CAP development and milk quota

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2003 Milk reform: Stock taking: basis for dairy report

- Effects of WTO proposals
- Health check (quotas and market instruments)
- Conclusions
2003 reform

- Objectives in terms of market management
  - Production of dairy products to be market driven rather than subsidy driven. Increased competitiveness would stimulate such a trend

- Tools
  - Gradual reduction of public market support (intervention, disposal aids for butter and SMP and export refunds)
  - Compensation for milk producers (gradually increased totally decoupled no later than 2007)
Stock taking (1)

- Measures taken so far
  - Intervention price down 25% for butter and 15% for SMP
  - Butter intervention at guaranteed prices limited to 30,000 tonnes
  - Reduction of disposal aid for butter from 79€/100 kg in 2003/04 to 0 € in 2007
  - Reduction of disposal aid for SMP in animal feed from 61 €/100 kg SMP in 2003/04 to 0 in 2006
  - Reduction of disposal aid for casein production from 6,3 €/100 kg skimmed milk in 2003/04 to 0 in 2006
Stock taking (2)

- Reduction of refunds from 2003/04 to 2007
  - From 178 €/100 kg to 0 for butter
  - From 57 €/100 kg to 0 for SMP
  - From 98 €/100 kg to 0 for WMP
  - From 105 €/100 kg to 0 for Cheese
- Dairy premium of 3,55 cents/kg; Decoupled
- Modulation of 5% in 2007
- Increase of quotas in 11 member states by 1%
- Reduction of super levy from 35,63€/100kg in 2003/04 to 27,83 €/100kg in 2007/08
- Remaining: Increase of dairy quota by 0.5% in 2008/09 in 11 Member states
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Assumption: 1€ = 1.25 $ (from 2006 to 2014)

**BUTTER**

**EU Dairy Policy Evolution - CAP Reform**

1€ = 1.25 $ (from 2006 to 2014) - OECD

Price in EUR/Tonne

- Import Duty / US Proposal 2005 (-90%) in EUR/T
- World price (OECD 2005 Outlook) in EUR/T
- World Price + remaining Import Duty (EUR/T) / EU Proposal 2005 (-50%) in EUR/T
- Internal price (EUR/T)
- Effective proposed Intervention price - in EUR/T

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Health check

- General objective: adjustments, no revolution (reform)
  - Check on general provisions like cross compliance, modulation and decoupling
  - Check on sectorial provisions, e.g. dairy
  - Check on further simplification

- Adjustments if the current CAP is not functioning as it should
Dairy check: outlook report

- Part of the 2003-reform agreement
- “...no additional general quota increase in 2007 and 2008 is decided now. The Commission will present a market outlook report once the dairy reform is fully implemented on the basis of which a decision will be taken.”
Dairy check: quotas (1)

- **Background**
  - Community limit on expenditure via production limits
  - National protection of production, structure and income

- **Implementation**
  - Community (framework rules, levy system)
  - National (quota trade/transfer, priority groups, etc.
    (Large degree of subsidiarity and differences in production conditions between MS )
Quota Mobility System
OUTCOME RESTRUCTURING

Index of NUMBER of PRODUCERS (1995/96 = 1)
Dairy check: quotas(2)

- **Reasons for quota:**
  - **Protection of national production?**
    - Production in the EU is decreasing since some member states do not fill their quotas (UK, SW, HU,...)
  - **Protection of national production structures?**
    - Quotas did not prevent the number of dairy farmers from decreasing year by year.
  - **Protection of income for dairy farmers?**
    - All active dairy farmers have to pay to acquire quota or, in member states that do not have a quota trading system, farmers have to wait until other colleagues stop farming.
    - There is income support via the decoupled payment
  - **Protection of EU Budget?**
    - Almost the complete budget consists of direct payments, that have a ceiling via financial discipline
    - 2007 budget direct payments: 37 billion, market support: 5.7 billion of which 600 million for dairy.
Dairy check: quotas (3)

- Disadvantages bigger than advantages:
  - Distortion of competition as member states use different quota mobility systems, leading to different production circumstances
  - Restricts restructuring in milk production and processing, despite the fast reduction of the number of farmers.
  - Restricts production with no or little room for expansion to meet new market opportunities, while protein production hardly covers EU needs
  - A long decision process involving the EU Commission, European parliament, and 27 Ministers of Agriculture to change the quota levels.
  - High costs for young farmers deterring them from entering in the sector.
  - Logic of quota and 2003 reform do not go hand in hand
Dairy check: quotas(3)

- Quota system expires in 2015 “Soft landing”, i.e. in a transitional period increased flexibility and increasing disappearance of restrictions
  - Increase of quota
  - Lower super levy
  - Combination, frontloading, back loading
  - Other
  - Budgetary neutral or positive
- De-capitalisation of quotas
  - No reduction of quotas
  - No buy out of quotas
Dairy check: market support measures

- Further adjustments needed
  - Are they relevant/justified in a sector where the stakeholders are increasingly expected to take on own responsibility with regard to production.
  - Are they relevant/justified in a situation where the limit on production of milk may be gradually disappearing
    - Should intervention continue and, if so, in which form
    - Should private storage aid continue and, if so, in which form
    - Should export refunds continue and, if so, in which form
    - Should disposal aid continue and, if so, in which form
Other business

- Failure or success of Doha round
- Increased areas of energy crops
- Variation of modulation
- Full decoupling
Conclusions

- Public intervention must have benefits for society.
- Market needs should be determined by the market and not by a public authority.
- In order not to disturb the dairy chain too much, a gradual phasing out of quota until 2015.