



EU Dairy Quota Sunset

Part I: EU Quota and Milk Production

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Key Points:

- *On March 31, 2015, the EU's dairy quota system will sunset and its dairy industry will take a giant step toward market liberalization.*
- *The EU's dairy quota system was expanded in 2008 and then relaxed in subsequent years to create a "soft landing" by 2015, so its milk production grew about 1 percent a year during 2008-13.*
- *Though quotas will end on March 31, 2015, the EU dairy sector will still not be totally unfettered. Several pre-existing dairy support mechanisms will remain funded and executable.*
- *With March 31, 2015 fast approaching, many EU dairy farmers are gearing up to produce more milk – especially those in the large-scale production countries situated to the north and west which were the most constrained by the EU quota system.*
- *As promising as a quota-free environment is for some, the harsh reality is that expansion is not a realistic option for the majority of European dairy farmers. Into this category fall many of the dairy farms located in Eastern and Southern Europe.*
- *In contrast, in the high-production countries where the quota has been restrictive – namely, Germany, Denmark, Netherlands and Ireland – farm level expansions are already well underway.*
- *Depending on profitability, the extent of the increase in EU milk output will depend on such factors as higher yields due to nutrition or genetic improvements, increasing on-farm stocking density, converting more land to dairy operations, and expanding facilities to drive economies of scale.*
- *Published studies depict the EU milk supply as positioned to grow 1 percent a year from 2015 onward. But in the first year following quota end, the growth could be much greater as on-farm expansions and lingering support programs prolong the prevailing supply-side momentum, even as milk prices pull back.*

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This is the first of two reports that examine the sunset of the EU dairy quota system. This one focuses on how the EU's dairy industry will be affected – and, in particular, on how much EU dairy output will expand when the quota restraint is lifted. The second report will focus first on how the incremental growth in EU output will be channeled into dairy products such as cheese, milk powders, and butter; and then on how the global dairy product markets will be affected.