The Outlook for Federal Dairy Policy, Is a Major Change Coming?

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The Road to the Next Farm Bill is Anything But Clear Today
The Changed Political Landscape

• Post-2010 Election
  – House Agriculture Committee
    • Chair Frank Lucas (R) OK
    • Ranking Collin Peterson (D) MN
  – Senate Agriculture Committee
    • Chair Debbie Stabenow (D) MI
    • Ranking Pat Roberts (R) KS
What Does This New Political Landscape Mean?

- Frank Lucas has signaled an interest to start over on farm bill discussions
- Collin Peterson was trying to get a new farm bill out in 2011
- Blanche Lincoln interested in Southern commodities like cotton and rice
- Debbie Stabenow may show more support for fruits and vegetables, nutrition programs
- Expect the farm bill process to proceed slowly, there are many big issues on the Congressional agenda
- Don’t forget, 2012 Presidential Election
Will the General Farm Outlook Be Important To The Next Farm Bill?
U.S. Net Farm Income – A 2011 Record?

Source: FAPRI, March 2011
Not All Commodities Have the Same Financial Health – Cash Receipts

Source: FAPRI, March 2011
The Federal Budget Likely A Major Driver To Farm Bill Development
Source: IHS Global Insight, June 2011
U.S. Federal Debt

Source: IHS Global Insight, June 2011
How Could the Federal Budget Affect the Farm Bill Development?

- Agriculture Committees given reconciliation instructions in the annual Congressional Budget Resolution
- Authorizing committees, like Agriculture, are given budget reductions and they normally decide what programs to cut
- Latest budget reconciliation was FY2006, $2.7 billion cut
- The 1990 and 1995/96 farm bills were written with reconciliation instructions
Writing the Next Farm Bill With Only Baseline Spending

• The 2008 Farm Bill took months to complete and additional money was added from other committees
• The 2002 Farm Bill added $73.5 billion in new funds over ten years and was finished in May 2003
• Struggle among commodity groups for limited funds
• 37 provisions currently have no “baseline” beyond FY2012
• Flat baseline spending may be a “best” outcome
Some Programs Lack Baseline After FY2012

- To make the 2008 farm bill fit within spending guidelines, 37 programs were not extended beyond FY2012
- SURE, Wetlands Reserve Program, Horticulture and Organic Programs, etc.
- Amounts to around $9 billion if these 37 programs were extended to 2017
- Where does this funding come from if these programs are extended?
Other Issues That May Arise

- Current commodity programs end in FY2012
- Without Congressional action, farm policy reverts to permanent law, Agricultural Adjustment Act of 1949
  - Quotas
  - Parity pricing
- Congress could always chose to extend current law for one year
  - No baseline programs problematic
- Timing Shifts
  - Moving spending outside of the scoring window or receipts inside the window
  - Many of these shifts already occurred
  - Harder to count these under today’s rules
A Quick Primer to the CBO Baseline

• The Congressional Budget Office (CBO) baseline scores the cost of federal programs over the next ten years.
• This is a forward looking process not a look back at what programs cost.
• When discussion arises about the new farm bill must fit within baseline spending, its spending must not exceed continuation of current programs.
Let’s Focus on the CBO Agriculture Baseline
Issues Surrounding New Dairy Policy

• When is new dairy policy enacted?
  – 2011 or 2012
  – Beyond

• Important drivers in determining future direction of dairy policy
  – Federal budget
  – Financial health of the industry

• What new policy ideas are in the discussion?
  – Foundation for the Future
  – Supply management programs
  – Savings accounts
  – No change
Dairy Provisions in the 2008 Farm Bill

• MILC Program
  – 2.985 million pound marketings cap through FY2012, then drops to 2.4 million pounds
  – Feed cost adjuster at $7.35 through FY2012, then increases to $9
  – Producers paid 45% of the difference between the trigger and market price, FY2012 34%

• Dairy Product Price Support Program
  – Changed in 2008 farm bill from the milk support price program
Foundation For The Future (FFTF)

• Four Major Pieces to FFTF
  – Margin Insurance (DPMPP)
  – Supply Management (DMSP)
  – Revamp FMMOs – Competitive Pay Prices
  – Eliminate Price Support and the MILC Program

• I’m not endorsing FFTF only trying to explain the economic effects of the program, eliminate misinformation
Margin Protection Key to FFTF

Milk-Feed Margin, 2000-2010

- Milk-Feed Margin
- Average Margin, 2000-2010 = $7.68 /cwt.
- Base Program Guarantee Level = $4.00 /cwt.
- Supplemental Program Guarantee Level = $6.00 /cwt.

Dollars per cwt., at average if test

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010
Different Bases for the FFTF Program

- **Margin Insurance (DPMPP)** – 90% of some historical production level
- **Allows for New Entrants**

- **Supply Management (DMSP)** – Previous three months or year ago level
- **More adjustment to supply management base than the margin insurance base**
How does the Dairy Market Stabilization Program work?

• $6 for 2 consecutive months
  – Producers paid for 98% of their base milk marketings
  – Maximum reduction is 6% of current milk marketings
• $5 for 2 consecutive months
  – Producers paid for 97% of their base milk marketings
  – Maximum reduction is 7% of current milk marketings
• $4 for 1 month
  – Producers paid for 96% of their base milk marketings
  – Maximum reduction is 8% of current milk marketings
DMSP Only Analysis

• Let’s Look How The Program Would Have Operated in 2009
• This is only an example of how the program works in a low margin environment
Key Assumptions – Producer Response to DMSP

• Assume they choose to deliver only 50% of the milk over the eligible quantity
• Why market that milk if the price is zero?
  – Build Base
  – Disposal Cost exceeds Hauling Cost
• New base determination incorporated
  – Assume most producers choose year ago production for the base
• There are no easy or “right” assumptions to make given the aggregate data we use
Monies Collected Under DMSP

- Assume any money collected under DMSP in period t is spent on cheese purchases equally in periods t+1, t+2 and t+3
- 10% of cheese purchases displace commercial consumption
Percent of Milk Production Affected by DMSP

- Mar-09: 4%
- May-09: 6%
- Jul-09: 8%
- Sep-09: 2%
- Nov-09: 10%

US, VT, WI
Margin Comparison With DMSP Operation

DMSP Trigger Level
- $4 trigger
- $4-$5 trigger
- $5-$6 trigger

DMSP

Jan-09 | Mar-09 | May-09 | Jul-09 | Sep-09 | Nov-09 | Jan-10
--- | --- | --- | --- | --- | --- | ---
Base | DMSP | Base | DMSP | Base | DMSP | Base

Graph shows the comparison of DMSP operations with base periods, highlighting $4, $4-$5, and $5-$6 triggers over the months from Jan-09 to Jan-10.
Margin Comparison With DMSP Operation

DMSP Trigger Level
- $4 trigger
- $4-$5 trigger
- $5-$6 trigger

DMSP

- Base
- DMSP

Jan-09 | Mar-09 | May-09 | Jul-09 | Sep-09 | Nov-09 | Jan-10
---|---|---|---|---|---|---
0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0
Margin Comparison With DMSP Operation

DMSP Trigger Level
- $4 trigger
- $4-$5 trigger
- $5-$6 trigger

DMSP

Jan-09 | Mar-09 | May-09 | Jul-09 | Sep-09 | Nov-09 | Jan-10
---|---|---|---|---|---|---
Base | DMSP

0.0 | 1.0 | 2.0 | 3.0 | 4.0 | 5.0 | 6.0 | 7.0 | 8.0 | 9.0 | 10.0
Summary Of DMSP

- It Will Lower The Cost of DPMPP
- Producers Will Be Limited in Milk Deliveries They Will Be Paid For
- Producers Do Not Pay Under DMSP
- Tough to Gauge Producer Behavior
DPMPP Operation

• Voluntary Program
• 2 levels of coverage:
  – Base Plan – program available to all producers at no cost
  – Supplemental Plan – program available to all producers seeking additional coverage
• Margin guarantees are fixed for Farm Bill duration
• Will not cover new production beyond milk base
### What Would You Do?

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<th>Premium per Cwt.</th>
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Range of FFTF Margin Outcomes

$\text{per cwt.}$

Draw

$\text{Market}$
Range of FFTF Margin Outcomes
Range of FFTF Margin Outcomes

$ per cwt.

Draw

Market  BP  MILC
Range of FFTF Margin Outcomes

- Market
- BP
- SP-T7
- MILC
A Look At Expected FFTF Margins

Percent

< $6 $6 < x < $8 $8 < x < $12 > $12

FFTF Margin

< $6 $6 < x < $8 $8 < x < $12 > $12
Effects of DPMPP - US All Milk Price

Dollars per cwt.

Baseline  Scenario  Change (Right Axis)
Summary

- Tough to see the exact path and timing for the next farm bill
- The federal budget one of the major drivers
- Many crops seeing high market prices
- Margin protection important to many, NMPF adopted FFTF
- The political landscape has changed
- The geographic landscape of Agriculture Committees has shifted
- Something new could emerge that will drive the outcome for the next farm bill
Questions

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