737.3 million⁵ was for the milk sector (**Table 2**). Member States could also top up this support with contributions from their national budgets.

Table 2 – Budgets allocated to the exceptional measures specifically for milk producers

Regulation	Sectors targeted	EU budget for milk producers	Limit to additional national support
No 1263/2014	Milk producers in Baltic States	€28.6 million	100 %
No 1370/2014	Milk producers in Finland	€10.7 million	100 %
No 2015/1853	Farmers in the livestock sectors: - beef and veal; - milk and milk products; - pig meat; and - sheep meat and goat meat.	€308.3 million	100 %
No 2016/1612	Milk producers in the EU-28	€108.7 million	NA
No 2016/1613	Livestock sectors (similar to Regulation No 2015/1853, including the milk sector)	€281.1million	100 %
Total EU	-	€737.3 million	-

Source: ECA analysis, based on EC Regulations and Commission data.

Roles and responsibilities

The European Commission

The Commission monitors changes in the dairy market, and is empowered to take action to prevent or react to significant market disturbances. The Directorate-General for Agriculture and Rural Development was therefore responsible for establishing the regulatory framework for exceptional measures in the milk sector, and for supervising

the implementation of those measures, notably on the basis of the reports submitted by the Member States.

Member States

Under the concept of shared management, Member States were responsible, in cooperation with the Commission and under its supervision, for adopting and implementing their own measures within the proposed framework. The aim was to target those producers most affected by disturbances, and to provide aid as swiftly as possible. Under Article 8(a) CMO, the Member States are also responsible for buying and storing milk products (public intervention).

Focus of the audit

We are currently examining whether these exceptional measures were properly designed and whether they had the intended effect. We are also looking at whether the Commission and the Member States have taken appropriate action to ensure that they are better prepared to deal with future milk market disturbances.

We are collecting audit evidence by analysing EU policy and Member States' documentation and data, and by carrying out a survey. We are conducting interviews with Commission representatives, and are visiting four Member States (France, Italy, Ireland and Finland).

In the course of our audit, we are analysing the key issues that were identified during the preparatory phase. As these issues were identified before the audit actually started, they should not be regarded as audit observations, conclusions or recommendations.

ABOUT ECA SPECIAL REPORTS AND AUDIT PREVIEWS

The ECA's special reports set out the results of its audits of EU policies and programmes or management topics related to specific budgetary areas.

Audit previews provide information about an ongoing audit task. They are based on preparatory work undertaken before the start of the audit and are intended as a source of information for those interested in the policy and/or programme being audited.

If you wish to contact the team in charge of this audit, please do so through the following e-mail address:

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- ¹ Eurostat Data explorer – Economic accounts for agriculture – values at current prices – last update: 5 March 2019.
 - ² Regulation (EU) No 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of the markets in agricultural products.
 - ³ See recitals (1) to (5) of Commission Delegated Regulation (EU) 2016/1613 of 8 September 2016 providing for exceptional adjustment aid to milk producers and farmers in other livestock sectors.
 - ⁴ Out of a total amount of €1 680 million budgeted for crisis measures between 2015 and 2017 in all sectors concerned, i.e. including fruit and vegetables.
 - ⁵ Total 05021299 Other measures €746.9 million – cheese PSA €9.6 million.

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