



THE EU WITHOUT MILK QUOTAS - WHAT IS THE IMPACT?

Large opportunities - big challenge for the EU milk production.

A study of the impact of the milk quota system 1984 – 2020.

APRIL 2008



PM FOOD & DAIRY CONSULTING

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Glossary:

CAGR:	Compound Annual Growth Rate
CAP:	Common Agricultural Policy
DG-Agri:	Directorate-General for Agriculture and Rural Development
EAGGF:	European Agricultural Guidance and Guarantee Fund
EU:	European Union
EU-2:	New Member States 2007: Bulgaria and Romania
EU- 10:	10 new Member States from May 2004
EU-12:	All Member States that have joined EU since May 2004
EU-15:	Member States before May 2004
EU-25:	EU after the enlargement May 2004
EU-27:	EU after the enlargement January 2007
EUROSTAT:	EU Commissions Statistical Bureau
FAO:	Food and Agricultural Organization of the United Nations
FAPRI:	Food and Agricultural Policy Research Institute
GDP:	Gross Domestic Product
IDF:	International Dairy Federation
LME:	Liquid milk equivalent
MQS:	Milk Quota System
MT:	Metric Tonnes
OECD:	Organization for Economic Co-operation and Development
SMP:	Skim Milk Powder
SPS:	Single Payment System
USDA:	US Department for Agriculture
USDEC:	US Dairy Export Council
WMP:	Whole Milk Powder
WTO:	World Trade Organization
ZMP:	Zentrale Markt- und Preisberichtsstelle

INDEX

1. INTRODUCTION.....	4
1.1 Content	4
1.2 Objective and scope.....	6
1.3 Methodology	6
1.4 Time scale.....	7
1.5 Report sources.....	7

1. INTRODUCTION.

1.1 Content

This report aims first to describe 24 years of the Milk Quota System (MQS) in EU and analyses the consequences for the EU milk producers and the milk sector as a whole. A supply management system creates a new way of optimizing the milk production because it affects:

- Milk price
- Milk producer income
- Cost of the milk production
- Structural development
- The milk balance

- Interventions stocks
- Export of dairy products
- Dairy companies
- EAGGF budget

The analysis of these factors gives the background to evaluate to which degree the MQS has been a failure or success.

The market opportunities for milk and dairy products in the future are very important in relation to judge the role and the need for MQS in the future. The report focus on the market development in EU-27 and on the world market from 2007-2014, and the prospects looks bright with increasing demand both internal and on the global market.

The essential question is: What is the milk production potential in EU-27 in the short/medium term and the report focus on different prognoses for the development in the milk production in EU-27 and the global milk production.

The potential in the EU countries is examined in both EU-15 and EU-12, where the MQS only has been implemented in 1-3 years in EU-12. EU-15 have been experienced the MQS much longer and EU-10 has been involved since the introduction in 1984. The conclusion is that the potential is limited in the short/medium term until 2014/15 due partly to the structural restrictions the MQS has put on the flexibility of the milk production in EU and partly due to the national differences in the potential which is undermined by the MQS by not giving the possibility to move the milk production to the most productive areas of EU.

The report focuses on the different instruments to dismantle the MQS and evaluates the effectiveness of these in relation to increase the milk production in EU.

Another side of the coin is the political realities where the MQS is viewed as an important measure to secure the milk production in the Member States. This also makes it an essential instrument to protect disfavored areas and small and less efficient milk producers. This political conflict between protecting the national milk production contra ensuring an efficient milk production in EU will be very important until 2014/15 where the MQS is abolished.

Finally the report sets up several scenarios for the long-term prospects for the milk production in EU in the long term until 2020. The focus is on the cost structure in the EU countries compared to other major milk producing countries in the world, although it is not an extended analysis. This field needs a lot more research to give more insight in the competitiveness of the milk production in the EU milk production and different parts of the world.

The future milk production in EU will change significantly the next 10-15 years in respect to other production methods and production optimum, which will be pointed out in the report.

1.2 Objective and scope

The aim of the report is to provide the reader with an overview of the MQS in the first 24 years and analyses the consequences of the MQS on the EU milk production. Then the objective is to project what will happen with the EU milk production during the dismantling of the MQS and after.

1.3 Methodology

The report uses different methods in analyzing the different aspects of the MQS concerning the past experience, the dismantling period and the future possibilities to produce without the MQS after 2015.

The period from 1984 until 2007 the MQS is examined through statistical data on the factors relating to the milk production, the market and the political acceptance. The consequences of the MQS are evaluated in short term (1984-89), medium term (1990-1999) and long term (2000-2008) in the light of the agenda that influence the milk sector in EU.

The dismantling period 2008-2015 is analyzed in relation to:

- The prognoses for the future demand for dairy products
- The potential for increasing the milk production in EU is examined for each country in EU, and on this basis the estimate for the total expected milk production development is projected.
- The dismantling measures are evaluated in respect to the effect on the milk production, political acceptance and how they can be implemented.

The long-term perspective from 2015-2020 without the MQS is based on:

- A SWOT analysis of the EU milk production potential.
- Via three scenarios that all are realistic under specific conditions.

- Comparison of the cost of milk production between the EU countries and between EU and other major milk producing countries. This can only give an indication while there isn't made many comprehensive studies in this field.
- Identifying factor and measures on farm level that can improve the milk production but also focus on the external factors, which can hinder an expansion.

On the elements the conclusions and recommendations are made in the relation to the possibilities to increase the EU milk production in the short, medium and long term.

1.4 Time scale

- Descriptive historical analysis of the MQS: 1984-2007
- The future market prognoses: 2007-2014/16
- The scenarios for EU milk production without MQS: 2015-2020

1.5 Report sources

The report is based on PM Food & Dairy Consulting research of the MQS, the market development, the political situation and the future possibilities without MQS, and the main sources are:

- International statistics: EU Commission, EUROSTAT, ZMP, FAPRI, FAO, IDF, IFNC, USDA and others
- National agricultural statistics
- Professional publications and reports
- Dairy and Farmers Associations
- Embassy enquiries
- Interviews with key political actors

PM Food and Dairy Consulting make the evaluation schemes, prognoses and scenarios.

Some supplementary comments about the report:

The EU without Milk Quotas – What is the impact?

The report analysis the consequences of the EU milk quota system (MQS) in 24 years from 1984 to 2008 and the major positive effects are:

- Stabilizing the EU dairy market and reducing the surplus production in the short/medium term until 2000
- Reducing the EAGGF expenditure to the common dairy policy by eliminating the huge intervention stocks
- The MQS was political acceptable due to the possibility to give priority to special producer categories. After year 2000 the political acceptance has diminished and several EU Member States want to eliminate the MQS.

The negative effects of the MQS are obvious in the medium/long term:

- EU has lost the leadership on the world market for dairy products
- The MQS has hindered the natural structural development of the EU milk production by creating an average milk producer in EU. The large and small milk producers have left the milk sector.
- From the beginning of the nineties the EU milk producers have been losing competitiveness compared to other major milk producing countries due to increasing the cost of milk production and especially the price of milk quota have been increasing. The lack of utilization of production of scale lead to a decreasing efficiency in the EU milk production.

These effects of the MQS leave the EU milk sector in a difficult situation in respect to dismantling the MQS and the possibility to increase the milk production when the MQS is abolished in 2015. Some of the conclusions in the report are:

- Until 2015 the milk production is only expected to increase by 50% of the presumed quota increase (6%) because several EU countries are unable to increase the milk production and some will even continue the declining production. Germany, Denmark, Netherlands and several of the EU-12 countries are expected to be able to increase the milk production in the short/medium term until 2015.

The possibilities to expand the milk production in EU after 2015 are depending on several factors:

- A flexible dismantling of the MQS allowing the efficient milk producers and regions to expand their production is necessary.
- Secure sufficient investments in the milk production in EU-12 where the largest potential can be released are essential.
- The cost of milk production, an inefficient structure of the milk production and environmental restrictions are the major obstacles to expanding the milk production in EU.

The worst-case scenario until 2020 is that the EU milk production will stagnate or even decline and the EU will turn into net importer of dairy products due to the increasing demand internally and the EU will be able to benefit from the rising global demand. The major EU dairy companies will expand outside the EU to be able to keep the markets outside the EU.