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European Union

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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Critical situation in the dairy sector and the need for urgent EU-level measures to stabilise the situation <i>- Information from the Latvian delegation on behalf of the Latvian and Lithuanian delegations, supported by the Bulgarian delegation</i>

Delegations will find in the Annex a document on the above subject to be presented by the Latvian delegation on behalf of the Latvian and Lithuanian delegations, supported by the Bulgarian delegation under "Any other business" at the "Agriculture and Fisheries" Council on 20 March 2023.

Critical situation in the dairy sector and the need for urgent EU-level measures to stabilise the situation

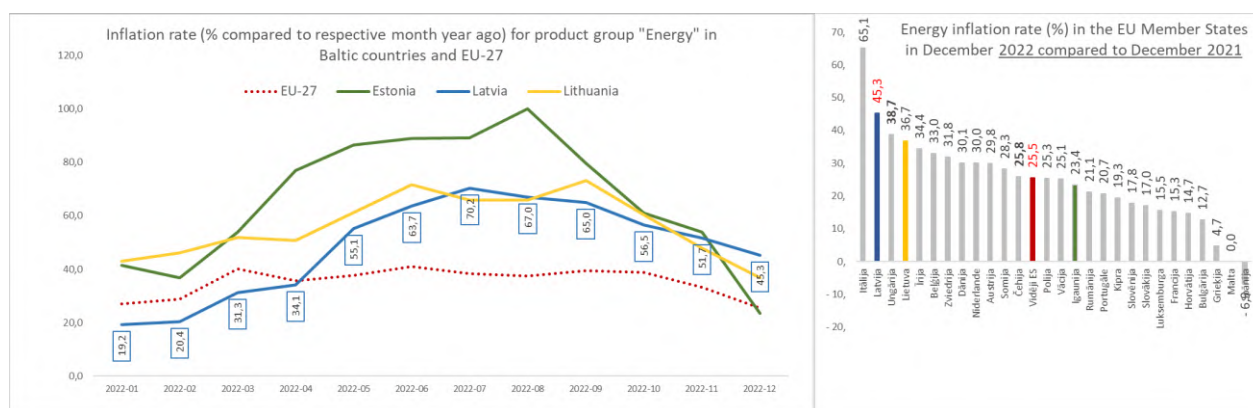
Latvian and Lithuanian delegations draw the attention of the Commission and the Member States to the deteriorating situation in their dairy sectors (milk producers, in particular), which is caused by a sharp fall in raw milk purchase prices over a short period combined with persistently high costs of production.

The Russian unprovoked and unjustified military aggression against Ukraine has severely affected the agricultural and food sectors in Latvia and Lithuania. Farmers and producers are under pressure due to the prolonged crisis and the **significantly increased costs of inputs**. It should be noted that a continuous increase in the price of inputs was already observed in 2021 (in conjunction with the consequences of the Covid-19 pandemic). The overall negative impact on the farmers and their viability has been very long lasting.

The nature and impact of the crisis varies in different EU Member States. The market pressure that Member States must cope with is particularly difficult for smaller economies and markets.

Latvia and Lithuania are affected in particular by **high energy prices, especially electricity**. According to Eurostat data, energy price increases in Latvia and the Baltic States as a whole is much higher than the EU average. This has been the situation since May 2022.

For Latvia, in August 2022, it reached a point where the energy inflation gap between the EU average was the widest, with +67% compared to August 2021 in Latvia and +37.5% for the EU average. In December 2022 the inflation of energy resources in Latvia was 1.8 times higher than the EU average (+43.5% for Latvia and +25.5% for the EU compared to December 2021). In December 2022, Latvia and Lithuania had the second and fourth highest energy resource inflation rate among all EU Member States respectively.



Moreover, **feed costs** have reached extreme highs and, despite a current overall declining trend, remain high. In dairy farming, feed makes up by far the largest share in total costs of production. For example, the price of feed wheat in Latvia increased by 8% in February compared to the previous month and was by 3% higher than a year ago. At the same time, the EU average price for feed wheat decreased by 4% in February.

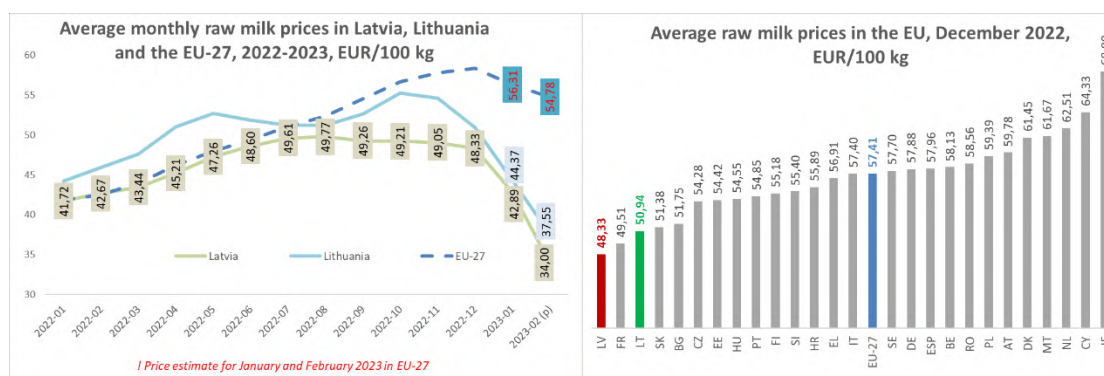
While costs of inputs have increased extremely, the **purchase price of raw milk** in Latvia and Lithuania is on a steady declining trend with no signs of recovery.

In Latvia, the raw milk price has been decreasing for 6 months in a row, and currently it is already the lowest among all Member States. Already in January of this year, the price of raw milk dropped by 11.2% over one month, reaching 42.9 EUR/100 kg, and in February a further sharp decrease by 21% was observed, with price falling to 34.0 EUR/100 kg. In total, in two months' time, raw milk price in Latvia has decreased by 30%.

In Lithuania, milk purchase prices have been decreasing steadily since November 2022. In four months (November-February) the milk purchase price dropped by 33% (from 55.3 EUR/100 kg in October 2022 to 36.8 EUR/100 kg¹ in February 2023). The price for February decreased by 17%, compared to January, while costs of inputs remain considerably high.

It is necessary to emphasise that prices received by small/family farms, which constitute the majority of dairy farms (in Lithuania over 70%), are considerably lower than the ones reflected in statistical averages. Immediate support is indispensable to ensure survival of those dairy farms and to be able them to benefit from long-term measures for sustainable transformation of the dairy sector.

¹ Actual price



Dairy processors in our countries are **struggling with reduced market demand** for dairy products, due to inflation and reduced purchasing power, which is also a global trend. Both Latvian and Lithuanian dairy sectors are net exporters, highly dependent on the developments in external markets. It is not possible for processors to mitigate the difficulties experienced in exports through the domestic markets.

With production costs remaining extremely high, such a rapid and significant reduction in the purchase price of raw milk has led to a situation where **production costs of milk producers cannot be covered with market revenues**.

The **viability of dairy farms is dramatically undermined** in these conditions, many dairy farms are facing the risk of bankruptcy, as they do not possess the financial means to cover everyday expenses, investment loans etc. In February 2023, more than 10% of Lithuanian dairy farms withdrew from milk production and the quantity of raw milk decreased by 4%, compared to the same period in 2022.

If farms close, dairy cows will have to be culled and this will also affect the beef sector resulting in increased meat supply and reduced producer prices for meat. Therefore, the crisis in the dairy sector can spread widely and affect several important sectors of animal husbandry.

The rate and magnitude of the fall in raw milk prices is so significant (especially for smaller dairy farms), that it outweighs last year's good performance and exceeds simple market adjustments. Unless urgent measures are taken to respond to this significant market disruption, it could have irreversible negative consequences for the dairy sector in our region.

While possible instruments at the **national** level are being considered and certain **measures** have already been taken, this **will not be sufficient** in the current conditions. Possibilities of using the national budget are strictly limited due to a whole range of complex challenges. Therefore, **EU-level measures are indispensable**.

To that regard, **Latvia, Lithuania and Bulgaria call upon the Commission to urgently introduce the measures envisaged under the Common Market Organisation to alleviate the situation in the dairy sector, in particular:**

- 1) Exceptional financial support to milk producers in most affected countries in accordance with Article 221 of the Regulation 1308/2013 of the European Parliament and of the Council. This support should be financed from the CAP Agricultural Reserve, and it should ensure that the Member States that are most hit in this situation receive appropriate funding.**
- 2) Submit a proposal for reviewing and increasing the prices for buying-in of skimmed milk powder and butter into public intervention, as the current levels of these prices (1698 EUR/t and 2217.50 EUR/t, respectively) have not been reviewed for a long time, are outdated and, therefore, do not correspond to the increased production costs.**