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The Dairy Title of the 2008 Farm Bill

The 2008 Farm Bill was more of the same in many respects. However, several changes may have direct effects for dairy farmers. Firstly, the Milk Price Support Program was continued but renamed the Dairy Product Price Support Program. Secondly, dairy imports are to pay check-offs for generic advertising. Thirdly, the US Department of Agriculture (USDA) is required to expedite the process of amending Federal Milk Marketing Orders. And finally, the Milk Income Loss Contract (MILC) program remains with the eligible milk per farm increased and a feed cost trigger now included.

Changing the name of the Price Support Program from “milk” to “dairy product” reflects what the program actually does as it is an open offer to purchase cheese, butter and nonfat dry milk. The intention has been that keeping these products above a certain level will translate back to a floor on the farm milk price (set at $9.90/cwt for the past several years). When the last World Trade Organization agreement was set in 1994, the Milk Price Support Program was rated at an enormous $5 billion of support. That value turned out to be much larger than the actual support as the US milk price determined by market forces has been above support for most of the period since. This name change may actually affect trade agreements in a positive way by lowering the calculated effective support level in future agreements although the exact result is unknown at this time. The program also has trigger net removal levels for cheese, butter and nonfat dry milk that result in product price support reductions. However, the current price climate is such that the support prices are below cost of production and therefore likely irrelevant.

Having imported dairy products pay a 7.5 cent/cwt assessment means that they will pay half of the 15 cent/cwt assessment that domestic production pays. This change was in response to the allegation that imports were free-riding on domestic dairy promotion efforts. The result will be to make imports marginally more expensive and is likely to be of concern in future trade agreements.

One of the criticisms of USDA in recent years has been the long period between proposed changes and implementing those changes sometimes taking multiple years—although if the changes were adverse to farmers then the delay may have been welcome. California, operating their own state milk marketing order, is much more efficient at ruling and implementing changes. However, to be fair, California regulators have a more uniform situation in the state than the Federal regulators do. The 2008 Farm Bill revises Order amendment procedures. Within 30 days of a request for a hearing the USDA must schedule a hearing for sometime in the next 120 days or request further information or deny the request. All post-hearing briefs must be filed within 60 days of the hearing date. The USDA must issue a recommendation within 90 days of the brief filing deadline and a final decision within 60
days of a comment deadline. The entire process could still take a year or more.

**The Most Important Change**

The most important change is likely to be inserting the feed cost adjuster into the Milk Income Loss Contract (MILC) program. Previously, MILC payments were triggered when the Boston Class I price was below $16.94 (equivalent to a Class I mover of $13.69). The new program uses that milk price as well as US average farm price received for corn, soybeans and hay. These prices are currently used by USDA to calculate the milk-to-feed price ratio with a representative 16 percent crude-protein dairy ration. With the feed price adjuster, payments will occur when the cost of 100 pounds of feed (51 pounds of corn, 41 pounds of hay, and 8 pounds of soybeans) exceeds $7.35. Therefore, if the USDA dairy feed cost is less than or equal to $7.35, then the MILC Class I mover target price is $13.69/cwt. If the feed cost is higher than $7.35, then the percentage difference between that feed cost and $7.35 will be multiplied by 45 percent. The resulting percentage will be used to increase the target price for the month in question. For example, the May 2008 feed prices received by farmers (reported by USDA in Agricultural Prices and available online) were: corn $5.12/bu, hay $166/ton, and soybeans $12.30/bu. Using these values, the feed cost is:

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\frac{($5.12/bu \text{ corn})}{(56 \text{ lbs/bu})} * 51 \text{ lbs } + \frac{($166/\text{ton hay})}{(2000 \text{ lbs/ton})} * 41 \text{ lbs } + \frac{($12.30/\text{bu soybeans})}{(60 \text{ lbs/bu})} * 8 = 9.71
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$9.71 is 32 percent ($2.36/$7.35) above $7.35. The percentage increase in the MILC target price is 45 percent of 32 percent, or 14.4 percent. Therefore, the trigger for the Boston Class I price is increased by 14.4 percent becoming $19.38. To determine the trigger price on a Class I mover basis, the Boston Class I differential of $3.25 is subtracted from the Boston Class I price (i.e. $19.38 - $3.25 = $16.13, the Class I mover trigger). The May Class I mover was $16.62 so no payment will be triggered for that month. Feed prices for each month since December 2007 have been enough to trigger adjustments in the MILC pay price. However, the Class I movers have been high enough so that no payments would have been triggered. The outlook is for continued high feed prices so that should milk prices drop, the MILC program could be an important safety net.

Another change to the MILC program is that annual payment limits were raised from 2.4 million (about 120 cows) to 2.985 million pounds (about 150 cows) per farm. As before, payment months run consecutively once a start date for that fiscal year (beginning October 1) is picked.