

# U.S. Dairy Policy and the Dairy Sector in the U.S. West

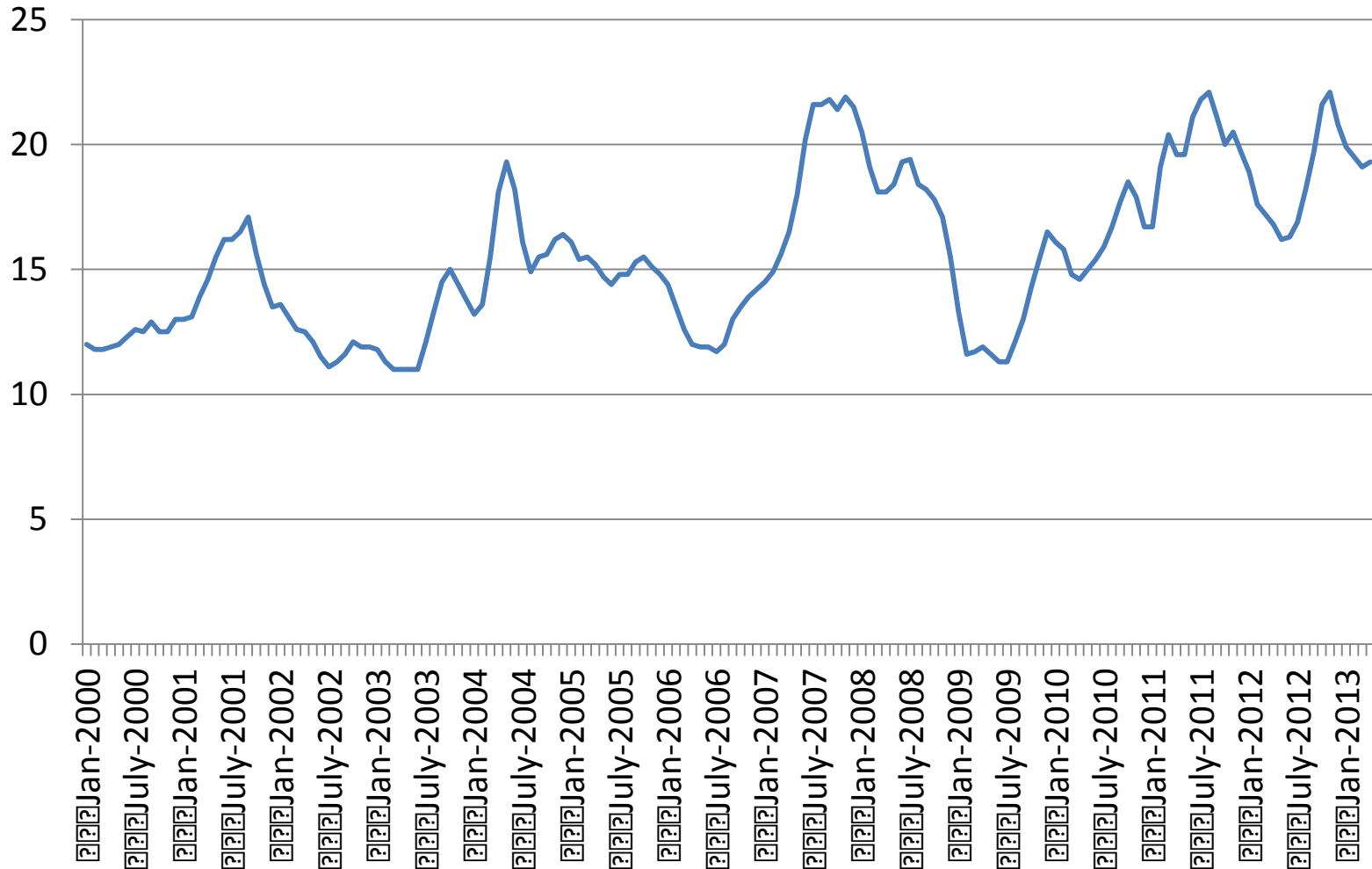
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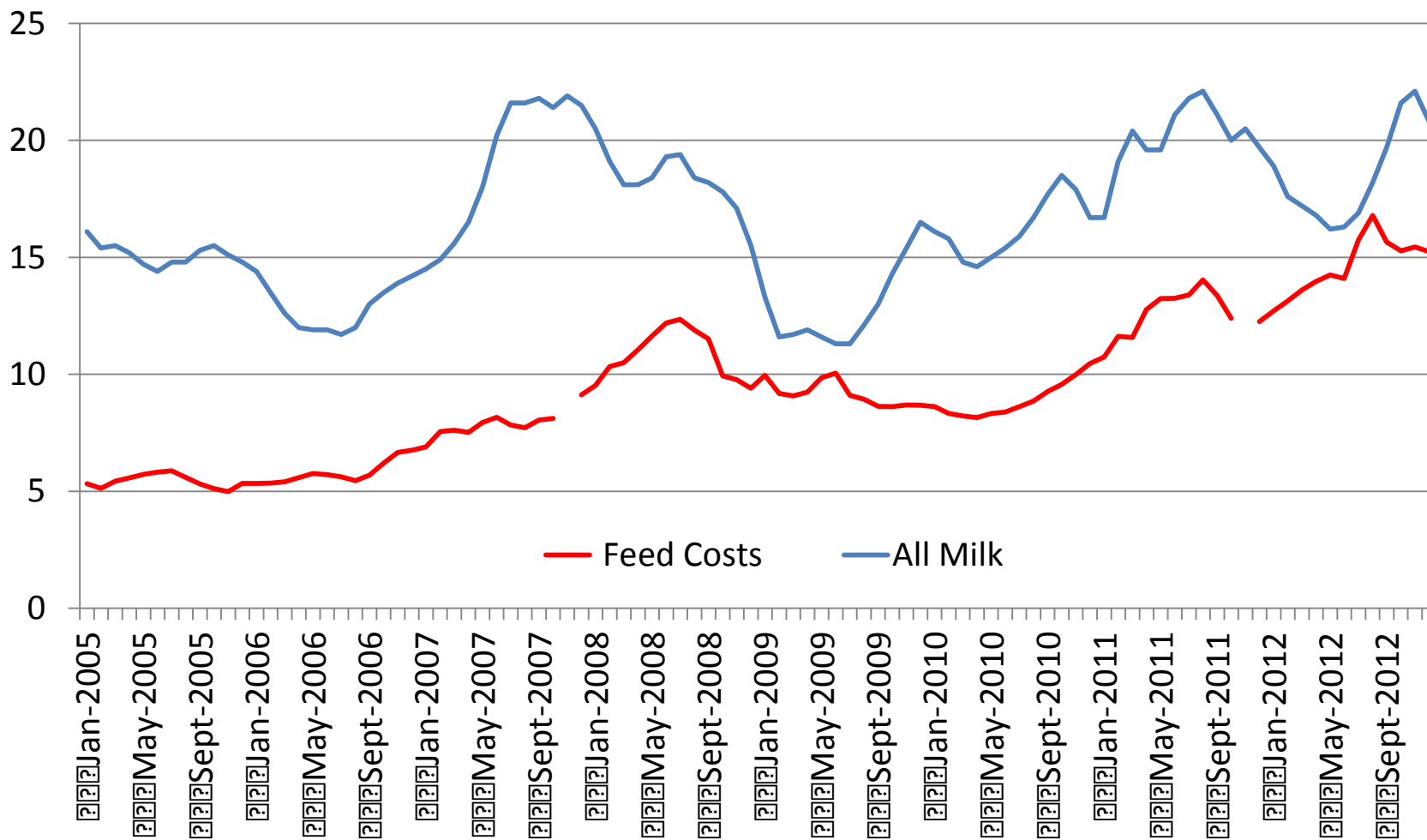
# Recent Market Conditions

- Historically high milk prices since 2006
  - Drought in Australia/NZ
  - Continued strong global demand for manufactured dairy products
- But also high feed prices
  - Ethanol

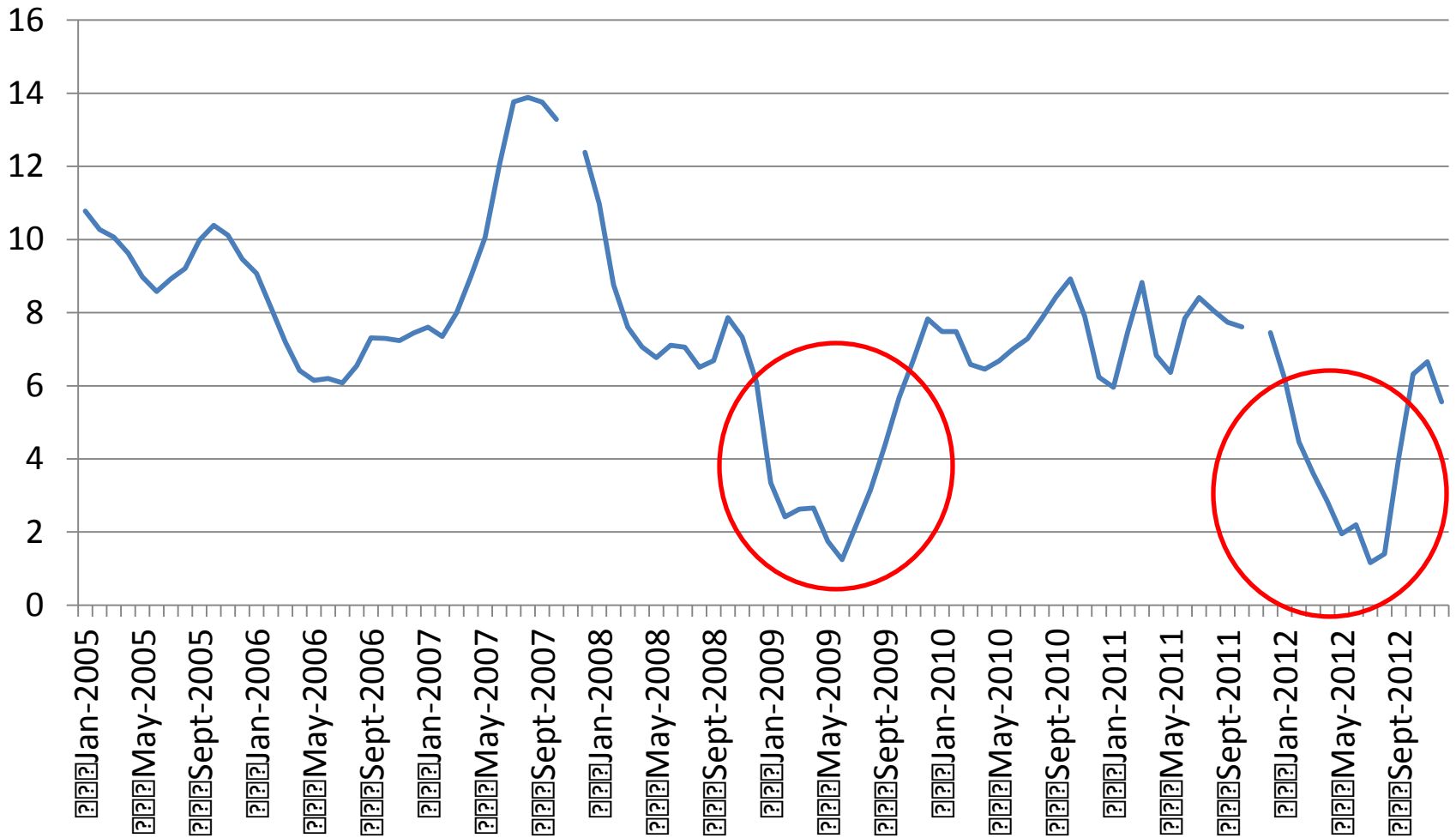
# U.S. All Milk Price, \$/cwt, 1/2000-1/2013



# All Milk Price and Feed Costs, \$/cwt, 1/2005-12/2012



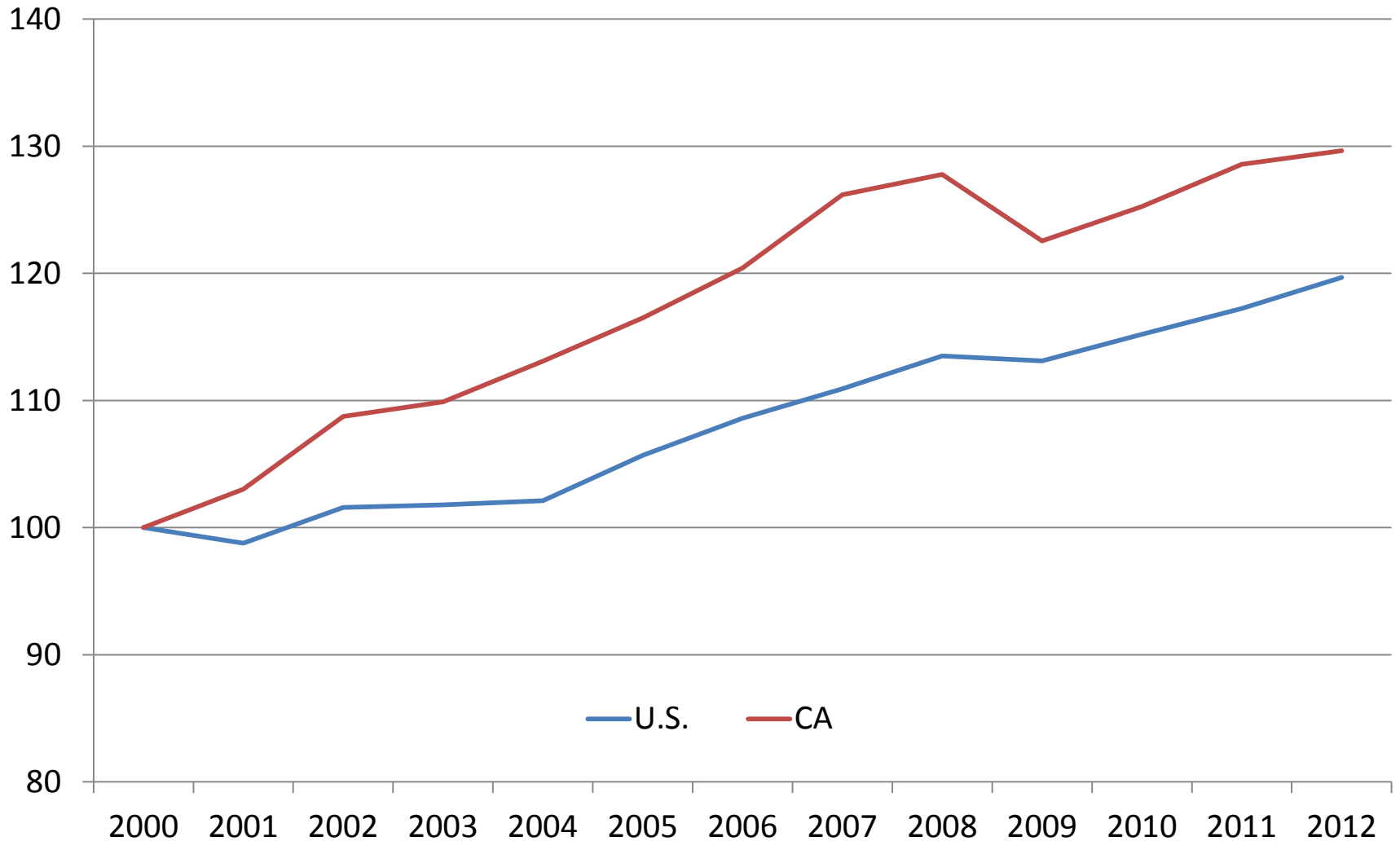
# All Milk Price – Feed Costs, \$/cwt



# Prolonged Periods of Tight Margins for Dairy Farms

- Financial stress for many farms across the country
- Increased farm exits
- Increased debt/loss of equity for remaining farms
- Some increased cow slaughter, but mostly consolidation
- Some reduced yields, but total production continues to grow
  - CA, NM dairy have been more responsive to price signals than the rest of the U.S.

# Total Milk Production (% of 2000 production), 2000-2012

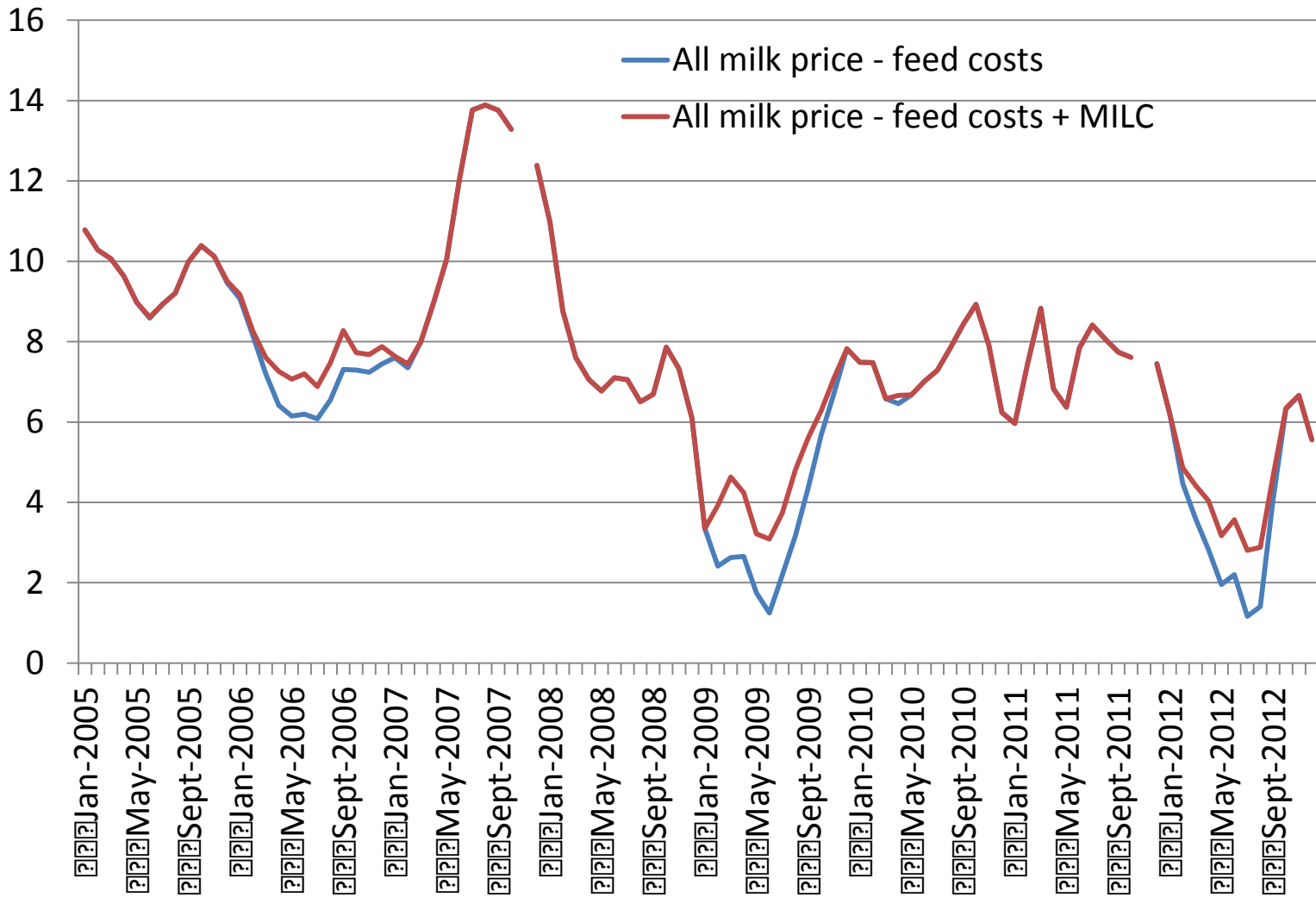


# Performance of Status Quo Policies

- Dairy Price Support
  - Mostly inactive for the last decade (high milk and product prices)
  - unresponsive to feed prices
- Milk Income Loss Contract Payments
  - Pre-2008, deficiency payment unresponsive to feed prices
  - Post-2008, payment formula adjusted to make payments more responsive to feed prices



# Income over Feed Costs with and without MILC payments (\$/cwt)



# Performance of Status Quo Policies

- Milk marketing orders not getting a lot of attention in the U.S. dairy policy debate.
- But keep in mind that the farm price of milk is not a market price, but a regulated price.
- Also largely ignored: Livestock Gross Margin for Dairy
  - Evidence that it could be a powerful tool for managing price risk, but adoption has been slow (3% in 2010).

# 2013 Dairy Policy Proposals

- Dairy Security Act
  - Eliminate MILC and Dairy Price Support
  - Introduce Dairy Producer Margin Protection
    - Subsidized margin insurance that pays when a national average margin falls below a specified level (\$4.00/cwt with opportunity to pay for protection at higher margins)
  - Introduce Dairy Market Stabilization
    - Limits production to a % of historical base in months when margins are tight
    - 100% tax on any milk marketed over quota

# Economic Effects of the Dairy Producer Margin Protection Program

- Similar to current MILC payments, but designed to be more responsive to feed costs.
- Shields producers from market conditions that indicate reduced production, and so induces greater production
  - exacerbating market conditions that triggered payments
- Costs born by taxpayers, and any producers that don't receive payments
  - Gov expenditures for MILC approached \$1 billion/year



# Economic Effects of the Dairy Market Stabilization Program

- Restricts production/growth for individual farms when margins are tight
  - Similarities to supply management systems in Canada, EU....a first for U.S. dairy policy
- Reduced production (for some farms):
  - limits supply response of margin protection, taxpayer costs of DPMP
  -
- Higher prices of milk, dairy products
  - Reduced consumption of milk and dairy
  - Reduced exports



# Economic Effects of the Dairy Market Stabilization Program

- The DMSP transfers income from restricted producers to producers not facing binding quota.
  - From low-cost farms to high-cost farms
  - From good risk managers to bad risk managers
  - From growing farms to shrinking farms
  - From Western farms to Northeast/Midwest farms
  - From U.S farms to N.Z./Aus farms

# Economic Effects of the Dairy Market Stabilization Program

- But there remains uncertainty about how the supply management program would play out in practice.
  - Who will sign up?
  - How will producers respond to on again-off again quota?
- “Market stabilization” implies that the quota will have a counter cyclical effect on margins.
  - Hard to imagine how this might be the case.

# 2013 Dairy Policy Proposals

- Current debate seems to be about if/how to implement the supply management program.
- Rep. Goodlatte-Scott Amendment
  - DSA minus the supply management
- Sen. Gillibrand proposal:
  - DSA with small-farm (anti-Western) bias
  - higher margin guarantee up to 4 mil. lbs (200 cows)
  - Smaller farms exempted from supply management