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## MILK MARKET AFTER ABOLITION OF MILK QUOTAS

IURCHEVICI LIDIA<sup>1</sup>

**Summary:** *In the past two years in Romania, it was recorded one of the sharpest decreases in the amount of cow's milk collected by processing units and at the same time a sharp decline in the price of milk, compared with the average price in the European Union. The obvious conclusion is that milk production in Romania is facing serious problems. This indicates that the milk processing industry and Romanian farmers were not prepared to face the barrier removal of milk quotas. Cattle breeders organizations indicates that many livestock farms in the country are in danger to close due to bad relationship of farmers with processors and repeated delays in paying subsidies from the state. These organizations also argued that the domestic market is flooded with milk imported by the processors, milk that is cheaper because the subsidies granted in countries of origin are higher and received on time. In this context, this study makes an analysis of the current situation of the sector growth of dairy cattle starting from its structure, milk supply (livestock, domestic production, costs of production, import) demand, price capitalization, and finally, based on the analyzed elements, resulting in a series of proposals and recommendations.*

**Key words:** *market, quotes, milk, production, cattle*

**JEL classification:** Q11, Q13

### INTRODUCTION

Abolition of milk quotas means, for many Romanian farmers, the end of an endeavor for many years and the future looks downright bleak. They argue that more than 60% of dairy farms in Romania will disappear because the state has not taken timely steps to support.

Milk production quotas were abolished in the European Union, after more than 30 years have tried to balance European industry and avoid flooding the market with milk and derived products from countries with developed agriculture. The news is good for large manufacturers in Western countries, but unpleasant for the farmers of the new entrants Members who joined the EU.

European farmers consider that the main reason of this situation is caused by the attitude of processors, on the one hand, that does not offer the right price, and retail chains which in turn require certain takeover price of the finished product. While local farmers argue that repeated refusals to update the price of milk processors given that operating costs increased shelf price also recorded an increase, in which case the price at the farm gate is kept constant. Processors may progress to import so that, in a situation of overbid chances that the local farmers to sell their milk production decreases even more.

Compared to previous years, farmgate milk prices dropped a lot. The cause is generated by overproduction of milk in the European market. In Romania imports of raw milk, half pasteurized, pasteurized or condensed, from the European Union have increased in recent years. According to the study conducted for the European Commission, the abolition of quotas has led to higher production at European level which caused a reduction in the price paid to farmers. From here the danger of de-capitalization, inability to make investments or even bankruptcy for small farmers in Romania who are severely affected whenever the quotation of milk decreases.

### MATERIAL AND METHOD

Regarding the analysis method and instrumentation work used in this work was carried out a comparative analysis of milk production in Romania with some EU countries, supply and demand as well as analysis prices on the Romanian market in relation to the from the EU on a five

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year period (2010-2015). In this approach have been used statistical data provided by: National Institute of Statistics, Ministry of Agriculture and Rural Development, Eurostat and FAOSTAT.

## RESULTS AND DISCUSSIONS

In Romania, cattle breeding is a main branch of the agricultural economy, given the advantages due to natural factors and pedoclimatic, but this sector of agriculture shows a uneven configuration, continuing to record changes in terms of the operating structures and unstable in terms of formation of structures of production. These should respond to market requirements and efficient use of natural and human resources in rural areas.

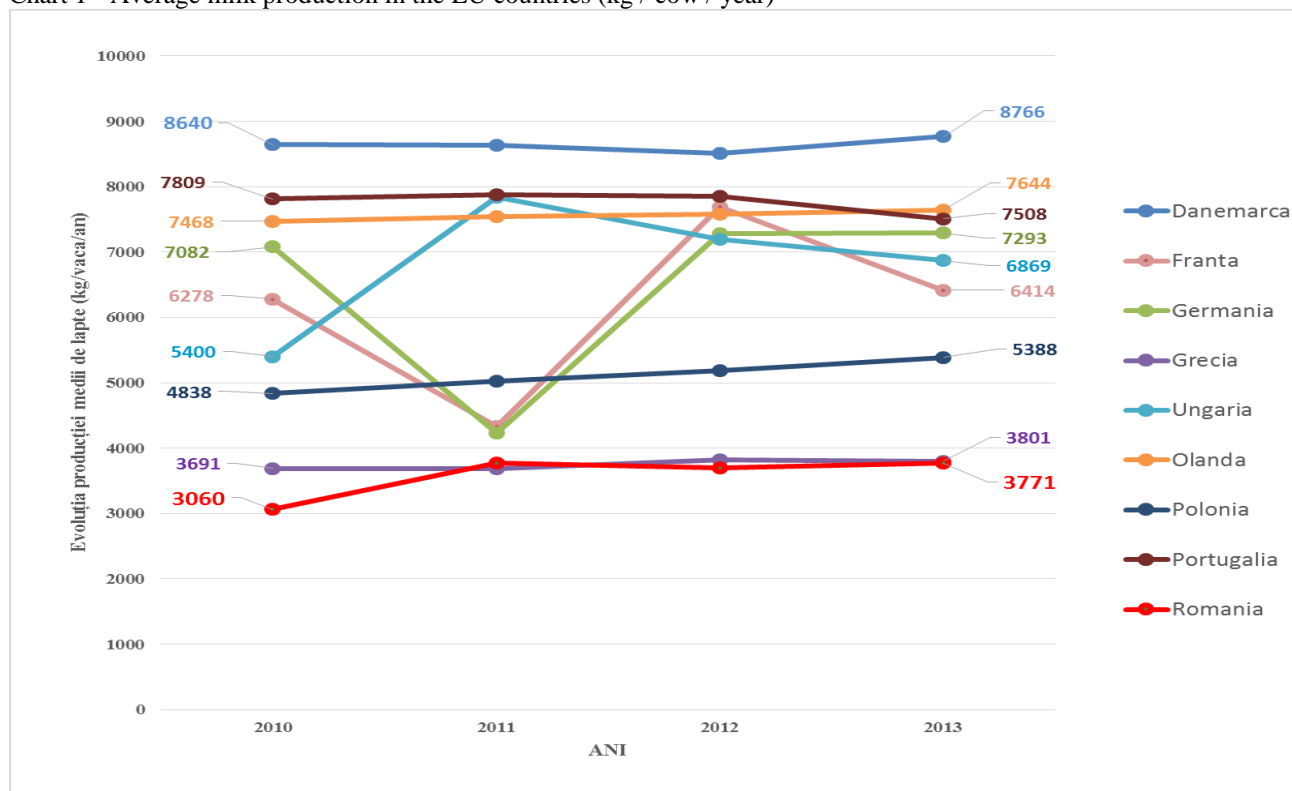
According to FAOSTAT, in Table 1 it is shown the average milk production in EU countries, and shows that Romania has one of the lowest average milk production per cow, at less than half of the major producing (Denmark, Germany, Netherlands). According to the USDA study, the average milk production in our country was in 2014 of 3739 liter/cow, respectively 3535 liter/cow in 2015.

Table1 – Evolution of average milk production in 2010-2013 in Romania and EU countries - kg / cow / year

<b>Country</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Danmark	8640	8636	8507	8766
France	6278	4335	7687	6414
Germany	7082	4237	7280	7293
Greece	3691	3691	3827	3801
Hungary	5400	7835	7194	6869
Netherlands	7468	7546	7577	7644
Poland	4838	5019	5189	5388
Portugal	7809	7874	7846	7508
<b>Romania</b>	<b>3060</b>	<b>3776</b>	<b>3701</b>	<b>3771</b>

Source: FAOSTAT

Chart 1 - Average milk production in the EU countries (kg / cow / year)



Low productivity in the production of milk entail the increased costs per product unit (kg milk). The data presented above indicate that average milk production in Romania is on a downward path from 2013. Fortunately, there are, however, in our country, farm cattle for milk which exceed as production on the large producers of cow's milk from the EU, but these examples few have the power to raise the indicators at national level, which are influenced overwhelmingly by more than 83% of holdings that record low yields and determining policies and allocations of factors disadvantaging the developed farms.

## DEMAND AND SUPPLY OF MILK. FOOD BALANCE

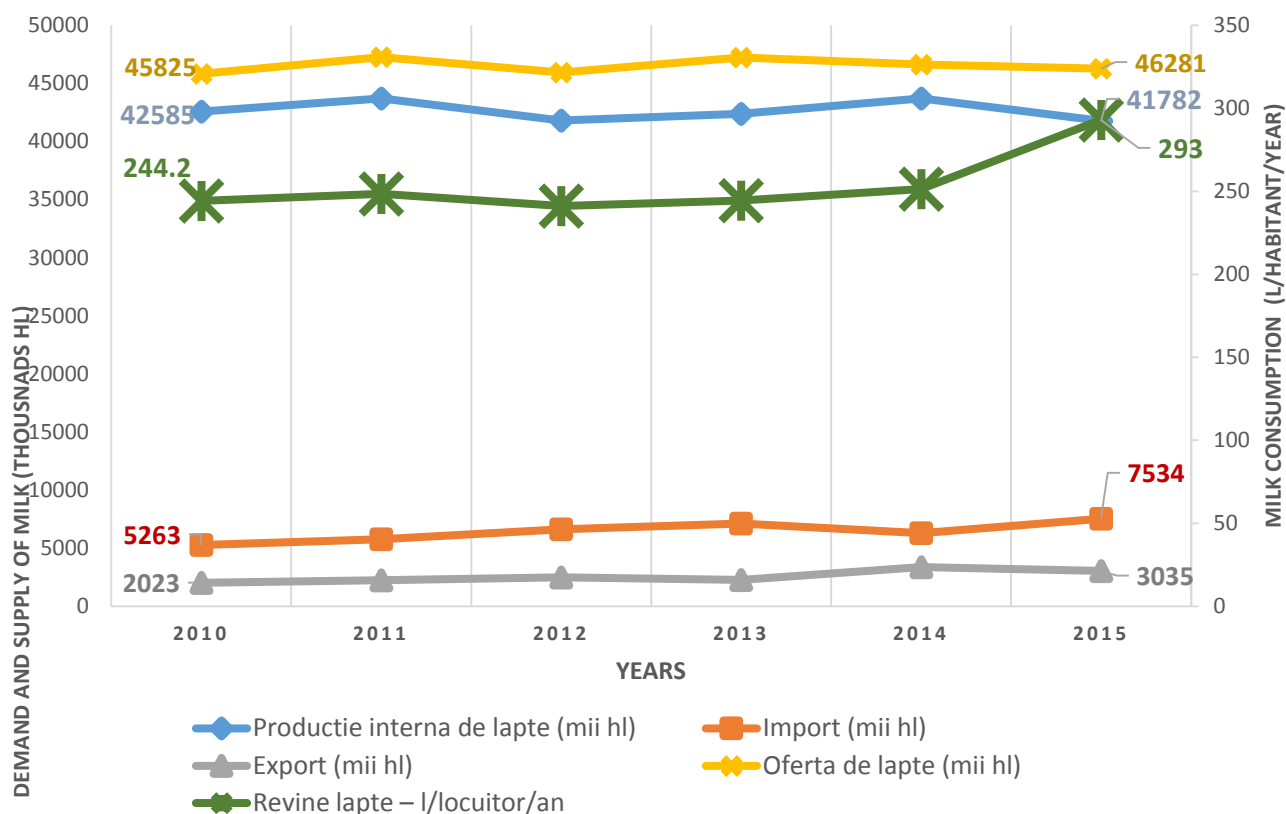
Table2 – Demand and supply of milk (cow) – thousands hl

Specification	2010	2011	2012	2013	2014	2015*
Domestic production of milk	42585	43729	41823	42382	43713	41782
Import	5263	5771	6627	7111	6278	7534**
Export	2023	2234	2498	2260	3361	3035**
Milk supply	45825	47266	45952	47233	46630	46281
Milk consumption – L/habitant/year	244,2	248,5	241,1	244,5	251,5	293,0
The share of domestic production of milk tender%	92,9	92,5	91,0	89,7	93,7	90,3

Source: INS

\*operative data MADR; \*\* estimate ICEADR

Chart 2 - Demand and supply of milk (cow) – thousands hl



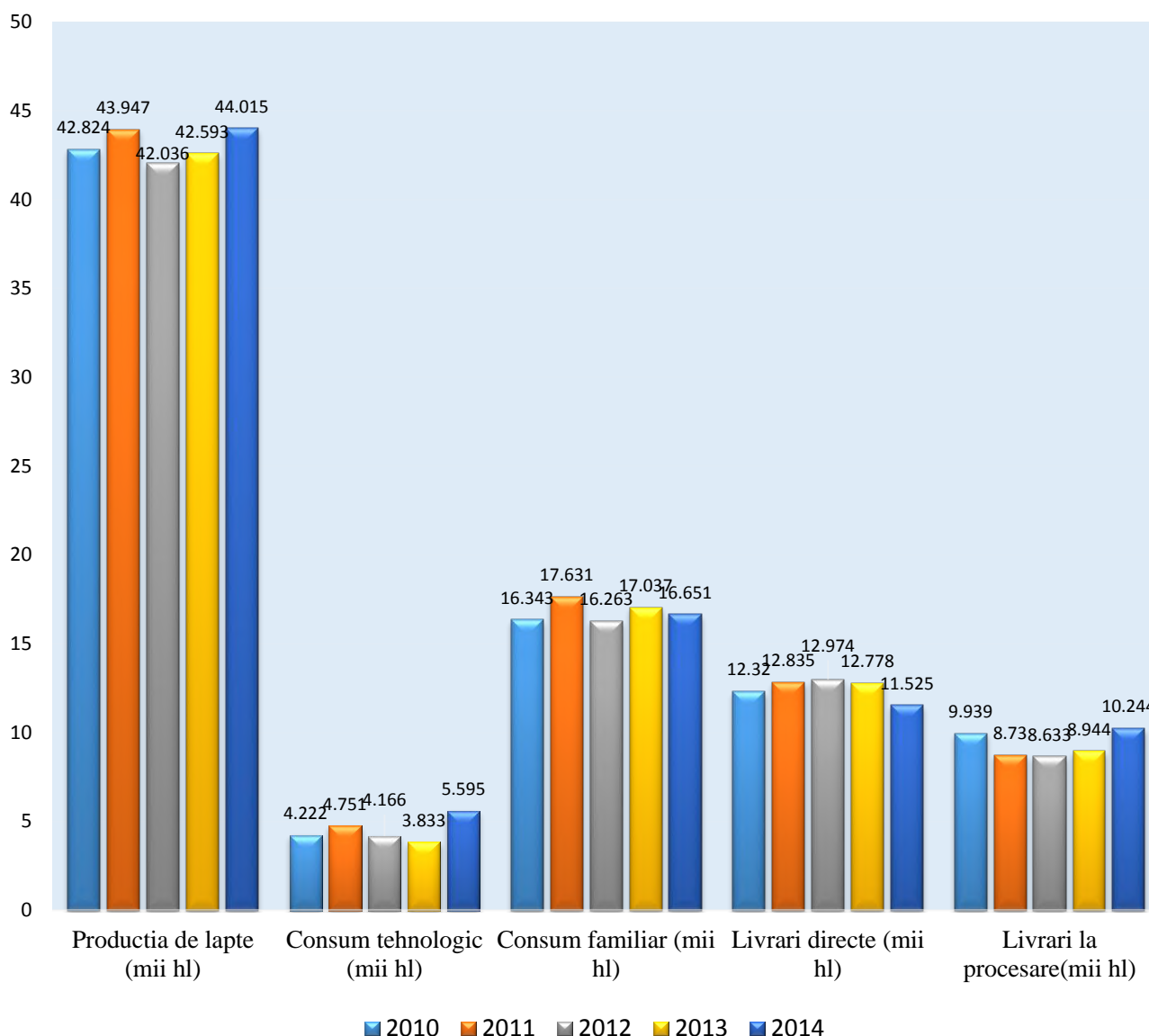
Capitalization of milk production takes place on four areas: consumption of farm technology, for family consumption and for direct delivery and processing. The largest amount is for family consumption (over one third), followed by direct deliveries (a quarter of production), and supplies for processing represents only 23% (Table 3). According to INS data, in 2015, processing units collected from farms and collection centers in our country only 780 338 tons of milk (with 26% less than the previous year).

Table3 – Way of capitalization of milk production

Year	Milk production (thousands hl)	Capitalizing production (thousnads hl)			
		Tehnological consumption	Family consumption	Direct deliveries	Processing deliveries
2010	42.824	4.222	16.343	12.320	9.939
2011	43.947	4.751	17.631	12.835	8.730
2012	42.036	4.166	16.263	12.974	8.633
2013	42.593	3.833	17.037	12.778	8.944
2014	44.015	5.595	16.651	11.525	10.244

Source: INS

Chart 3 - Way of capitalization of milk production



## ROMANIAN MARKET PRICE ANALYSIS IN RELATION WITH THE EUROPEAN UNION

Data provided by FAOSTAT shows that Romania has the highest rates of recovery of milk in the EU countries (Table 4), while the lowest are in Poland.

Table 4 – Milk price developments recovery in Romania and EU countries, Euro / tonne

Country	2010	2011	2012	2013	2014
Bulgaria	260	310	319	311	327
Denmark	342	361	360	400	404
France	322	346	334	356	377
Germany	308	348	320	376	371
Greece	373	431	451	443	430
Hungary	264	315	305	333	341
Italy	375	434	423	431	442



- The price of milk has dropped for various reasons: raw and VAT decreased, milk quotas were abolished, and the offer has increased by 35% due to the Russian embargo as a consequence of the reorientation of EU producers by Romanian market.
- Small and medium producers will have to adapt on the fly to the conditions of a liberalized market, increasing imports that generates a high level of competition.
- Elimination of milk quotas means, for many Romanian farmers (small and medium) facing competition to which they can not cope. There is a protracted long-term perspective because, at European level milk supply is greater than demand. In this context, large processors have started to abandon contracts with local farmers, preferring to bring raw material from outside.

### **RECOMANDATIONS**

- Develop a strategic program (for example, funded under the sectoral program) by the Central Authority, aimed at strengthening the mixed farms with less than 5 cows, support for setting up local centers for collecting and processing milk.
- Facilities explicit cooperative association (the smallest can be local collection centers - Milk processing) of small producers.
- Pair farmers to negotiate, planning and adaptation of production to market demand, optimizing production costs, ensuring inputs and services at reasonable prices, negotiating the sales price and terms of the contracts with processors etc.
- Creating a legal framework to allow negotiation of contractual agreements through the producer organizations.
- Modernization of productive technologies, which serve to improve the technical indicators, labor productivity growth, reflected ultimately in lower production costs; supporting programs to improve breeds and providing incentives to small farmers for access to genetic material performance, with higher production potential and direction specialized in milk production.
- Providing additional subsidies for the purchase of milk cooling tanks at dairy farms and supporting the creation of micro milk processing located in areas that focus small dairy farmers.
- Eliminations from the market of milk substitutes and counterfeited dairy products.
- Substantial improvement of the tax system by granting exemptions and facilities, by finding mechanisms to eliminate double taxation of association.

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