

## SUMMARY

**The Objectives of the study** – to analyse impact of implementation EU legislation related to the milk quota regime: Council regulation (EEC) No 3950/92 of 28 December 1992 establishing an additional levy in the milk and milk products sector and Commission Regulation (EC) No 1392/2001 of 9 July 2001 laying down detailed rules for applying Council Regulation (EEC) No 3950/92 establishing an additional levy on milk and milk products, **on the costs of the main groups of the milk sector and milk products' consumers.**

### **Study covers following issues:**

- Experiences of the member states in implementing milk quota system;
- Impact of milk quotas on the structure of dairy farms in Lithuania;
- Impact of milk quotas on regional development: identification of regions for quota transfers under more favourable conditions;
- Identification of milk production farms which to be given priority for acquisition additional quota from the national reserve;
- Impact on farm incomes using national level or purchaser level for calculation of additional levy (for the exceeding quota)
- Importance of milk quota system for the agricultural sector and linked activities (in both - social and economical sense).

### **Conclusions**

- Dairy sector one of core branches of agriculture which has not only economical but also social importance. In 2002 milk production made 20 percent of the total value of agriculture produce, meanwhile, exports of milk products compounded 32 percent of export of total agriculture and food products. Incomes from milk made 33 proc. of farmers incomes from marketed agriculture produce.
- Lithuania negotiations with EU resulted in allocation of 1647 thousand tonnes milk marketing quota: 1256 thousand tonnes for deliveries to the industry, 390,5 thousand tonnes for direct sales to the consumers. The additional quota from the restructuring reserve - 57,9 thousand tonnes (increase of total quantities to 1 705 thousand tonnes) could be given to Lithuania in 2006 under condition of production restructuring, i.e. a shifting from production for on farm consumption to production for the market. The quantities from the mentioned reserve shall be based on the amount of milk by which the home consumption has reduced since 2000.
- The main purpose of the dairy quota scheme is to reduce the imbalance between supply and demand on the milk and milk products market (achieve better market equilibrium), thereby the sufficient EU budget for milk market support could be planned and higher producer prices for milk guaranteed.
- Preparations for introduction of milk quota scheme in Lithuania started in 2002. National legal acts on set up of administrative capacity, allocation of provisional and individual milk quotas to the producers, establishment of Milk quota data base for the system administration. The national quota scheme in compliance with EU requirements, will be introduced upon accession.
- Implementation of EU milk quota system and other milk market regulation schemes will have positive effect on both - milk producers and processors by:
  - bringing more of stability and transparency (EU milk market support policy (common market organisation) is planned few years ahead),
  - reducing seasonal fluctuations of the prices (as a result of buying –in of milk products into intervention and private storage of the products)
  - reducing negative effect of currency exchange on Lithuanian milk market;
  - guaranteed certain income level for the market operators;

- Milk quota system will effect:
  - milk producers/processors, by fixing certain quantities to be marketed (to the dairy industry or directly to consumers), therefore hampering the development of the sector. The balance of milk supply demand, however, to be achieved and income stability guaranteed;
  - dairy farm restructuring processes;
  - consumers, by maintaining higher market prices as a result of limitation of milk supply;
  - state budget, thereby requiring significant costs for administration of milk quota scheme (due to unfavourable farm structure)
  
- It is presumed that due to drop of milk purchasing price and insufficient state support in 2000 – 2003 that resulted in slowdown of farm restructuring process and in case such tendencies remain, in mid-term period, milk production in the country will not exceed quantities allocated by EU and no additional levy will be paid before 2009, therefore no negative impact on producers incomes.
  
- According to the analysis of raw milk price set up, raw milk price will increase from 561 Lt/t in 2002 to 792 Lt/t after accession. Main factors increasing milk price:
  - Increase milk products prices both in domestic and foreign markets;
  - implementation of EU dairy market support schemes;
  - growth of the purchasing power of the consumers.
- Starting from 2005, milk producers will receive direct payments for milk (if case of implemented Mid-term reform – starting from 2004) based on amount of individual quota available on the farm –12,9 Lt/t, maximum support to the farms - 21,3 million Lt. in the year 2005.
- After Lithuania's accession, the increase of raw milk price and growth of milk production (to the quantities of national quota) will increase farm income from milk marketing by 704 million Lt. comparing with the year 2002. On the other hand, in case milk marketing levels remain at the current level, farm income will increase by only 298 million Lt.
- Milk quota system will not have negative effect on dairy industry as quantities processed in 2000- 2002 are less than quantities given for deliveries by EU by 286 thousand tones. Furthermore, there is expected significant shift from the direct sales quota to the deliveries quota. Limited milk supply and support of milk products prices through EU market regulation measures will have positive effects on incomes of milk processors income. The increase of processed milk quantities, will bring to the industry: 1) about 614 million Lt. more income in case of growth of processed milk to the national quantities, 2) about 333 million Lt. more income in case amount of processed milk will remain at the current level.
- Impact on consumers:
  - after accession, because of free trade regime, retail prices of milk products in Lithuania and other acceding countries will gradually grow higher to the levels that prevail in EU Member states;
  - because of EU market support measures price of milk products at internal market are higher than world market prices. With implementation of EU market support measures in Lithuania, price of raw milk products will grow bigger;
  - due to increase of raw milk price, retail prices of milk products will grow insignificantly –up to 7 percent. Consumers will spend about 70 million Lt. more for the same amount of milk products than in 2002.
  
- Introduction of milk quota system will have positive impact on milk producers and processors, meanwhile it will have negative impact on the consumers and state budget (tax

payers). Final effect is positive: it will bring some 1123 million Lt if national milk marketing quantities (quota) are reached., and 494 million Lt if these quantities remain unused.

### **Proposals**

- Taking into account the country's economical situation in the and social conditions in rural areas, milk farm developments should target into establishment and development of competitive dairy farms to ensure steady incomes to the producers.
- According to the analysis, support for the development to the dairy farms targeting to grow into farms with 30 cows should be a priority. Having 30 cows producer can cover costs and can dispose enough incomes for family needs.
- Taking into account specific conditions in certain areas and seeking for the preservation of rural societies and landscapes and ensuring sustainable use of arable lands, a priority should be given to producers farming in the less favourable areas to obtain additional quota from the reserve.
- Proposed restructuring measures:
  - to facilitate acquisition of additional quota from the national reserve for the producers: having up to 30 cows, producers cooperative members;
  - to facilitate cessation of milk production to those producers who can not meet hygiene requirements (because of age or lack of milk collection infrastructure);
  - not authorise transfer (sale) of quota between regions „ apskritis” (to avoid concentration of milk production in the regions with large producers and to keep milk production in less favourable areas, apply free trade between producers thereby deducting the part of transferred quota into the reserve („ skimming”) according transferred quantities;
  - buy-in quota from the producers into reserve (within regions -50) and sell these quota to the farmers – transfer through the regional „pool” for the prise fixed by the state;
  - not apply taking over into reserve unused quantities of producers (except whole quota is unused over the year);
  - not apply link of quota to the land used for milk production;
  - not apply quota lease unless whole farm „holding” is leased;
  - by selling quota with whole holding not apply deduction from the transferred quota, by selling part of holding, take into reserve 10 percent of the transferred quota;
- To allocate quota from the national reserve to the producers according to criteria:
  - establish or develop milk farm;
  - young producers;
  - producing in less favourable areas;
  - producing in organic farms;
  - producers, milk collection cooperative members.
- For the administration of additional levy:
  - calculate additional levy to each producers at the central institution and at the national level.
  - taking into account the structure of dairy farms and dairy industry it is necessary to reallocate, at the national level, individual quantities unused by producers to the farmers who exceeded their individual quantities in order to reduce exceeded quantities
  - taking into account large capacity of milk processing industry and received lager quantities of direct sales than actual direct sales, define measures facilitating transfer of direct sales quota into deliveries quota.