Frequently Asked Questions: End of milk quotas

Brussels, 26 March 2015

Why and when were quotas established?
Milk quotas were introduced to address the structural oversupply on the EU market of the late 1970s and early 1980s that had led to the infamous milk lakes and "butter mountains". EU dairy farmers were guaranteed a price for their milk (considerably higher than on world markets) regardless of market demand. Despite different efforts in the 1970s to slow down EU production, it continued to rise much faster than domestic demand. The system was also having a negative impact on world market prices, as the EU frequently subsidised exports on to the world market.

In July 1983, the European Commission proposed to introduce milk quotas, and this was agreed by the Council on March 31, 1984. The regime required a quota being fixed for each individual producer or purchaser, with a levy ("superlevy") payable for those who exceed their quota. Subsequent changes have meant producers only have to pay the levy when the Member State also exceeds its national quota.

Do quotas cover all milk, such as sheep and goat's milk?
No, only cow's milk. Other milks represent only a tiny share of the EU milk market.

Have quotas achieved their purpose?
The system of quotas – and the threat of levy – helped to cap the expansion of EU production. The butter and skimmed milk powder "mountains", which had exceeded 1 million tonnes, fell steadily. However, there have been other important changes to the Common Agricultural Policy which have led to a much more market-oriented sector. Successive reforms of the CAP have seen a reduction in guaranteed prices, with a range of policy tools aimed at stabilising farm revenues, notably the system of direct payments, primarily decoupled from production.

Why remove them now?
Milk quotas were originally introduced for 5 years, but the expiry date has been put back several times. The final date was decided in the 2003 CAP reform, and reconfirmed in 2008 with concrete steps to provide a "soft landing" by the end of March 2015. The primary reasons for deciding to end milk quotas was that there has been a considerable increase in consumption of dairy products in recent years, especially on the world market – projected to continue in future – while the quota regime is preventing EU producers from responding to this growing demand. For example, EU exports of dairy products to Korea have more than doubled between 2010 and 2014 from €99mn to €235mn. This corresponds to an increase in the EU's share of Korean dairy imports from 28% to 37% over the same period. With close to €55bn, the dairy sector represents 15% of the total EU agricultural output. Milk is produced in every single EU Member State without exception in around 650 000 dairy farms. On top of that, there are about 5 400 dairy processing companies in the EU employing 300 000 people. They should be given the possibility to fully benefit from the growing global consumer demand, particularly in Asian markets.

Because the end of milk quotas represent opportunities but also concerns, successive reforms have found other, more targeted ways of helping to support more vulnerable areas, where there are strong social and economic reasons for trying to maintain dairy farming.

I am a milk producer, what does it mean for my daily work?
The end of quotas means that there is an administrative simplification in terms of monitoring daily production. However, there is also an additional requirement and responsibility to monitor market signals more closely (producer organisations and cooperatives may play a decisive role in this respect). In this sense, the Commission has set up the Milk Market Observatory in order to increase market transparency and make the sector aware of the market situation. The slowdown in EU production since the end of last year in the face of less positive market signals is a clear example of where the sector is already responding to the market.

Does this leave dairy farmers without any protection or support?
Extreme price volatility is limited by the "safety net" instruments still available under the Common Market Organisation (public buying in of butter and skimmed milk powder and private storage aid schemes). The Commission has also the possibility to intervene in exceptional circumstances, as it was the case last year with the Russian import ban in the Baltics countries and in Finland.

As well as the system of "decoupled" CAP Direct Payments, Member States have a range of options open to them which they decide at national on regional level. Options include an additional payment for areas with natural constraints and the possibility for voluntary coupled support for certain regions or certain sectors in fragile situation. In implementing the 2013 CAP reform, 18 Member States have introduced a coupled payment for the dairy sector – worth just over €800 million in 2015.

Also, under Rural Development Programmes, Member States or regions have the flexibility to target support at specific challenges such as dairy farms in fragile areas. Possible measures available here include support for investments in physical assets, payments to areas facing natural constraints, income stabilisation tools, advisory services, incentives for innovation, but there are more. Another option includes support for establishing Producer Organisations.

As well as this financial support, the CAP provides practical and organisational support under the 2012 Milk Package*, such as clearer rules on written contracts but more importantly increased bargaining power for producer organisations.

There is also a role for Interbranch Organisations in the dairy sector. These may carry out a series of activities, including improving knowledge and transparency on production and the market; helping coordinate better the way products are placed on the market, in particular by means of research and market studies; promoting consumption; carrying out the necessary research to adjust production in favour of products more suited to market requirements, in particular with regard to product quality; and promoting innovation, etc.

Before the expiry of the Milk Package provisions in 2020, the Commission is committed to present a Report to the European Parliament and the Council before the end of 2018 on the development of the dairy market situation.

Aren't we running the risk of over-producing again?

No, there is not a risk of the same sort of structural surpluses as in the past. The guaranteed price for butter and skimmed milk powder now merely serves as a safety net – such as during the 2009 dairy crisis, where it put a floor in the market. This means that producers are looking at the market when they decide how much to produce. Increased focus on added-value products (such as cheese and yoghurts) as well as on ingredients for nutritional, sports and dietary products have a strong potential in terms of growth and jobs for the EU.

What are the forecasts in terms of production at Member States and EU level?

While some Member States perceive the end of milk quotas as a source of concern, others welcome the opportunities provided by it.

The Commission's medium-term market outlook last December forecast continued growth in exports, especially for cheese, skimmed milk powder and whey. See page 35 for more detailed prospects per Member State.

How has the sector evolved over the years in terms of producers and production?

As in most agricultural sectors – and most sectors of the economy – there has been a gradual decline in the number of dairy farmers around the EU in the past 30 years (-6% a year on average). Average herd sizes have tended to increase, and improvements in genetics and feed efficiency have helped increase the average yield per cow. However, the situation widely varies from Member State to Member State: milk specialised farms in the EU-15* have a milk yield of some 7 300 kg/cow for an average herd of 54 cows, while in the EU-10** the average yield is 5 700 kg/cow for an average herd of 19 cows and in the EU-2*** the average yield is 3 400 kg/cow for an average herd of 5 cows. (This compares with average herd sizes of 115 cows in the USA, 258 cows in Australia and 413 cows in New Zealand.) In addition to this consolidation, we have seen dairy farmers working more closely together through cooperatives. The overall level of production has remained relatively stable, limited by the quota regime. However, the greater market orientation has seen a greater shift towards more added-value products, especially for exports. For example, EU cheese production from 2003 to 2013 increased by 26%, while the volume of exports rose by 69%. The share of ingredients is also significantly increasing notably targeting new nutritional needs linked to modern living habits and evolving
demography.

One of the other crucial elements has been the additional investments provided by EU Rural Development funding, in particular for individual farm modernisation projects, but also on other investments. Figures for the 2007-2013, show that EU funding for farm modernisation amounted to 1.8 billion EUR, which was matched by 1.4bn EUR of national/regional public funds, and nearly 7.4 bn EUR of private investment – such that a total of more than 10.6bn EUR was spent on dairy modernisation over the period.

* Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.

** Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia

*** Bulgaria, Romania

Will it create greater price volatility for milk?

Volatility is a normal characteristic of agricultural markets. The European dairy sector is now following a market-orientated policy, which means that, following the ending of milk quotas, production should be based on market needs and opportunities. Where possible, supply and demand should be adjusted to meet those needs and opportunities.

The EU is the most important milk producer in the world and a major player which, with or without quotas, is connected with the dynamics world market. So while experience show quotas cannot prevent crisis, they certainly do impede our farmers to follow market signals and take advantage of market opportunities.

The role for the public authorities is limited to safety net measures. Public intervention remains available if prices drop below a reference level.

Underlying demand growth has not been affected by the latest market downturn – population growth, rising incomes and changing dietary preferences are all positive demand drivers. So, there is good reason to be optimistic about the future

Will this mean that consumer prices get cheaper?

Past experience shows that there is not always a correlation between what the farmer gets paid and what the consumer pays. For example, the significant increase in the farm gate price during the first half of 2014 (+13% for the EU) was generally transmitted to consumer prices for both milk and cheese, but with significant differences between Member States - Germany +8.4%, France +0.8%. By contrast, the generalised decrease in producer prices in the second half of 2014 did not prevent a further increase in consumer prices in most Member States, although to a small extent.

### Changes in producer & consumer prices, 2014 relative to the same period of 2013 (in %)

<table>
<thead>
<tr>
<th></th>
<th>Producer Prices</th>
<th>Consumer Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>+12.6%</td>
<td>-7.7%</td>
</tr>
<tr>
<td>Germany</td>
<td>+15.3%</td>
<td>-11.7%</td>
</tr>
<tr>
<td>France</td>
<td>+12.1%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Poland</td>
<td>+14.9%</td>
<td>-9.6%</td>
</tr>
<tr>
<td>UK</td>
<td>+13.2%</td>
<td>-2.4%</td>
</tr>
</tbody>
</table>

Source: DG AGRI Short-term market outlook

MEMO/15/4697

General public inquiries: Europe Direct by phone 00 800 67 89 10 11 or by email