

Research for AGRI Committee – Development of milk production in the EU after the end of milk quotas



This study provides an overview of EU27 milk production prior to and following the abolition of milk quota in 2015, which marked the ending of a significant constraint on the development of the EU milk sector, permitting market forces to replace a supply constraint as a driving factor of milk supply. It takes into account, where possible, the changes observed at Member State (MS) level.

EU dairy production increased considerably over the last 20 years, partly driven by EU expansion and

more recently by the elimination of the EU milk quota system. These market developments took place in a context of declining cow numbers, rising milk yields per cow, a reduced number of dairy farms and a larger average dairy farm size.

The abolition of milk quotas in April 2015, together with various CAP reforms have made the EU dairy sector more internationally competitive, both at farm and industry level, and have contributed to the growth of EU dairy product exports to the world market. However, this has also resulted in a more direct price transmission between world and EU dairy product markets, resulting in increased volatility in terms of both milk prices and farm incomes, to varying degrees across EU MS.

The present document is the executive summary on the study requested by the Committee on Agriculture and Rural Development on *Development of milk production in the EU after the end of milk quotas*.

The full study, which is available in English, can be downloaded at: <https://bit.ly/3QBNOEO>

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Key findings

The dynamics of the EU milk sector since the abolition of the quota regime

- At MS level, growth in milk production has been widespread, particularly so in a few MS, but on the other hand milk production has remained static or declined in several MS. These developments largely reflect the competitiveness of the dairy sector in the respective MS.
- The EU dairy sector remains heterogeneous given the varied production systems, product focus, climatic conditions and farm scales. The most competitive Member States (MS) are Belgium, Denmark, Luxembourg, Ireland and the Netherlands.
- The sector underwent a number of structural changes, including a very large reduction in the number of dairy farms, a general increase in the average dairy farm size (but a relatively small change in the total dairy land area) and a long-term decline in dairy cow numbers and offsetting increase in dairy cow yields.

Milk price evolution, volatility and competitiveness after 2015

- Dairy commodity price volatility is a feature of the global dairy market and the EU dairy market. Milk price volatility varies considerably across the EU MS, with implications for the level of income price volatility experienced by dairy farmers in the various MS.
- EU farmers' milk supply responses seem to be more price inelastic in the post-quota period.
- Typically, MS with a greater export orientation have more volatile farm milk prices.
- Rapid growth in global dairy demand has led to a convergence of EU and world market prices, strengthening the outward orientation of the EU dairy processing industry. This convergence is due to increases in world market prices.

Prospects and challenges of the EU milk sector

- Environmental policy, enacted at either EU or MS level, is exerting an increasing influence over the EU dairy sector, with greater pressures on the dairy sector already emerging in a number of MS, regarding notably nutrient and greenhouse gases (GHG) emissions.
- Dairy farms in disadvantaged regions face additional sustainability challenges which need to be taken into consideration by policy makers.
- Generational renewal is particularly important in dairy farming, as the average age of dairy farmers continues to increase while the labour intensive nature of dairy farming makes it unattractive to young farmers.
- As price takers, dairy farmers occupy a vulnerable position in the dairy supply chain and must grapple with high levels of milk price and input price volatility. The challenges faced by dairy farmers are compounded by the lag in the transmission of prices along the dairy chain.

Policy interventions after the quota abolition

- EU dairy policy contains a rich framework of policy instruments, including market measures, farm income support and safety net provisions, which benefit EU dairy farmers and strengthen the sustainability and resilience of EU agriculture, including the dairy sector. Through the newly introduced National Strategic Plans, MS can further tailor policies to their MS needs. Additional consideration of instruments which could assist farmers in dealing with income volatility is required.
- Despite increased competitiveness, the reliance of net dairy farm income on EU income support payments is still substantial (close to 40% on average with differences across MS), signalling the importance of such income support policies.

Key recommendations

- The various challenges facing the dairy sector (e.g. price volatility, environmental and climate goals and generational renewal) require an adequate policy framework.
- Consideration should be given to mechanisms that incentivise or reward individual farmers for individual efforts made to reduce their farms greenhouse gases (GHG) emissions.
- Incentivising a reduction in GHG emissions through the adoption of mitigation technologies would be preferable to reducing emissions by cutting milk production. A potential policy tool to deliver a reduction in dairy sector GHG emissions would be to initially grant farmers a quantity of emissions rights, which would then gradually be reduced year by year. A market would then be created to access emissions rights, placing a carbon price on these emissions. In theory, placing a price on the GHG emissions produced by the farm would incentivise the dairy farmer to adopt emission reduction technologies, if doing so is cheaper than the cost of buying emissions rights. Detailed estimation of GHGs produced by the dairy sector is required alongside detail on mitigation technologies adopted.
- Dairy processors must be made fully aware of the importance of monitoring the total amount of emissions generated by their milk suppliers rather than focusing solely on the carbon footprint of the milk produced.
- For carbon accounting reasons, the contribution dairy farmers can make to fossil fuel displacement does not reduce their farm's agricultural emissions. This accounting approach is unhelpful in incentivising dairy farmer action on renewable energy production.
- More support should be given for technological solutions that could reduce the labour requirement on dairy farms thereby delaying dairy farm exits (allowing older dairy farmers to remain in dairy farming where a successor is absent) and increasing the attractiveness of dairy farming for the younger generation, making generational renewal more likely.
- The promotion of organic dairy farming over conventional dairy production needs careful consideration. Some conventional dairy systems may deliver environmental benefits that are near equivalent to organic farming, with fewer of the challenges associated with organic farming (such as the sourcing of organic feed, the cost of organic certification).
- EU dairy policy contains a rich framework of policy instruments, including market measures, farm income support and safety net provisions, which benefit EU dairy farmers and strengthen the sustainability and resilience of EU agriculture, including the dairy sector.
- Fixed milk price contracts are a policy tool to help address milk price volatility and provide farmers with greater milk price certainty. Evidence from Ireland suggests that the tool has merit but is not without its flaws. Consideration should be given to a wider take up of this risk management tool across the EU dairy sector.

Further information

This executive summary is available in the following languages: English, French, German, Italian and Spanish. The study, which is available in English, and the summaries can be downloaded at: <https://bit.ly/3QBNOEO>

More information on Policy Department research for AGRI: <https://research4committees.blog/agri/>

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