

Federal Dairy Policy: What Will We Get Out of This Farm Policy Debate?

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Southern Dairy Conference
January 30, 2008

Food and Agricultural
Policy Research Institute



What Did I Say Last Year at the SDC?

- 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

The Forest and the Trees

- Overview of what has been achieved thus far
 - House versus Senate
 - Dairy specifics
- What are the keys in predicting where we go from here?
 - 2008 farm bill
 - 2002 farm bill extension
 - Revert to the 1949 Act
- CBO baselines important
- Let me look ahead at dairy policy

Current Timing to Finish This Farm Bill

- July 27, 2007: House passed its version (vote of 231-191)
- Dec. 14, 2007: Senate passed its version (vote of 79-14)
- Jan. 15 & 22, 2008: The return of the House (Jan. 15) and the Senate (Jan. 22). Farm bill conferees will not officially meet until then.
- March 15, 2008 ...Deadline? Congress extended the 2002 Farm Bill through March 15, 2008, to reach a farm bill agreement, and to protect some commodity budget baseline spending.

House vs. Senate: Income Support

- The basic structure of the 2002 Farm Bill price and income support is maintained.
- The new farm bill proposals offer some major options relative to revenue-based programs
- Some changes in loan rates and target prices
- Payment caps tightened

Key Difference in the Dairy Provisions is the MILC Program

- House farm bill continues current MILC provisions
 - Pay on 34% of the price difference
 - 2.4 million pound marketings cap
- Senate farm bill modifies MILC
 - Pay on 45% of the price difference
 - 4.15 million pound marketings cap
 - CBO estimates \$441 million FY08-FY12
- Dairy provisions in common
 - Federal Order Commission
 - Price support directly tied to product prices
 - Forward contracting

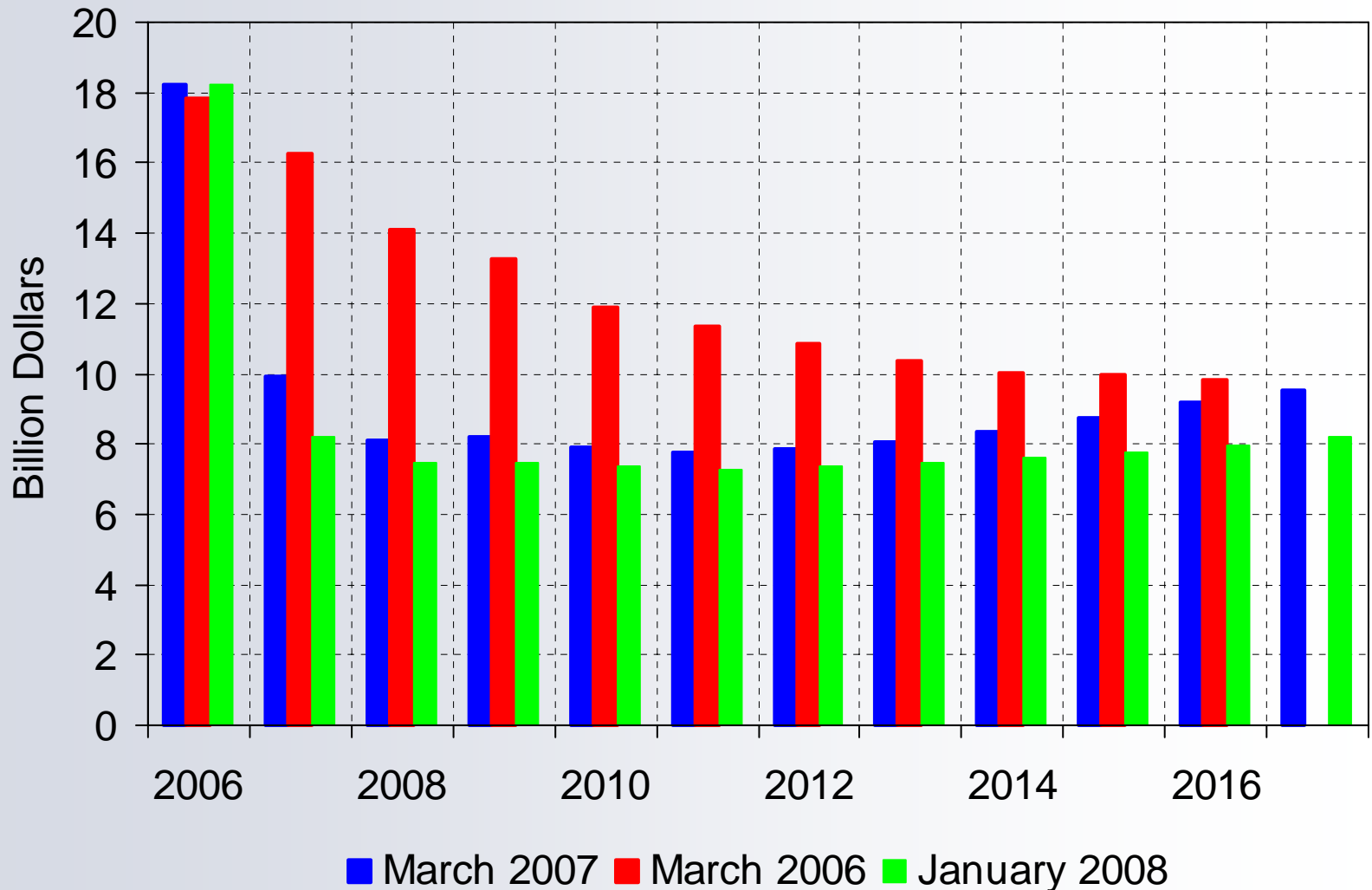
2008 Farm Bill Hurdles

- How is the additional farm bill spending paid for?
 - Tax increases = Presidential veto
 - A solution to this problem could resolve the impasse
- Remaining differences could be ironed out in conference
- Dairy would likely be a compromise between the two versions

Reasons to Write a 2008 Farm Bill Soon

- Capture a larger level of baseline spending
 - CBO will score this farm bill relative to current law – post energy act and their 2007 baseline
 - CBO's 2008 baseline should reflect less spending with the rise in many commodity prices
- Some history on baselines
- Get finished ahead of elections and the associated complexities that would add to the farm bill process

Congressional Budget Office Agricultural Spending Baselines



What About Reverting to Permanent Law?

- If Congress takes no action on commodity support before the MARCH 15 2008, then the non-expiring provisions of primarily the Agriculture Adjustment Act of 1938 and the Agriculture Act of 1949 take effect.

	Unit	Average Farm Price (Nov 2007)	<i>Calculated Parity Price</i> (Nov 2007)	<i>Parity Support %</i>	Loan Rate Based on Parity
Cotton	\$/Lb	0.54	2.10	65%	1.36
Peanuts	\$/Lb	0.218	0.666	75% to 90%	0.49 to 0.59
Wheat	\$/Bu	7.92	11.10	50%	5.55
Corn	\$/Bu	3.49	8.24	50%	4.13
Milk	\$/Cwt	20.20	37.60	75%	28.20

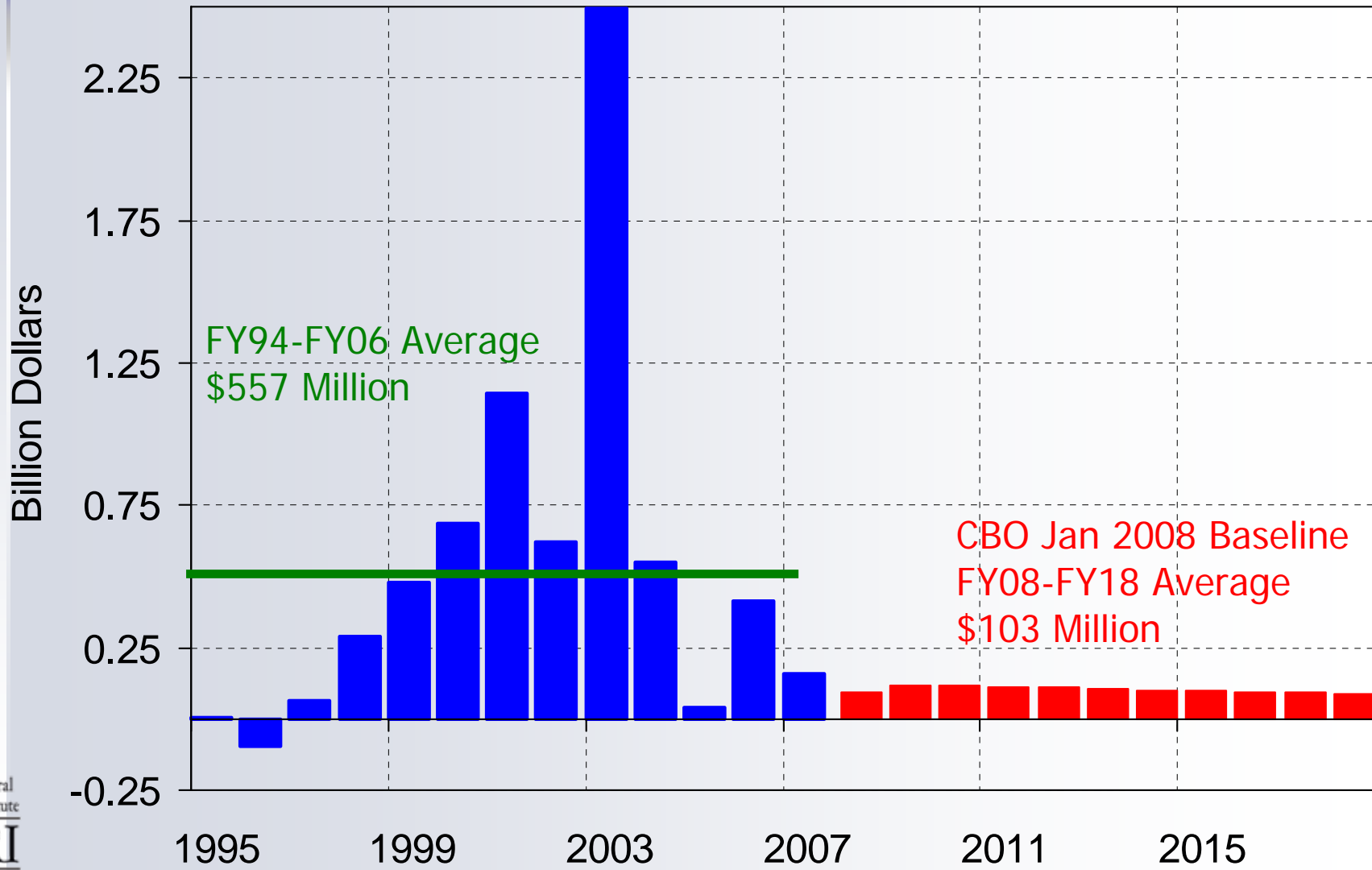
Dairy and Permanent Law

- Purchase prices for cheese, butter and nonfat dry milk would rise:
 - Butter \$2.90
 - Nonfat dry milk \$2.20
 - Cheese \$3.10
- Probably would be supply-inducing for the industry!
- WTO issues: AMS for dairy around \$40 billion

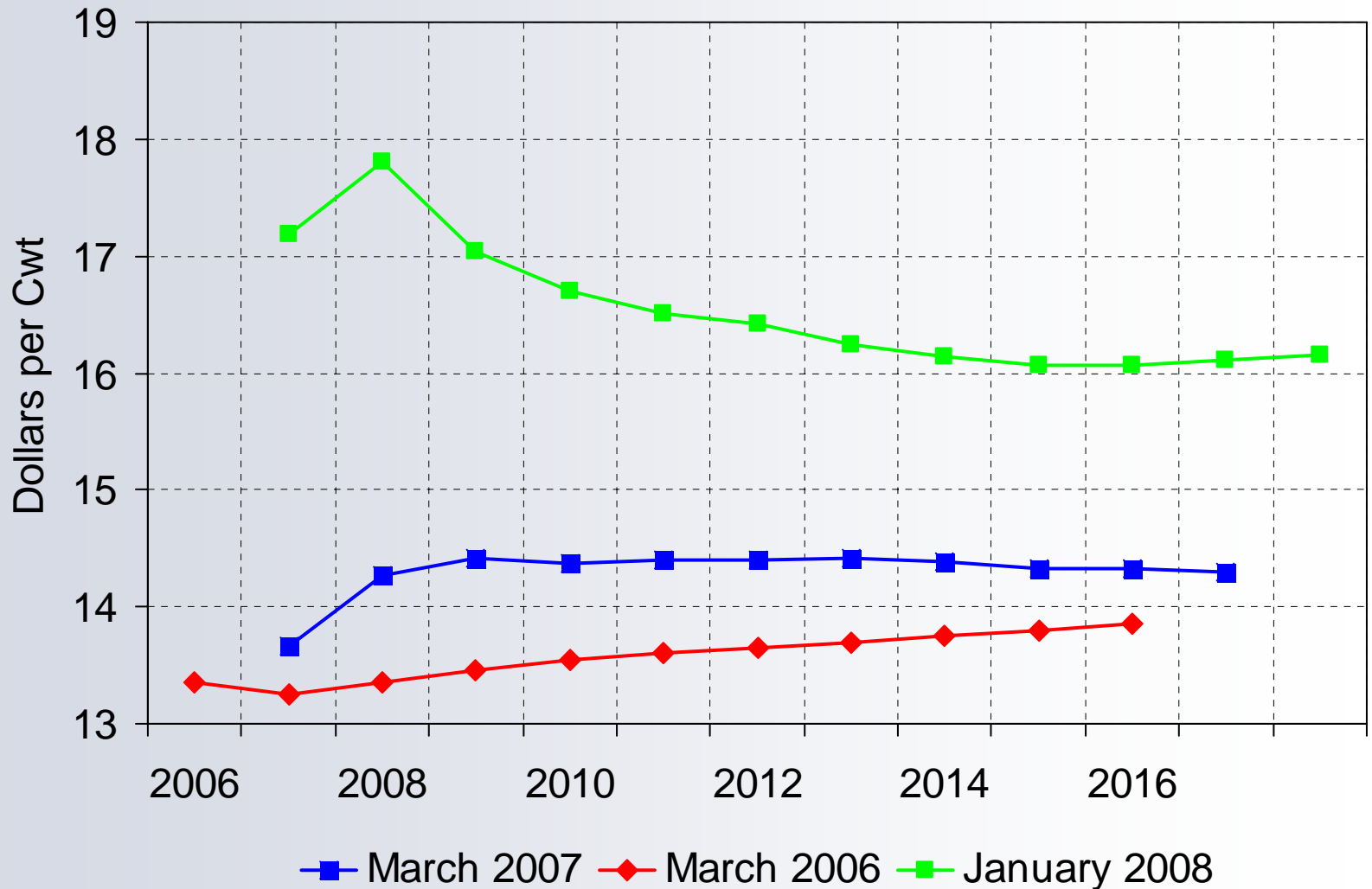
What is an Appropriate Level of Government Support for Dairy?

- Let's set the process aside for a minute
- What kind of safety net do we have for dairy producers today?
 - Price support program
 - MILC

Net CCC Outlays, Dairy Programs

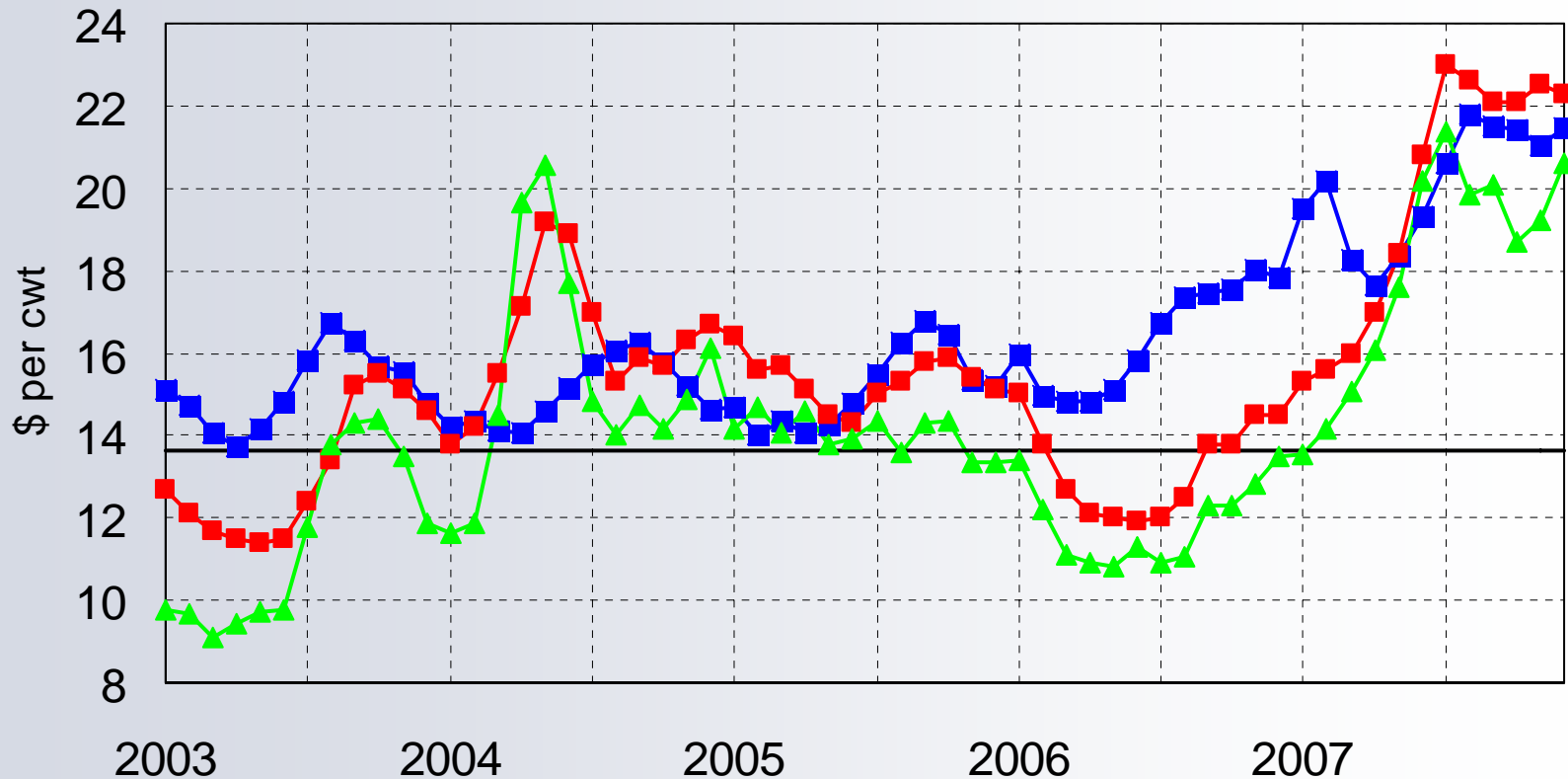


CBO All Milk Price Comparison



Government Support Is Very Different Today

The Cost of Producing Milk is on the Rise



■ TX Total Cost ■ TX All Milk Price ▲ Class III Price

Summary

- What will we get for dairy?
 - Given the outlook for dairy prices, a program that looks very similar or exactly like the 2002 farm bill
 - Permanent law
- No one wants this to drag too far into elections or cropping seasons so the March 15 deadline may in fact be binding