



## 2008 Farm Bill: Wisconsin Focus Dairy Subtitle<sup>1</sup>



### *Key Features*

The dairy subtitle of Title I of the Food, Conservation, and Energy Act of 2008 authorizes price and income supports for dairy farmers and reauthorizes the dairy promotion check-off, the Dairy Export Incentive Program (DEIP), and the Dairy Indemnity Program.

Two important changes in the new Act involve the price support program and the Milk Income Loss Contract (MILC) program. The price support program was altered to support the price of *dairy products* (cheddar cheese, butter, and nonfat dry milk) purchased by the government instead of supporting the price of *milk*. The purchase prices for dairy products are set in reference to a \$9.90 per hundredweight price of milk used for manufacturing. So while this change may seem subtle, it is significant in potentially reducing the calculated cost of domestic price support programs under the World Trade Organization (WTO). This will help the United States meet any required reductions in domestic supports coming out of ongoing WTO trade negotiations. The new bill also specifies maximum government purchase levels for cheese, butter, and nonfat dry milk that will trigger possible reductions in the purchase prices.

Under previous legislation, the MILC program triggered payments to dairy farmers whenever the Class I (fluid milk) price in Boston fell below a target level of \$16.94 per hundredweight (equivalent to a Class III price of \$13.69). Because of higher milk prices, the MILC program has been inactive since early 2007. But much higher feed costs mean that if milk prices fell to the target, then dairy farmers would experience significant losses. To address this problem, the new farm bill links the target price to the cost of dairy feed. It also raises the percent of the deficiency (difference between the target price and the market price) paid farmers from 34 to 45 percent and elevates the production cap from 2.4 million pounds to 2.985 million pounds per year.

The new bill reauthorizes DEIP and the Dairy Indemnity program without changes. The Dairy Promotion and Research program is reauthorized and altered slightly to make it feasible to collect the promotion assessment on imported dairy products by requiring assessments on milk produced in every state and Puerto Rico. Mandatory reporting of dairy product inventories is continued and a system for electronic reporting is established.

New dairy provisions in the 2008 Farm Bill include:

- Reinstatement of the pilot dairy forward pricing program that was initiated in 1999 and terminated in 2004. This program allows proprietary dairy plants to pay less than federal order minimum prices to producers who forward contracted at lower prices.

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- Revisions to expedite the process of amending federal milk marketing orders.
- A mandated USDA study and report on the impact of trade misreporting of nonfat dry milk prices on federal order minimum prices.
- Establishment of a federal milk marketing order review commission to evaluate current federal and state milk pricing regulations and provide related recommendations for changes to Congress and the Secretary of Agriculture.

### ***How is Wisconsin Affected?***

With more than half of Wisconsin farm cash receipts coming from dairy, the dairy subtitle of the Farm Bill can have a potentially large impact on Wisconsin agriculture. However, the legislative changes adopted in 2008 are not expected to have much effect on the dairy landscape. The newly-coined *Dairy Product Price Support Program* uses purchase prices that are well below current domestic and international market prices, and market prices are expected to stay above the support levels over the five-year life of the new legislation. Hence, few if any government purchases are anticipated.

The revised MILC program is a considerable improvement over its predecessor in linking the national target price to feed costs and in raising the payout percentage and the production cap. If payments are triggered, then fewer Wisconsin dairy farmers would be subject to the cap and the payment would be larger. But most projections of milk prices over the next five years suggest that — unless feed prices rise much more than expected — market prices will exceed the feed cost-adjusted target price all or most of the time. This means that MILC payments will not often be triggered. Nonetheless, the changes in MILC make it a much more effective safety net.

The effects of other changes made in the dairy subtitle of the 2008 Act on Wisconsin dairying are minor.

### ***Where can I get more information?***

- Jesse, Cropp and Gould, 2008. [\*Dairy Subtitle: Food, Conservation and Energy Act of 2008\*](#), Marketing and Policy Briefing Paper, Dept. of Ag. and Applied Economics, University of Wisconsin-Madison, June.
- Refer to the [\*Dairy Subtitle\*](#) of the 2008 Farm Bill.
- A spreadsheet model used to estimate the Feed Cost Adjuster of the MILC can be found at: [http://future.aae.wisc.edu/collection/software/milc\\_cost\\_adjuster.xls](http://future.aae.wisc.edu/collection/software/milc_cost_adjuster.xls).
- A spreadsheet model used to simulate the performance of the new MILC program can be found at: [http://future.aae.wisc.edu/collection/software/MILC\\_simulation\\_07\\_08.xls](http://future.aae.wisc.edu/collection/software/MILC_simulation_07_08.xls).

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