

**European
Milk Quotas —
Success Or
Failure?**

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As with many such questions, and particularly those applying to agricultural policy, there is no simple answer; in fact, it all depends who is asked the question!

If put to European politicians with responsibility for treasury matters, most would agree that milk quotas, although costly to the budget, have in fact prevented bankruptcy of the milk fund. Similarly, if put to a British or Dutch dairyman approaching retirement, with no family to continue the business, they will have no time to answer on the way to the bank! The legislation in these two countries in fact allows a relatively straightforward sale or lease of quota, so providing a valuable capital asset.

On the other hand, if the question were put to milk consumers, they would be less enthusiastic, having experienced price increases. When put to young agriculturalists keen to start-up in dairying, or those already in business but eager to expand, then the answer would be unanimous that quotas have been an outright failure.

If, therefore, you delegates were hoping that I would come to this conference and suggest that quotas could be the solution to all, or even some, of your financial problems, I am very sorry to have to disappoint you!

Before outlining the reasons why quotas were introduced, what effects they have produced, and what are their future prospects, let me first put the European dairy industry into context and make some comparisons with the U.S.A.

European Dairying

The E.C. now comprises 12 countries which range markedly in size, population and climate, as well as in the importance of their dairy industry.

Figure 1 demonstrates the importance particularly of Germany and France as major milk producers in Europe, as well as the importance of milk to the total agricultural production, e.g. 32% in the Irish Republic and 21% in the U.K.

Figure 2 shows in pie-chart form, the 1991 share of deliveries for the 10 (longer established) E.C. members.

Dairying is a major source of income on a large number of E.C.'s small and medium sized holdings. Traditionally, it has provided farmers with a regular supply of cash, and for many has also been a most suitable enterprise to get into farming. The Black & White (Holstein type) cow continues to increase in popularity and, in most countries, the importance of protein production increases at the expense of butterfat. Research and development findings continue to assist in the improvement of the efficiency of feeding, and, with the continued developments of milking and manure handling machinery, more time is being devoted to stockmanship, health control and herd management. This situation, although a fact with larger herds, as for example in the U.K. and The Netherlands, is less relevant to many of the smaller herd commonly operated by part-time farmers in some of the other E.C. countries.

When considering the data for production of milk on a worldwide basis, it can be seen (in Table 1) that the E.C. industry is almost double that of the U.S.A. in terms of cow numbers and milk production, but with an even higher proportion of butter, cheese and particularly milk powder production.

Consumption figures for a number of countries for milk, cheese and butter are shown in Figure 3.

Background to Quota Introduction

Following the establishment of the Common Agricultural Policy (CAP) in the late 50's with its open-ended price support policy for milk, together with steadily improving farm productivity, led in the late 70's to a serious overproduction within the community. By this time, the milk sector accounted for almost half of the E.C.'s annual agricultural support expenditure, arising predominantly from the storage and disposal of dairy products.

With the market situation in the early 80's continuing to deteriorate, but with the Commission continually stating that price reduction rather than artificial limits, was the preferred solution to the problem, the decision to abruptly introduce quotas on the 31st March, 1984 was a watershed in the history of the CAP.

Two schemes were introduced known as A and B:

(A) - the quotas applied directly to each farm (implemented for example in Germany)

(B) - the quotas applied through dairies, so allowing averaging between farms. The U.K. with its Milk Marketing Board was in a splendid position to take full advantage of this option.

Stress has been caused to many dairymen, not only from on-going cuts to quotas since 1984, but also due to the frequent changes to the legislation. Levy in the U.K. has only been charged in 5 of the 8 years of the system.

The Milk Marketing Board helps producers control overproduction by publishing a regular quota profile and gives each farmer an individual statement on a monthly basis. With the proposed disbanding of the Board in the near future, this task will no doubt be undertaken by the Ministry of Agriculture & Food.

The Effect of Quotas

As a consequence of quota imposition, milk production on E.C. farms by 1992 was some 12% lower than in 1983. Reduced supplies of milk for manufacturing have led over this period to 25% less butter and 33% less skimmed milk powder production. The effect on U.K. milk production has been even more dramatic as shown in Table 3.

Cow numbers continue to fall, but after an initial fall in yield per cow, this has since recovered.

Initially, quotas gave producers an incentive to look more critically at their production systems. Many reduced concentrate feeding levels, achieving higher margins from improved production and utilization of forage feeds. In more recent years, concentrate feeding levels have increased again, perhaps stimulated by a better milk:feed cost ratio.

The quota system has no doubt achieved its immediate objectives, but overproduction has still not been solved. The E.C. still has 15% surplus milk to domestic utilization, 20% of the budget expenditure is incurred by milk. Some farmers have moved into other enterprises such as beef, sheep and cereals. As these commodities are also in oversupply, little benefit has been achieved

in terms of profitability and in fact in the 1992 CAP Reforms, both sheep and beef quotas were introduced.

A desk study undertaken by Kirke & Moss in Northern Ireland using linear programming, showed that a milk price cut of 14-16% would have been required to obtain the same reduction in output as from quotas. The study, supported by a number of surveys of actual producer performance, indicate that incomes of dairymen, when adjusted for inflation are very similar to those years prior to quota introduction. Had milk prices fallen by 25%, and assuming all other factors were unchanged, dairy farmers profits would, according to the study, have fallen by 15%. It also showed that many more small and medium sized producers would have ceased production than has actually happened.

Response to quota imposition has, of course, varied from one country to another. In Denmark for example, production has fallen by 15%, number of producers by 33% and, although quota is linked closely to land, 20% of the total quota has been transferred to other producers. Milk price has increased, so raising the demand for quota.

In France, strong measures to persuade producers to 'quit' were introduced, resulting in 38% of the farmers with less than 30 cattle leaving the industry. Their system of quota transfers is complex so that asset values have not been created as they have in the U.K.

It is generally understood that in Italy, the introduction of quotas has not as yet been fully implemented.

The Problems

The major problem which has been experienced by individual dairymen from the introduction of quotas is the considerable restriction to herd establishment and expansion.

In the U.K., to add one extra cow to the milking herd, currently costs (rearing a heifer to 24 months) some £950 or \$1400. In order to sell the milk from this animal the cost of quota purchase, say 7,500 litres at 36 pence/litre = £2700 or \$4050 (approaching 3x the cost of the heifer).

Leasing for one production year is an alternative strategy of obtaining quota in the U.K. (but not in other countries). The cost is some 5p per litre or 30% of the milk sale value of that litre. It is a matter for political debate rather than economic assumption as to whether society has a responsibility to support the incomes of those who in future decide to enter, at their own risk, a highly-controlled industry which is still in surplus. In Germany one can only transfer 5000 litres per hectare (9580 lbs per acre) and in the deal 1000 litres (4600 lbs) has to be surrendered to the State for reallocation to deserving applicants.

If a flexible, uncomplicated (not tied directly to land) system of transfer can be developed, then in theory the efficient (usually larger) producers should be able to take over the quota of the less efficient.

Another problem is caused by quota being 'attached' to land in situations where the dairyman is a tenant farmer. The allocation of quota belonging to him rather than the landowner, has caused numerous disputes if and when tenants wish to retire or move to other farms. The 'standard' agreement is 30% to tenant and 70% to landlord, but if milk production was not taking place when the tenancy was first established, tenants have been allocated a higher proportion. Yet another lucrative job for the lawyers (attorneys)!

Conclusion

The use of quotas to control E.C. milk output has been relatively effective and appears not to have seriously affected producers profitability. In the countries which have allowed uncompli-

cated sale or lease of quota, then considerable asset values for existing producers have been created. However, major problems have been created for first time dairymen and for those wishing to expand.

The more progressive, risk-taking dairymen have, despite the problems, continued to expand, but one can assume at a much slower rate than would have been possible without quotas.

Serious effects have also been experienced in the 'down-stream' industries from the farm — in milk processing plants where reduced throughput has necessitated the need to cut capacity, which has led to major staff redundancies.

The E.C. obviously considers that quotas in some form or another are at least partially successful, hence the recent introduction of quotas in sheep and beef production.

Current E.C. policy suggests that milk quotas will be around at least until the year 2000 — which should give some stability to the dairy industry, which at present is probably the most profitable agricultural enterprise to be involved in.

Quotas may have been a relative success in Europe, but would appear to have minimal attractions to Western U.S. dairymen and especially to today's delegates, who no doubt have continued herd expansion as a major objective.

TABLE 1

WORLD PRODUCTION OF MILK AND DAIRY PRODUCTS, 1991

Country	No. of Dairy Cows '000	Production ('000 tonnes)					
		Cows Milk	Butter (factory)	Cheese (factory, incl. fresh)	Milk Powder		
					Whole	Skim	Total
EC	23,098	113,241	1,738.0	5,191.0	980.0	1,513.0	2,493.0
Other W. Europe	2,972	14,882	183.6	495.4	40.9	115.1	156.0
Eastern Europe	53,530	132,116	1,967.3	2,752.5	377.3	1,036.5	1,413.8
Canada	1,996	7,240	96.7	290.7	8.3	77.3	85.6
USA	9,990	67,370	607.7	3,180.7	52.2	408.3	460.5
Total N. America	11,986	74,610	704.4	3,471.4	60.5	485.6	546.1
South America	23,250	23,091	111.0	432.4	292.0	28.0	320.0
Rest of the World	66,895	53,509	1,172.0	1,677.0	128.0	161.0	289.0
Total World	217,950	461,193	7,309.8	14,406.0	2,272.1	3,790.0	6,062.1
EC as % of Total	10.6	24.6	23.8	36.0	43.1	39.9	41.1
USA as % of Total	5.0	15.0	8.0	22.0	2.0	11.0	8.0

TABLE 2**U.K. YEAR END WHOLESALE QUOTA POSITION SINCE 1984**

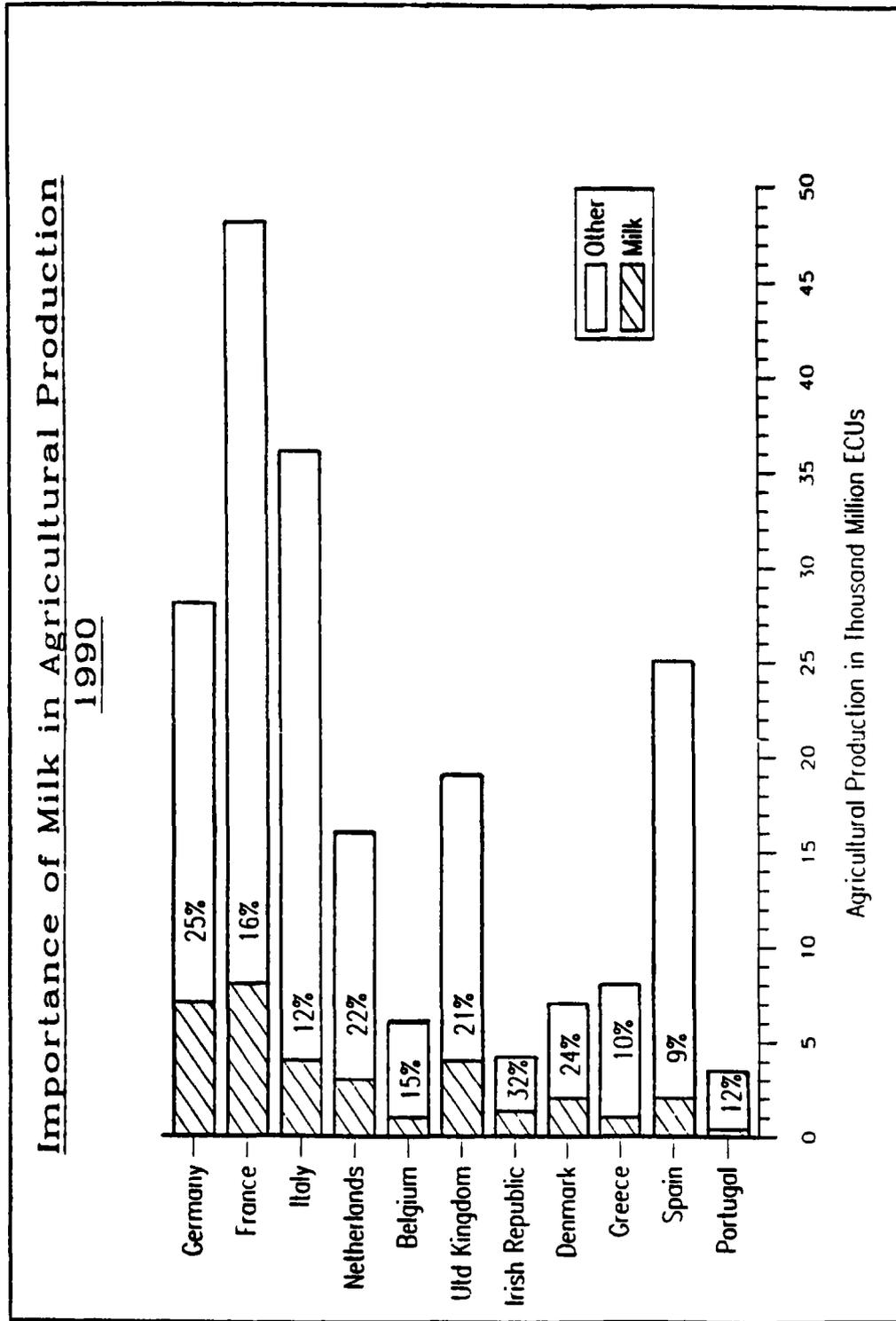
Year	Above or Below Quota	Levy	Threshold
84/85	Below	No Levy	-
85/86	Above	0.14 ppl	-
86/87	Above	3.49 ppl	-
87/88	Above	19.08 ppl	+7.97%
88/89	Above	19.64 ppl	+3.61%
89/90	Below	No Levy	-
90/91	Above	24.07 ppl	+5.71%
91/92	Below	No Levy	-

TABLE 3**MILK PRODUCTION IN THE UNITED KINGDOM**

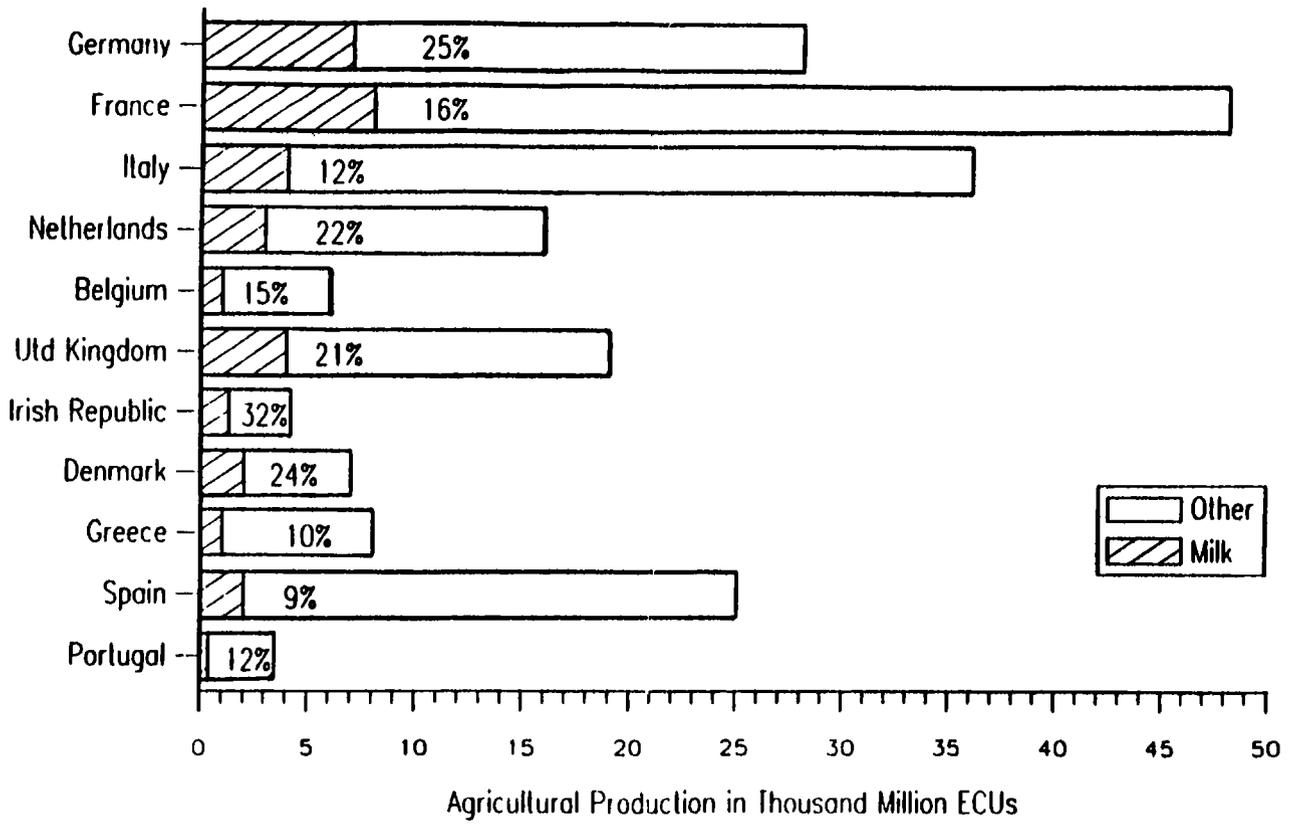
	1983	1990	% change
Dairy cows ('000)	3,368	2,869	- 15
Yield per cow (litres/year)	4,968	5,148	+ 4
Milk output:			
- (m litres)	16,729	14,771	- 12
- (£m current prices)	2,497	2,804	+ 12
- (£m 1990 prices)	3,727	2,804	- 25
Manufacture ('000 tonnes):			
- butter	241	142	- 41
- skimmed milk powder	324	170	- 48

Source: Ministry of Agriculture, Fisheries & Food (MAFF) annual publications: Agriculture in the United Kingdom, Annual Review of Agriculture and Milk Marketing Board (MMB) annual publication: UK Dairy Facts and Figures.

FIGURE 1



Source: European Facts & Figures.



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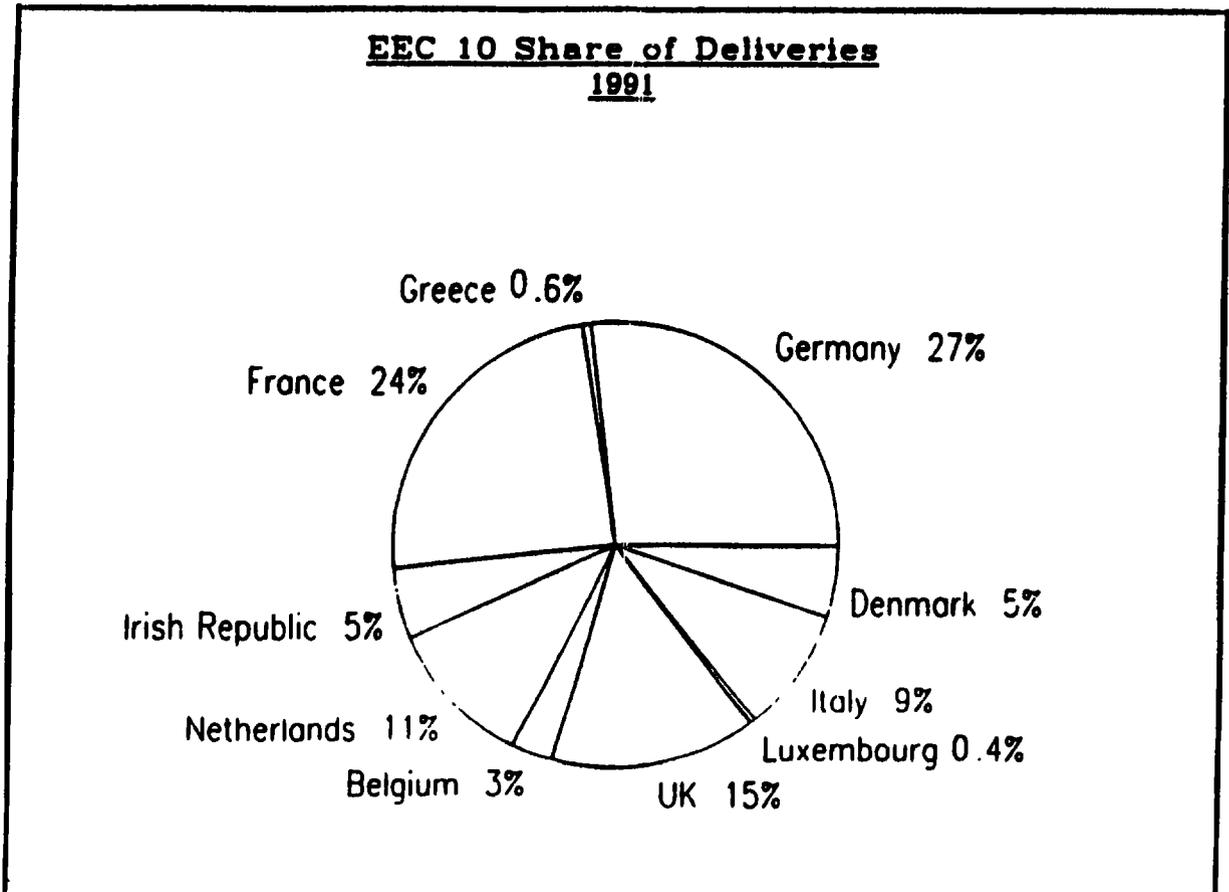


FIGURE 3

