

Development of Milk Production in the EU after the End of Milk Quotas



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Main observations

The EU is the second largest milk producer at global level. Over time, the EU dairy sector has experienced some changes in its policy framework, the most notable being the abolition of the milk quota system in April 2015.

Despite the important contribution of dairy farming to EU agricultural production, the sector is facing several economic, environmental and social challenges (e.g. farm income and price volatility, climate policy targets, nutrient surpluses, rising farmer age profile, generational renewal, and long farming work days) which are expected to continue in the coming years. Among these challenges, the most significant are those relating to the environment, as they are seen to have consequences for all of society, whereas the consequences arising from economic and social challenges are more specific to the farming community.

The study

objective is to evaluate current challenges and opportunities for the EU dairy sector after the abolition of EU milk quotas.

Climate change and related policies such as national/EU greenhouse gas (GHG) emission reduction targets, together with a wider range of environmental policy initiatives, e.g. Farm to Fork, Biodiversity Strategy, etc., could impose further constraints on the development of the dairy sector.

Environmental concerns (e.g. reducing nutrient surpluses and ammonia emissions) are growing, as **water quality and biodiversity** are under pressure in various EU regions where dairy farming is prevalent.

Ensuring **sustainable and sufficient farm income** is a key issue, since currently many EU dairy farmers are quite dependent on farm income support from the Common Agricultural Policy (CAP). This picture is not uniform across Member States (MS), with high levels of dairy farm profitability observed in some parts of the EU.

Dairy farms in **disadvantaged regions** of the EU are more likely to be small, with higher production costs, and therefore, more vulnerable during periods characterised by low milk prices.

Output price and input price volatility, as well as **labour availability and generational renewal** also bring additional uncertainty for the future of EU dairy farming.

The convergence in EU and world dairy prices evident in recent years has opened up more export opportunities for the EU dairy sector and created some of the impetus for the removal of the EU milk quota system.



However, as a result of this price convergence, the **volatility** that is a characteristic of **world dairy commodity prices is now also a feature** of EU dairy commodity prices and in turn EU farm milk prices. Uncertainties about future EU dairy export **demand** associated with significant net importers such as China, could also play an important role in shaping market prospects for EU dairy product exports.



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Alternative future pathways for the EU Dairy Sector

Pathway A	Pathway B
<p>Production</p> <p><i>Due to the pressures of environmental policy EU milk production growth slows down, stabilises or even contracts</i></p>	<p>Production</p> <p><i>Due to the pressures of environmental policy EU milk production growth slows down, stabilises or even contracts</i></p>
<p>Consumption</p> <p><i>EU dairy consumption growth similarly slows down, stabilises or contracts. These changes in EU milk production and EU dairy consumption tend to offset each other. EU dairy product prices are likely to show limited changes, as EU supply and demand move in parallel</i></p>	<p>Consumption</p> <p><i>EU dairy consumption growth continues and outpaces developments in EU milk production. This remains so even though there may be some negative impact on consumption because of price increases for dairy products at EU markets</i></p>
<p>Trade</p> <p><i>The EU continues to have an exportable dairy surplus. The level of EU dairy exports is maintained. Imports of dairy products into the EU continue at a low level. There is no material change in the EU's net exports of dairy products</i></p>	<p>Trade</p> <p><i>Dairy processors need to consider whether the returns from milk used for dairy exports exceed the returns from milk used for consumption on the domestic EU market. Export of high value added dairy products continues. Exports of lower value added dairy products fall due to reduced production. Imports of lower value added products into the EU increase to satisfy a deficit in lower value added products on the EU dairy market. EU net exports of dairy products contract</i></p>

Source: Project Team

Conclusions and policy recommendations

This study has identified a number of **policy challenges for EU dairy farming**, among them, climate, environment, price volatility, labour availability and generational renewal.

Policy measures such as insurance schemes from the risk management toolkit, cooperatives or producer organisations, direct payments, including coupled support for sustainability and income averaging for taxation purposes **could assist farmers to better cope with milk price volatility.**

Farmers should have **access** to user-friendly and informative Fam Nutrient and Emission Management (**FNEM**) **tools**. Better **financial incentives to adopt emission GHG and ammonia reducing technologies** and management actions are also recommended. More **support** should be given **for technological solutions** which could reduce the labour requirement on dairy farms, thereby delaying dairy farm exits.

Dairy farmers in disadvantaged regions should be included as part of the wider **stakeholder group consulted in the course of policy development**. Farmer representative organisations should convey the extent of the challenges for dairy farming that exist in a regional context

Key findings

After the abolition of milk quotas in 2015, EU milk production increased in five Member States. In order to improve sustainability, EU dairy farmers should be provided with nutrient management tools helping them to reduce manure-related nutrient surpluses. Policy incentives for dairy farmers to reduce GHG emissions from dairy farming should be strengthened. Market-based incentive payments provided by dairy processors could help to improve the carbon footprint of dairy products. CAP support payments and risk management tools are important to better cope with the high price volatility in margins. Milk production in disadvantaged regions encounters particular obstacles, justifying a targeted policy approach.

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