

## **Press Release**

**(for Sunday, July 31)**

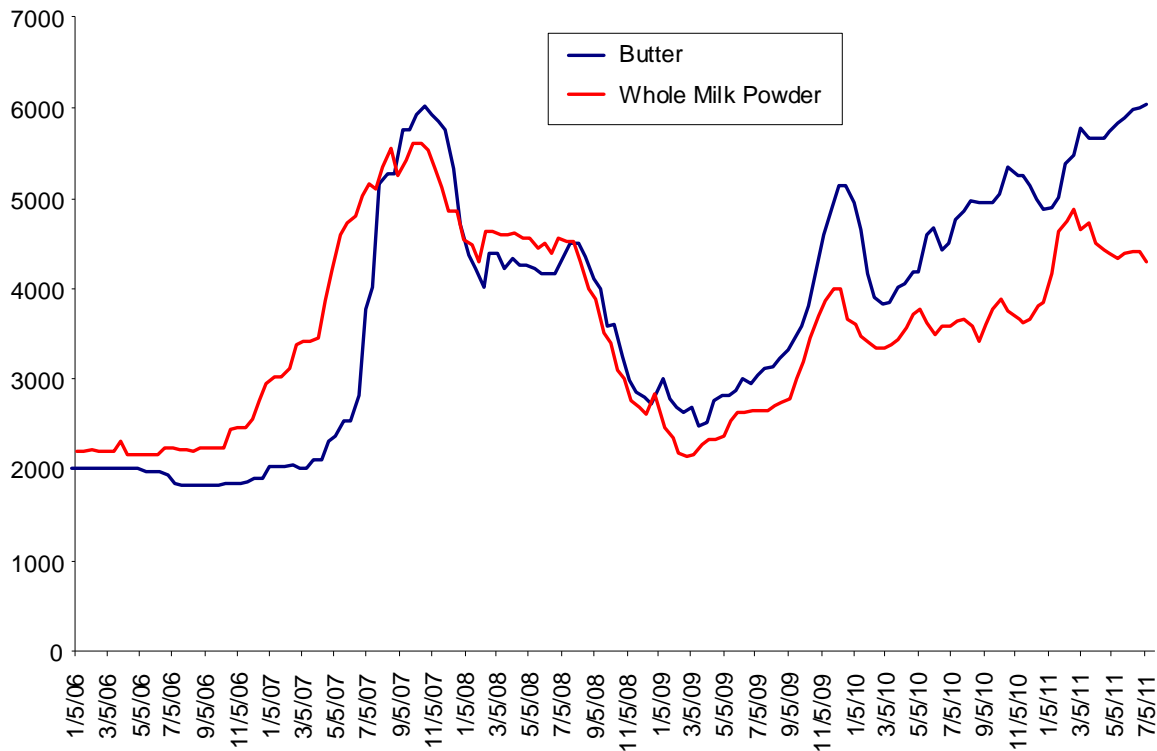
**Taub Center: The proposed dairy market reform does not deal with the major problems and is not expected to have a significant effect on consumer prices. Two billion NIS invested in dairy farms during the last decade and decades of investments in dairy cow breeding might be lost**

**Taub Center warns that the reform will hit hardest for small dairies and dairy farms, located mostly in the periphery, while the large dairies and marketing chains will continue to enjoy extra profits. Furthermore, the reform will increase consumer price volatility**

Prof. Ayal Kimhi, Taub Center Deputy Director, says that the Kedmi committee on reforming the dairy industry, that was formed as a result of the cottage cheese protest, and whose recommendations were recently adopted by Prime Minister Netanyahu, avoided dealing with the major problems of the industry. Consequently, the proposed measures will not affect consumer prices in the near term, and moreover, will expose the Israeli market to international price fluctuations.

According to the calculations of the Israeli Dairy Board, in the last 18 months the price of reconstructed milk from imported milk powder and butter has not been significantly lower than the domestic price, and forecasts indicate a prolonged increase in world milk prices due to increased demand. Moreover, prices of imported milk components have been subject to considerable fluctuations in recent years (Figure 1). These fluctuations are expected to continue throughout this decade. Thus, relying on imports of milk components could expose Israeli consumers to price fluctuations not seen in the past in Israel.

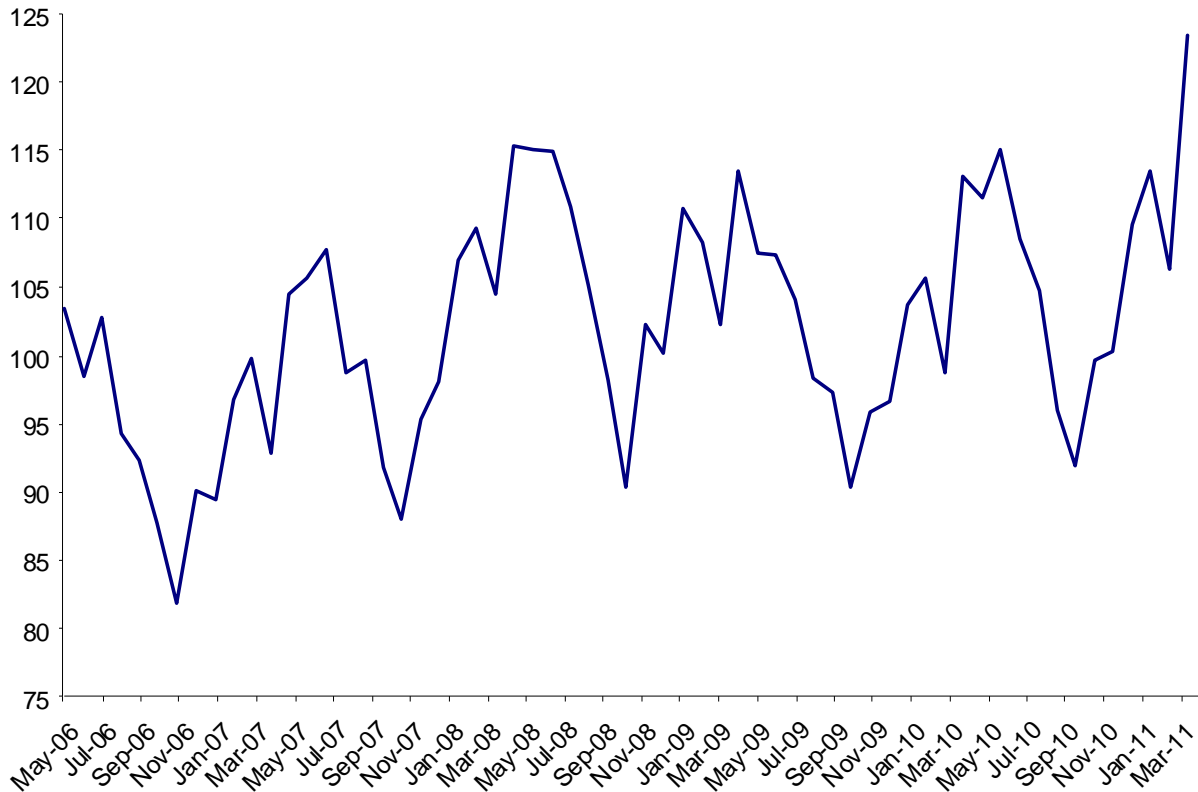
**Figure 1: Prices of Raw Dairy Imports from Europe, \$/ton**



**Source:** Taub Center for Social Policy Studies  
**Data source:** FAO

Milk production is seasonal, with gaps of up to 20% between the quantities produced in the winter and in the summer (Figure 2). The seasonality problem is handled by using milk surpluses in the winter to produce hard (yellow) cheese. Imports of hard cheese will hurt this mechanism for regulating seasonality. Without this mechanism, dairy farmers will reduce production year-round, leading to a shortage of fresh milk, which cannot be imported, during the summer months. This shortage will necessarily cause price fluctuations. One of the major policy instruments used to protect European dairy farmers is the purchase and storage of surpluses during the peak production months. The recommendations of the Kedmi committee severely impair Israel's ability to handle the seasonality of milk production, and expose consumers to seasonal price fluctuations.

**Figure 2: Seasonality of Milk Production in Israel (million liters)**



**Source:** Taub Center for Social Policy Studies

**Data source:** Israeli Dairy Board

Prof. Kimhi: "In recent weeks, it seemed like the government realized the need for more intervention in markets in order to protect consumers from market failures. But in the dairy market, the proposed policy goes in the opposite direction. While the large dairies and marketing chains enjoy monopolistic power and are responsible for the lion's share of price increases of dairy products, the committee chose to focus most of its attention on the weak part of the chain, the dairy farmers, who have always been subject to supervision and regulation. The proposed reform will hit hardest for small farms and dairies, located mostly in the periphery, while the large dairies and marketing chains, as well as the new importers, will continue to enjoy wide profit margins. Dairy farm efficiency can and should be enhanced gradually, as has been done in the past, but opening the milk market to imports without regulating monopolistic profits will not affect consumer prices considerably."

As recently as this past April, the Israeli government passed the Milk Law, which among other things states that "on top of the said arguments for the need for planning and regulation in the dairy industry, most of which are economic arguments, planning in this industry has another important aspect: planning of an industry, in which milk production is regulated and production quotas are given to producers residing on farms and making a living off milk production as a

primary occupation, enables implementation of the government's policy to preserve and strengthen development of wide areas of Israel, through the protection of active dairy farms and the creation of an economic anchor for development of the periphery." Adopting the proposed reform is totally opposed to the stated government policy of strengthening the periphery.

The Taub Center for Social Policy Studies in Israel, headed by Executive Director Dan Ben-David, provides the country's leading policy makers and the general public with a "big picture" perspective and policy options in the economic and social spheres. The Center's Policy Programs include prominent academic researchers and leading experts from the policy realm who carry out cutting edge academic research on the nature, source, scope, and resolution of some of the most severe problems that Israel is facing, and bridge these together with the formulation and implementation of policy recommendations.

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