

National Dairy Policy: Where Are We Headed?

31st Annual Southern Dairy Conference

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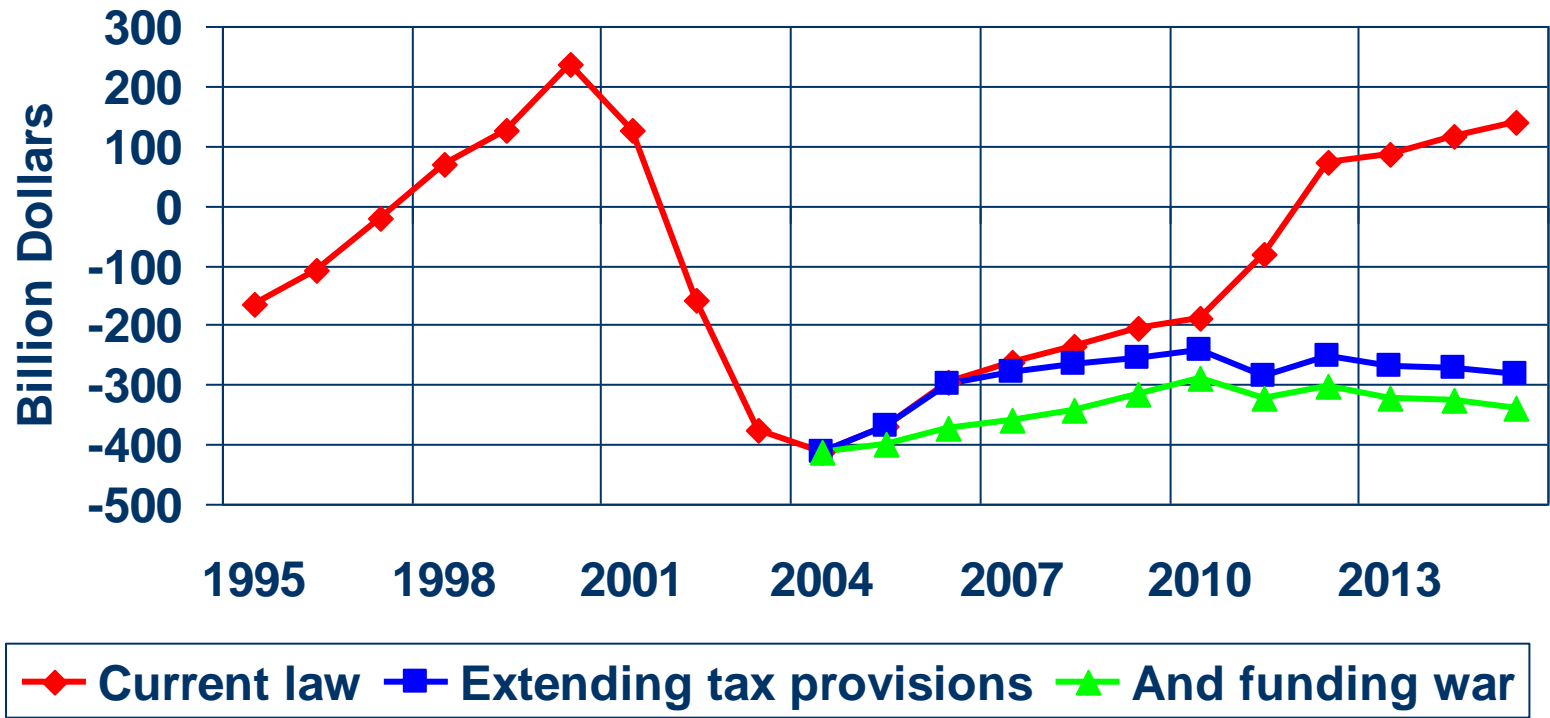
www.fapri.missouri.edu



I have better odds of winning the Powerball jackpot than....

- Guessing the future of dairy policy
- Remember that FAPRI will not endorse a particular policy
- FAPRI is in business to provide quantitative analysis

Federal Budget Surplus/Deficit



President's Budget

- There are still questions to be answered about the details – Secretary of Agriculture's testimony to the House Agriculture committee this Wednesday should help clarify some of the changes
- Net CCC outlay reductions of \$5.7 billion over the next 10 years
- MILC program extended through FY07 (at a cost of \$1.2 billion)
- MILC program takes a 5% reduction in payments (think of the current 45% moving to 42.75%)
- Minimize the cost of the price support program

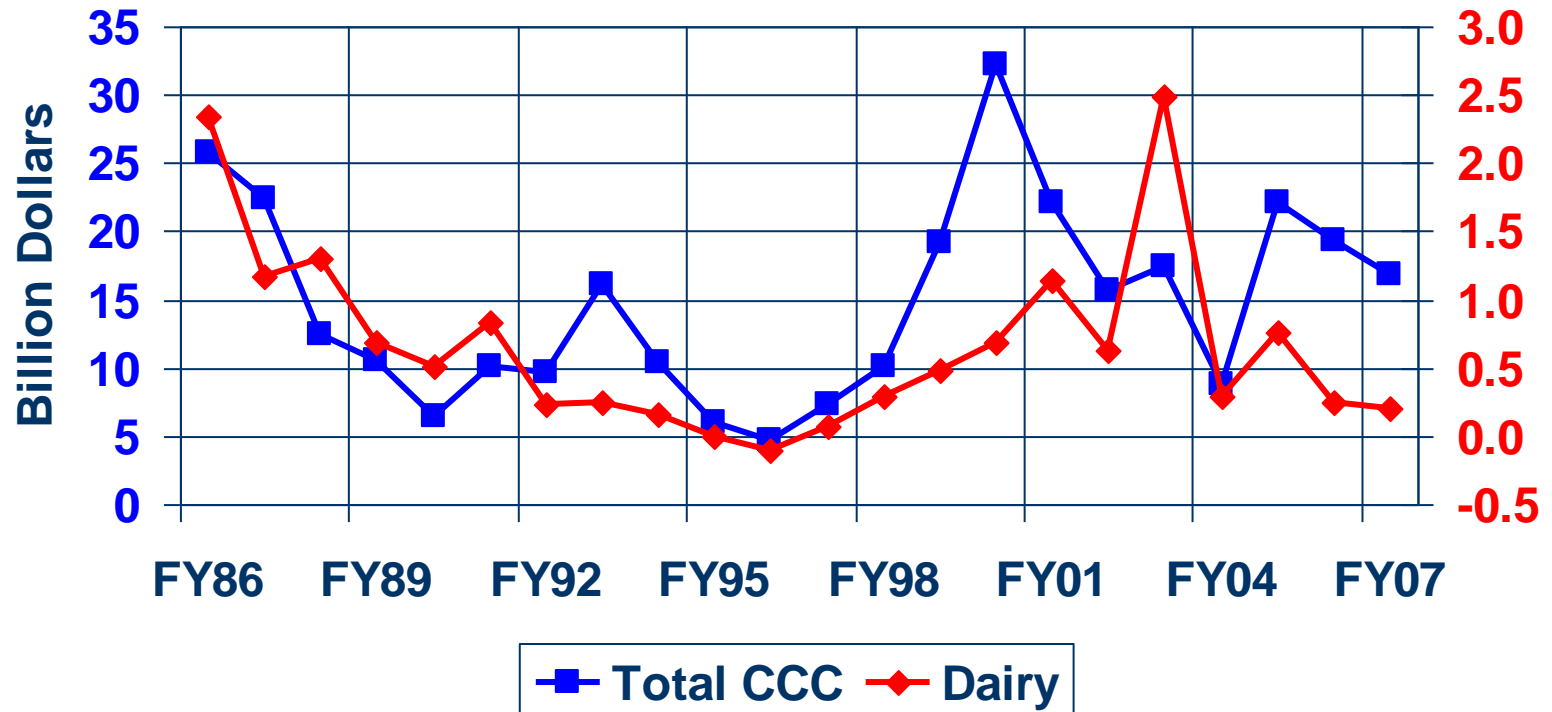
What are the next steps in the budget process?

- Congress could adopt the President's budget
- Congress could hit the same savings target for agriculture as in the President's budget but have a different mix of cuts
- There is a lot of work left to do and it could take time to reach an agreement on the overall budget

What does that mean for dairy programs?

- It is hard to envision a better spending scenario than is seen in the President's budget
 - No MILC after FY05 under current law
 - President's budget spends \$1.2 billion in FY06-FY07, few other cases of increased spending in the agriculture budget
 - Price support program changes under the President's budget?
- Congress could decide not to spend additional money on federal dairy programs
- Congress could decide to spend the additional \$1.2 billion on a different kind of program
 - Modified MILC
 - National Dairy Equity Act (NDEA) or a similar program
 - Something completely different

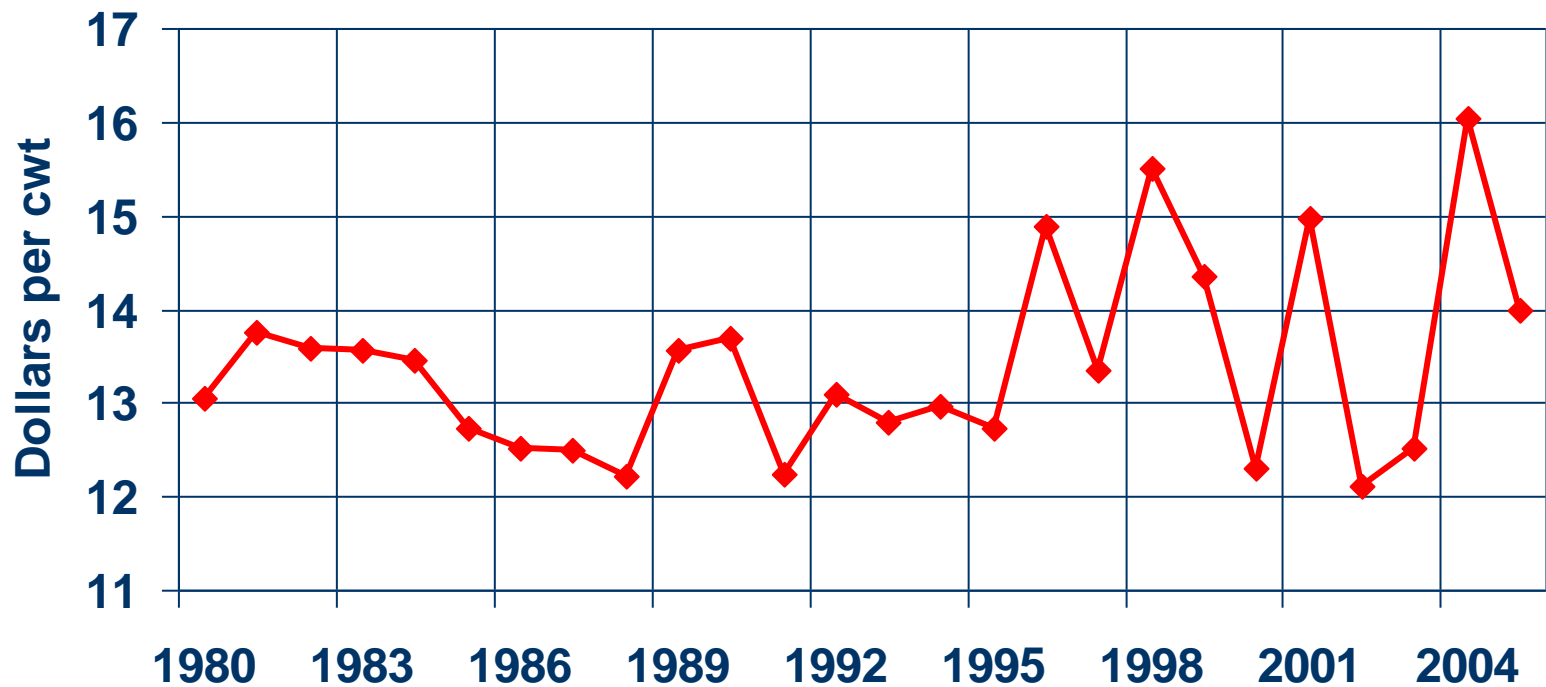
Total CCC and Dairy Expenditures



New Players on the Agriculture Committees

- House
 - Chairman – Bob Goodlatte (VA)
 - Ranking Member – Collin Peterson (MN)
- Senate
 - Chairman – Saxby Chambliss (GA)
 - Ranking Member – Tom Harkin (IA)

U.S. All Milk Price



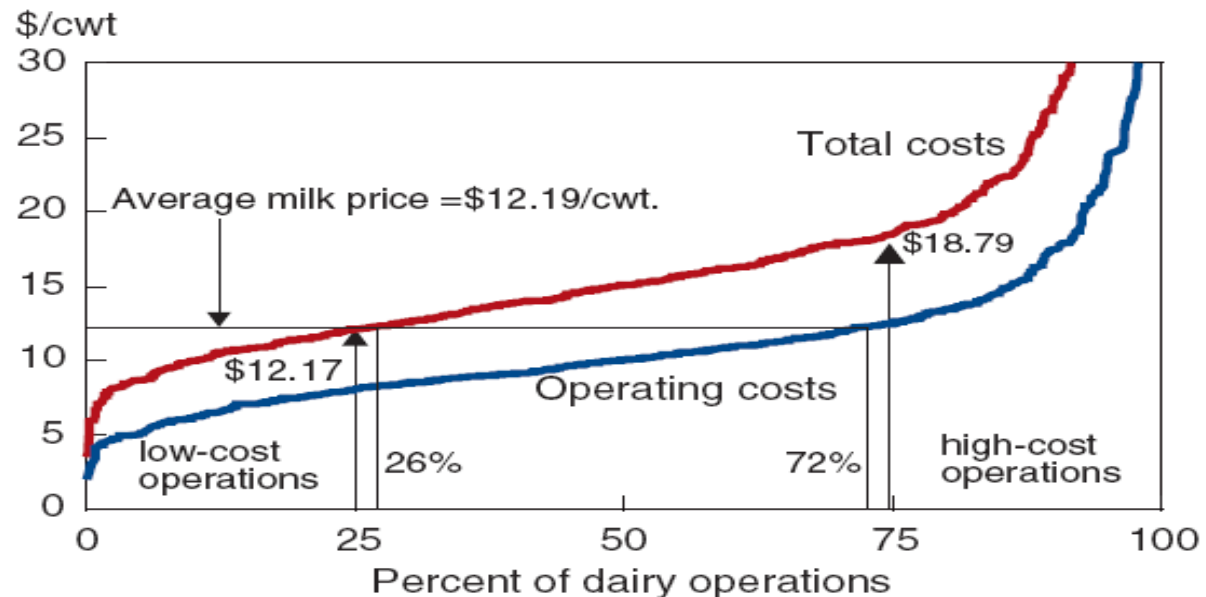
We are debating dairy policy at a time of high milk prices

Will the regional dairy battles subside?

- Very different structure around the country

Figure 5

Cumulative distribution of operating and total costs for producing milk, 2000

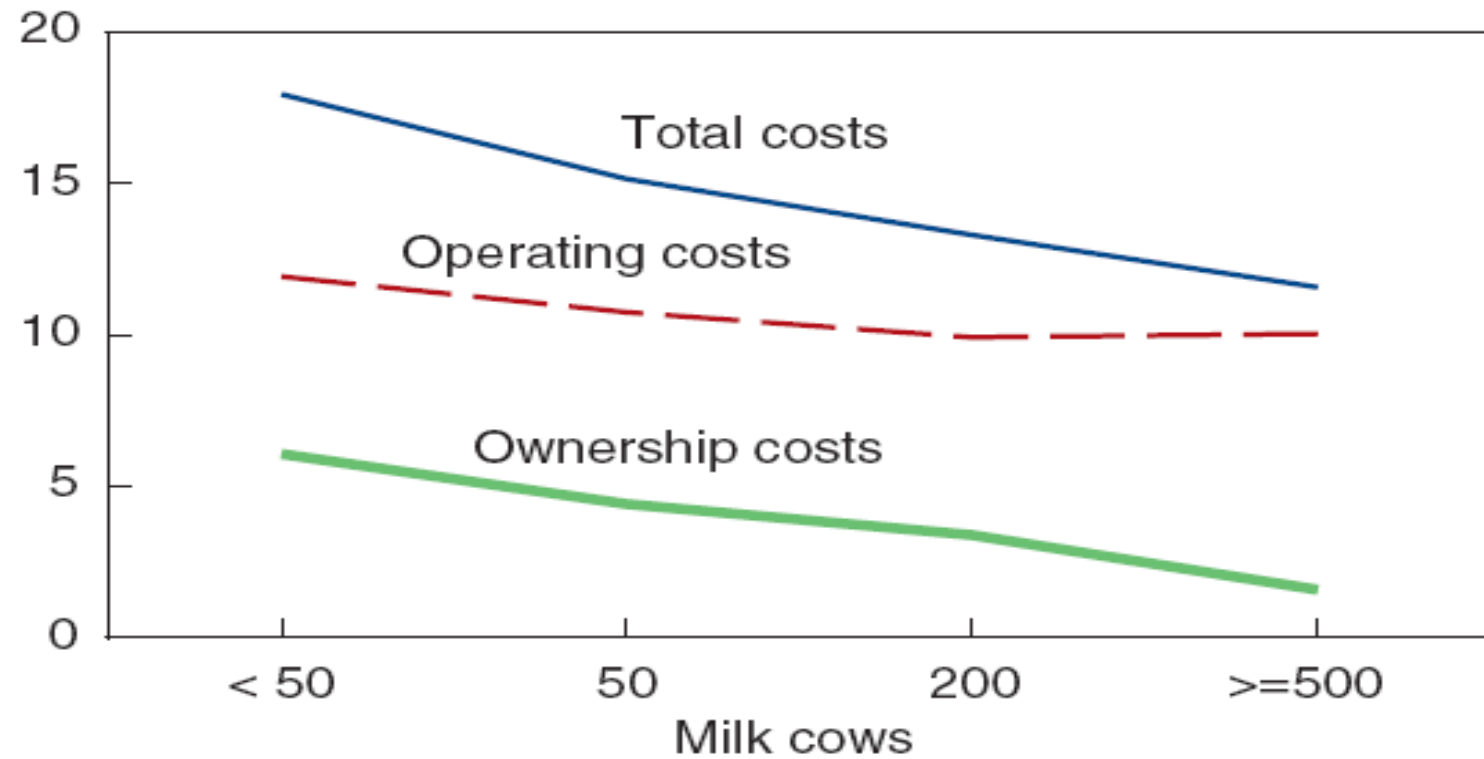


Source: 2000 ARMS, USDA, ERS.

Figure 4

Operating and ownership costs by dairy enterprise size, 2000

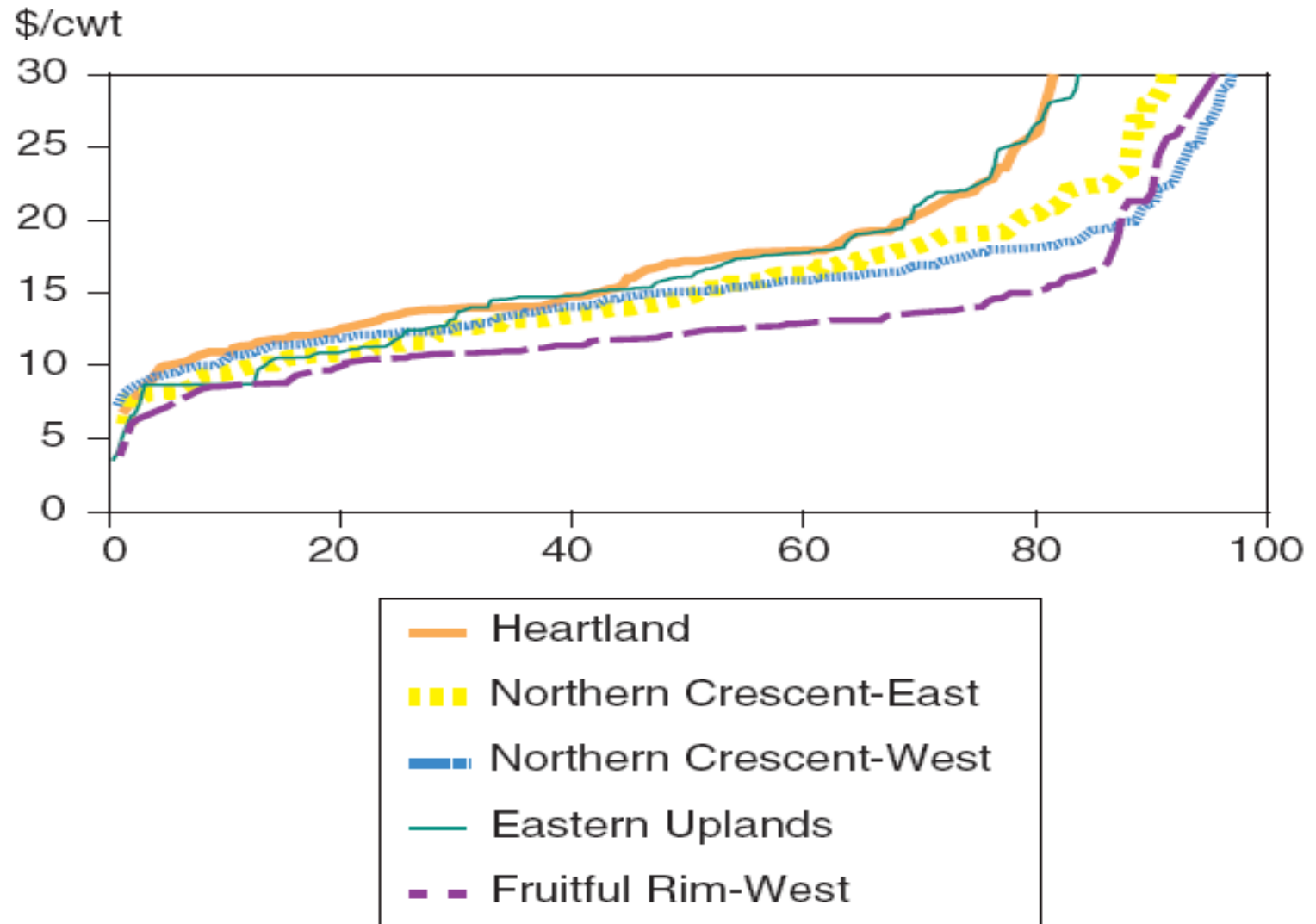
\$/cwt



Source: 2000 ARMS, USDA, ERS.

Figure 3

Regional cumulative distribution of milk operating plus ownership costs, 2000

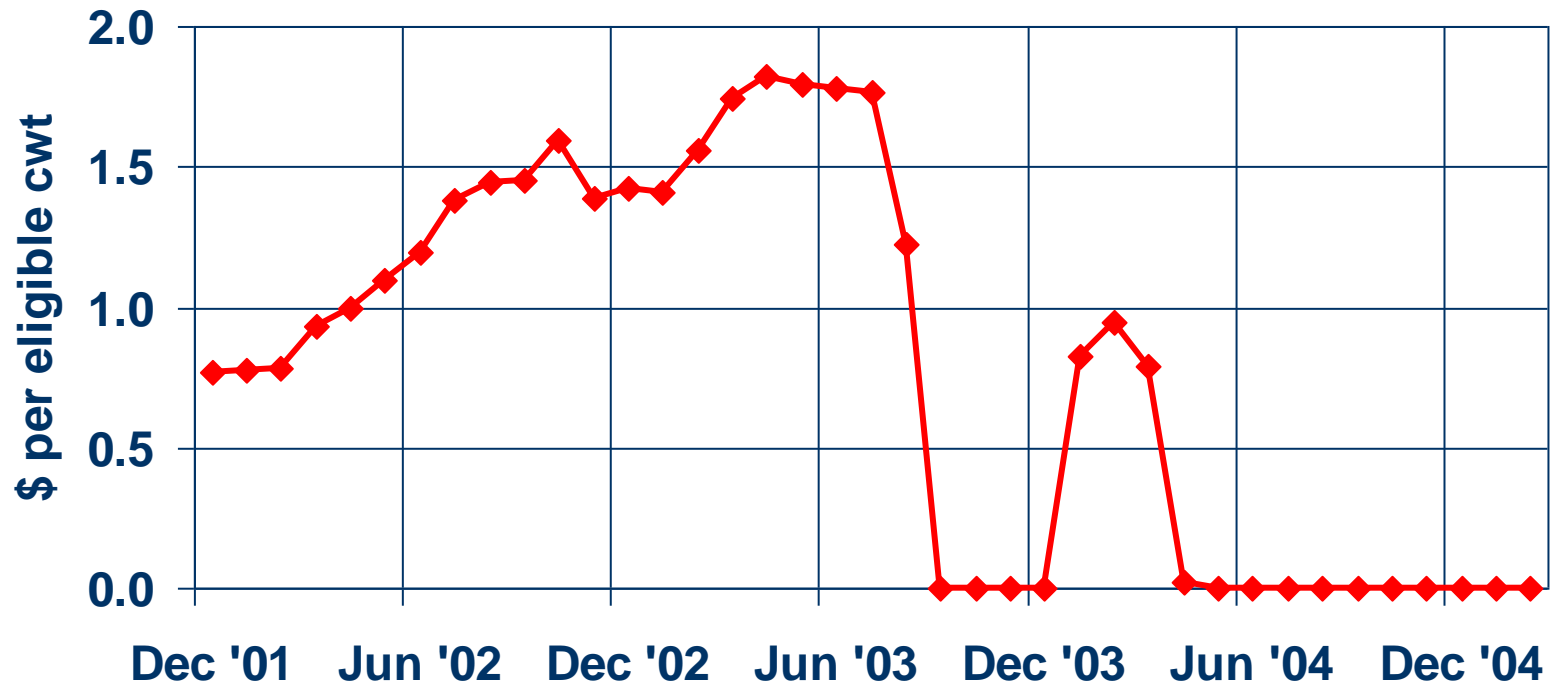


Source: 2000 ARMS, USDA, ERS.

A review of the MILC program

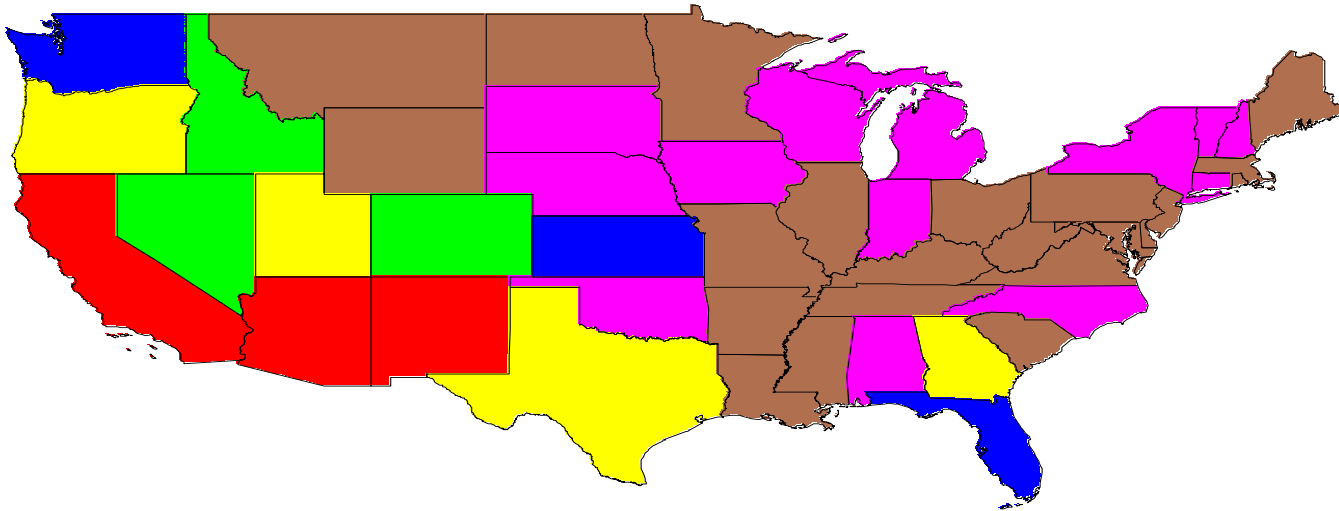
- FAPRI has estimated the MILC program lowers market prices for milk
 - \$0.25 to \$0.50 lower depending on how long the program is in place
 - An additional 1.4 billion pounds of milk produced
- MILC is a counter-cyclical program
 - It has a production cap
 - No historical base
 - Payment rate based on 45% of the difference in prices

MILC Payment Rate



MILC program costs to date \$2.017 billion

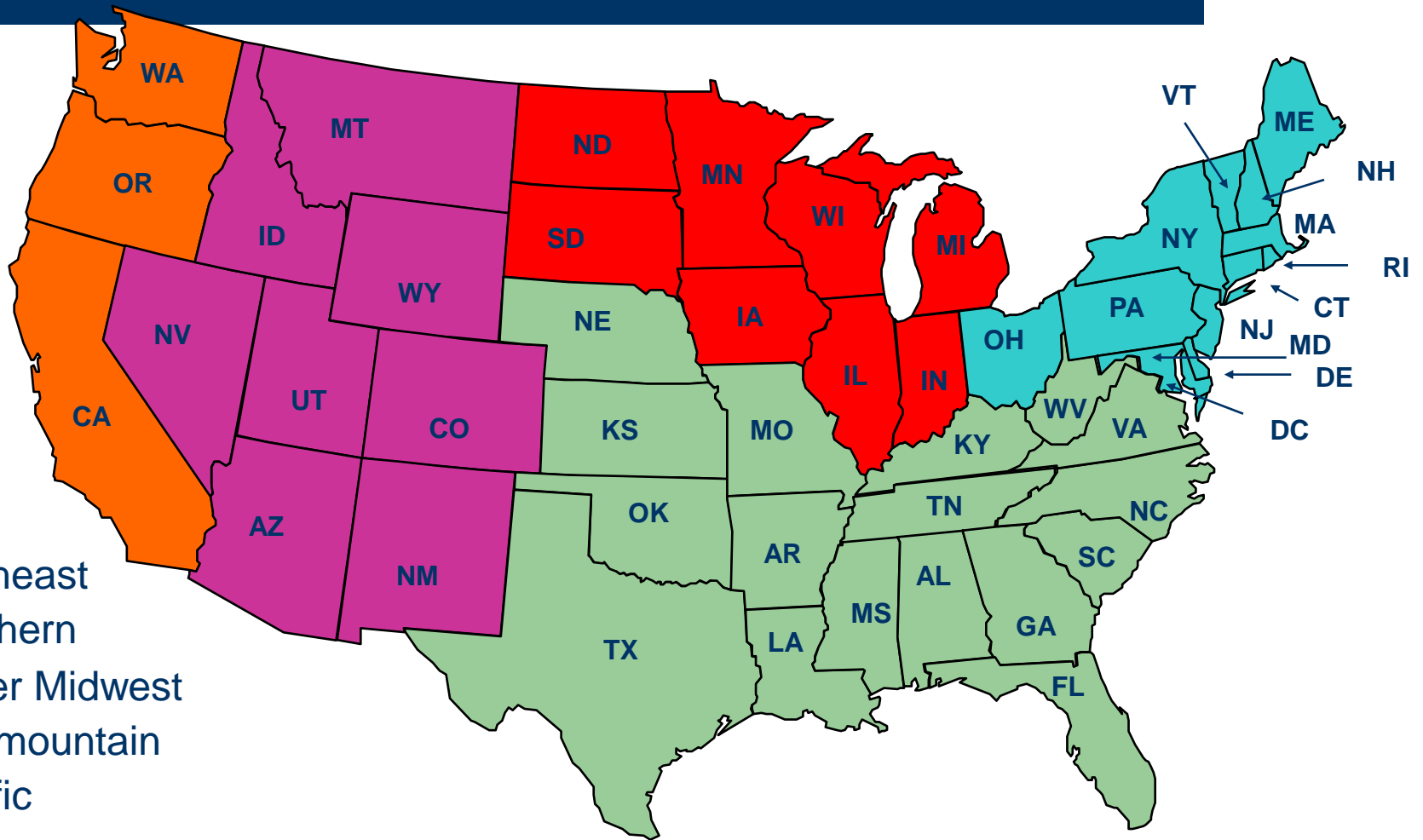
Milk production eligible for MILC payments with a 4.8 million pound cap



We could have a very different dairy program

- Something like the National Dairy Equity Act (NDEA)
- Something else completely new

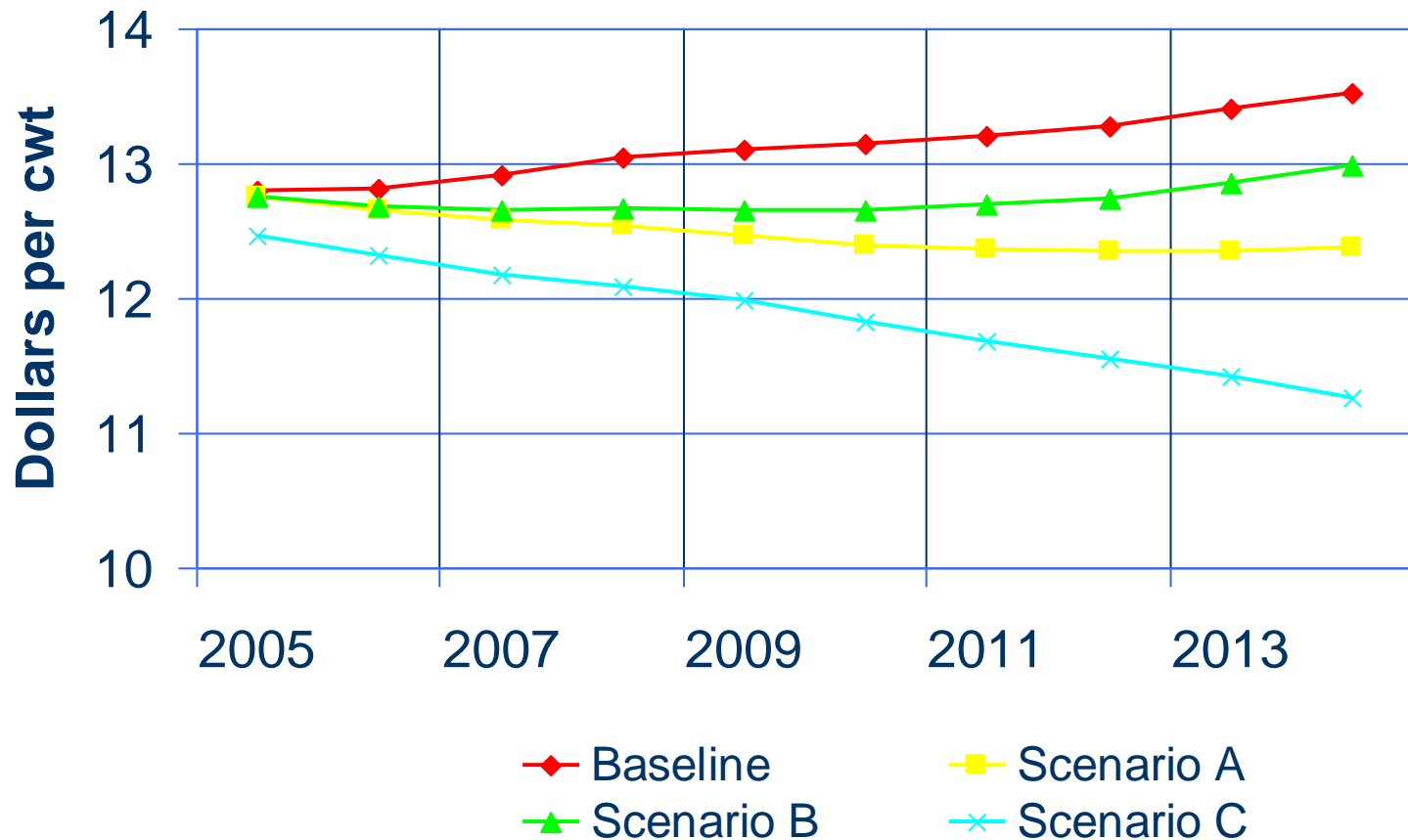
National Dairy Equity Act Regions



NDEA features

- Collect over-order premiums on fluid milk (not pooled)
- Allow low class I areas to receive payments from the CCC to put an effective floor on class I use of 50 percent
- This year's version of a NDEA-type program would likely have new features

U.S. All Milk Price Under NDEA Alternatives



Summary

- TOO EARLY to jump to conclusions about future federal dairy policy
- The President's budget does allow for a MILC extension
- How Congress chooses to hit budget targets remains unknown