Mandatory Supply Management: A Dairy Policy Option

The European Community's Milk Quota System

BY BERNARD F. STANTON
Cornell University

The ten countries of the EC, excluding Spain and Portugal who have just joined, constitute the world's largest producing and consuming block for milk and dairy products. With 280 million consumers and 25 million cows, the EC is the dominant force in world markets for dairy products.

The size and importance of the dairy sector in the EC is hard for most Americans to appreciate. It accounts for 20 percent of the value of agricultural production in the Community and affects more farmers, 1.6 million, than any other product. Because milk production consistently outpaced consumption between 1975 and 1984, the EC adopted a mandatory quota program in 1984 to curtail what had become the largest dairy surplus in the world.

Conditions Leading to the EC Quota Program

The adoption of a mandatory quota system for milk production in EC-10 on April 2, 1984, occurred because earlier, less stringent efforts to bring supply into balance with demand had failed. Between 1973 and 75, supply was roughly in balance with domestic consumption plus exports at 80 to 83 million metric tons.

By 1983, production had climbed to nearly 104 million metric tons, about 213 billion pounds, while consumption and exports together remained relatively constant at 82 million metric tons.

A surplus approaching 20 percent of production resulted.

The EC Commission's first new initiatives to balance supply with demand began in 1977 with enactment of a producer coresponsibility levy. A flat rate deduction of 2.5 percent of the target price from all producers' milk deliveries to dairies was used to help pay for disposal and promotional programs.

In 1979, 1980, and 1981, the Commission proposed a super-levy to be applied to milk delivered in excess of defined base quantities, but none of these proposals were accepted by the Council of Ministers. Meanwhile, the size of the surplus continued to grow and the costs of the program to the Community escalated even with a 3 percent cut in guaranteed prices to producers in 1982.

The Commission in September 1983 estimated that in order to offset just the added cost likely to arise if existing guaranteed prices continued, the milk price for 1984 and 85 would have to be decreased by 12 percent. Based on much discussion, the current quota program was adopted six months later.

One reason why it was so difficult to get political support to use reductions in producers' prices to try to balance supply with demand is the structure of the dairy industry in the 10 countries of the EC, and the requirement that any change in legislation requires a unanimous vote in the Council of Ministers.

In the EC, 73 percent of all dairy farms had less than 20 cows in 1983 and accounted for nearly one-third of total production.

In the U.S., 42 percent of the farms had less than 20 cows but accounted for only 5 percent of production in 1982. Politically, small dairy producers of the EC are much more powerful; their net incomes are low and many are located in dis-advantaged areas. It is this large group of more than one million farmers with low incomes who provided the final impetus for the acceptance of a quota system.

Components of the EC Program

The Community in 1984 consisted of 10 sovereign nations, each with its own Ministry of Agriculture and its own set of government institutions.

This necessitated that guaranteed Community total quantities or base marketings be first divided among the 10 nations. Each nation was then given the responsibility to divide up the national base either directly to individual farms or to dairies receiving milk from farmers.

> According to the Commission of the EC, the basic concept was an "annual guaranteed total quantity of milk for the Community as a whole, corresponding in principle to the quantity of cows' milk delivered to dairies and other undertakings treating or processing milk in 1981 plus 1 percent."

Exceptions to this basic rule were made for Ireland and Italy, who were allowed to use 1983 marketings as their guaranteed bases. Most member states chose to base the determination of reference quantities for producers (production bases) on the 1983 calendar year adjusted downward by the appropriate percentage.

The quota system is applicable to all deliveries of cows' milk for 3 consecutive years beginning April 1, 1984.

The flat-rate coresponsibility levy was continued and increased to 3 percent for the 1984 and 85 marketing year.

A "Community reserve" was established to allow member states some latitude in solving local problems in assigning quotas and facilitating the change-over during the first two years.

Separate quota arrangements were established for producers who sold directly to consumers based on their 1981 sales plus 1 percent.

After reference quantities (quotas) were fixed for individual producers for a 12-month period, individual producers were liable for a super-levy of 75 percent of the target price for all production in excess of their respective reference quantities. When the reference quantities were fixed for dairies receiving milk, this levy was set at 100 percent of the target price for any excess marketings. Each individual country was required to enforce collection of the super-levy.

Provision was made for individual countries to establish a national reserve to provide some flexibility for special circumstances when initially allocating individual quotas.

Reference quantities granted to purchasers or producers delivering to purchasers or selling direct to consumers are not freely transferable or saleable. The only exceptions are when a farm is sold, leased or transferred by inheritance. Member states may provide that a part of the quota so transferred be added to the national reserve. Essentially, quotas go with the farm or agricultural holding and become a part of the property rights associated with it.

Individual countries have the right to allocate reference quota to producers out of their national reserves to handle special situations or to permit structural change.

Several countries offer additional voluntary programs to encourage smaller and older dairymen to cease production. While such programs differ by country, they essentially offer one or more annual payments to qualifying producers to stop milk production.

All milk delivered by producers whether as whole milk, cream or manufactured on the farm into dairy products is subject to the quota program. State farms, experimental programs, and all types of production units come under the jurisdiction of the program. If cream is separated and sold, the milk equivalent comes under the mandate of the EC program.

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