



Charles Holt, an independent consultant with the Farm Consultancy Group, talks about important business issues facing dairy producers today. Here he looks at the sudden spike in milk quota prices and offers some advice and reassurance to worried producers.

Charles Holt: "I don't believe we'll reach quota this year"

# Milk-quota madness



**M**ilk quota prices have leapt from around 0.25ppl up to between 1.8ppl and 2.5ppl within a week. Or at least that is what Potter, Townsends and Rostons were asking for on their websites, as CowManagement went to press, and it appears that some people are paying this exorbitant price.

There is no difference between purchase and lease price in this final year of the Milk Quota regime, although there may be taxation reasons why you may prefer to lease rather than to buy.

Why would anyone pay these prices? I don't believe that we will reach quota this year. But whether you think we will reach quota or not, there is a fundamental reason why having enough quota to cover production may be important to some producers.

Your milk buyer could decide not to pay you for milk sold to them if you do not have enough quota cover.

Milk buyers are required, by the milk quota regulations, to pay any super-levy due to the RPA and, of course, they have to collect it from you. If you have gone out of milk, or if you have moved milk buyer, they may not find it easy to collect the super-levy that's due.

## Avoiding risk

Consequently they may withhold your milk cheque. After all, why should your milk buyer take this risk, when it is the producer who should have the quota to cover deliveries?

This lack of a milk cheque has, of course, caused cash-flow problems in the past, and could do so this year.

The solution in some cases has been to provide your milk buyer with a 'banker's guarantee' and you may well find that this is far cheaper than buying or leasing quota, particularly if you think we will not reach quota this year.

There are, of course, two big fears if we do exceed quota this year. The first is super-levy, which is 27.83 euro cents per kg, or

about 23ppl, this year. The latest quota year that the RPA has an actual figure for is 2012/13, when it was 24.23p per litre, and quota was not hit in that year in the UK.

Producers' second fear is not being paid for milk. Milk purchasers have to account to the RPA for the milk that you produce, butterfat adjustment and the quota that you hold. They have to pay your levy to the RPA and then collect any super-levy from you, as mentioned above.

## Calculation changes

There have been a number of changes in levy calculations since we previously paid it in 2003/04. One of the major ones is that it is now done at the level of the individual producer, rather than at milk purchaser level.

Now if you are over your quota, and the country is over its total quota, then you will be liable to pay super-levy.

The second change is that the butterfat penalty has been reduced by 50%. This is, of course, a benefit to any country in a potential super levy situation.

However the concept of 'threshold' is still there, as nationally the quota available from those who are under is 'reallocated' to those who are over quota.

So even if there is a super levy because the country is over quota this year, it is certain that those who are only over quota by a relatively small amount will not have any levy to pay. The burden of any levy would fall on the shoulders of those who are most over quota.

Milk production in the UK is, indeed, booming at the moment. But, even with optimistic milk production estimates, my 'educated guesses' and calculations show a deficit for the year of around 660 million litres.

The butterfat penalty is now less than it used to be and this would add on around 65 million litres of milk. But this would still put our national deficit for 2014/15 at around 600 million litres, or 4%.