

# **EDA Policy Conference**

## **Preliminary analysis of Art. 156a Crisis Supply Management Proposal:**

**Draft Report: Committee on Agriculture and  
Rural Development (COMAGRI): European  
Parliament**

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## **Art.156a Proposal: Extract**

*Measures to address severe imbalances in the market for milk and milk products.*

*From 1 April 2015, **when a price of EUR 0.24/litre is reached**, the Commission may decide to grant aid to milk **producers who voluntarily cut their production by at least 5%** compared with the same period in the previous year.*

*When granting such aid, the Commission shall also impose a **levy on milk producers who increase their production** during the same period and in the same proportion.*

# Outline

- Economic/Policy analysis of Art.156a COMAGRI Proposal
- Analysis of 2008/2009 low price crisis in context of Art.156a COMAGRI Proposal
- Other relevant issues
- Conclusions

# Economic/Policy Analysis

- A crisis supply management policy can be successful in stabilising/increasing extreme low prices in certain defined circumstances, e.g a closed economy.
  - supply reduction results in more than proportionate price increase
- Economic/policy circumstances have changed fundamentally for EU dairy following Luxembourg agreement 2003 and GATT/WTO Uruguay Round 1995
  - from largely closed to open economy

# Closed versus Open Economy

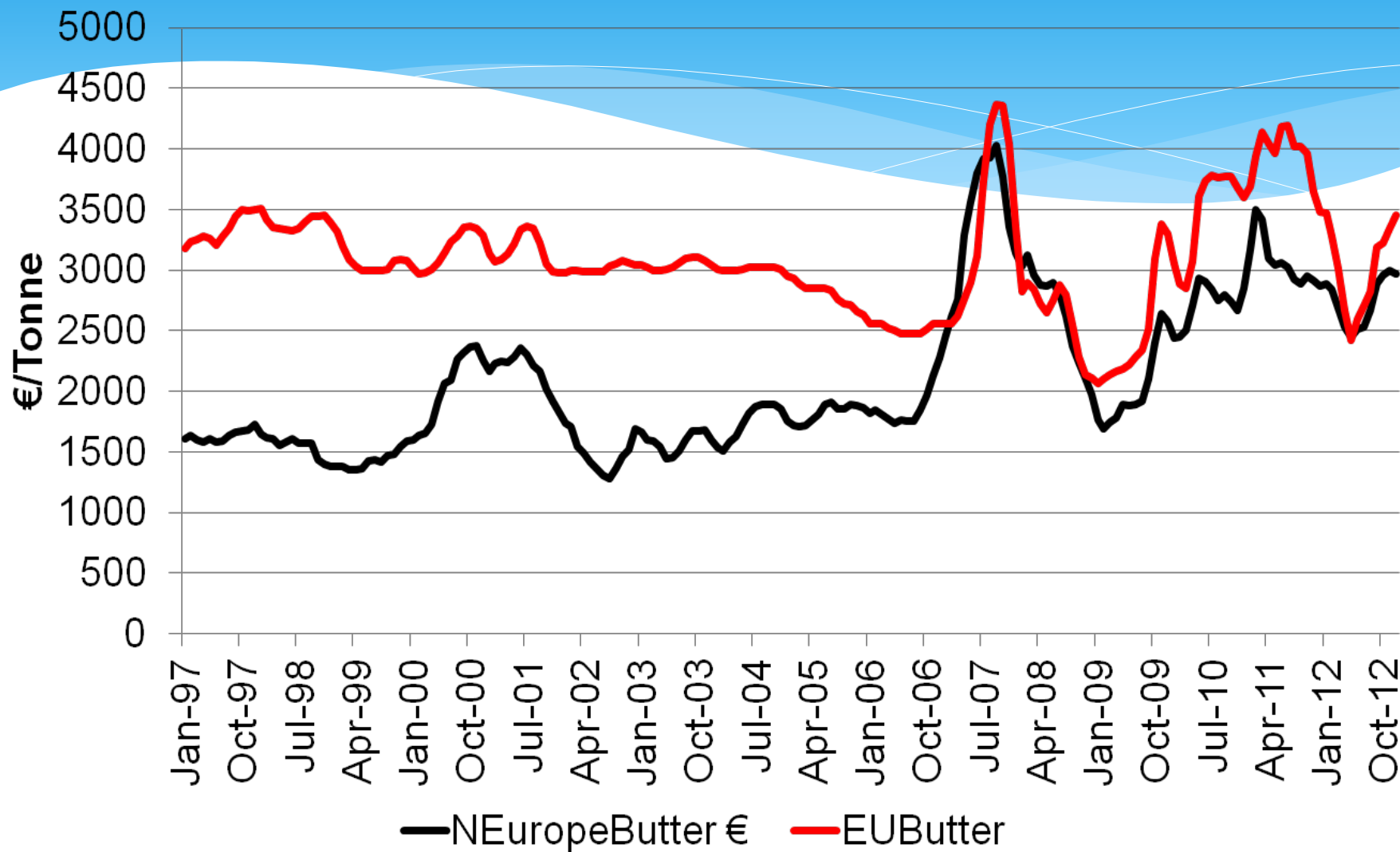
## Pre Lux, WTO

- Target price for milk
- Higher intervention prices
- Variable import levies and export refunds
- Open ended intervention
- etc.

## Post Lux, WTO

- Direct Payments
- Pillar 2 Payments
- Low “safety net” intervention
- Limited tariffs and export refunds
- etc.

# EU and World Market Monthly Butter Prices, 1997-2012



# Open versus Closed Economy, simple test

Correlation  
coefficients, EU  
versus World price

	1997- 2005	2006- 2012
Butter	0.07	0.78
SMP	0.72	0.98

# Crisis Supply Management: Open Economy

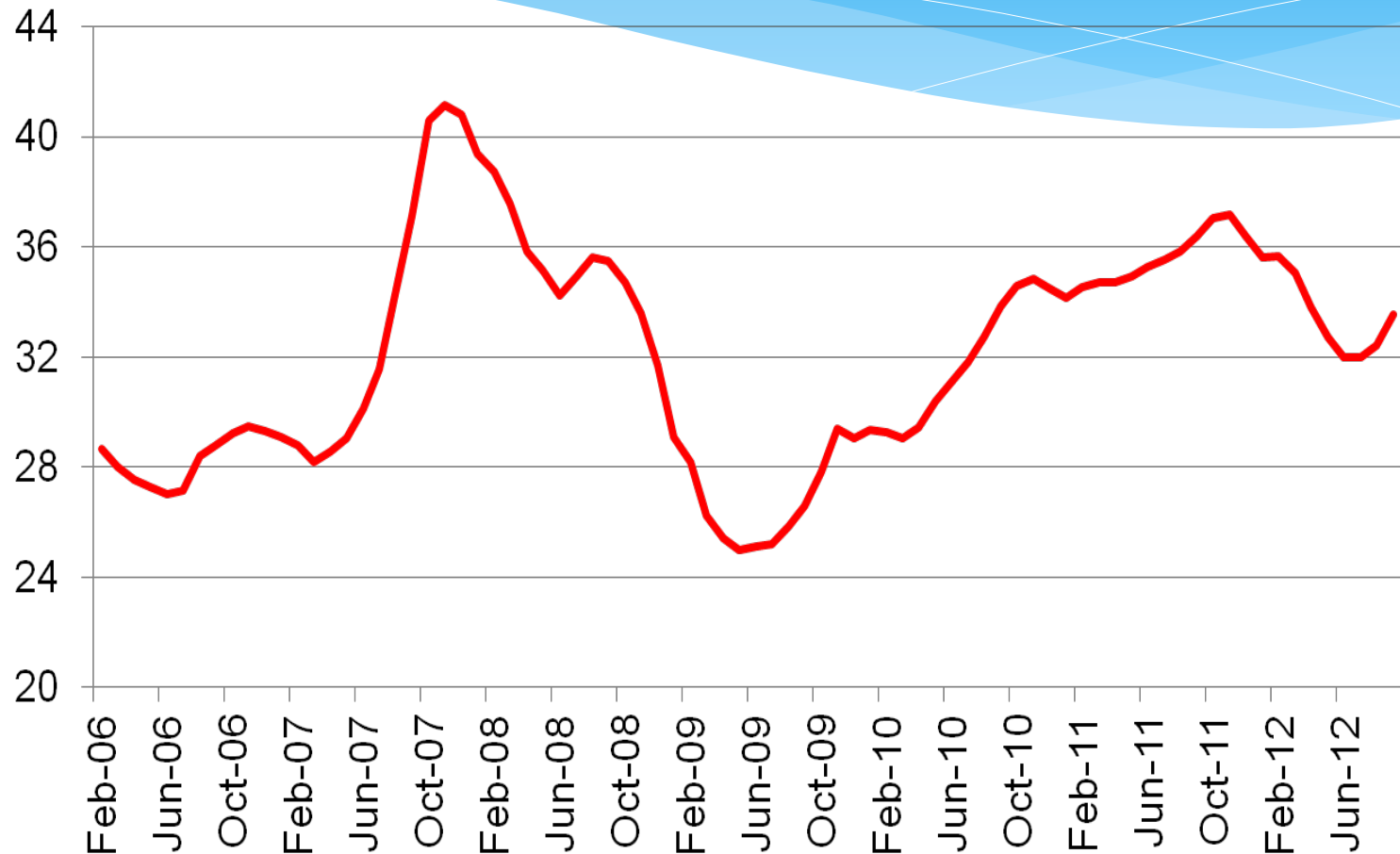
- A crisis supply management policy as proposed is of doubtful value in an open economy
- International competitors would also experience stabilised/increasing prices and would respond by stabilising or increasing production = win win, free rider benefit
- EU dairying would experience limited price increase and reduced production = win lose
- Other options are more attractive
  - public policy: crisis reserve, income stabilisation fund, strengthen existing policy instruments
  - private: price risk management, futures markets, forward contracting etc.



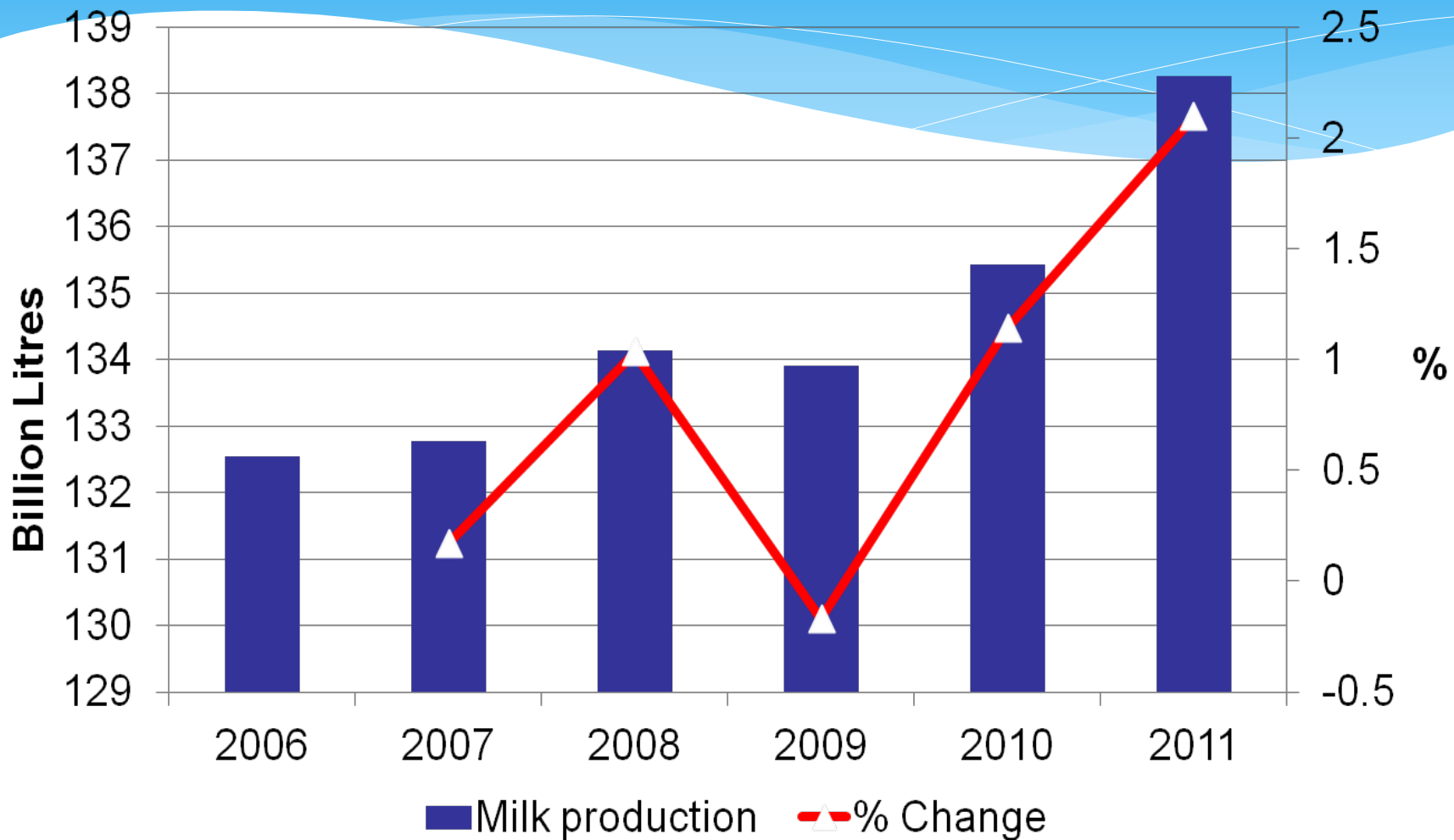
# **Art. 156a Proposal**

## **Historic Milk Price and Production Analysis 2006-2012**

# Weighted average EU monthly milk price Cent/Litre (Actual Fat)



# Annual Milk Deliveries and Percentage Annual Change, EU 27



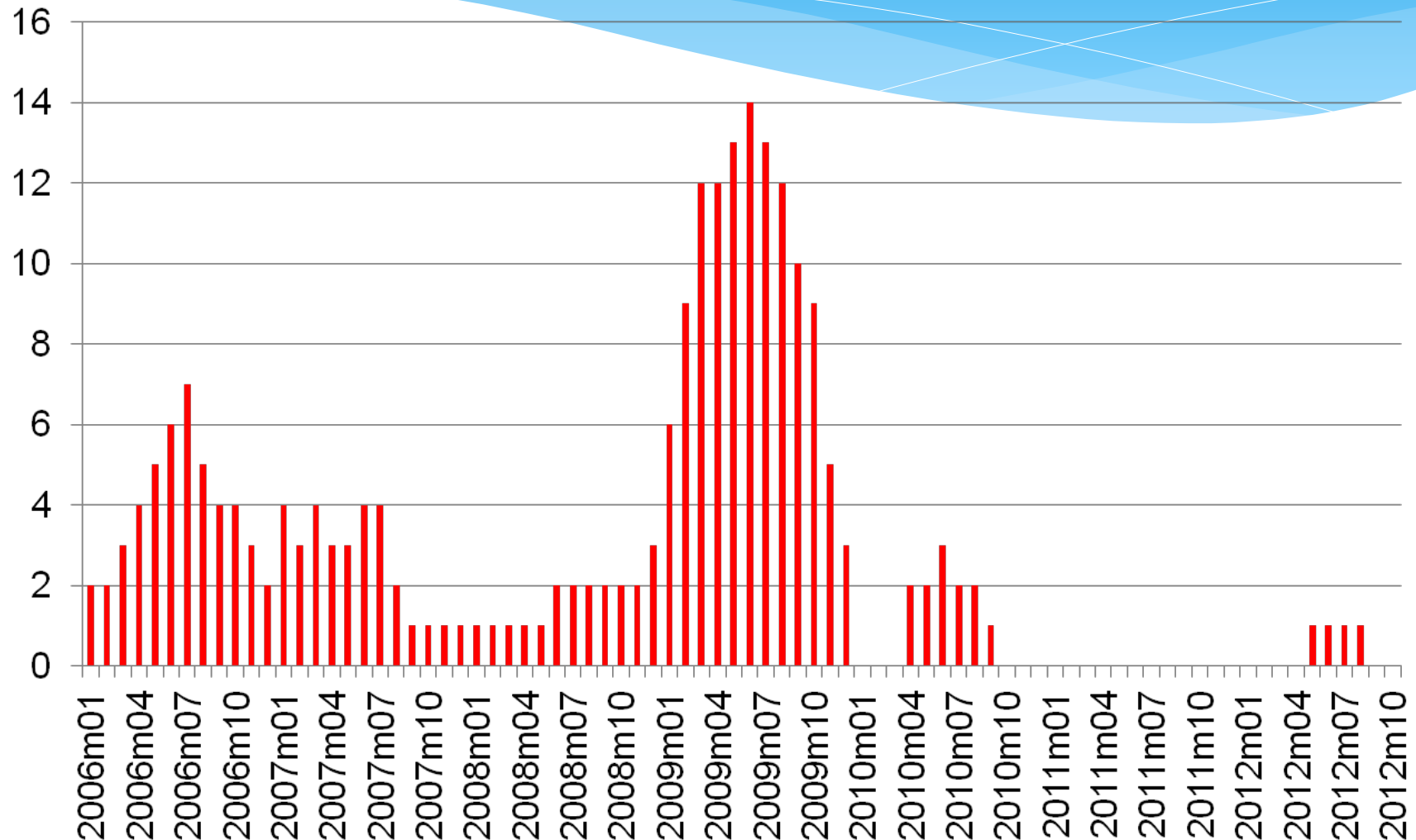
## 2009 Annual Milk Prices by country cent/litre, actual fat (five countries – no data available)

- Major diversity by country; range circa 45c/l to 18c/l
- Four countries > 35c/l; five countries < 22c/l
- 16/22 countries: price > 24 c/l (circa 45 – 25 c/l)
- 6/22 countries: prices < 24 c/l (Hungary 22.5, Ireland 22.2, Romania 21.9, Estonia 21.6, Poland 21.3, Lithuania 18.4 )

# Monthly Milk Price Analysis - Some Issues

- Monthly penalties and bonuses for more even supply
- Excludes post end-of-year payments
- Protein, fat, other parameters vary by month

# Number of EU countries with a monthly milk price below 24 c/litre, January 2006-October 2012

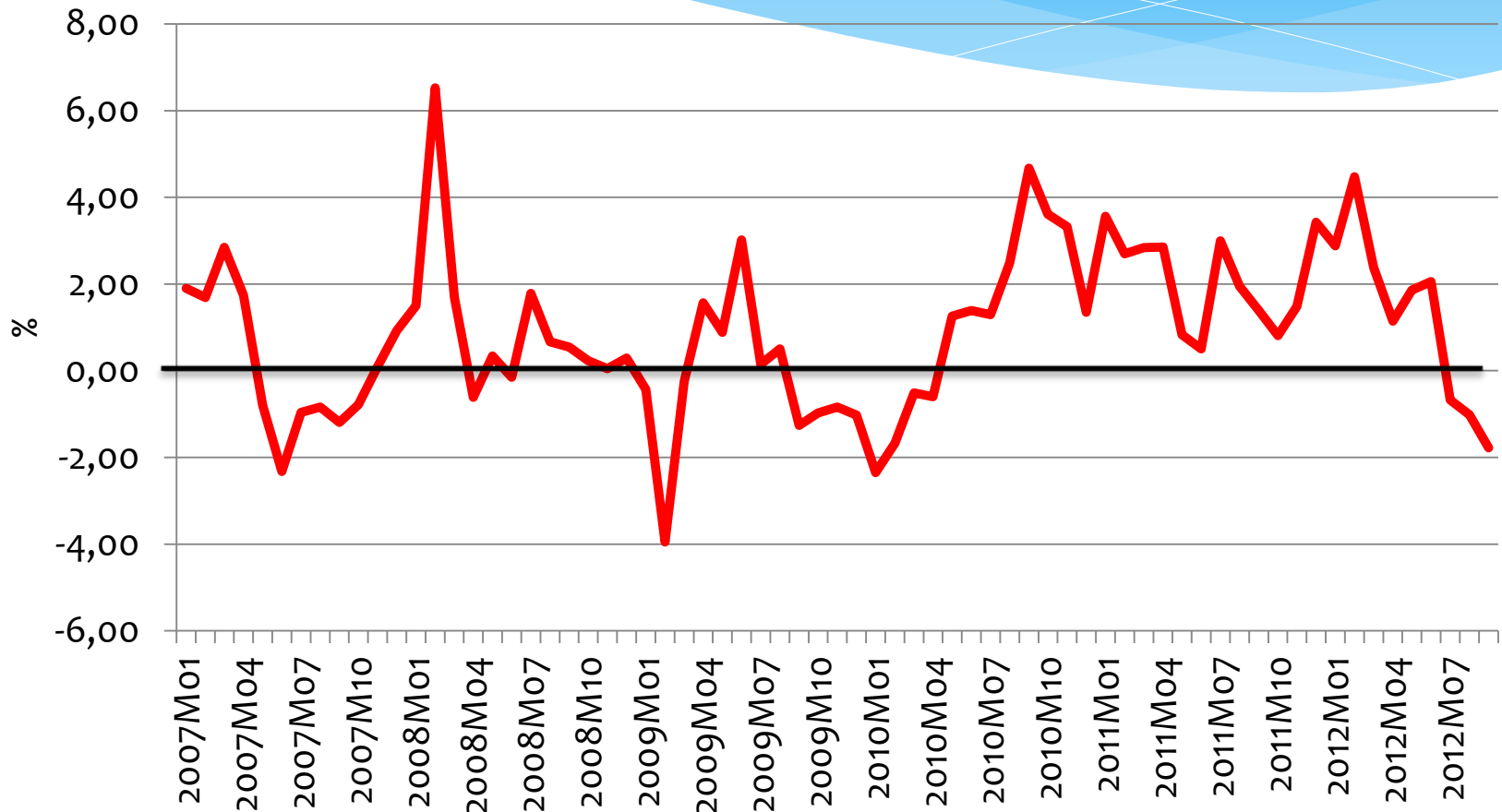


# Monthly price analysis by country:

Number of months each country had a monthly price below  
24 c/l

- 11 countries never had a monthly price below 24 c/l from Jan 2006 to Dec 2012
- Just five countries had a monthly price below 24 c/l for greater than 10 months from Jan 2006 to Dec 2012

# EU Monthly Milk Deliveries Comparison, Percent change year on year basis, January 2007 – August 2012





# Monthly Milk Deliveries Comparison by Country, % deliveries decline from corresponding month of previous year

- Five countries, no % monthly deliveries decline, Jan 2007 – Dec 2012
- Eight countries had > 10 months with decline > 5%; mostly newer member states
- Re Art 156a: Analysis should ideally include deliveries decline by producers within countries and dairies

# **Milk Price and Production Analysis 2006-2012 - Conclusions**

- EU Dairy Market is extremely heterogenous, 2009 annual milk prices by country vary from circa 45 - 18 cent/litre
- There is a “normal” production response to high/low price cycles, the market self corrects
- Milk prices and production response vary widely by country and by month due to widely varying local circumstances
- Substantial part of the proposed funds transfer would go to those who were reducing deliveries anyway; US analysis summary “buying air”
- A simple uniform crisis supply management policy seems inappropriate for such widely divergent price and production systems among EU 27

# Art. 156a Proposal - Other Issues

- Disruption of long term planning
  - dairying involves long term planning process
- Effect on Producer Productivity
  - a crisis supply management policy would penalise the more productive expanding/new entrant suppliers and reward the less productive declining/exiting suppliers, harmful for international competitiveness
- Contrary to economies of scale benefits
  - farm and processing level, harmful for international competitiveness

# Article 156a Proposal – Other Issues

- Counterproductive base establishment effect
- Market Effects- Short term versus Longer term
- Mistiming of Policy Implementation
- Effect on Consumers, Manufacturers and the supply chain
- Effect on the provision of private market risk solutions
- Effect on the provision of milk contracts
- Perverse Production Response
- Unintended Consequences

# Conclusions

- A supply management policy can be successful in stabilising/increasing low prices in certain defined circumstances, e.g a closed economy
- A supply management policy is of doubtful value in an open economy e.g EU dairy post Luxembourg Agreement/WTO
- Other options are more attractive
  - public policy: CAP reform: crisis reserve, income stabilisation fund, strengthen existing policy instruments
  - private: price risk management, futures markets, forward contracting etc.

# Thank you

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