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Melitz Meets Milk: The Impact of Quota Abolition on EU Dairy Export Competitiveness

This is the Accepted version of the following publication

Philippidis, G and Waschik, Robert (2019) Melitz Meets Milk: The Impact of Quota Abolition on EU Dairy Export Competitiveness. *Journal of Agricultural Economics*, 70 (1). pp. 44-61. ISSN 0021-857X

The publisher's official version can be found at
<https://onlinelibrary.wiley.com/doi/full/10.1111/1477-9552.12276>
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Abstract

Despite evidence to the contrary, a common feature of almost all previous studies of EU milk quota abolition is the assumption of perfect competition (PC) in the dairy industry. Employing a global computable general equilibrium framework, an imperfectly competitive (IC) model variant offers insights into structural change (i.e., scale of output, firm entry/exit) and varietal diversity in the dairy industry, whilst a heterogeneous-firm Melitz extension enriches the analysis by endogenising the decision making process of domestic firms when exporting (or not) to specific foreign markets.

The results from a PC CGE model variant are found to be consistent with respected market outlooks and official data. Furthermore, PC and IC variants generate broadly similar trends – a result corroborated in a previous study of Italian dairy. Our IC model prediction of a ‘shakeout’ in EU dairy is tentatively supported by actual observations. Finally, as an industry characterised by significant product-innovation, increased extra-EU export orientation by remaining dairy firms increases varietal choice which further boosts EU dairy exports compared with the PC model variant.

J.E.L. Classification Codes: C68, F12, Q18

Keywords: EU dairy quota; export competitiveness; CGE, Melitz model.