



Brussels,  
AGRI G.2/BT D(2008)

## NOTE TO THE FILE

**Subject: Supplementary analysis on the impact of the Health check proposal for phasing out milk quotas**

The aim of this note is to provide an update of the supplementary analysis for phasing out milk quotas presented in Chapter 6 of the CAP Health Check - Impact Assessment Note N° 6<sup>1</sup>. The present analysis is based on the gradual increase in EU milk production quotas as communicated in the legislative proposal of the CAP Health Check, ie. an annual increase in milk quotas by 1% from 2009 until 2013, providing for a cumulative increase of 5% (compared to +4% of the original supplementary analysis in Note N° 6, page 17).

The supplementary quantitative analysis was carried out by DG AGRI with the OECD/AGLINK model in order to incorporate a number of factors that were not considered in the IDEI study, most importantly the Commission proposal for a 2% quota increase in 2008 as well as the EU and world market price developments of 2007-2008 and the increasing rate of quota under-fulfilment in the EU that has been observed over the 2005-2007 period.

The basis of the complementary analysis is the recently published DG AGRI baseline<sup>2</sup> that was adjusted to take account of the 2% quota increase in 2008 and used as the reference scenario (Baseline), against which the impact of the Health Check proposal on phasing out milk quotas has been measured (HC Scenario).

Results in table 1 indicate that by the end of the phasing-out period (2014) milk production would increase by 2.4% and the price decline by 5.1% below the baseline level. With respect to present price levels, however, the milk price remains fairly stable during the phasing-out period, declining by only 1% from its 2008 level. Quota expiry in 2015 would lead to a further production increase of 1.0% and a price drop of 1.9% compared to their 2014 levels.

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<sup>1</sup> [http://ec.europa.eu/agriculture/healthcheck/ia\\_annex/d2\\_en.pdf](http://ec.europa.eu/agriculture/healthcheck/ia_annex/d2_en.pdf)

<sup>2</sup> ["Prospects for agricultural markets and income in the European Union 2007-2014"](#) (04/2008)

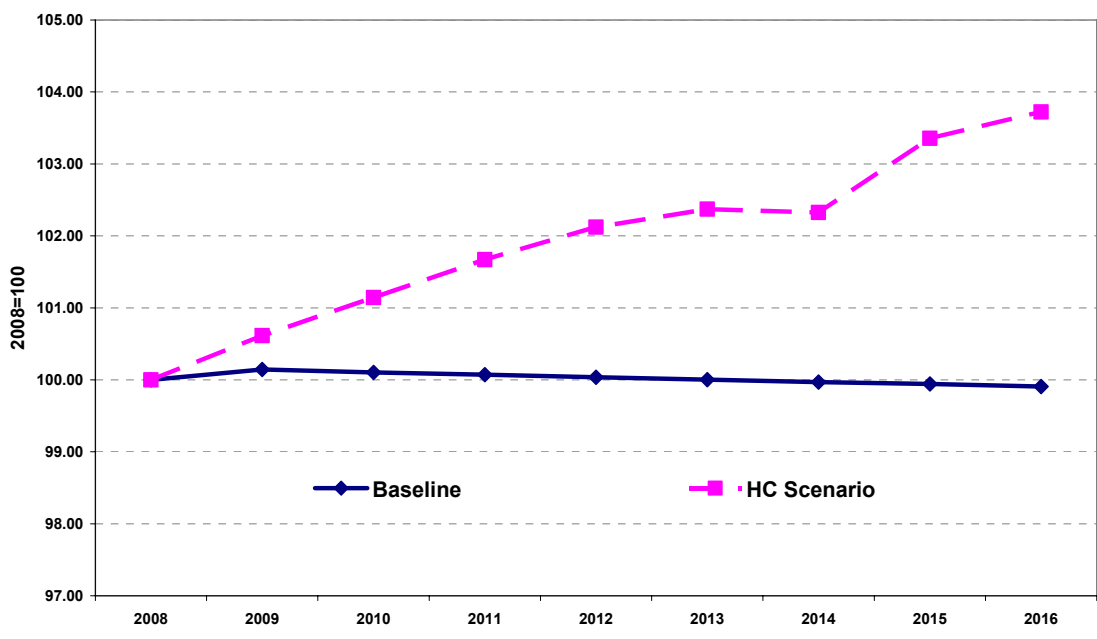
Regarding processed commodities, the production of higher value added products exceeds baseline levels, responding to both domestic as well as external demand growth. As for bulk commodities, by 2014 and compared to the baseline, SMP production increases by 6%, but butter production grows only slightly by 0.5%. For both products EU prices remain above intervention level throughout the phasing-out period.

*Table 1. – The impact on the EU dairy market by the end of the phasing-out period*

Situation in 2014 compared to the baseline					
	Price	Production	Consumption	Exports	Imports
<b>Milk</b>	-5.1%	+2.4%			
<b>Cheese</b>	-3.4%	+2.9%	+2.1%	+14.6%	0.0%
<b>SMP</b>	-6.9%	+6.0%	+4.7%	+28.5%	0.0%
<b>Butter</b>	-0.8%	+0.5%	+0.1%	+13.9%	0.0%
<b>Fresh</b>		+1.7%			

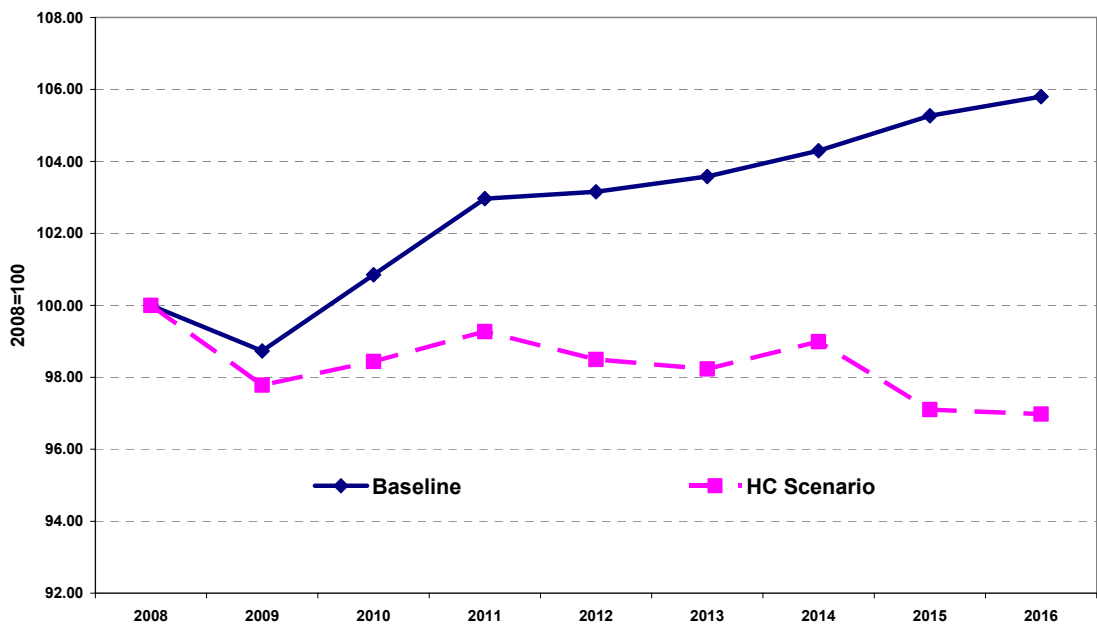
*Source: DG AGRI simulation based on OECD/AGLINK model.*

Figure 1: Milk production: change from 2008



Source: DG AGRI simulation based on OECD/AGLINK model.

Figure 2: Milk price: change from 2008



Source: DG AGRI simulation based on OECD/AGLINK model.