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## **Dairy Policy Brief #6: Dairy Compacts**

### ***Northeast Interstate Dairy Compact***

The Northeast Interstate Dairy Compact (NIDC) was authorized for the six New England states in Section 147 of the Federal Agriculture Improvement and Reform Act of 1996 (1996 farm bill). The legislation required the Secretary of Agriculture to find “compelling public interest” in the compact region before these states were given the authority to implement the compact. After some unsuccessful legal challenges (primarily to the compelling public interest finding), the compact began collecting over-order obligations in July 1997. The over-order obligation per hundredweight was calculated each month as (\$16.94 – Boston class I price). Processors paid this over-order obligation to dairy farm operators or their cooperatives. Higher milk costs were passed onto consumers in the form of higher retail prices. The 1996 farm bill required that the compact commission could only regulate Class I milk and thus excluded milk used for manufacturing purposes. The NIDC commission was required to pay \$1.8 million in 1998 to compensate the Commodity Credit Corporation (CCC) for the additional cost of the milk price support program that resulted when the regional rate of milk production grew faster than the U.S. rate. The authorizing legislation as amended specified an end date for the NIDC of September 30, 2001.

### ***Other Compact Legislation***

Other attempts have been made to enact dairy compacts in the U.S. As the NIDC was ending in 2001, there were attempts to broaden the compact areas by including a southern region. In fact, many southern states passed necessary state-level legislation to participate in a dairy compact. The National Dairy Equity Act (NDEA) of 2003 included provisions for five compact regions that covered the entire U.S. It also allowed regions with low Class I utilization (less than 45 percent) to receive government payments in an attempt to make the program more equitable across regions.

### ***What are the issues with compacts?***

- ***Effect on milk prices.*** The NIDC was unpopular outside of the compact area due to concerns about its indirect effects on manufactured milk prices. NIDC payments likely encouraged more milk production in the compact area than would have occurred without the program. To the extent that the over-order payments collected by the NIDC were passed forward in the form of higher consumer milk prices, the NIDC likely reduced fluid use in the compact area. Both of these factors would have driven more milk to the manufacturing sector and lowered manufactured milk prices across the country. Because of the limited geographical scope of the NIDC, these effects were likely quite small.
- ***Consumer versus taxpayer transfers to dairy producers.*** The NIDC was a unique dairy policy in that there was an explicit assessment on consumers to compensate dairy producers when prices dropped below target levels. As alternative dairy policies are considered, the dairy industry needs to debate whether programs like the NIDC that tax consumers are a better alternative than programs that use taxpayer funds.
- ***The NIDC counted in the U.S. domestic support notification to the WTO.*** The NIDC was included in the U.S. domestic support notification to the WTO at a level of \$103 million over the 1998 to 2001 period. This amount roughly equaled producer payments under the NIDC. New compact programs would likely also be included in our domestic support notifications.