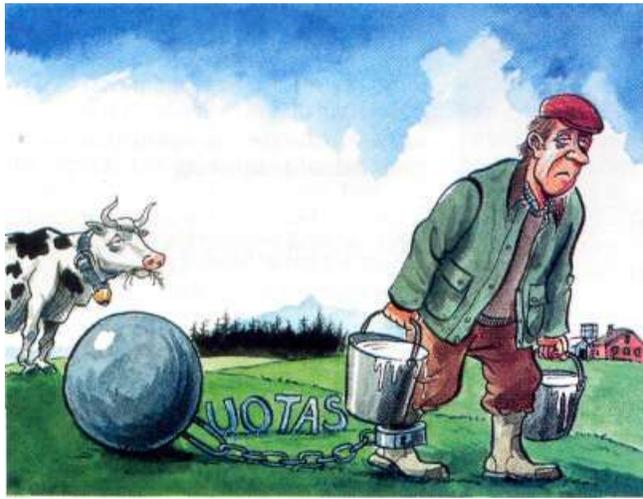


A row about milk quotas only confirms the idiocy of Europe's common agricultural policy



AT LAST, say some European Union leaders, it is time for tough talk about the future of farming. Even the subsidy-mad French agree: a mid-term review of the common agricultural policy (CAP) is to begin during their stint in the EU's rotating presidency, later this year. It all sounds encouraging. Except for this: even as governments boast of tackling difficult reforms soon, France, Germany and others are trying to thwart an easy reform now that would let EU dairy farmers take advantage of soaring world prices. The row centres on the EU's milk quotas, which cap production in each country, with swingeing fines for producing too much. It offers a revealing, and depressing, case study.

There may never be a less painful time to ease (or scrap) milk quotas. They were designed in 1984, when low market prices and high subsidies were filling EU warehouses with surplus "butter mountains" and mounds of milk powder, at ever greater cost to the EU budget. Liberal-minded types wondered naively if cutting subsidies might be an idea. They were outvoted by the farm lobby, which chose to curb production via quotas so as to boost prices. As an instrument, it was blunt-but it worked.

Today, the conditions of 1984 are reversed. Steady growth in demand for cheese, yogurt and so on, whether in Europe or Asia, has pushed up world prices (with some wild spikes last year). Surpluses are long gone: last year the EU undershot its milk quotas by about 2m tonnes. But because quotas cannot be traded between EU countries, go-ahead farmers in places ideally suited to dairy farming—the coastal areas of north-western Europe, such as the Netherlands, Denmark or Poland—cannot produce as much as they would like.

That does not worry those who see only today's high prices for their dairymen. But Gerrit Meester, a Dutch farm official in The Hague, calls the situation unsustainable. The EU is acting like a would-be "OPEC of the milk market", he says, referring to the oil producers' cartel. But OPEC had a bigger share of the world market; and even its price-gouging lured new rivals into production. "That is the risk we take in the EU," says Mr Meester, pointing to Europe's falling share of world dairy markets. If Europe does not act "more intelligently", rivals such as Brazil, Argentina and America will continue to ramp up production.

Each EU member sets its own rules for handing out quotas. Some allow farmers to trade and rent them, others dole them out

to favoured groups such as young farmers, farmers in disadvantaged regions or (officials allege) political supporters. To dairymen in less profitable places, like the Bavarian hills, the Alps or chilly northern Finland, only the quota system can guarantee high enough prices to keep them in business. Quotas are due to expire in 2015, according to the latest in a string of political compromises. Their fans will not hear of scrapping them earlier. Absurdly, even a modest proposal by the European Commission to raise quotas by just 2% in April has met stiff resistance from France, Germany, Austria and Finland.

Perverse effects abound. German farmers from the plains of Schleswig-Holstein would "love to see no quotas", says an official. Yet the German government is resisting reform. This is said to be because the German farm minister is both ambitious and from Bavaria, a hilly place with lots of small farms. France fell far short of its quota last year, thanks in part to a system of state planning that ties quotas to individual regions, to prevent concentration of the industry in profitable areas. In practice, this means that frustrated dairy farmers in Brittany and Normandy cannot expand, while quotas languish unused in other regions. French officials proudly proclaim that EU quotas are the reason that milk is still produced in every corner of France.

This is all especially pleasing to Michel Barnier, the French agriculture minister. He is from the Alps, and likes to say that one EU priority must be to save European palates from industrial, "aseptic" food. One Eurocrat says more bluntly that the French have "decided to save mountain farmers by kicking farmers in Brittany". And while gourmet France under-produces, industrial America has been "flooding" world dairy markets, he adds: perhaps not the outcome France had in mind.

How to create a lobby group

It is an EU rule that unintended consequences, left for a few years, fossilise into special interests. The Dutch, who sell most of their milk abroad (largely in the form of cheese), want to liberalise the dairy trade. But even in the Netherlands, milk quotas benefit some. Older Dutch dairy farmers may hold quotas worth €1m, which they can sell when they retire. The financial impact on these folk would make it politically hard to scrap quotas overnight, say Dutch farm officials, even if it would help younger farmers, for whom quotas are a big disincentive. "The quota system was never meant to be a retirement scheme, but it has worked out that way," says an official.

The 2% quota increase will probably go through next month, even though the camp led by France says that the EU should wait to discuss it along with other CAP reforms under the French presidency (delaying any change by at least another year). The go-slow camp can probably be bought off with promises of extra money for small farmers or mountain herds.

In truth, even liberal countries such as the Netherlands have no objection to subsidies for preserving pretty (but uneconomic) landscapes or animal welfare. Siem-Jan Schenk, a dairy boss at the Dutch farmers' union, LTO, says that "the direction we are going in is to say to France or Bavaria, give us the freedom to expand, and you will have instruments to protect production for the good of society." Freedom for all, in return for subsidies for farmers who yodel or wear lederhosen. It sounds like a fair exchange. So why must Europe wait seven years to implement it? That, it seems, is a political question too tough for EU governments to answer any time soon. ■