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Inefficiencies in the UK milk quota system[☆]

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Abstract

Given that the Common Agricultural Policy (CAP) of the European Union has imposed milk marketing quota on producers, the fact that they are tradeable in the UK increases economic efficiency. Nevertheless, significant inefficiencies remain. Modelling work reported here suggests that significantly more quota needed to be transferred from less to more efficient producers in 1996/97 for industry efficiency to be maximised, and that a large number of vulnerable inefficient producers remained in milk production. It is also shown that, despite tradeable quotas, a significant number of dairy farmers still achieve a poor match between available quota and production. It is argued that the rules on quota trading could be changed to increase efficiency. Finally, it is argued that UK milk producers are incurring costs for acquiring quota which add at least 12.5% to production costs: a high price to pay for the market stability which quotas have brought. © 2000 Elsevier Science Ltd. All rights reserved.

Keywords: Tradeable quotas; Milk; Costs and inefficiencies

In a market such as that for milk quota in the UK, inefficiencies can arise (1) from constraints imposed on the operation of the market, and (2) from the inability of milk producers to use the market to its full potential. This paper explores both of these sources of inefficiency, and argues that the inefficiency of producers in using the market exceeds that due to restrictions arising from the rules governing the transfer of quota. It may be argued that another major source of inefficiency has arisen. This is due to the extension of the life of milk quota beyond the life expected when the quota regime was imposed on European Union dairy farmers in 1984. The impli-

[☆] This paper draws and expands upon elements in the report by Colman et al. (1998).

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