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U.S. Dairy Programs After the 2014 Farm Bill (P.L. 113-79)

The 2014 farm bill makes significant changes to the structure of U.S. dairy support programs. In particular, major price and income support programs from the 2008 farm bill (P.L. 110-246) were replaced with two new programs—an insurance-like Margin Protection Program (MPP) for producers and a Dairy Product Donation Program (DPDP) involving government purchases of dairy products during periods of low margins.

Reaching a final compromise on U.S. dairy policy, as contained in the 2014 farm bill, was an arduous task, involving considerable debate over the nature and role of federal support programs for dairy.

Prior Dairy Policy

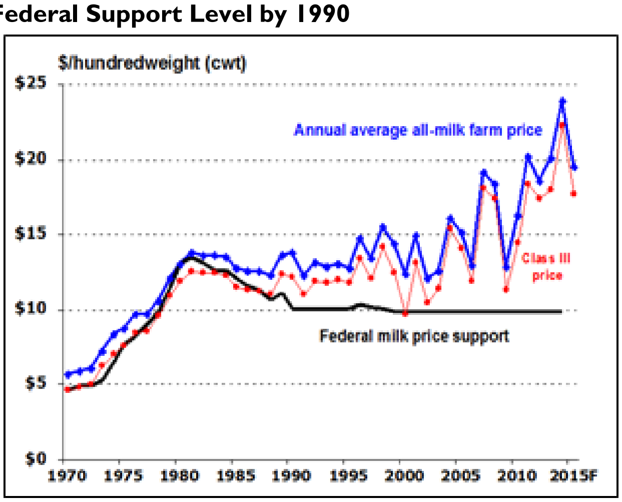
A federal policy goal has been to support producer incomes by supporting the farm price of fluid milk. However, fluid milk is highly perishable. As a result, federal programs have supported milk prices indirectly by offering to buy storable dairy products (e.g., powdered milk, butter, or cheese) at support prices set in fluid-milk equivalents.

Federal dairy price supports were first established in 1949 and were modified in subsequent legislation, including the 2008 farm bill (P.L. 110-246), which established the Dairy Product Price Support Program (DPPSP). DPPSP indirectly supported the farm price of fluid milk at a fixed $9.90 per hundred lbs. (i.e., hundredweight or cwt.) through government purchases of dairy products from processors.

Escalating Feed Costs Worry Producers

Federal dairy price supports were moderately effective until about 1990, when the farm price of milk began to trend well above the fixed support price (**Figure 1**).

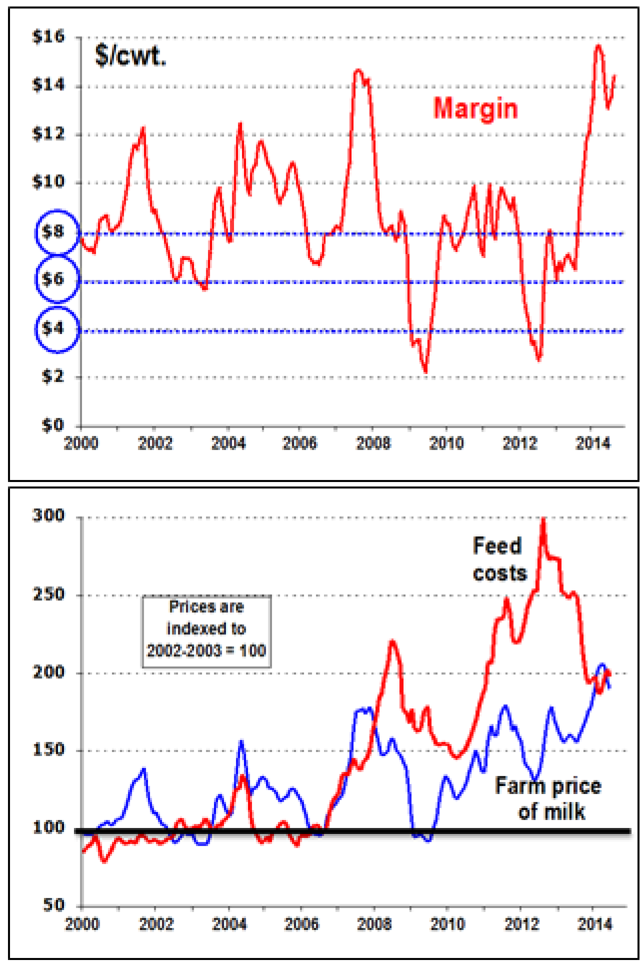
Figure 1. Milk Prices Moved Well Above Previous Federal Support Level by 1990



Source: Compiled by CRS from USDA price data.

This left producers vulnerable to volatile milk prices and rapid rises in feed costs—the primary cost component of milk production (**Figure 2**). Then, following a severe downturn in milk prices in 2009 that caused widespread economic hardship in the U.S. dairy sector, the dairy industry advocated to shift federal dairy support away from price supports and toward guaranteeing some portion of the margin between milk prices and feed costs.

Figure 2. Feed Costs Outpaced Milk Prices During 2008 to 2014



Source: Indexes compiled by CRS from USDA price data.

Other Dairy Support Programs

In addition to DPPSP, dairy producers have been supported by two other prominent programs authorized by recent farm bills—the Milk Income Loss Contract (MILC) and the Dairy Export Incentives Program (DEIP).

The **MILC** program provided milk producers with counter-cyclical payments whenever the monthly Boston Class I price of fluid milk fell below $16.94/cwt., adjusted for feed cost changes. But annual payments were limited to 2.985 million lbs. of milk (i.e., the milk produced in a year from about 150 cows), and as a result large operators did not favor MILC.

DEIP paid bonuses to U.S. dairy exporters whenever certain international market price conditions were met. However, the United States has been a strong advocate for eliminating export subsidies in international markets, and thus has not used DEIP since 2010.

MILC, DEIP, and DPPSP were repealed by the 2014 farm bill.

Farm Bill Debate Refocuses Dairy Policy

The shift of policy focus away from price supports and toward protecting the dairy operating margin was formalized by a proposed dairy margin protection program, the Foundation for the Future (FTF), published in June 2010 by the National Milk Producers Federation. A version of the FTF was introduced in the 112th Congress as H.R. 3062, the Dairy Security Act, in September 2011. Through the legislative process, the FTF eventually evolved into the new dairy program contained in the provisions of the 2014 farm bill.

Dairy Margin Protection Program (MPP)

The MPP is a voluntary program that makes a payment to participating farmers when a formula-based national margin—calculated as the national average farm price for all milk minus a national average feed ration cost—falls below a producer-selected insured margin that can range from $4.00 per cwt. to $8.00/cwt. in $0.50/cwt. increments (**Figure 3**). MPP payments are based on a farm-level production history and a producer-selected coverage level that ranges from 25% to 90%—the product of these two items yields the covered production history (CPH).

Figure 3. Historical U.S. Dairy Operating Margin

Source: Compiled by CRS using USDA data.

Notes: The margin = (national average all-milk price) – (average cost of a feed ration needed to produce 1 cwt. of milk).

Producers must pay an annual administrative fee of $100 for each participating dairy operation, and a premium that rises steadily for higher margin protection levels, starting at the $4.50/cwt. margin level. The minimum $4.00/cwt. margin is fully subsidized and has no farmer-paid premium. The premium structure is further divided based on the volume of CPH—lower premiums are charged for the first 4 million lbs. of CPH, and higher premiums are charged on CPH above 4 million lbs. As an incentive to encourage participation by smaller dairy operations (with CPH under 4 million lbs.), premiums are reduced by 25% across the board for all margin protection levels except the $8.00/cwt. level during calendar years 2014 and 2015.

Dairy Product Donation Program (DPDP)

The DPDP requires USDA to procure and distribute certain dairy products when the margin falls below $4.00/cwt. for two consecutive months. DPDP dairy product distribution is required to target individuals from low-income groups and does not allow for resale into commercial markets. Thus, the DPDP is intended to enhance dairy demand, while strengthening milk prices and operating margins. Once triggered, purchases and distribution under the DPDP end after three months, or if the U.S. price for certain dairy products is significantly above world prices.

Other Dairy Support Programs

Several smaller dairy programs from the 2008 farm bill were extended by the 2014 farm bill through FY2018, including the Dairy Forward Pricing Program, the Dairy Indemnity Program, and certain provisions to augment the development of export markets under the National Dairy Promotion and Research Program (i.e., the dairy check-off program).

For program details, refer to the CRS Reports cited below under "More Information."

Dairy Programs Permanently Authorized Outside the Farm Bill

In addition to farm bill programs, dairy producers have been supported by several other federal programs, foremost of which are federal milk marketing orders (FMMOs), dairy import tariff rate quotas (TRQs), and so-called "permanent farm law."

FMMOs are geographically defined milk marketing areas where dairy processors are required to pay a minimum price for milk depending on its end use. Total processor payments are then pooled, and all milk producers selling within the FMMO receive a uniform, pooled price. FMMOs have permanent statutory authority under the Agricultural Marketing Agreement Act of 1937.

TRQs are a system of product-specific import quotas designed to protect higher-priced domestic dairy products by limiting the importation of lower-priced foreign dairy products. Dairy TRQs are part of the Harmonized Tariff Schedule of the United States.

Permanent farm law is authorized in the 1949 Agricultural Act, but is suspended by periodic passage of a new farm bill. Under permanent law, USDA is required to purchase dairy products to support fluid milk prices based on a 1910-1914 parity price index. Reversion to permanent law would result in a milk support price of over $40/cwt., compared with the 2013 average all-milk farm price of $20/cwt.

Other less prominent programs that support dairy producers and products include the Livestock Gross Margin for Dairy Cattle Program (LGM-D), the Fluid Milk Processor Promotion Program, and the Dairy Product Mandatory Reporting Program.

More Information

For more analysis, see CRS Report R43465, *Dairy Provisions in the 2014 Farm Bill (P.L. 113-79)*, and CRS Report RL34036, *Dairy Policy and the 2008 Farm Bill*.

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