Dairy Policy and Trade

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Overview

- Policy
- Trade
Dairy Policy in the Farm Bill

- Dairy Security Act
  - Eliminates MILC, price supports, DEIP

- Two Major Parts

- Dairy Producer Margin Protection Program (DPMPP)

- Dairy Market Stabilization Program (DMSP)

- Margin Protection and Supply Management
Why The Change?

• Price Supports, MILC
  – Ineffective for years
  – Price based payments

• Response to Changing Economic Environment
  – Milk prices more volatile, feed costs skyrocketing

• Shift in Advantage from Buying to Raising Feed
  – “Western model”
**Why The Change?**

- Tried Supply Management in the Past
  - Thinking back over 40 years, many supply controls or management policies tried

- Rarely Worked Because the “Stick” for Over Producing Was Never Large Enough to Offset the “Carrot” of Getting Larger
  - Returns to size and scale
Emphasis on Margin

- Not Just Milk Price
- Feed Prices Rising and More Volatile
- Margin, or Income Over Feed Costs, Becomes More Important
  - Time for prices to respond to feed costs
Supply Management

• Try to Limit Margin Wrecks
  – Climb out faster
  – Try to limit govt. costs

• Most Interesting Part of Bill
  – From a political or philosophical point of view
  – Amendments to strike the supply management part played role in failure of farm bill in House
• **DPMPP**
  
  – Payments triggered when IOFC falls below trigger level
  – Producers allowed to “buy up” to higher level of margin protection
  – Base margin of $4 per cwt, buy up to $8
  – Covers 80% of highest of last 3 years marketings
  – Supplemental base to allow for dairies to grow
Basics

- **DMSP**
  - Margin falls below $6 per cwt for 2 months then supply management triggered, or $4 for one month
  - Producers not paid on a percent of milk base production (paid on 98% of milk base)
  - Ends when margin increases to over $6
Research Summary

- Producer Income Increases
- Almost No Change in Milk Production, on Average
- Can Effect Exports Slightly
- Adoption is Key, As is Buy Up
- Alternatives – DFA (amendment)
  - DSA margin protection aids producers more when margins are low
  - Supply management reduces govt. costs
Trade

• Much More Important in Dairy
  – Larger share of milk production
  – >10% of production equivalent

• U.S. Has Become More Competitive in World Markets
  – Price competitive
  – Advantage in year around supply
  – Increasing production
Trade

- Increasing World Incomes
- Increasing U.S. Production
- Might Argue That Trade Contributed to DSA
  - Recession hit
  - Exports declined
  - Milk prices declined
  - EU export subsidies didn’t help
  - Increasing feed costs
  - Margin crunch
US DAIRY INDUSTRY EXPORT VALUES

Annual

Bil. $

Livestock Marketing Information Center
Data Source: USDA-FAS, Compiled & Analysis by LMIC

02/08/13
Trade and Policy

• Significant Opposition to Supply Management is Driven By Processors and Exporters

• Increased Reliance on Trade Does Have Some Implications for Price and Margins
Future

- Increasing Milk Production
- Advantage Remains Shifted to Those Who Grow Feed (for now)