Sequence 2 : The farm model

Unit 2.3 : Simulating a public policy

Lesson 20 : The CAP and dairy policies

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Overproduction in the 1970’s

- The guaranteed high prices policy for milk and dairy products led to an overproduction crisis as early as the end of the 1970’s

  Rivers of milk, mountains of butter

- Crisis management : Lowering the guaranteed prices ? Other strategy?

- Choice : other strategy (1984) : implement production quotas – Each member State cannot produce more than a certain quantity of milk. Limiting the supply thus limits price decreases

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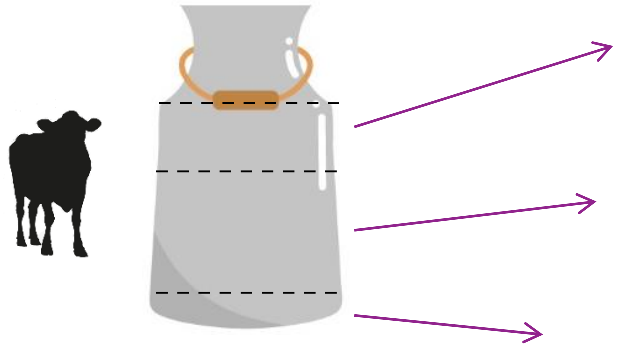
Dairy quotas

National quota



Farmer 1	Quota 1
Farmer 2	Quota 2
Farmer 3	Quota 3

Each farmer cannot produce more than his allocated quota because the surplus milk delivered to the dairy plant will be taxed

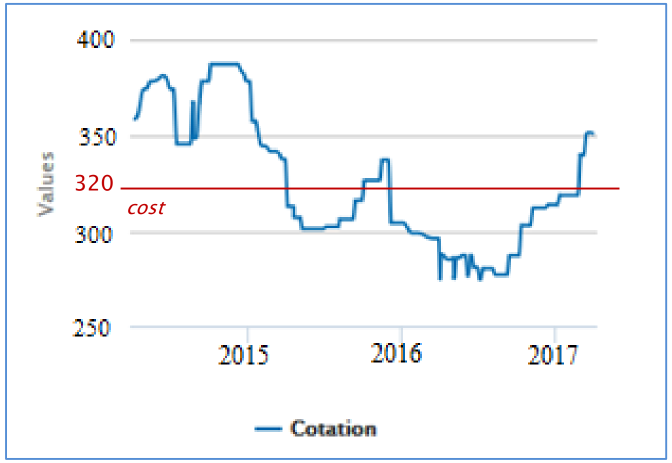
- What if the farmer retires ?
- What if a young person wants to set up a dairy farm ?

Reallocation of quotas
- By the market (United-Kingdom)
- Supported by the government (France)

The dairy crisis since 2015

- Quota -> stabilization of European prices during 30 years
- But Europe wants to meet the growing global demand which leads to rising international prices
- Abolition of milk quotas in April 2015

Milk prices (€/1000L)



- BUT… nothing went according to plan !

- Over-investments, significant increase and stagnation of global demand

→ Fall of prices (27 cents €/L)
and significant income decreases

Emergency plan of action to help farmers face the crisis

e.g. : Voluntary reduction : Compensation (10 cents €/L) for every non-produced litre of milk for the farmers willing to participate

→ **Activity**

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