The Recent Reform of the EU Dairy Policy and Possible Further Changes – Implications for the Dairy Sector in the EU and the Netherlands

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Structure of presentation

- Introduction to dairy in the EU
- Quota abolition cum soft landing
- QA-impact on Dutch dairy sector
  - Evolution of milk supply
  - Interaction with manure legislation (P-surgence)
- 2018 Phosphate quota
- Concluding remarks
Background

What has been motivating the dairy policy measures applicable under the CAP?

- Initially aim was to increase supply: price support policy + variable import levies and export subsidies
- Later aim was to cope with market imbalances: milk quota cum price support (reduced surpluses, budget expenditure, and tensions with trade partners)
- More recent aim was to be able to benefit from growing world demand and be able to export: switch from price support to a safety net and quota abolition

Lessons/solutions have to be seen in the context of policy objectives
Introduction to EU dairy sector
Introduction to EU dairy sector

- EU dairy sector quite diverse across the Member States
  - in terms of both farm sector & processing sector
- Member State milk prices span a wide range
  - 25 to 40 cent/kg in 2014
- Member State production costs differ
  - And of course costs differ within member states also
- Strong variations in Member State average farm size
  - between 3 and 141 dairy cows
Introduction to EU dairy sector
Introduction to EU dairy sector

- 70% of EU milk production is concentrated in Dairy Belt
- Dairy Belt produces 80% of the expected milk production increase in period 2016-2026
Introduction to EU dairy sector

- 91% of milk production is delivered for processing
  - But share is much lower in parts of Eastern Europe
- Specialised dairy products vs generic commodities
  - High value added and lower value added dairy products
  - e.g. specialist cheeses vs commodity butter
- EU15 modern, larger, more efficient milk processing facilities that rest of EU28
- All of these factors suggest that quota elimination would not have a uniform impact across the EU
Quota abolition and soft landing
Quota abolition & soft landing

- Scenarios

  - Luxembourg (cut in IP, increase in quota, direct payments) + WTO (over 6 years: 2009-2014, Falconer proposal)

  - Soft landing: in addition to Luxembourg + WTO: EC proposal (quota: +2% 2008, then +1% till 2013)

  - Hard Landing: in addition to Luxembourg + WTO: remove quota in 2013

EDIM project INRA-Wageningen, 2008


EuroChoice
Analytical Approach / Economic model

- Partial equilibrium model of the vertical chain
  - Milk supply: A reduced form of a dynamic model
  - Processing (14 final products)
  - Final demand (EU, subsidised or not, exports, public intervention)

- Hedonic model (fat, protein)

- Spatial model (18 regions in EU25, Oceania, 4 importing zones).

- Transportation costs: competition Oceania – EU

- Multi-periodic: trends in demand (estimated), trends in supply (estimated)

- Calibrated with 2000 data/econometrically estimated

Analytical Approach / Economic model

- Quota rents: based on estimated long-run marginal costs
- Difficulty to assess under-production; overproduction

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Jongeneel & Tonini (2009) Agrarwirtschaft
Evolution of EU milk production

- In period 2008-2018 (2005-2015) milk supply increase about 14% (10%)
- (Autonomous) yield increase was 20% (17%)
- Herd change was -6% (-7%)
- Estimated net quota abolition impact on milk supply (+4% - +8%; MS+/-)

EU-28 milk production and dairy cow herd

EU Commission (2017) Medium term market outlook
Impact on The Netherlands
Evolution of milk and feed prices
Farm structure, size, and dairy herd

Financial indicators
Environment: manure, phosphate


Samsom, Gardebroek, Jongeneel (2017)

ERAE
Environment: ammonia  (dairy cows + young stock)

Bron: Emissieregistratie.nl, bewerking Wageningen Economic Research.

Reijs et al (2017) SDC Initiative
QA impact on Dutch agriculture: milk supply

- Estimated Dutch milk supply (made in 2016)

+30%

Growth dairy herd (from 2018 and onward) 0.25% p.a.
Growth milk yield about 1.1% p.a.

Phosphate Reduction Measures

Phosphate quota

Concluding remarks
Concluding remarks

- EU dairy system is heterogeneous (feed-based vs grass-based; specialized vs mixed)
- Milk production is concentrated in the North of the EU
- The soft landing approach has been successful in smoothing the transition and limiting its budget costs
- Quota abolition and the switch from a support price to a safety net system have strengthened the EU’s export of dairy products to 3rd markets
Concluding remarks

- **Drawbacks are:**
  - Price volatility has increased
  - Regional production reallocation
  - QA implies that now other constraints are limiting production

- **Impact on the Netherlands**
  - Strong expansion of milk production and dairy herd
  - Increase in manure (N, P) production
  - Policy uncertainty and lack of clear regulatory framework
  - Painful adjustments (dairy herd size reduction in 2017) and implementation of phosphate-quota (in 2018)
Concluding remarks

What potential lessons for Israel?

- The dairy sector can survive Quota Abolition, but it might imply strong structural adjustments and a different size.
- Israeli dairy sector operates in a high costs-context and is not likely to be competitive w.r.t. world market players.
- Israel’s policy objective is not to export to third countries and to strongly expand production, but ...
- ...rather to ensure a sufficient degree of self-sufficiency.
- Then a flexible quota-policy seems an adequate instrument, when appropriately targeted at the demand (avoid surplus), and ensuring efficiency in production (allow tradability within/over groups).

If you change ... A soft landing policy might work.
Thank you!

Questions / discussion

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