

# Trade, Farm Bill and Dairy Policy Developments

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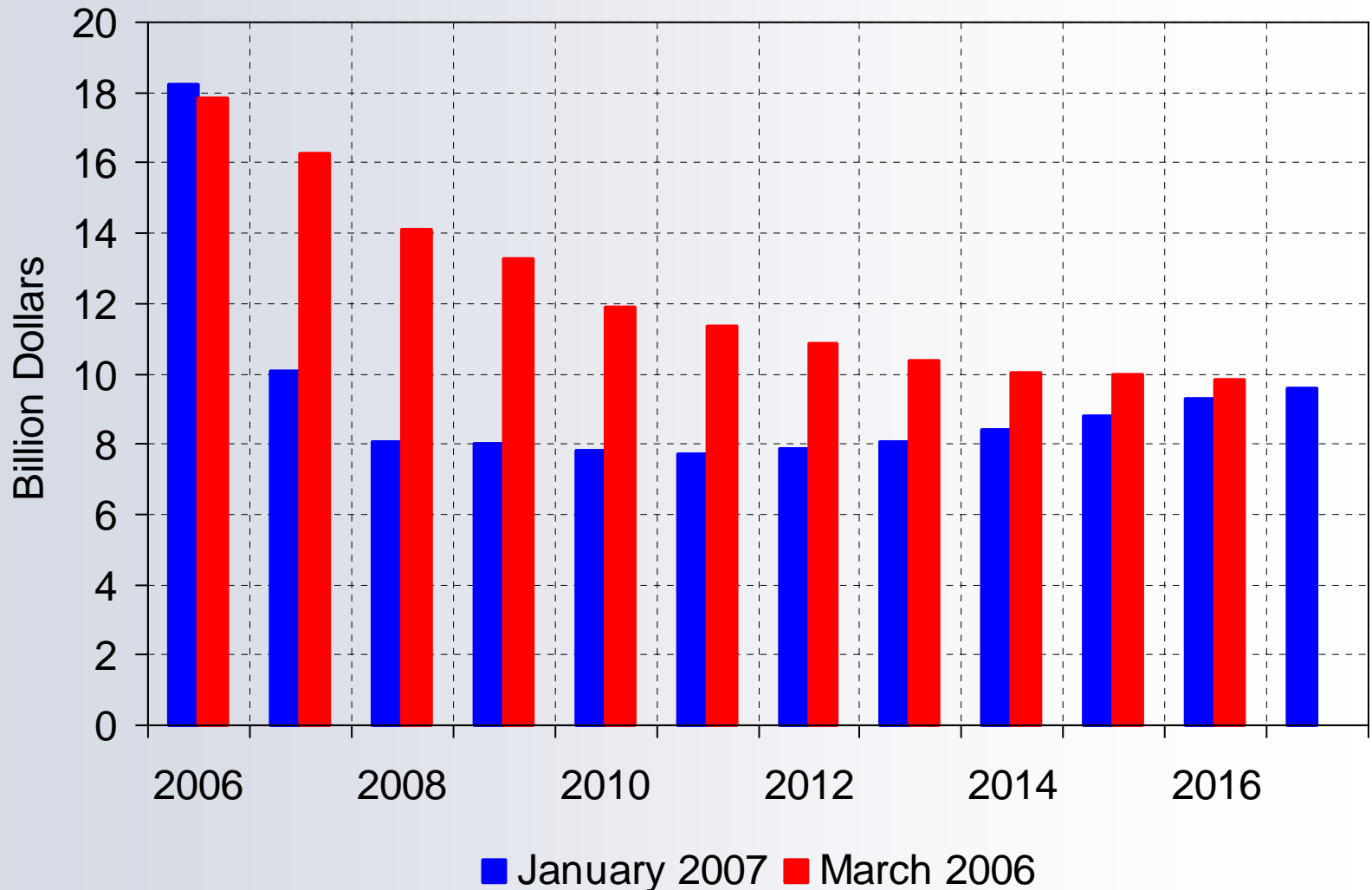
# Introduction

- I'll try and provide reasoning behind why many expect the next farm bill to look like the current program
- Baseline, baseline, baseline
- Other factors that could influence the debate

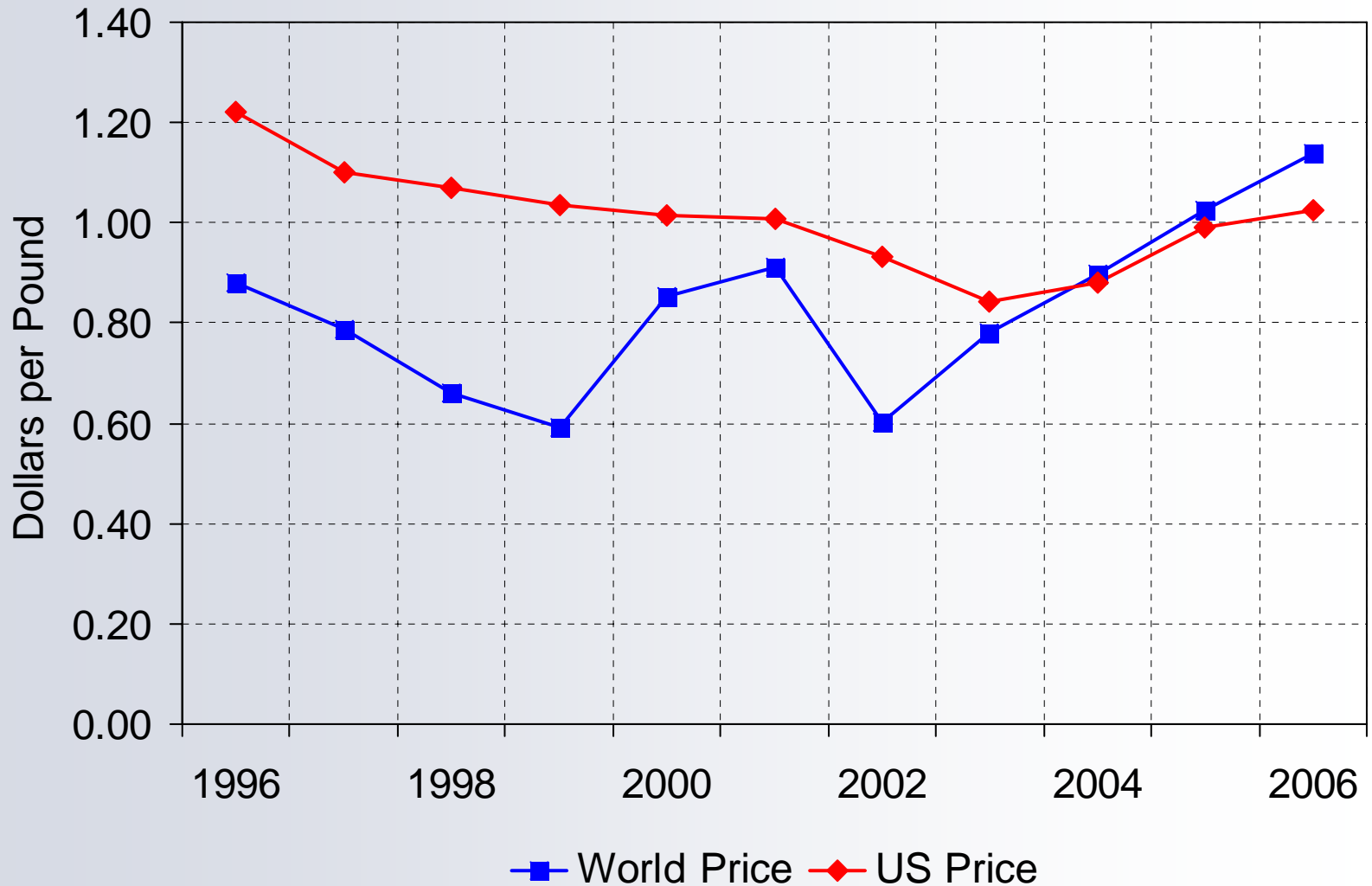
# Will Farm Policy be Driven by the Baseline?

- Recent market events driven by bio-fuels have lowered cost estimates of agricultural programs
- Major changes in global markets have changed the outlook for dairy price support spending relative to the 2002 farm bill debate
- This makes finding policy alternatives difficult when they need to fit within what is now a reduced-spending baseline

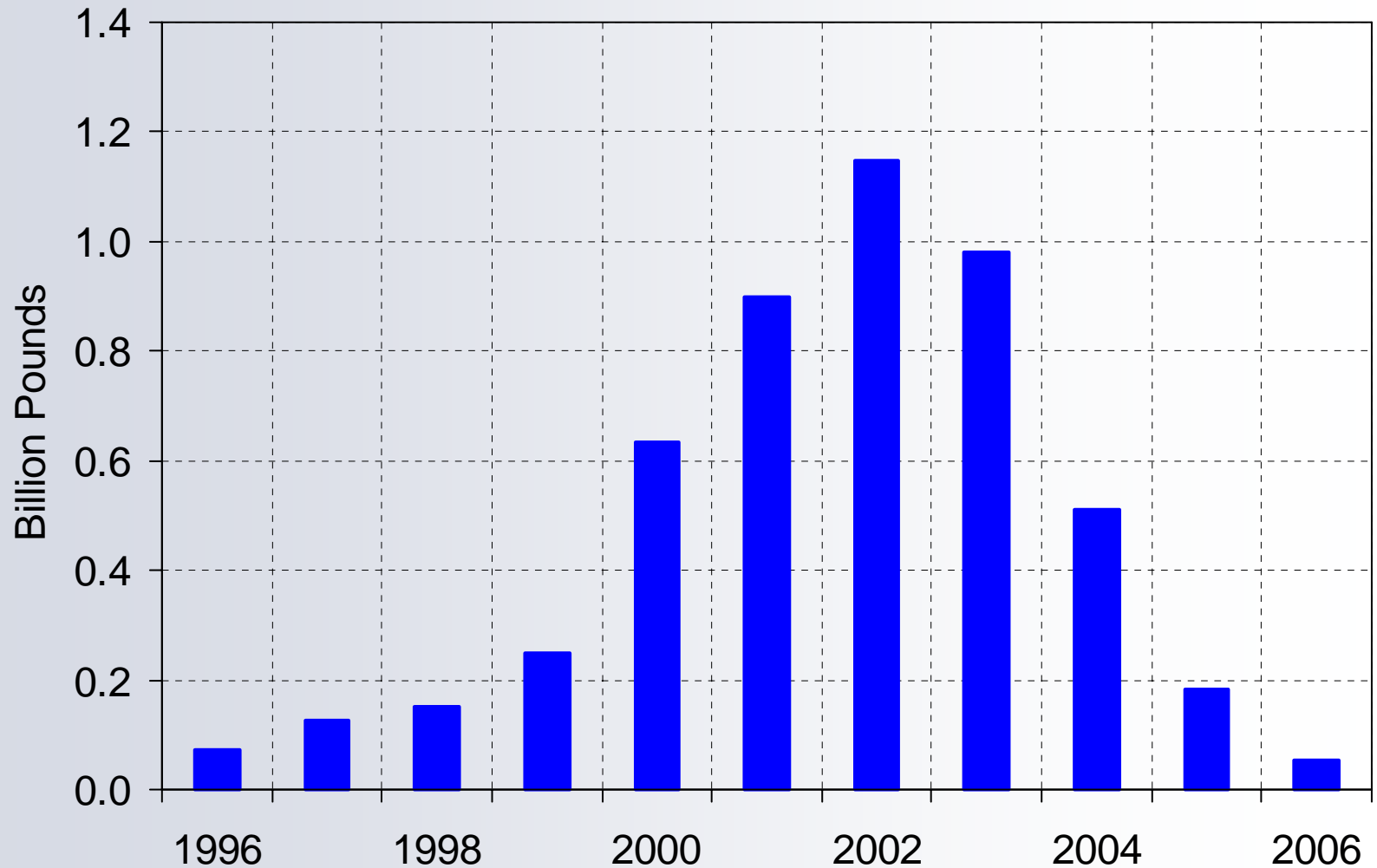
# Congressional Budget Office Agricultural Spending Baselines



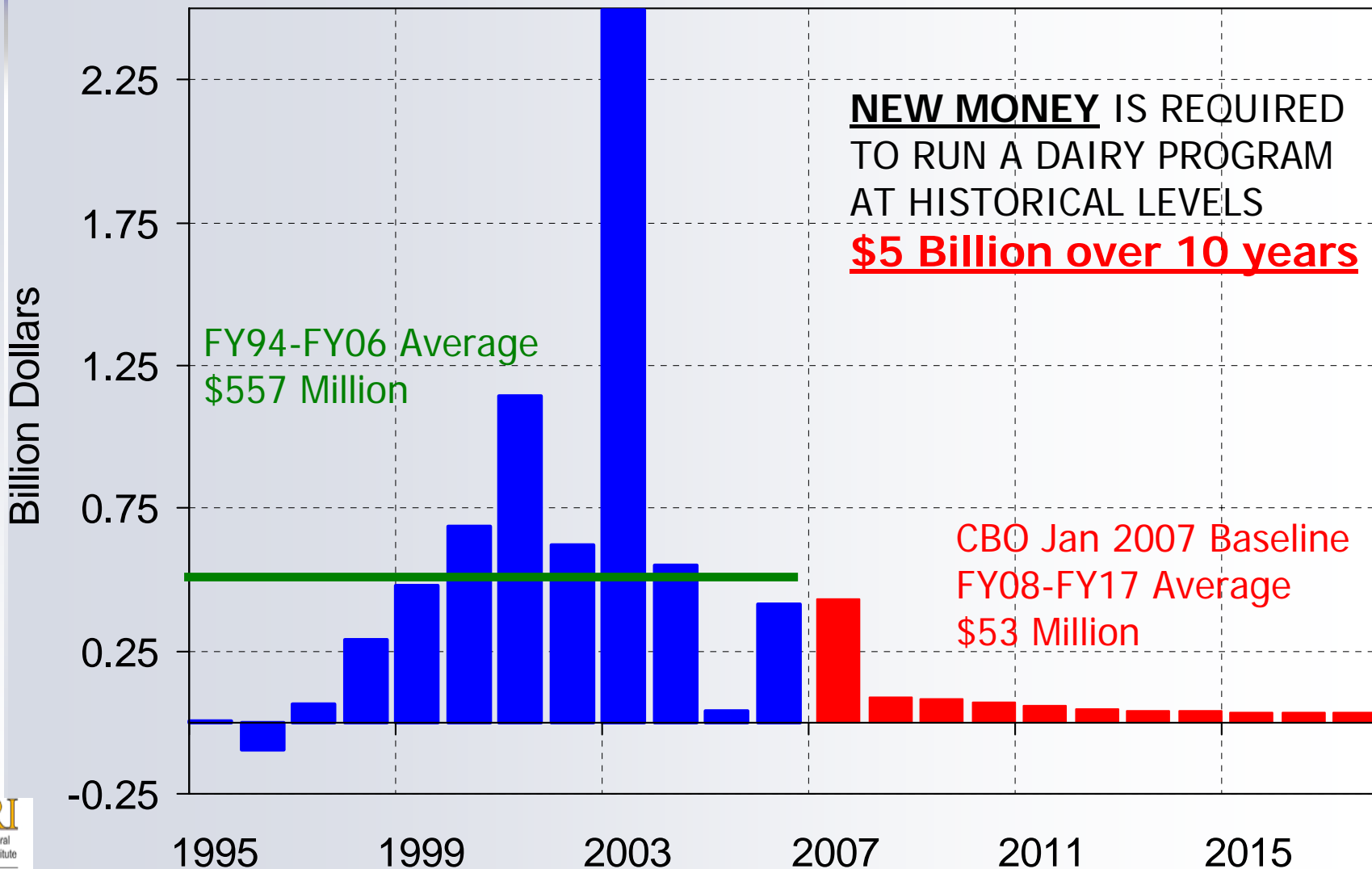
# Nonfat Dry Prices



# Nonfat Dry Milk Ending Stocks

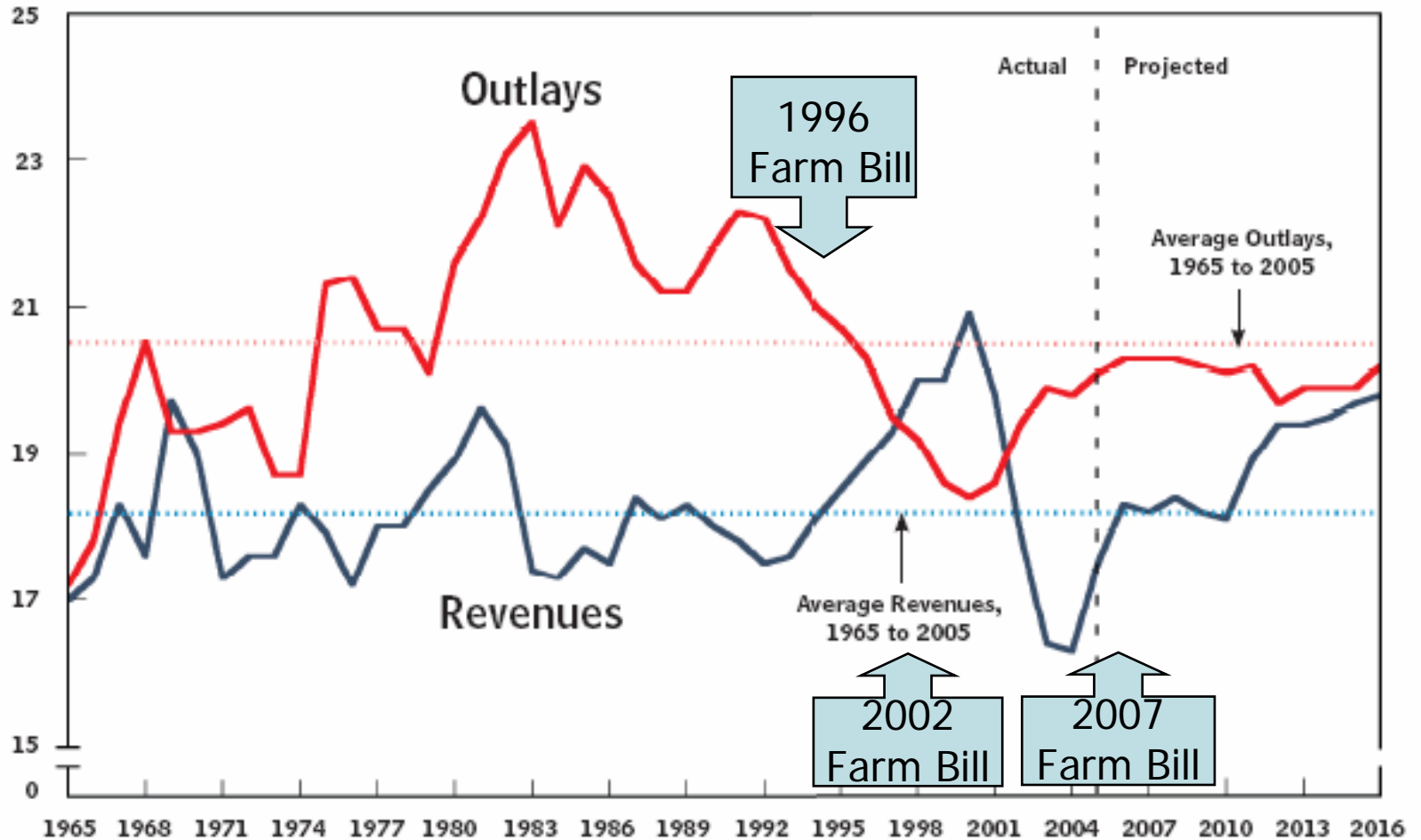


# Net CCC Outlays, Dairy Programs





# Total Outlays and Revenues as a Percentage of Gross Domestic Product



# WTO – Where's the Deal?

- Negotiations continue to occur between the US and EU
- If these negotiations reach a compromise, administration will need to work out a deal with Congress to extend Trade Promotion Authority (currently expires mid-2007)
- A deal would likely require the US to cut our current AMS ceiling of \$19.1 billion
- Given that the dairy price support program accounts for over \$4.5 billion, changes are very possible with a WTO agreement

# Calculation of the AMS for the Price Support Program

Milk Production 180 billion pounds

multiplied by

CCC Milk Support Price \$9.90 per cwt

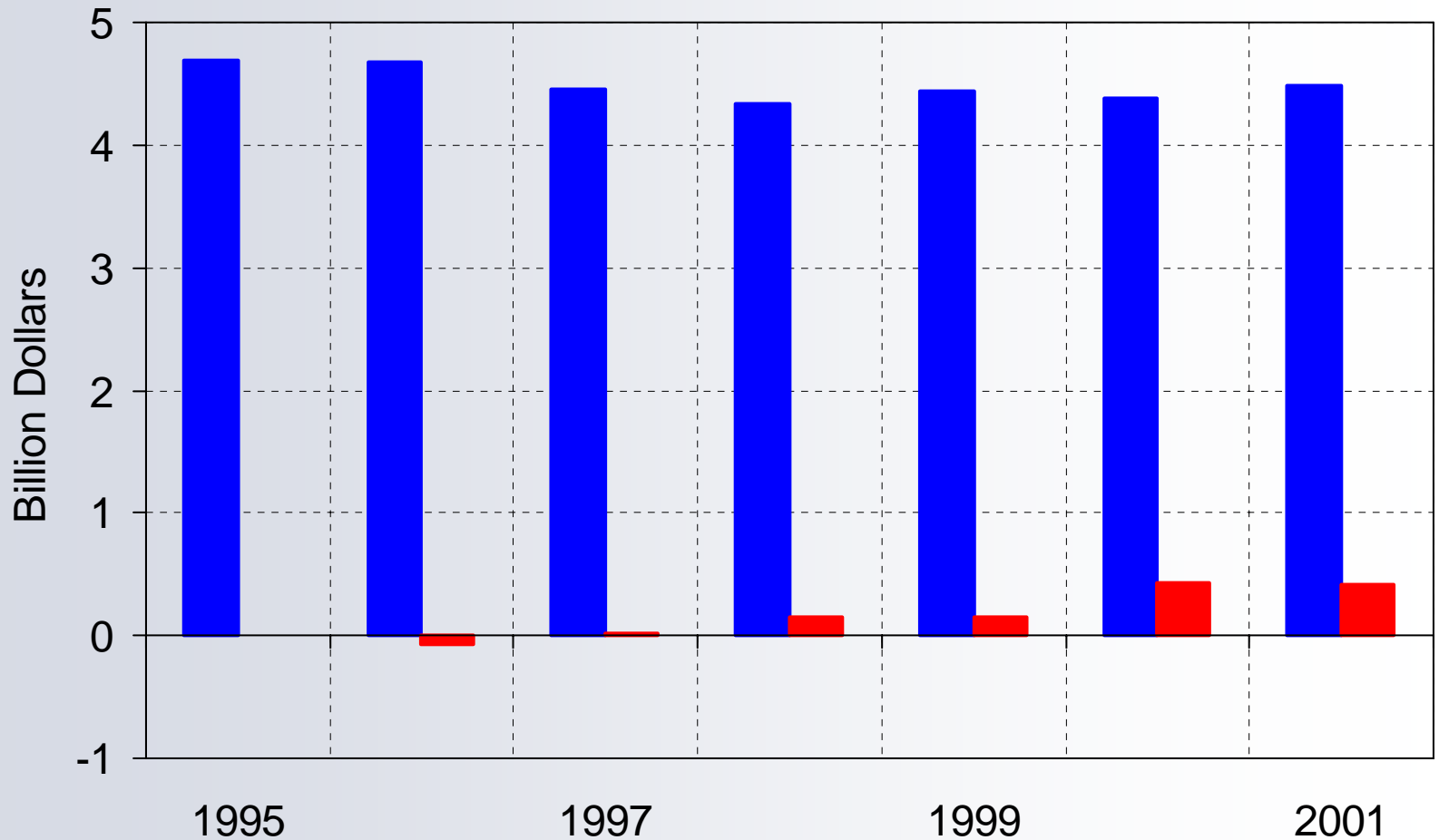
minus

World Ref. Price (86-88) \$7.25 per cwt

\$2.65 per cwt

$$180 * 0.0265 = \$4.8 \text{ billion}$$

# Dairy AMS and CCC Price Support Outlays



■ U.S. Dairy Market Support, AMS ■ U.S. CCC Outlays, Price Support

# 2002 Farm Bill Development

- House passed price supports in their original bill sent to the Senate
- Senate Agriculture Committee – National pooling provision, floored class I at \$14.25, direct payment
- Entire substitute introduced on the floor of Senate created the Northeast and rest of the country direct payment programs – 8 billion pound cap, \$16.94 and 5 year moving average
- Conference resulted in a cap reduction to 2.4 million pounds and the Northeast rate imposed across the country

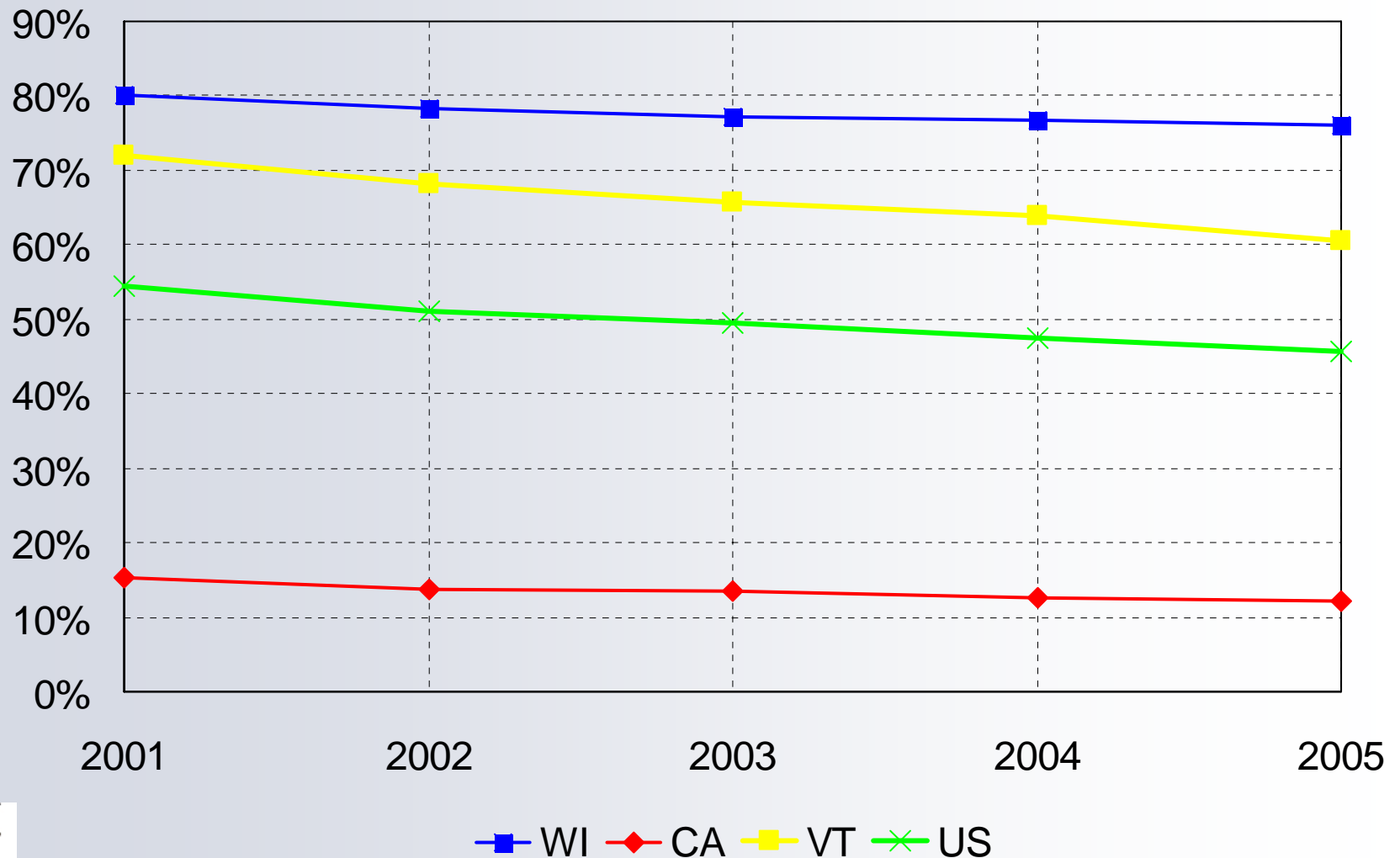
# What will be the Issues Debated in Setting Dairy Policy?

- Assuming baseline spending at levels that would fund an extension of Milk Income Loss Contract (MILC) program
  - Production Caps
  - Different Direct Payment Programs
    - MILC
    - Target Price/Deficiency Payments
  - Something Else
    - Compacts
    - Environmental program
  - Milk Price Support Program
  - Federal Orders

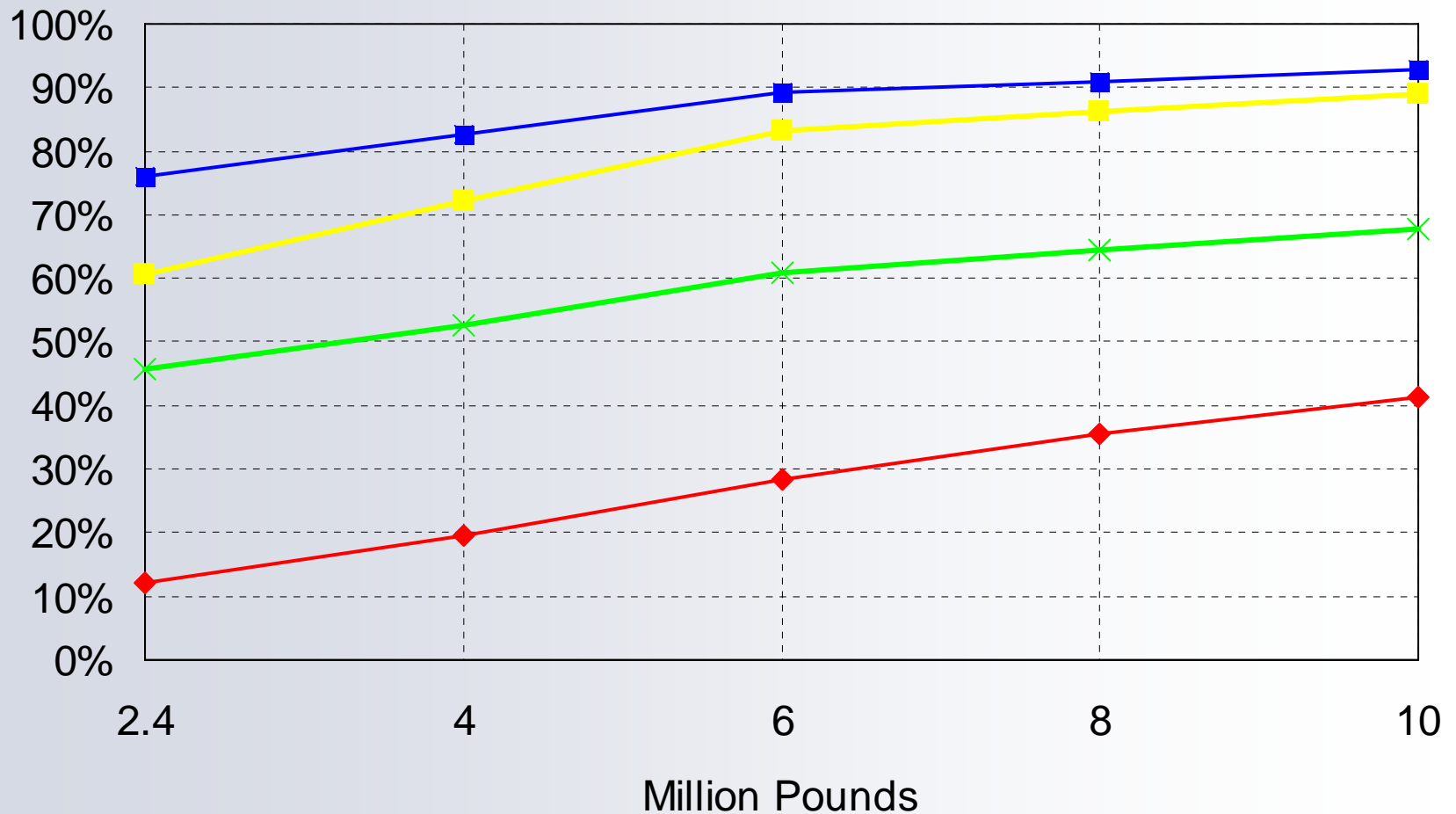
# MILC Production Cap

- The 2.4 million pound cap is the reason for the regional disparity in the MILC program
- Eligibility across all states is declining over time as producers become larger
- Any increase in the cap, whether through a dollar payment limit or quantity limit, will move money from smaller dairy herd states to larger dairy herd states
- A dollar payment limit like used in crops policy has not been binding, producers can reorganize to get around the limit
- Payment limits will be one focus of the farm bill debate

# Eligible Milk Under the 2.4 Million Pound Cap



# Eligible Milk Under Alternative Cap Levels

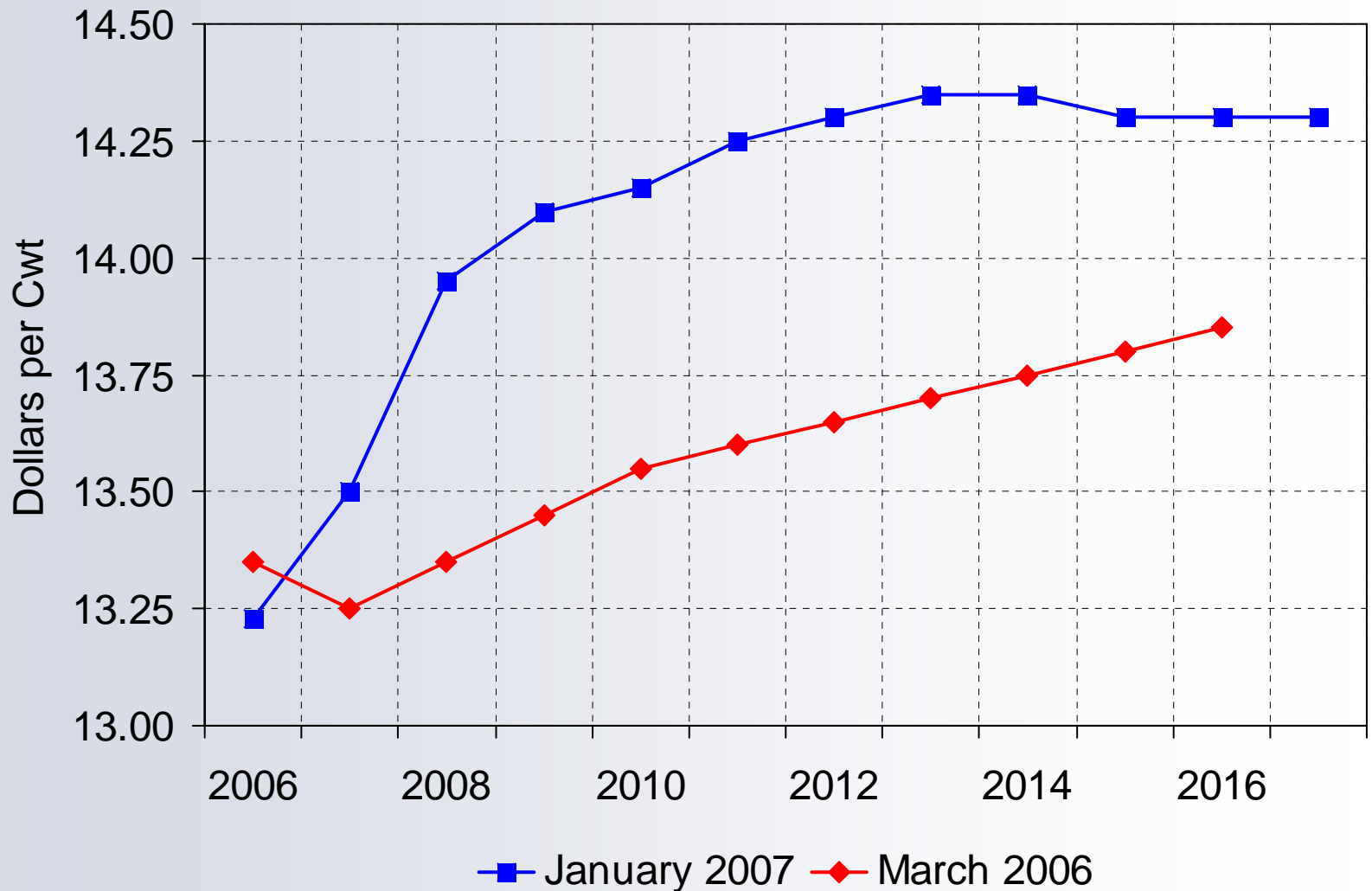


■ WI ◆ CA ■ VT \* US

# Trade-offs as the production cap increases

- All states receive more government benefits from a higher cap
- Lower milk prices occur as the cap increases
- All producers do not benefit from higher cap
- From a particular state's perspective as the cap increases:
  - Gain more eligible milk
  - Lose on currently eligible milk 66% of the milk price decline that results from the overall eligibility increase
  - Lose on ineligible milk 100% of the price decline

# CBO All Milk Price Comparison

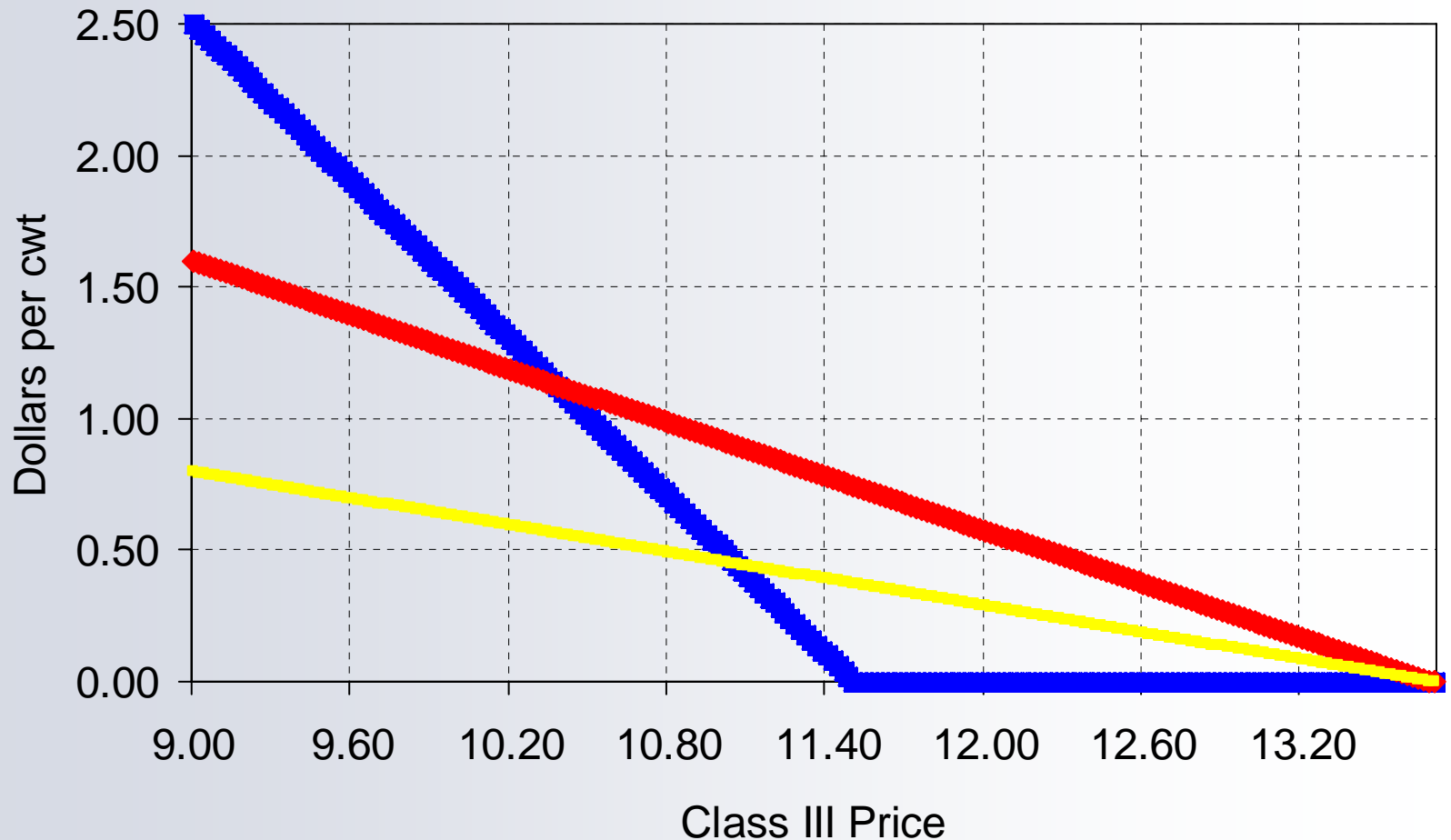


# Direct Payment Program Comparison

- Recognize that the MILC program and a target price/deficiency payment concept being discussed are similar in nature
- The difference relates to payment caps and the proportion of the price difference that is paid on
- Implications for government costs and producer revenue given the approach
- Need to decide the objective of the program
- Historical comparison is limited in helping deciding what this programs would cost in the future

# Comparing the Programs: Payment Rates

CBO Baseline Class III \$13.10, FAPRI \$13.45



—■— TPDP \$11.50 —◆— MILX 130 cows —■— MILX 260 cows

# Summary

- The safe bet for dairy policy:
  - Price support program extended
  - A direct payment program similar to MILC
- Watch for the allocation given by Budget Committees
- Administration releasing their farm bill vision today
- Commodity groups have been waiting for the “right” time to engage Congress on farm policy
- The Senate appears to have the same key Senators in place for this farm bill debate as in 2002
- The House could explore more dairy policy issues
- There are always new factors that arise to influence each farm bill