Institution: The University of Manchester

Unit of Assessment: 18 (Economics and Econometrics)

Title of case study: Phasing out the Milk Quota in the European Union

1. Summary of the impact

Research undertaken at the University of Manchester (UoM) has made an important contribution to the body of evidence that informed the decision in 2008 on non-renewal of the milk quota in the EU, and continues to inform this policy debate through research that both demonstrates the economic gains inherent in the removal of the milk quota system, alongside a thorough evaluation of different scenarios for the quota's eventual withdrawal. The insights gained from this analysis are also informing EU policy discussion on the environmental impacts of milk quota elimination.

2. Underpinning research

From a position within the heart of these debates, David Colman OBE (Professor of Agricultural Economics, UoM, 1979-2006) has played an important role in establishing the economic case for the elimination of EU milk quotas.

Context: The European Union (EU) milk quota regime was introduced in 1984 to restrict milk production levels, and control the high budgetary cost of managing EU dairy commodity surpluses. The quota system will automatically expire in 2015 unless legislation is passed to renew it. In 2008, the EU Agriculture Commissioner announced the intention not to renew the quota system beyond 2015. Nevertheless, there continues to be considerable debate within the EU about whether or not the quota system should be renewed, and if it is not to be renewed then whether to eliminate the quota with a soft or hard landing.

Research: In 1997, Colman (alongside Burton, Rigby and Franks) undertook a study for the Ministry of Agriculture, Fisheries and Food (MAFF) that highlighted the very high costs the quota regime imposed upon UK dairy farmers [E]. This initial research leads to the conclusion that it would be in the UK's interest to abolish the scheme. This analysis both informed and was extended in two journal articles [C][D]. **A key finding of this work concerned the first estimates of the very high costs more efficient producers – those wishing to expand production or newly enter production – had to pay to lease or buy additional quota**. It was estimated that the cost in 1997/8 was equivalent to 12.5% of total sales revenue, much of which was being paid to 'sofa farmers' who had quit milk production. These retired producers had not had to buy quotas initially, it was a capital right conferred for free by policy makers, but one that could be used to create an annual rental or capital sum at the cost of continuing producers. **Ultimately, these findings demonstrated that the extant quota system was placing severe restrictions on the development of the dairy industry in the UK, with research outputs strongly arguing that milk quotas should be abolished.**

On the basis of the research in [E] and an earlier version of [D], the Department of Environment, Food and Rural Affairs (DEFRA) commissioned a report on the potential costs and benefits of phasing out the milk quota system in the EU [B]. Colman was both the coordinator and the editor of this study, and an author or co-author on four of the nine chapters. Using the models developed in [C], this report demonstrated the economic benefits of milk quota elimination. Synthesising the analysis in the report, Colman (and Harvey) concluded that the total annual benefit to the EU of eliminating the milk quota system is €2.27 billion per year [Ch.9 in B]. A further important conclusion was that farmers (alongside the rest of the dairy product processing and marketing chain) were unnecessarily restricted by the milk quota system, reducing the rate at which they are innovating, adapting and expanding into new markets to meet new demands [B]. Both these findings confirmed that the economic arguments for quota elimination established in [C] and [D] for the UK applied also to the EU. These findings were subsequently revisited and confirmed in [A].

3. References to the research (all references available upon request - AUR)

The research was published in leading journals in the field, as well as within several in-depth Centre for Agricultural, Food and Resource Economics (CAFRE) reports, produced for MAFF and later DEFRA.

[A] (2004) Colman, D., Farrar, J. & Zhuang, Y. 'Economics of Milk Production: England and Wales 2002/03 – Special Studies in Agricultural Economics Farm Business Unit Report No. 58' CAFRE (January) (141pp.) (AUR)
[B] (2002) Colman, D. (ed.) 'Phasing out the EU milk Quota' DEFRA/ SEERAD/ NAWAC/ DARDNI (especially Ch. 9: Harvey, D & Colman, D. "Political Economy Assessment of Reform Options") (234pp.)(AUR)
[C] (2002) Colman, D., Burton, M, Rigby, D. & Franks, J. "Structural Change and Policy Reform in the UK Dairy Sector" *Journal of Agricultural Economics*, 53(3) 645-663 (20 citations: Google Scholar) doi: 10.1111/j.1477-9552.2002.tb00042.x
[D] (2000) Colman, D. "Inefficiencies in the UK Milk Quota System", *Food Policy* 25(1) 1-16 (42 citations: Google Scholar) doi:10.1016/S0306-9192(99)00061-5
[E] (1998) Colman, D., Burton, M, Rigby, D. & Franks, J. 'Economic Evaluation of the UK Milk Quota System: Report to MAFF', CAFRE, School of Economic Studies, UoM (98pp.)(AUR)

4. Details of the impact

Pathways: Following the submission of the 2002 report 'Phasing out the EU milk Quota', DEFRA organized a meeting in Brussels attended by around ninety key players from across the EU, to put the UK case for eliminating milk quotas to member countries. At this meeting, Colman led the team of four economists presenting the results from the 2002 report relating to the UK dairy industry. In 2003, following a debate by the European Community authorities – the European Commission (EC) and the Council of Europe (COE) – it was decided to extend milk quotas only up to 2015, (EC reg. No.1788/2003). Additionally, the findings of the 2002 report also influenced the UK government's on milk pricing and milk quota being cited in reports from the House of Commons Environment, Food and Rural Affairs Committee in both 2004 (HC 335), and 2007 (HC 546-11).

In 2006, DEFRA commissioned a follow-up report from a team of economists from Drew Associates, led by Colman. This study used the models reported in [C] to analyse the best process and scenarios for the elimination of the milk quota. The analysis fully supported the 2008 move to *"progressively increase national milk quotas before 2015 in order to reduce quota rents, permit adjustment and achieve a 'soft landing.'"* [1].

Reach and Significance: In 2008, the EU Agricultural Commissioner announced the decision that milk quotas in the EU were to be eliminated in 2015. Colman's work has thus had impact on:

(i) EU policy discourse leading up to this decision by the Commissioner
(ii) The evaluation of various scenarios for phasing out the quota
(iii) Subsequent analyses of the impact of quota elimination on land use and the environment in the EU.

Evidence of Colman's impact is provided by EU policy documents, supportive testimonials from those involved in the policy process and the frequency of references to his work and ideas in studies commissioned by the EC. For instance, in 2009, the European Parliament (Policy Department B) published a report on the reform of market regulation mechanisms in which it is stated that in reference to the 2008 decision to eliminate milk quotas: *"following the same approach as the analyses drawn up by some economists (Colman, 2002), this decision was made in consideration of the fact that milk quotas were undermining the sector's competitiveness"* [2]. The influence of Colman's analysis is also evident in a 2008 study by the European Parliament (Policy Department B) analysing possible future scenarios for milk quota as it references Colman's work [B][D][E] twelve times in its assessment of both the regional and EU wide impacts of alternative quota elimination strategies [3]. Subsequent to these reports, the EU decided in the 2008 Common Agricultural Policy (CAP) 'Health Check' to increase national quotas by 1% per annum, a 'soft

landing' that would slowly erode their value and prepare the way for the quota to expire completely in 2015.

This evidence of Colman's influence in European Parliament documents is underscored by testimony from Richard Ashworth (MEP), member of the Committee for Agriculture and Rural Development in the European Parliament, who confirmed that: *"Professor Colman's comments greatly added to the discussions and were of immense value in the debate…Professor Colman's research remains valid with reference to the next round of discussions around the CAP, with the current consensus being that the quota will be removed in 2015, but other controls may be introduced"* [4]. Similarly, Colman's work also impacted on the response of DairyUK (an organization representing the interests of the entire dairy supply chain) to the stakeholder questionnaire conducted as part of the 2008 CAP health check. The Policy Director of DairyUK, summarised DairyUK's position on the milk quota as follows:

- *"*[The] *Milk quota should be eliminated as they were acting as an effective constraint on the total EU milk production, (response to Question 19 CAP Health Check Stakeholder's Questionnaire).*
- *It would be irresponsible simply to do nothing until 2015 and let the quota regime expire as all available studies indicated that his would impose a rapid and disruptive price adjustment on the industry. Instead, the EC should engineer a smooth landing by manipulating quota amounts and demand management tools, (response to Questions 20 & 21 CAP Health Check Stakeholder's Questionnaire)."*

He further notes that: *"These positions were greatly informed by the work of Professor David Colman* [references B-E in Section 3 above] *in which he demonstrated clear economic arguments for both the elimination of milk quota and the gradual expansion of quota from 2008 to 2015 to ensure a smooth landing."* [5]

Additionally, it was recognised that the elimination of milk quotas had implications not only for the dairy industry but also for both land use and landscapes in the EU. In 2008, *Alliance Environnement* submitted a wide-ranging report to the European Commission, commissioned by DGARD, on the wider environmental impacts of milk quotas. Again Colman was at the centre of this work, alongside six other leading agricultural economists from across the EU [6]. Four years later, in 2012, the EC (Joint Research Centre) brought a number of strands together in more general assessment of the impact of the CAP on agricultural landscape. Within the final report, Colman's research was cited, with insights from both [B] and [6] used to analyse the impacts of changes in the dairy industry on landscapes in the EU [7].

Timeline & Legacy: Following the 2008 CAP decision, the EU has continued to commission studies re-evaluating the impacts of quota removal on the dairy industry. Colman's work is still clearly influential in these recent debates.

Firstly, in 2010 the EU Commissioner for Agriculture and Rural Development *"adopted a proposal on 'contractual relations in the milk sector'… to help the sector prepare for a 'soft landing' when quotas come to an end in 2015."* This proposal was outlined in the EU report 'Evolution of the Market Situation…' which report sought to synthesise three reports submitted to the Directorate-General for Agriculture and Rural Development (DGARD). One of these reports (Tonini & Domínguez) contained a review of six suitable econometric approaches for the quantification of the economic effects of the European milk quota scheme. It suggested that all of these approaches have merit, and one of these six approaches was the method presented by Colman *et al* in [C][8].

Secondly, in 2011, DGARD commissioned a further re-evaluation of the milk quota system by LEI (Netherlands). This report identifies nine key objectives of EU policy towards milk, one of which is the structural evolution of the milk sector, again placing the insights from [C] at the heart of the narrative, in order to argue for the negative impact of milk quotas on the structural evolution of the dairy sector. On 14th March 2012 EU Regulation 261/2012 (amending EC reg. No. 1234/2007), put in place the pathway for a 'soft landing', with the update to the 'Evolution of the Market Situation…'

report subsequently noting:

> *Both the evolution of milk production versus milk quotas, and the downward trend in quota prices show that "soft landing" is on track. In the vast majority of Member States, quotas are no longer relevant to limiting production and the quota price has already reached zero or is approaching it. Against this analysis, the Commission is of the view that no change is required in the existing framework, which has been providing certainty to milk producers since 2008 and is proving its efficiency in securing a smooth phasing-out towards a quota free environment.* [9]

Finally, the issue of supply controls remains salient, with the director general of Dairy UK recently arguing – in response to European Parliament proposals to retain a 'strong element of supply management' after the 2015 quota abolition – that "*the removal of milk quotas presented the European dairy industry with 'enormous opportunities for growth that will provide a strong foundation for the future… The EU must continue the evolution of CAP dairy sector policy towards greater market orientation. The industry has been building its plans for the future based on this expectation"* [10].

5. Sources to corroborate the impact (all claims referenced in the text)

[1] (2008) Drew Associates 'Phasing out the EU Milk Quota: Final Report' DEFRA *et al* (April) p.2
[2] (2009) 'Agriculture and Rural Development: The Reform of Market Regulation Mechanisms', Policy Department (B), European Parliament (November) p.29
[3] (2008) 'The Future of Milk Quota: Different Scenarios', Policy Department (B), European Parliament (16th January)
[4] Testimonial from South East England MEP (27th June 2013)
[5] Testimonial from Policy Director, DairyUK (9th April 2013)
[6] (2008) *Alliance Environnement* 'Evaluation of the Environmental Impacts of Milk Quotas: Final report delivered to Directorate-General for Agriculture and Rural Development' (July)
[7] (2012) Lefebvre, L. *et al* 'The Influence of the Common Agricultural Policy on Agricultural Landscapes' JRC Scientific and Policy Report, European Commission pp.5,58
[8] (2010) 'Commission Proposes New Measures to Improve Future Stability in the Dairy Sector, Europa Press Releases (IP/10/1691) (9th December); (2010) COE 'Evolution of the Market Situation and the Consequent Conditions for Smoothly Phasing out the Milk Quota System' EC (8th December); (2009) Tonini, A. & Pérez Domínguez, I. 'Review of Main Methodological Approaches Quantifying the Economic Effects of the European Milk Quota Scheme', European Commission, Joint Research Centre, Institute of Prospective Technological Studies (p.7,11,20,32)
[9] (2011) 'Evaluation of CAP Measures Applied to the Dairy Sector: Final Report', DGARD/ LEI, Wageningen University, Netherlands (November); (2012) COE 'Evolution of the Market Situation and the Consequent Conditions for Smoothly Phasing out the Milk Quota System: Second 'Soft Landing' Report' EC (11th December) p.7
[10] (2013) 'UK Dairy Industry urges EU to Reject Milk Supply Controls' Farmers Guardian (15th May)