

ETHICAL AND COMPETITIVE PROBLEMS RELATING TO QUOTA MILK SYSTEM IN ROMANIA

Pop Cohuț Ioana

Faculty of Economics, University of Oradea University of Oradea, Faculty of Economics Science, str. Universitatii nr.2-4, ipop@uoradea

Pup Anca

Faculty of Economics, University of Oradea University of Oradea, Faculty of Economics Science, str. Universitatii nr.2-4, , martinanca@yahoo.com

Recent conflicts regarding the milk market indicat tensions between milk producers and milk processing companies, about milk price. This conflict involved many farmers and was focused in two directions. First – the farmers' discontent about the imported milk by low price, the allocation of milk quota system and on the other hand, the overdraw cost for obtaining the milk. As reference point to this paperwork is the conflict mentioned upon and the analysis of quota milk system. Our interest is to illustrate and to compare the evolution of the milk producer price and its volatility, in EU, in our country and also specific to our county land Bihor.

Our concern in focused upon the analyzing the structure of the market and the factors influencing the relation between producers and processing units and to identify a possible dysfunctions of an unfair competition nature creaed by the quota milk system, which involves also ethical aspects.

Key words: quota milk system, competitive, ethics

Introduction

The dairy sector is of great importance to the European Union in a variety of ways. Its most striking feature is that milk is produced in every single EU Member State without exception. Milk is the number one single product sector in terms of value at approximately 14 % of agricultural output.²⁸¹

The share of agricultural output represented by milk production varies widely between Member States and regions. In some production basins such as Galicia (Spain), Lombardia (Italy), West Midlands (UK) and Haute-Normandie and Bretagne (France) milk production represents between 20% and 30% of total output and contributes even more than 50% of the final agricultural output in the Spanish region of Cantabria, as well as in the extreme northern regions of Sweden and Finland and the Azores.²⁸² Six Member States - Germany, France, the United Kingdom, the Netherlands, Italy and Poland - together contributed more than 70% of the cows' milk collected in the EU.²⁸³

In our country, the dairy sector is one of the largest agricultural sub-sector based on both gross production value and number of farms. It is homogeny distribute upon the region. It is also characterised by family farms in which large part of labour, management and risk bearing capital are supplied by the owner and his or her household.

The dairy sector is highly regulated by the Common Agricultural Policy (CAP) of the EU. Key elements of the reformed CAP.²⁸⁴

-A single farm payment for EU farmers, independent from production; limited coupled elements may be maintained to avoid abandonment of production,

281 Milk and milk products in the European Union, European Communities, 2006, http://ec.europa.eu/agriculture/publi/fact/milk/2007_en.pdf

282 Report on milk quotas, Commission of the European Communities, Brussels, 2002

283 Agriculture main statistic, 20006, Eurostat,

284 http://ec.europa.eu/agriculture/capreform/index_en.htm

- this payment will be linked to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition ("cross-compliance"),
- a strengthened rural development policy with more EU money, new measures to promote the environment, quality and animal welfare and to help farmers to meet EU production standards starting in 2005,
- a reduction in direct payments ("modulation") for bigger farms to finance the new rural development policy,
- a mechanism for financial discipline to ensure that the farm budget fixed until 2013 is not overshot,
- revisions to the market policy of the CAP:
 - asymmetric price cuts in the milk sector: The intervention price for butter will be reduced by 25% over four years, which is an additional price cut of 10% compared to Agenda 2000, for skimmed milk powder a 15% reduction over three years, as agreed in Agenda 2000, is retained,

Milk quota system in EU 27

Within the CAP, milk production is limited since 1984 by farm specific quotas. Quotas were introduced because there was a surplus of milk production in the EU and it was decided that measures were required in order to reduce the cost to EC taxpayers of intervention in the market for dairy produce. The European Community uses the milk quota system to control the production of milk and milk products within the European Union. The Common Agricultural Policy reform agreement of September 2003 provided for the extension of the quota system until 2015.

The EU milk quota is in value of 146 mil ton. In the table below is represented the milk quota for each country. On the first position is classed Germany with more than 20% from the UE 27 milk quota followed by France and UK, our country is placed on the 11th position.

Table nr.1. Milk quota in EU 27

Country	2004/05	2005/06	2006/07	2007/08	2008/09 Until 2014/15
Austria	2.749.401,000	2.749.401,000	2.763.148,000	2.776.895,000	2.790.642,000
Belgium	3.310.431,000	3.310.431,000	3.326.983,000	3.343.535,000	3.360.087,000
Cyprus	145.200,000	145.200,000	145.200,000	145.200,000	145.200,000
Czech Republic	2.682.143,000	2.682.143,000	2.682.143,000	2.682.143,000	2.682.143,000
Denmark	4.455.348,000	4.455.348,000	4.477.624,000	4.499.900,000	4.522.176,000
Estonia	624.483,000	624.483,000	624.483,000	624.483,000	624.483,000
Finland	2.407.003,324	2.407.003,324	2.419.025,324	2.431.047,324	2.443.069,324
France	24.235.798,000	24.235.798,000	24.356.977,000	24.478.156,000	24.599.335,000
Germany	27.864.816,000	27.864.816,000	28.004.140,000	28.143.464,000	28.282.788,000
Greece	820.513,000	820.513,000	820.513,000	820.513,000	820.513,000
Hungary	1.947.280,000	1.947.280,000	1.947.280,000	1.947.280,000	1.947.280,000
Ireland	5.395.764,000	5.395.764,000	5.395.764,000	5.395.764,000	5.395.764,000
Italy	10.530.060,000	10.530.060,000	10.530.060,000	10.530.060,000	10.530.060,000
Latvia	1.646.939,000	1.646.939,000	1.646.939,000	1.646.939,000	1.646.939,000

Lituania	695.395,000	695.395,000	695.395,000	695.395,000	695.395,000
Luxembourg	269.049,000	269.049,000	270.394,000	271.739,000	273.084,000
Malta	48.698,000	48.698,000	48.698,000	48.698,000	48.698,000
Netherlands	11.074.692,000	11.074.692,000	11.130.066,000	11.185.440,000	11.240.814,000
Poland	8.964.017,000	8.964.017,000	8.964.017,000	8.964.017,000	8.964.017,000
Portugal	1.870.461,000	1.920.461,000	1.929.824,000	1.939.187,000	1.948.550,000
Slovakia	1.013.316,000	1.013.316,000	1.013.316,000	1.013.316,000	1.013.316,000
Slovenia	560.424,000	560.424,000	560.424,000	560.424,000	560.424,000
Spain	6.116.950,000	6.116.950,000	6.116.950,000	6.116.950,000	6.116.950,000
Sweden	3.303.000,000	3.303.000,000	3.319.515,000	3.336.030,000	3.352.545,000
United Kingdom	14.609.747,000	14.609.747,000	14.682.697,000	14.755.647,000	14.828.597,000
EU-25	137.340.928,324	137.390.928,324	137.871.575,324	138.352.222,324	138.832.869,324
Bulgaria	-	-	980.730	998.580,000	1.049.517,616
Romania	-	-	3.057.000	3.118.140,000	3.277.196,478
EU-25	137.340.928,324	137.390.928,324	137.875.613.054	146.411.093,324	153.879.531,000

Source: <http://www.milchindustrie.de/de/eu/agrarpolitik/quote>

The main purpose of the milk quota scheme is to reduce the imbalance between supply and demand on the milk and milk products market and the resulting structural surpluses, thereby achieving a better market equilibrium.

To the extent that the quota regime, together with other price support mechanisms, helps to keep prices in the EU close to the target price fixed by the Council or so far this was a object of European Communities. But it can also be argued that quotas contribute to making EC dairy products less competitive on both the internal market, vis-à-vis milk substitutes, and on the export market.²⁸⁵

Milk quota system in Romania

As a candidate EU member state, Romania obtained a milk quota allocation from the European Commission. The quota has been allocated by the end of 2004 and is fixed at: 3,057,000 ton.²⁸⁶

This quota will be measured with 6% until the end of the year of activity reporting 2014 / 2015.

The individual quota was allocated in 2006, in which was specified the volume of milk expressed in kilogram and milk fat expressed in rate. The reference year for the fat production is 2004. The reference period for the volume is 1 April 2005 - 31 March 2006. Farmers producing milk had to apply for a milk quota according to Order 1388/2005. This order concerns the establishment of the conditions for the approval of the cow purchasers and the application form for the approval and registration in the Purchasers register. By April 1st, 2007 a milk quota system was in place and since than allocations have been made to those who applied for and are eligible for obtaining milk quota.

The national quota milk is devised in:

- delivery quota*
- direct sales quota*
- national reserve*

²⁸⁵ Report on milk quotas, Commission of the European Communities, Brussels, 2002

²⁸⁶ http://www.infolapte.ro/milk_quota_romania.html

Quota is allocated among the milk producers individually for delivery to milk unit and individually for a direct sale within the negotiated quotas considering part of a quota transferred to the national reserve for solving certain cases, such as mistakes in allocation, already initiated investment in milk production. The volume of milk allocated to each type of quota in 2007 in our country is illustrated in the table below.

The volume of milk allocated to each type of quota in our county for reference year 2007

Table nr.2

Product	Final result in negotiations
Milk quota	3.057.000 t -1.093.000 t for deliveries to units -1.964.000 for direct sales to consumers + 188.400 t restructuring reserve

Source: Press Release, Romania closed negotiations for Chapters 7 – “Agriculture”
http://ec.europa.eu/agriculture/publi/fact/milk/2007_en.pdf

250,493 farms applied for quota for **direct delivery** to milk processing facilities. 40% of these farms obtain an individual quota under 5000 kg milk illustrating a great number of farms with 1-2 cows. These requests can be divided in the following quantities:²⁸⁷

Rate of farms with applied for different volume of milk

Table nr.3

Volume in Kg	%
< 5.000	40,4
5.001 – 10.000	16,4
10.001 – 50.000	17,8
50.001 – 100.000	19,9
> 100.001	5,8

In terms of *farm size* the request for delivery quota the breakdown is:²⁸⁸

Rate of farms with applied for milk quota based on farm size

Table nr.4

Number of cows/applicant	%
< 2	43,6
3 to 5	18,0
6 to 10	7,9s
11 to 50	16,4
51 to 100	3,8

²⁸⁷ http://www.infolapte.ro/cota_laptelui_ue.html

²⁸⁸ http://www.infolapte.ro/milk_quota_romania.html

> 101	10,3
-------	------

622,504 holdings (farms/individuals) applied for *quota for direct sales*. These requests can be divided in the following quantities;

Rate of farms with applied for different volume of milk

Table nr.5

Volume in Kg	%
< 5.000	66,7
5.001 – 10.000	14,9
10.001 – 50.000	13,0
50.001 – 1.000.000	5,1
> 1.000.001	0,4

This information let us submit to some conclusions:

-More then half of the milk quote is allocated to direct sales to consumer, this means it was not processed in dairy products

-Family farms with 1-2 cows allocate almost half of milk quote and their annual milk production is resumed up to 5000 kg

-There are almost 1 190 000 farm – and the offer is concentrated in the hands of a huge mass of people which conduce to difficulties in price negotiations.

Conclusion

The application of milk quota system determinates in our country many unethical and anticompetitive aspects, as we identify:

-Lack of information. We are conscious about the power and the importance of information nowadays. But on milk market the lack of information about milk quota system and its manage was present. As we mentioned upon, 71% of the farmers are 55 years old and over, fact that determed a association of the term milk quota system with communist notion. As a result many old farmers did not retread all the procedure necessary in obtaining the decision for quota milk system.

-inefficient allocation of quota. In the reference period for the volume of milk and individual quota, many farmers which was also milk processors declared a greater quantity of processed milk, as they had in reality, in order to obtain a good milk quota. 1,093,000 ton of milk were had to be delivered to processors 1,964,000 ton for direct sales and to each farm was dispatched a decision with its own quota and if there are allowed to sell the milk direct to the consumer (quota of direct sales) or only to processors (quota of delivered to processor – and the name or processor for example S.C. Dorlact S.R.L.) In these conditions many farmers were confined to direct sales or deliver to processors. If they wanted to sell their milk direct to consumer but they had a quota of delivered to processor, they had to do the conversion between these two types of quota. These situation created confusion beyond the farmer and processors with effect their competitively.

-Inefficient use of quota market by some producer. Each milk unit – fabrics, can annually process a volume of milk establish in a decision from Agriculture Minister. If this quantity is overdue or the producer delivering to the purchasers a higher milk quantity then the available individual milk quota, he have to pay the overrun levy for the milk quantity delivered over the quota. For the quota year 2007-2008, the levy is 27.83 Euro/100 kg of milk. This situation involved unethical aspects such as the farmers who overdue his quota to declare in someone else name the overdue quantity. Or if the producer delivers in one year less than 75% of his individual

quota, in the next year, his quote will be diminished with 25%. For example if a farmer has a initial quota of 10000 kg milk and it delivers only 6000 kg milk to a processor in one year²⁸⁹ next year his new quota will start from 7500 kg milk. This was so far a condition mentioned. But, for the year 2007/2008 the individual quota was not diminished for those who did not achieve the 75 % of quota, as it resulted from a producer in country land Bihor database.

-Unethical aspects on quota trading. Since the original allocation of quotas to producers in 1984, Member States have implemented various systems to redistribute unused or new quotas. Under a quota regime, each producer's "rights to produce" are limited but where the trade of quotas is allowed, he may be prepared to pay for additional rights from other producers if he still expects sufficient profit, after deduction of the costs of the additional rights. Other producers who make much lower profits in their dairy activity or who want to reduce or cease this activity for other reasons e.g. to work outside agriculture or to retire, may be interested in selling or leasing their quota, thus making additional income.²⁹⁰ These sentence beyond, extras from Report on milk quotas, Commission of the European Communities, illustrate how efficient should the quota trading be manage. But the reality in our country, was confronted with selling of individual quota to different to a low price by the older farmer. There was presume upon them that their milk in not conform to the European norm; it can not be processed, so the firm didn't buy their milk. Their unique solution was to sell their individual quota to a low price.

Phasing out the milk quota system across the EU will help larger dairy producers and processors to become more competitive in the world dairy market. Milk quotas will become less relevant for dairy farmers' incomes as EU dairy intervention prices fall further and EU market prices come closer to world market levels,

Abolishing milk quotas is also likely to help larger dairy producers and processors to expand, speeding up the consolidation trend within the sector.

Bibliography:

1. Report on milk quotas, Commission of the European Communities, Brussels, 2002;
2. Press Release, Romania closed negotiations for Chapters 7 – "Agriculture";
3. Agriculture main statistic, 20006, Eurostat;
4. www.infolapte.ro;
5. www.milchindustrie.de;
6. http://ec.europa.eu/agriculture/capreform/index_en.htm.

²⁸⁹ In milk quota system a calendar year begins at 1 April and end at 31 March next year, this is the interval of activity reporting.

²⁹⁰ Report on milk quotas, Commission of the European Communities, Brussels, 2002