"EU dairy policy in a smaller world"

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January 30, 2014

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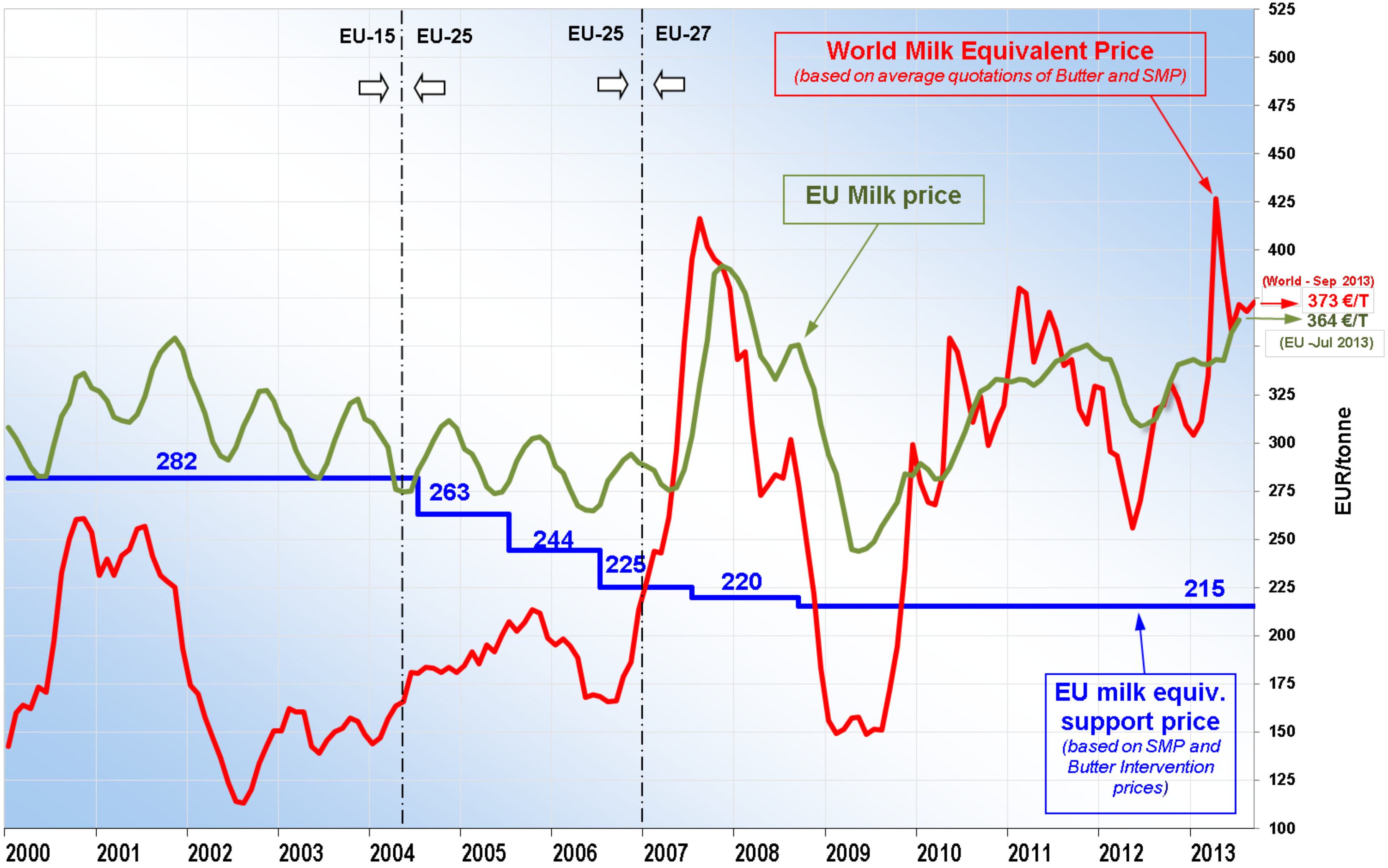
EU Dairy Overview

- **Remains one of the most protected EU sectors**
  - Price supports, intervention purchases, production quotas, TRQs, domestic consumption and export subsidies
- **A major player in world dairy markets**
  - 21% of production (152 million tonnes per year)
  - 27% of exports
  - 14% of imports
- **CAP reform fine-tunes dairy policy**
  - Gradual increase towards 2015 elimination of production quotas
  - Limiting intervention purchases & lower support prices
  - Decoupling compensatory payments

EU Intervention Purchase Reform



Reform of support prices: 24% reduction in intervention prices
Export Restitutions: intervention price reform means less reliance on export subsidies

Soft landing for quota elimination

- Production quotas introduced in 1984 to limit surpluses
- 2008 *Health Check* phases quotas out by April 2015 with annual 1% increases in volumes
- Current comparisons of quota rents:
  - EU wide quota rents are 16% of producer prices (Kempen *et al.* 2011)
  - Canadian quota rents are 40% of producer prices (Rude & An 2013)
- Implications
  - few member countries have binding quotas (e.g. Ireland and Germany)
  - Elimination results in a 4.4% increase in production
  - Producer prices 10% lower (Kempen *et al.* 2011)
  - overall impacts: accelerated structural change, regional shifts in milk supply, beneficial for expanding farmers and processors

Compensation for reform: SFP

- Initial support price reductions partially off-set with compensatory payments …but in 2003 these payments were mostly converted into a *Single Farm Payment (SFP)*
  - Direct whole farm payments independent of current production.
  - Some member states only converted a portion of the compensatory payments to SFPs
- 2014 CAP reforms make modest changes to SFP: movement between pillars with some backsliding on coupled payments; more national responsibility; and regional re-distribution of payments
- Bottom line the reforms should not impact dairy production or trade. The greening requirements could have an impact on larger intensive dairy farms in northern Europe:
  - 30% of SFP conditional on crop diversification, permanent pastures and 3% → 7% of land set aside for ecological purposes

Canada – EU Trade Agreement

- CETA affects the dairy sector
  - Canadian tariff rate quota for EU (specialty) cheese will be increased from 13,000 to 29,000 tonnes
    - This is a minimal increase in market access (3% of domestic consumption) … with a differentiated product that is more likely to spur demand than displace existing domestic production
    - Preliminary back of envelope assessment indicates an almost imperceptible impact on quota values (<1% reduction)
    - May create a precedent to trade-off import protection for export interests in future regional trade agreements **but** the impact is likely small with incremental access through managed trade

Drivers for change in Canadian dairy policy

- **EU Policy Reform**

➢ Intervention prices reduced to make products competitive on international markets

➢ Compensation with direct payments

➢ Ease marketing rules (allow casein in cheese production)

- **US Policy Reform**

❖ Instead of floor prices focus shifts to profit margin insurance

❖ ??? Market stabilization through supply controls?

– Implications for Canada: little if any

– Pressures from within:

  – Saputo ($7 B annual revenues) purchases off-shore capacity (Warrnambool) to satisfy growing Asian demand (OECD projects 2%/year growth). Are their deep pockets a result of capturing domestic economic rents? Are domestic producers forgoing these markets? At what cost?