IMPACT ASSESSMENT OF THE HEALTH CHECK PROPOSAL FOR A GRADUAL PHASING-OUT OF MILK QUOTAS

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Structure of the presentation

- Objectives and analytical approach
- Key results of the HC impact assessment
  - Baseline scenario
  - Long-term impact
  - Medium-term impact
- Assessment of results
Objectives and analytical approach 1/3

- **Objective**
  - To assess the medium and long-term impacts of the phasing-out of milk quotas as proposed in the Health Check of the CAP reform on
    - Milk producers
    - EU dairy commodity markets
    - World dairy commodity markets

- **Analytical approach**
  - Based on a DG AGRI version of the AGLINK model of the OECD:
    - A partial equilibrium model, recursive, dynamic
    - With a broad commodity, country and policy instrument coverage
    - Traditionally used for market and policy analysis in DG AGRI and the OECD Secretariat
Objectives and analytical approach 2/3

- Complementary to the study carried out by *Institut d'economie industrielle* using the EDIM model which allowed the provision of:
  - An external, independent assessment of policy changes
  - An analysis at Member State level
  - An assessment of quota rents (main factor driving Member State adjustment to quota abolition)

- Allows to take account of:
  - A model better suited for at aggregate EU & world levels
  - The latest market developments
  - The new policy environment
Objectives and analytical approach 3/3

- Both analyses provide similar and consistent results, though with differing order of magnitude (for baseline scenarios and gradual phasing-out of quotas)

- Three main areas of differences in the baseline scenarios

  - AGLINK takes account of 2% quota increase in 2008 and price hike of 2007

  - Medium-term developments in milk production and prices where EDIM provides for a slightly more bullish perspective for production

  - More favourable medium-term perspectives for high value added dairy products in the AGLINK model (with a stronger drop in butter consumption and production, greater use of dairy fat and protein for production of cheese and fresh dairy products)
Results of the impact assessment of HC proposals - baseline scenario

- The medium-term perspectives for the dairy sector are favourable thanks to:

  - Growth in domestic demand for cheese (+10% over 2007-2014) and other value-added dairy products; similar picture on the external side
  - Decrease in production of residual bulk dairy products such as butter (-9%) and SMP (-11%)
  - On the supply side, EU milk production remain constrained by the quota system and milk deliveries show only modest progress (4.4 mio t or 3.3%)
  - The markets of bulk dairy products to remain balanced and milk price to rise
  - The increasing use of milk for the production of cheese and other high value-added dairy products for the domestic market limits availabilities for exports (-68% butter, -74% SMP and -5% cheese)
Results of the impact assessment of HC proposals - long-term impact (by 2016)

- By 2016, milk production would increase by 3.8% against baseline scenario (i.e. 3.7% against 2008); milk prices would drop by 8.3% against baseline scenario (i.e. 3% against 2008)

- A large part of the additional milk produced would be processed into cheese and fresh dairy products for around 2/3

- Around one-third of additional milk production would be exported on world markets

- The prospects for the butter market are not significantly different from the baseline scenario with a declining production and consumption pattern, but with an increase in export volumes (+19.5% by 2016 against baseline scenario)
Long-term impact of the HC proposal (versus baseline in 2016)

**MILK**
- Production: 3.8%
- EU price: -8.3%
- Export: +25%

**SMP**
- Production: 10.2%
- EU price: -11.4%
- WLD price: -1.4%
- Export: +51.2%

**BUTTER**
- Production: 0.9%
- EU price: -1.3%
- WLD price: -0.4%
- Export: +19.5%

**CHEESE**
- Production: 4.8%
- EU price: -5.6%
- WLD price: -2.9%
- Export: +25%
Long-term impact of HC proposal on milk price and production (versus 2006)
Impact of HC proposal on butter price and production (in % versus baseline)
Impact of HC proposal on SMP price and production (in % versus baseline)
Impact of HC proposal on cheese price and production (in % versus baseline)
Assessment of the results - how to interpret EU milk additional demand?

- Growing internal demand (for value-added dairy commodities) is estimated between 2007-2014 at 6 mio t in the Commission Market Outlook Report and is projected at 7.5 mio t in the revised baseline exercise.

- In the baseline, this growth in demand would be satisfied by:
  - The projected increase in milk deliveries (4.7 mio t) driven by the 2% increase in milk quota in 2008.
  - The decrease in EU exports and the decline in the production of bulk dairy products (butter, SMP and WMP).

- In the HC proposal scenario, the growth in demand would increase at 9.3 mio t and would be satisfied by:
  - Further increase in milk deliveries of 3.4 mio t (in addition to 4.7 mio t in the baseline) and the decline in production and exports of bulk dairy products (butter, SMP and WMP).
Change in milk used for consumption* and exports from 2007 to 2014 (in whole milk equivalent)

* consumption from domestic production only (ie. total consumption minus imports)