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Dairy Industry and Dairy Policy in 1988

by

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PREFACE

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This paper resumes an annual series on the dairy industry and dairy policy. The last paper in this series was released in 1985. Additional copies of this publication can be requested from Andrew Novakovic or:

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INTRODUCTION

This paper reviews the situation and outlook for dairy markets and dairy policy. We begin with a discussion of the economic status of dairy markets in the U.S. in 1987, followed by a review of the major policy issues since the Food Security Act was passed in 1985. The paper concludes with some comments on the economic outlook for the U.S. dairy industry in 1988 and on the possible policy changes that could shape the dairy economy beyond this year.

THE NATIONAL ECONOMIC SITUATION

Milk Production

As shown in Table 1, the average number of milk cows on farms dropped a record 4.4% in 1987, chiefly due to the Dairy Termination Program. However, milk production dipped only slightly (less than 1%) because nonparticipating dairymen increased their production. Production per cow increased 4%--the largest gain in eleven years. This is certainly in part a result of the removal of lower-yield cows through the DTP; however it also reflects recent upward revisions that USDA made as part of its normal revision process.

The January 1 cattle inventory showed milk cows down 6% at the beginning of 1987 and replacements down by 1.4 heifers per 100 cows. The January 1, 1988 inventory estimates cow numbers at 10,307,000, down 1.9% from 1987. Heifer numbers, at 4,111,000 were down 5.1%. The considerably larger reduction in heifer numbers at the beginning of 1988 pushes replacements down 1.3 heifers per 100 cows, placing replacements at just below 40 heifers per 100 cows for the first time since 1980.

Cattle inventories are also reported for July 1. The estimates for 1988 suggest that the trend indicated by the January 1 estimates is continuing but not accelerating. January 1 estimates for 1989 will reveal whether or not the summer drought resulted in more significant changes in dairy cattle numbers and replacement levels.

Changes in national totals or averages often mask significant differences across regions. This is certainly true in the case of milk production. Table 2 shows milk production for the top twelve milk producing states and New England. Seven of these major milk producing areas had relatively larger decreases in production than the national average. Texas, California, Wisconsin, Illinois, Pennsylvania, and Washington had greater or level milk production in 1987.

The 1.2% increase in Wisconsin represents one-third more milk than the 5.2% increase in Texas. The six major milk producing states which increased in 1987 increased 1.3 billion pounds; the other seven major milk producing areas decreased 1.4 billion pounds. With a national decline of 0.9 billion pounds, this means that the 32 states not otherwise accounted for declined 0.8 billion

TABLE 1. U.S. Milk Production, Cattle Numbers, and Production per Cow

	% Change 1986-87	1987	1986	1985	1984	1983	1982	Average 1977-81
Milk Production (mil. lbs.)	-0.6	142462	143381	143147	135450	139672	135505	125728
Production per Cow (lbs.)	4.0	13786	13260	12994	12506	12585	12306	11603
Milk Cows on Farms, average during year (thous.)	-4.4	10334	10813	11016	10833	11098	11011	10836
Milk Cattle on Farms, January 1 (thousands)								
Milk Cows and Heifers that have Calved	-6.0	10502	11177	10805	11109	11047	10986	10858
Milk Cow Replacements, Heifers 500 Pounds and Over	-9.0	4331	4761	4760	4532	4545	4547	4041
Heifers per 100 Cows (no.)	-3.3	41.2	42.6	44.1	40.8	41.1	41.4	37.2

Sources: Milk Production, Disposition and Income, Da 1-2 (88), USDA (NASS), May, 1988; Dairy Market News, 55-07, USDA (AMS), February, 1988; Dairy Situation and Outlook Report, DS-414, USDA (ERS), April 1988.

Table 2. Milk Production by Selected States

STATE	% Change 1986-1987	1987	1986	1985	1984	1983	1982	Average 1977-81
				(million pounds)				
Wisconsin	1.2	24800	24500	24700	23501	23800	23230	21905
California	4.0	17934	17240	16768	15299	14743	14528	12843
New York	-3.1	11362	11723	11731	11442	11649	11097	10661
Minnesota	-1.7	10436	10614	10840	10331	10913	10341	9463
Pennsylvania	0.3	10183	10152	9983	9423	9510	9264	8243
Michigan	-2.9	5248	5404	5568	5350	5528	5253	4891
Ohio	-2.6	4810	4936	4870	4650	4760	4550	4338
Texas	5.2	4300	4089	3968	3848	3985	3780	3494
Washington	0.0	3763	3762	3750	3468	3482	3222	2800
Iowa	-8.5	3550	3879	4058	3805	4036	4004	3980
Missouri	-1.0	2900	2930	2870	2754	3100	2905	2811
Illinois	1.2	2775	2741	2721	2560	2706	2657	2490
New England	-4.2	4515	4715	4706	4594	4918	4769	4443
U.S.	-0.6	142462	143381	143147	135450	139672	135795	125767

Sources: Milk Production, Disposition and Income, Annual Summary, various years; Milk, Final Estimates, 1975-78 and 1979-82, USDA (NASS).

pounds (within in this group some states increased, but the absolute increase for any one state is small).[1]

Dairy Product Production

National production of major dairy products is shown in Table 3. Production of fluid milk and cream products is represented by a sales figure estimated by USDA from federal and state milk marketing order data on milk used to produce fluid (class I) products. A USDA estimate for 1987 was not available at the time this publication was written; however data for all federal milk marketing orders and California suggest that the production of fluid products went up about 4% in 1987.

Figures 1 through 5 show the top producing states for a variety of products: all cheese, Italian cheese, American cheese, ice cream, and butter. Figure 1 shows Wisconsin's total cheese output leveling off less quickly than both Minnesota and New York. In Figure 2, Wisconsin and (to a lesser extent) California show an increase in Italian cheese production, while New York remained steady in 1987. California's output of American cheese continued to increase in 1987, while Wisconsin, Minnesota, and New York's output either declined or stayed put, as shown in Figure 3. Figure 4 shows that the production of the top three ice cream producing states and New York has remained more or less steady since 1985. Butter production in Wisconsin, California, Minnesota, and New York (as demonstrated by Figure 5) leveled off in 1987, and (with the exception of California, which increased marginally) actually decreased.

Imports and Exports

According to Bureau of Census information shown in Table 4, the milk equivalent of total imports[2] were down nearly 9% in 1987.[3] The greatest

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[1]*Several papers have been written about differences in milk production, prices, and so on across states. A paper available from the authors at Cornell is:*

Andrew M. Novakovic, "Regional Differences in the Dairy Industry and Implications for Dairy Support Policy," Report to the National Commission on Dairy Policy, Dept. of Agr. Econ., Cornell University, 1987.

[2]*Unless otherwise noted, all aggregations of dairy products reported herein are in milk equivalent units based on the butterfat content of the individual products and raw milk (fat solids basis).*

[3]*There are two sources of data on dairy product imports and exports. The Bureau of Census data on imports are often inconsistent with Customs Service data on imports of quota products. Moreover, the Census data often show imports of specific items that are larger than the corresponding quota; something the Customs Service claims does not happen. The reason we use the Census data here is that these data are used in the calculation of commercial disappearance, the most common measure of dairy product sales.*

Table 3. U.S. Dairy Product Production

Product	% Change 1986-87	1987	1986	1985	1984	1983	1982	Average 1977-81
				(million pounds)				
Fluid Milk and Cream Sales[a]	*	*	55696	55267	54139	53711	53226	54584
All Hard Cheeses[b]	2.4	5002	4887	4786	4398	4548	4279	3560
American Cheese	-2.9	2717	2798	2855	2648	2928	2752	2265
Cheddar	1.9	2285	2242	2292	2113	2351	2157	1661
Italian Cheese	10.2	1800	1633	1491	1319	1200	1088	915
Mozzarella	9.3	1365	1249	1104	953	862	762	630
Swiss	0.0	227	227	223	208	209	221	209
Other Cheeses[c]	13.1	258	228	217	222	211	218	171
Cream Cheeses[d]	-24.7	242	322	294	276	270	263	211
Cottage Cheeses[e]	-2.6	945	970	960	965	958	966	1005
Frozen Products[f]	2.2	1360	1331	1311	1274	1256	1213	1196
Butter	-8.2	1104	1202	1248	1103	1299	1257	1088
Nonfat Dry Milk[g]	-17.5	1059	1284	1390	1161	1500	1400	1082
Canned Milk	-0.9	597	602	656	666	710	754	791
Bulk Condensed Milk	1.6	1383	1362	1232	1159	984	975	995
Dry Whey[h]	1.8	1141	1121	1083	986	1008	954	887[i]
Whey Protein Concentrate[j]	24.7	97	78	105	96	86	71	--

Sources: Dairy Products, Annual Summaries, 1978-1987, USDA (NASS); Dairy Situation and Outlook, DS-414, USDA (ERS), April 1988.

a/ Product weight.
b/ Includes American, Italian, Part Skim, Swiss, Munster, Brick, Limburger, Blue, and other cheeses.
c/ Includes Munster, Brick, Limburger, Blue, Part Skim, and other.
d/ Includes Cream and Neufchatel.
e/ Includes Creamed and Lowfat.
f/ Includes ice cream, ice milk, milk sherbet, other frozen dairy products, and mellorine-type frozen desserts in thousand gallons.
g/ For human food.
h/ Includes dried and modified whey products, human food and animal feed.
i/ Average does not include part demineralized animal feed for the years 1977-1980; nor part delactosed animal feed for the year 1977, due to unavailability of data.
j/ Human food and animal feed: 1977-1980 data not available for animal feed.

* Data not available; Federal Milk Marketing Order and California data on producer receipts used in Class I indicate a 4% increase in 1987.

Figure 1. PRODUCTION OF ALL CHEESE
TOP THREE STATES

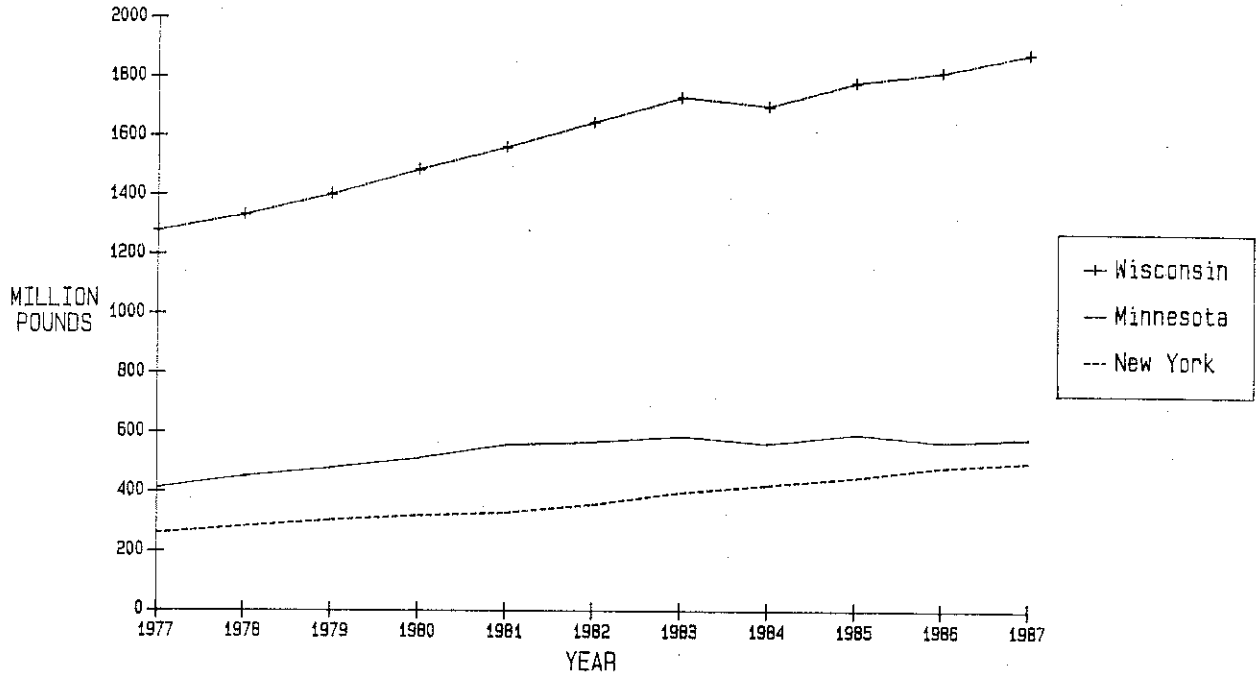

Figure 2. PRODUCTION OF ITALIAN CHEESE
TOP THREE STATES

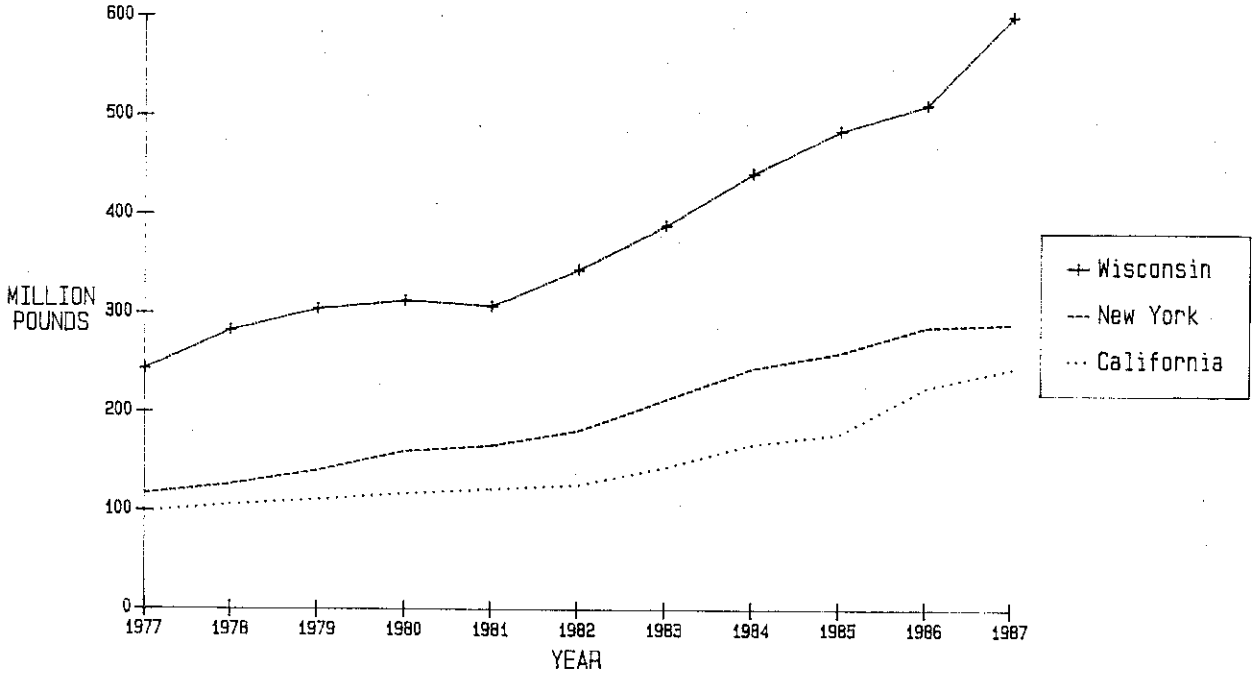

Figure 3. PRODUCTION OF AMERICAN CHEESE
TOP THREE STATES AND NEW YORK

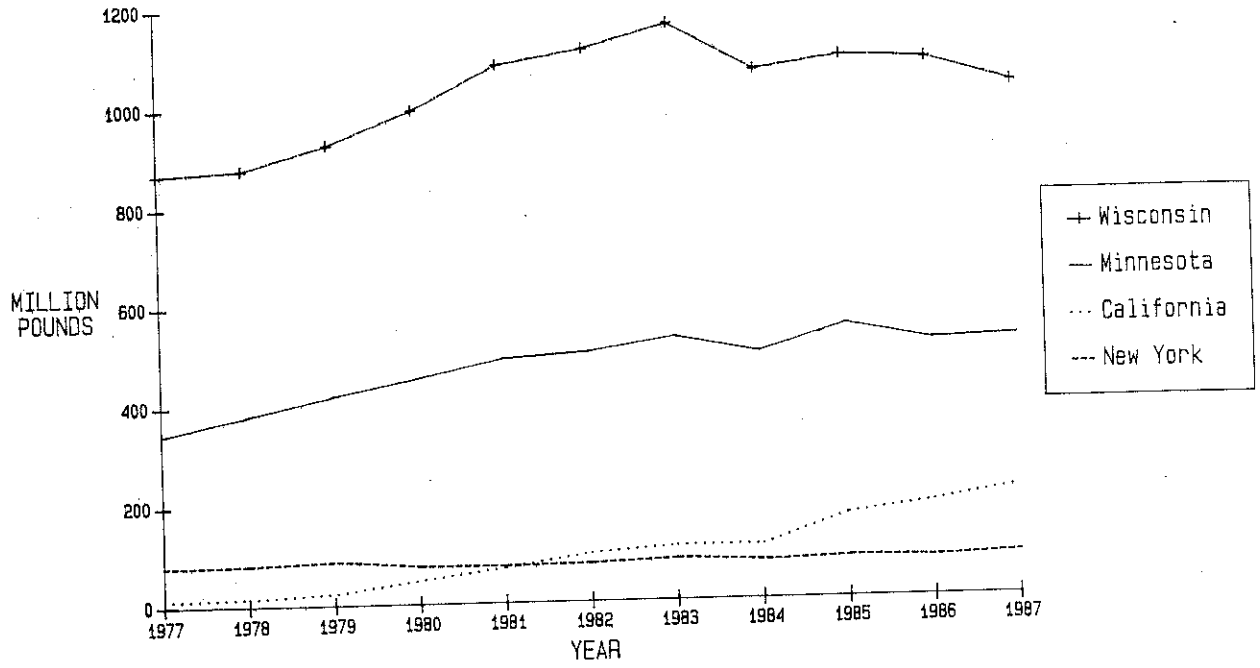

Figure 4. PRODUCTION OF ICE CREAM
TOP THREE STATES AND NEW YORK

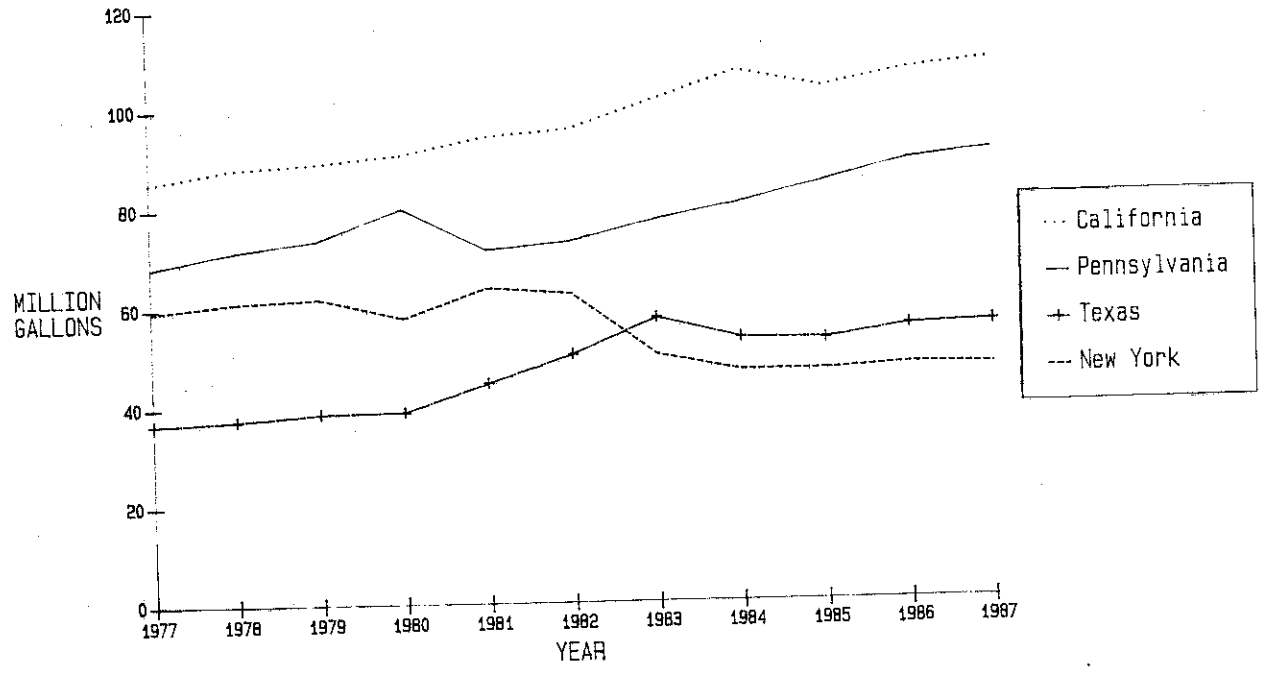

Figure 5. PRODUCTION OF BUTTER
TOP THREE STATES AND NEW YORK

Table 4. U.S. Dairy Product Imports

	% Change 1986-87	1987[a]/	1986	1985	1984	1983	1982	Average 1977-81
				(thousand pounds of product)				
American Cheese	-37.3	14716	23463	19586	24069	21655	17845	17902
Italian Cheese	33.6	16440	12307	13757	13656	13658	13575	8933
Swiss Cheese	-11.6	72513	82047	85194	85808	84134	82041	84315
Other Cheese	-9.2	161234	177506	183967	182486	166800	155882	124580
Total Cheese	-10.3	264903	295323	302504	306019	286247	269343	235730
Butter, Butteroil and other Butterfat Mixtures	15.6	9388	8119	7170	6029	5258	5281	4455
Nonfat Dry Milk	41.2	2689	1904	2807	2145	2399	1935	2806
Casein	0.2	238394	237960	231429	192312	159527	176752	142251
Total Imports (mil. lbs, milk equivalent, fats basis)	-8.9	2490	2733	2777	2741	2616	2477	2204

Source: Dairy Situation and Outlook Report, various issues, USDA (ERS); from U.S. Department of Commerce, Bureau of Census.

a/ Preliminary.

reduction was in American cheese, which dropped over one-third of earlier levels. During the period 1982-85, massive government accumulations of dairy products required more aggressive strategies to dispose of dairy stocks before they deteriorated. In addition to increases in domestic donations, a major effort was made to seek out foreign markets for dairy products. This resulted in a very large rise in exports relative both to previous years and to dairy imports. In 1986 and 1987, trade returned to normal post World War II patterns, with the U.S. importing more dairy products than it exported, as demonstrated in Figure 6. On a milk equivalent basis, the U.S. was a net importer of 519 million pounds of dairy products in 1987.[4]

Dairy Product Consumption

Several figures are reported by the USDA which, in slightly different ways, measure consumption. These figures differ in that some account for sales while others measure disappearance, a figure calculated as a residual from production and other directly measured supplies and uses of milk or dairy products. Disappearance figures, and there are several, may or may not include farm use, exports, government donations, and changes in commercial stocks. The data shown in Table 5 describe domestic disappearance of dairy products, a figure which excludes export use. The most recent data available are for 1986.

Over the last few years, farm consumption has continued to decline, due both to decreases in the farm population as well as declining per capita use of "home-produced" milk and dairy products.

Commercial use of dairy products is measured in several ways. Civilian commercial disappearance excludes purchases by the military and any purchase or use through a USDA program. This measure perhaps most closely resembles the conventional concept of demand--how much consumers buy at a given price.

By this measure, consumers have greatly increased their purchases of dairy products in the 1980s. Civilian commercial disappearance increased nearly ten percent between 1982 and 1986. This seems to be the result not only of population increases but of higher per capita use. During the five-year period 1977 to 1981, per capita civilian commercial disappearance averaged 512 pounds; since 1982 it has averaged over 529 pounds. The preliminary figures for 1986 indicate that the average per capita civilian commercial disappearance has risen dramatically to 548 pounds.

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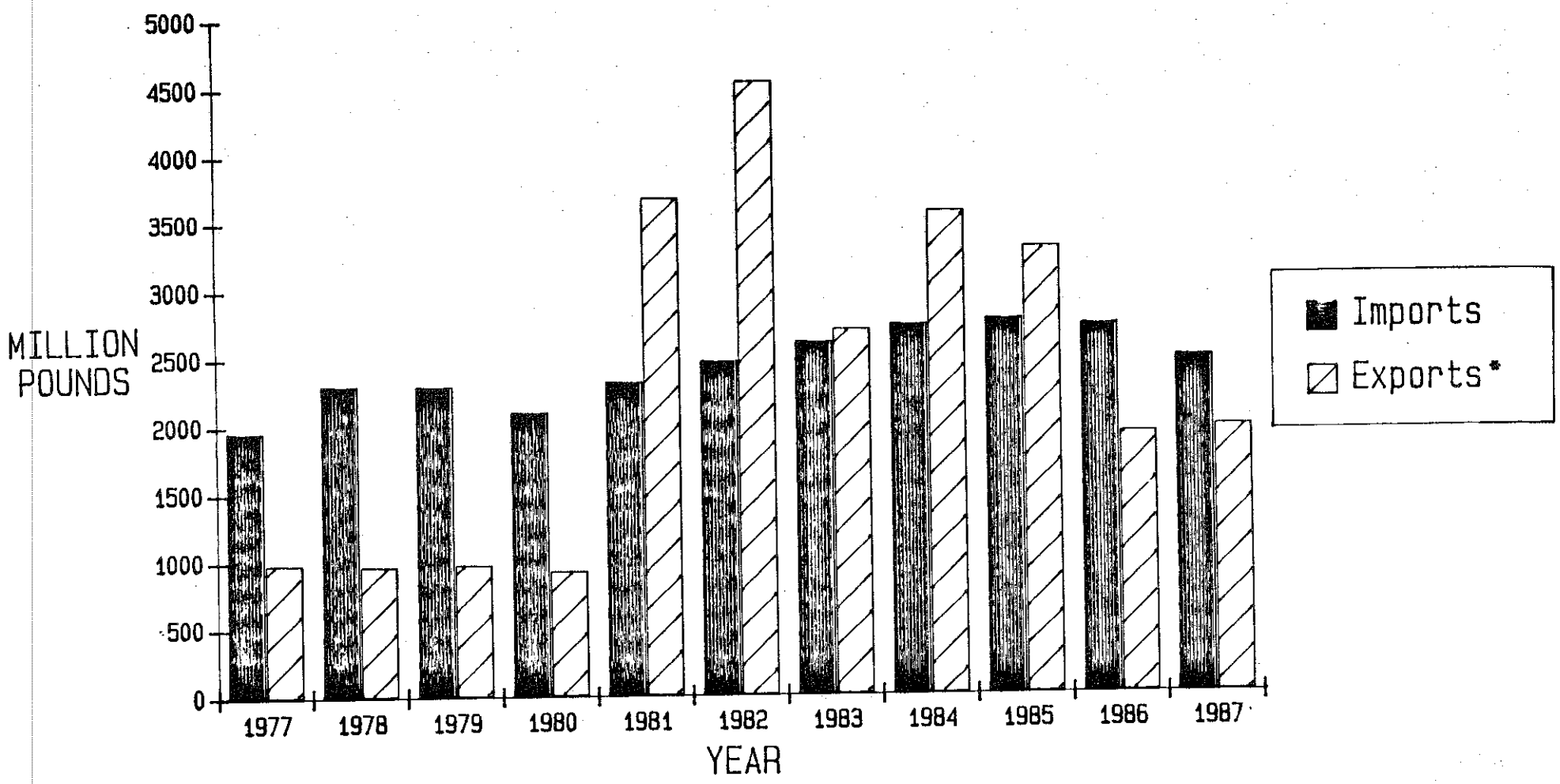
[4]*More detailed discussions of U.S. and world trade patterns can be found in the following publications:*

Andrew M. Novakovic, "The Impact of U.S. Dairy Policies on Dairy Sectors of Developing Nations," paper presented at a workshop of the International Food Policy Research Institute, Copenhagen, 1987.

M.C. Hallberg and Woong-Je Cho, The World Dairy Market--Policies, Trade Patterns, and Prospects, AE&RS 191, Dept. of Ag. Econ. and Rural Soc., Pennsylvania State University, 1987.

Figure 6. U.S. TOTAL IMPORTS AND EXPORTS OF DAIRY PRODUCTS (MILK EQUIVALENT, FATS BASIS)



*Commercial exports and shipments to U.S. territories

Table 5. U.S. Domestic Disappearance of Dairy Products

	% Change 1985-86	1986[a]	1985	1984	1983	1982	Average 1977-81
				(million pounds, milk equivalent)			
Consumed on farms	0.0	709	709	804	842	839	1062
Civilian, commercial sources	2.6	131028	127719	123972	119661	118983	114227
USDA donations[b]	-15.7	10330	12258	11608	12594	7983	6054
Civilian consumption, excluding product donations[c]	2.6	132637	129328	125676	121403	120722	118109
Total Civilian	1.0	142067	140686	136384	133097	127805	121343
Military	0.0	1128	1128	1361	1307	1369	1044
Total Civilian and Military	1.0	143195	141814	137745	134404	129174	122387
				(pounds, milk equivalent)			
Per Capita Civilian, commercial sources	1.5	548	540	529	515	517	512
Per Capita Civilian, consumption excluding donations[c]	1.6	555	546	536	523	525	530

Source: Dairy Situation and Outlook Report, DS-412, USDA (ERS), October 1987, page 17.

a/ Preliminary.
b/ Includes products purchased through National School Lunch and Special Milk programs as well as product donations from USDA inventories.
c/ Civilian disappearance, commercial sources, plus milk consumed on farms plus products purchased through National School Lunch and Special Milk programs.

USDA donations have fluctuated during the last few years; after peaking at over twelve billion pounds in 1983 and again in 1985, donations in 1986 had dropped to the lowest level since 1982. These fluctuations are caused primarily by changes in government stocks available for domestic and foreign food aid programs. Uses of government stocks for donations and other purposes are discussed in a later section on net removals of dairy products under the dairy price support program.[5]

Domestic disappearance from commercial sources is shown in Table 6 for selected dairy products. The year 1986 marked the first time lowfat milk disappearance has exceeded whole milk disappearance. Cottage cheese and butter disappearance remained steady, while disappearance of cheese, dry milk, and frozen desserts moved upward. Although the detail is not shown here, mozzarella sales have been the primary source of growth in the cheese category. Specialty or European-style cheeses have shown substantial percentage growth but volume increases are still relatively small. Canned milk disappearance showed a marked increase over the last few years.

The most common measure of consumption is what USDA calls commercial disappearance. This figure is calculated as the residual of milk sold from farms, imports, changes in commercial stocks, and net removals of products under the price support program. Commercial disappearance estimates for the 1980s are illustrated in Figure 7.

Consistent with the other data on consumption, commercial disappearance has increased at an unusually large rate since 1983. Annual percentage increases from 1984 to 1987 have been 3.6%, 2.9%, 2.2% and 1.6%, respectively (when 1984 data are adjusted to a 365 day equivalent, the increase in 1984 is reduced to 3.3% and for 1985 it is increased to 3.2%). During the first half of 1988, commercial disappearance is estimated to be down 1.3%. Industry analysts believe that part of this is due to unusual commercial stock holding in 1987, which distorted commercial disappearance. It can also be observed that the product accounting for the decline is butter, which tends to be overemphasized in fat-based milk equivalent calculations. Although most analysts do not expect the final commercial disappearance figures for 1988 to show a year to year decline, this remains to be seen.

In any event, it is clear that the pace of increases in commercial disappearance has been slowing since the large increase in 1984. If wholesale prices start to bottom out, as seems likely, and with no major increases in promotion dollars, the factors which have probably been most important in the

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[5]*Additional information on types and amounts of USDA donations are contained in the following publications:*

Andrew Novakovic, "U.S. Dairy Trade Policies: Exports and Other Uses of CCC Surplus Dairy Products," Dairy Marketing Notes, Dept. of Agr. Econ., Cornell University, Spring 1987.

U.S. General Accounting Office, Federally Owned Dairy Products: Inventories and Distributions, Fiscal Years 1982-88, GAO/RCED-88-108FS, Washington, D.C., February 1988.

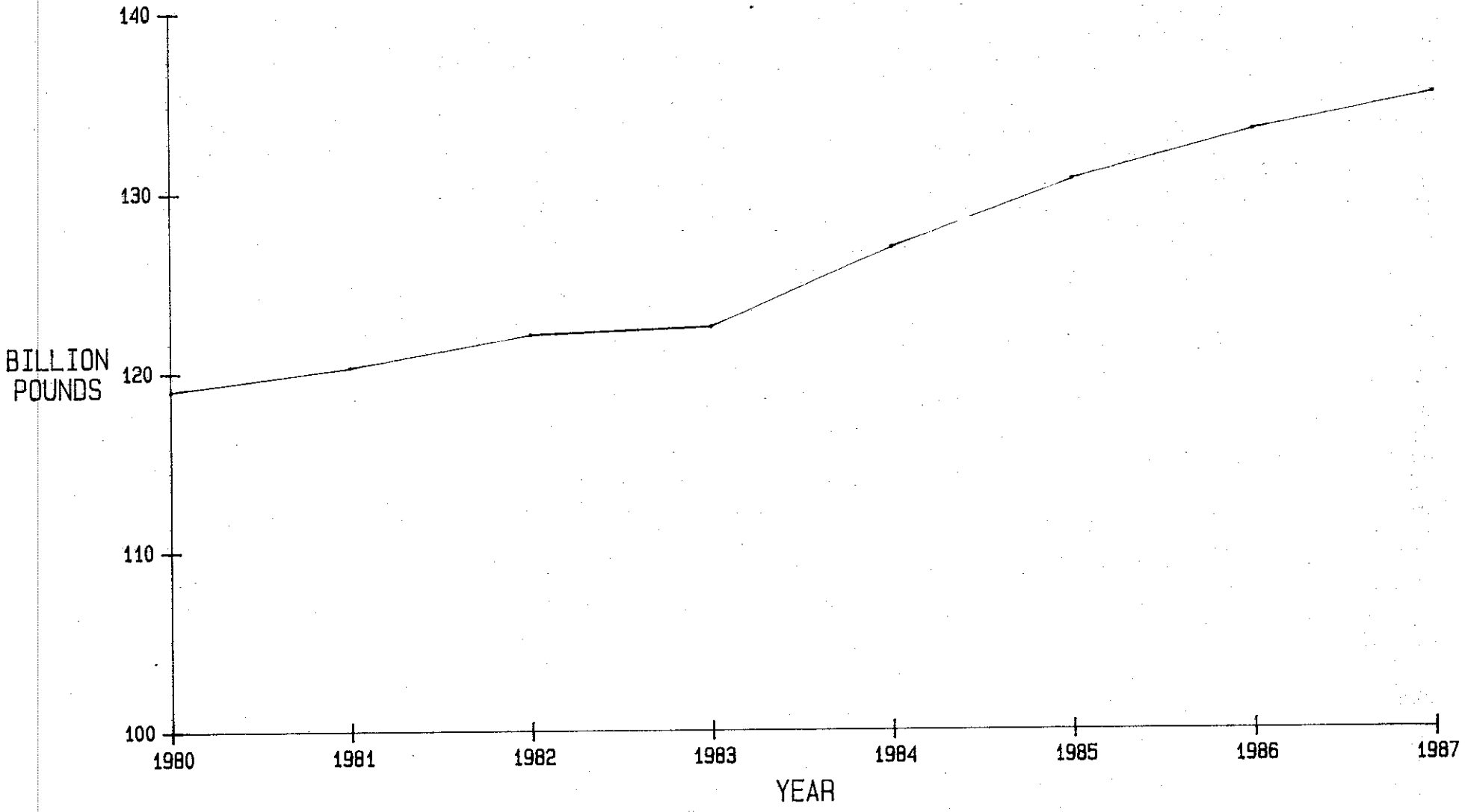
Table 6. U.S. Total and Per Capita Domestic Disappearance of Selected Dairy Products from Commercial Sources

	% Change 1985-86	1986[a/]	1985	1984	1983	1982	Average 1977-81
TOTAL				(million pounds of product)			
Whole Milk	-3.4	28156	29141	29766	30405	30816	33790
Lowfat Milk	5.9	28507	26921	25278	23979	23025	20727
Frozen Desserts	4.2	6882	6605	6388	6293	6079	5969
Cottage Cheese	1.1	982	971	976	970	978	1017
Butter	0.2	920	918	901	881	880	887
Cheese	5.9	5021	4740	4516	4177	4150	3738
Canned Milk	7.0	1885	1762	1734	1637	1606	1660
Dry Milk	11.7	640	573	619	570	561	730
PER CAPITA				(pounds)			
Whole Milk	-4.9	117.0	123.0	126.0	130.0	134.0	152.0
Lowfat Milk	4.8	118.6	113.2	107.3	102.8	99.8	92.8
Frozen Desserts	3.6	28.6	27.6	27.1	26.9	26.2	26.6
Cottage Cheese	0.0	4.1	4.1	4.1	4.1	4.2	4.5
Butter	0.0	3.8	3.8	3.8	3.8	3.8	3.9
Cheese	5.1	20.8	19.8	19.1	17.8	17.9	16.6
Canned Milk	5.4	7.8	7.4	7.3	6.9	6.9	7.4
Dry Milk	12.5	2.7	2.4	2.6	2.5	2.5	3.3

Source: Dairy Situation and Outlook Report, DS-411, USDA (ERS), October 1987.

a/ Preliminary.

Figure 7. COMMERCIAL DISAPPEARANCE OF U.S. MILK



increase in commercial disappearance may be playing out. The implication of this is that dairy markets may be entering a period of stable or very slight growth in per capita commercial sales.

Commercial Stocks

In 1987, total commercial stocks returned to 1985 levels after dropping 10% in 1986. Butter stocks jumped by 59%, as shown in Table 7, while stocks of cheeses other than American styles continued to decline. After dipping in 1986 to the lowest level since 1978, nonfat dry milk stocks rose 12% in 1987. Commercial stocks, which in the last five years have mirrored the ups and downs of government stocks, increased by 10% while government stocks dropped by nearly 68% in 1987.

USDA Stocks, Purchases, and Expenditures

As shown in Table 8, net removals on a milk equivalent basis for fiscal year 1986-87 were less than half of the previous year's levels. This decrease was reflected in a comparable reduction in the net expenditures on price support activities, which dropped to considerably less than $1.3 billion. Net expenditures on School Lunch and other food aid programs rose by 8.2%, nearly offsetting the dollar decrease in net expenditures on the Special Milk program.

Returning to calendar year data, the percentage of total production represented by net removals continued to decline across product categories in 1987, as demonstrated in Table 9. In 1987, net removals as a percent of production were about 10% for cheese, 17% for butter, and 54% for nonfat dry milk, compared to 17%, 24%, and 65%, respectively, in 1986. On a milk equivalent basis, net removals of all products in 1987 represented 4.8% of milk marketings, considerably less than 1986.

Government stocks were reduced sharply in 1987 as the result of cuts in net removals and increases in sales of cheese, butter, and nonfat dry milk. Using fiscal year data, tables 10 through 12 show how much of each dairy product was purchased, how it was used, and how much remained at the end of the fiscal year. Donations of butter and nonfat dry milk fell during 1986-87 while export sales for all three product categories rose, with cheese and butter showing extremely large gains. These sales are, for the most part, subsidized sales to foreign governments for use in food aid programs.

Table 7. U.S. Ending Stocks of Dairy Products

	% Change 1986-87	1987[a]	1986	1985	1984	1983	1982	Average 1977-81
				(million pounds of product)				
Commercial								
American Cheese	2.1	283	277	307	340	368	335	382
Other Cheese	-2.5	90	92	94	101	105	83	87
Butter	59.4	51	32	36	37	36	28	32
Nonfat Dry Milk	12.4	65	58	78	61	75	93	73
Total (M.E.)[b]	10.0	4583	4165	4590	4937	5234	4603	5192
Government								
American Cheese[c]	-80.7	81	420	544	621	793	647	155
Butter[d]	-56.2	96	220	181	273	464	439	229
Nonfat Dry Milk	-83.0	104	611	918	1171	1320	1189	572
Total (M.E.)[b]	-67.9	2794	8702	9105	11767	17412	15451	6266

Source: Dairy Situation and Outlook Report, DS-414, USDA (ERS), April 1988; Dairy Market Statistics, 1987 Annual Summary, USDA (AMS).

a/ Preliminary.
b/ Includes manufactured products for which current monthly series are available (excludes nonfat dry milk, cream, and bulk milk), computed on fat-solids basis.
c/ Includes process cheese.
d/ Includes butter equivalent of butteroil.

Table 8. USDA Removals of and Net Expenditures on Dairy Products by Fiscal Year

	% Change 1985-87	1986-87[a/]	1985-86	1984-85	1983-84	1982-83	Average 1977-1982
Net Removals (bil. lbs. M.E., fats basis)	-56.1	5.4	12.3	11.5	10.4	16.6	7.8
Net Expenditures (million dollars)							
Support Purchases	-49.1	1221.7	2401.9	2168.8	1588.1	2592.0	1232.6
School Lunch and Food Aid	8.2	15.8	14.6	16.2	9.4	8.4	6.5
Total	-48.8	1237.5	2416.5	2185.0	1597.5	2600.4	1239.1
Special Milk	6.1	17.5	16.5	15.5	16.0	14.9	111.7
TOTAL	-48.4	1255.0	2433.0	2200.5	1613.5	2615.3	1350.8

Sources: ASCS Commodity Fact Sheet, "1987-88 Dairy Price Support Program," USDA (ASCS), April 1988; Dairy Situation and Outlook Report, DS-413, USDA (ERS), January 1988.

a/ Preliminary.

Table 9. USDA Net Removals and Production of American Cheese, Butter, Nonfat Dry Milk and All Milk

	% Change 1986-87	1987[a/]	1986[a/]	1985	1984	1983	1982	Average 1977-81
					(million pounds)			
American Cheese[b/]								
Net Removals	-39.8	282	468	629	447	833	643	228
Production	-2.0	2741	2798	2855	2649	2928	2752	2265
% Net Removals[c/]	-	10.3	16.7	22.0	16.9	28.4	23.3	10.1
Butter								
Net Removals	-34.9	187	288	334	202	413	382	205
Production	-7.4	1113	1202	1248	1103	1299	1257	1088
% Net Removals[c/]	-	16.8	23.9	26.8	18.3	31.8	30.4	18.8
Nonfat Dry Milk								
Net Removals	-32.4	559	827	941	678	1061	948	498
Production	-19.1	1039	1284	1390	1161	1500	1401	1082
% Net Removals[c/]	-	53.8	64.4	67.7	58.4	70.7	67.7	46.0
All Milk (M.E.. fats basis)								
Net Removals	-36.9	6706	10628	13174	8637	16814	14282	6521
Marketings	-0.5	140259	140969	140691	132513	137301	133144	123259
% Net Removals[c/]	-	4.8	7.5	9.4	6.5	12.2	10.7	5.3

Sources: Dairy Situation and Outlook, DS-401, USDA (ERS), July 1985, DS-413 January 1988, DS-414 April 1988; Milk Production, Disposition and Income, (Da 1-2) USDA (NASS), annual summaries from 1977-87.

a/ Preliminary.
b/ Including mozzarella.
c/ Net removals as a percentage of production (or marketings).

Table 10. Use of CCC Stocks of Cheese, by Fiscal Year

	% Change 1985-87	1986-87	1985-86	1984-85	1983-84	1982-83	Average 1977-1982
				(million pounds)			
Purchases (contract basis)[a/]	-60.5	215.9	546.1	556.6	540.4	796.2	297.0
Domestic Sales	-21.5	19.3	24.6	36.2	32.2	13.1	4.8
Export Sales[b/]	690.0	15.8	2.0	14.2	3.0	23.0	3.8
Total Sales	32.0	35.1	26.6	50.4	35.2	36.1	8.6
Domestic Donations, Welfare[c/]	19.0	667.6	561.2	545.5	682.6	629.5	151.5
Domestic Donations, Federal[d/]	8.6	6.3	5.8	3.2	4.7	4.2	1.7
Foreign Donations	-11.8	38.3	43.4	64.6	34.2	22.5	2.2
Total Donations	16.7	712.2	610.4	613.3	721.5	656.2	155.4
Total Sales and Donations	17.3	747.3	637.0	663.7	756.7	692.3	164.0
Ending Uncommitted Stocks	-82.4	98.5	558.7	657.3	767.6	902.7	321.2

Source: ASCS Commodity Fact Sheet, "1987-88 Dairy Price Support Program," USDA (ASCS), April 1988.

a/ Excluding mozzarella cheese.
b/ Sales to foreign governments for welfare programs, and overseas sales to U.S. Army of 1-3 million lbs. per year.
c/ Traditionally, product used in schools and institutions, primarily through the School Lunch program; as of 1981-82 also includes direct donations to the needy.
d/ Used by the Department of Defense (military), Bureau of Prisons, and Veterans Administration.

Table 11. Use of CCC Stocks of Butter and Butter Products by Fiscal Year

	% Change 1985-87	1986-87	1985-86	1984-85	1983-84	1982-83	Average 1977-1982
				(million pounds)			
Purchases (contract basis)	-57.0	145.1	337.1	293.1	242.2	409.1	236.4
Domestic Sales	-66.0	1.8	5.3	2.5	3.4	0.6	7.8
Export Sales[a/]	351.8	38.4	8.5	121.3	2.1	57.0	63.6
Total Sales	191.3	40.2	13.8	123.8	5.5	57.6	71.4
Domestic Donations, Welfare[b/]	2.4	194.0	189.4	229.3	309.8	284.1	98.2
Domestic Donations, Federal[c/]	-76.5	3.6	15.3	9.5	15.5	12.8	11.6
Foreign Donations	-22.8	41.6	53.9	82.1	109.0	62.9	2.6
Total Donations	-7.5	239.2	258.6	320.9	434.3	359.8	112.5
Total Sales and Donations	2.6	279.4	272.4	444.7	439.8	417.4	183.8
Ending Uncommitted Stocks	-57.5	82.3	193.8	140.0	255.3	391.2	247.4

Source: ASCS Commodity Fact Sheet, "1987-88 Dairy Price Support Program," USDA (ASCS), April 1988.

a/ Sales to foreign governments for welfare programs, overseas sales to U.S. Army of 0.9 to 4.5 million pounds per year; and some barter sales (1982-85).
b/ Traditionally, product used in schools and institutions, primarily through the School Lunch program; as of 1981-82 also includes direct donations to the needy.
c/ Used by the Department of Defense (military), Bureau of Prisons, and Veterans Administration.

Table 12. Use of CCC Stocks of Nonfat Dry Milk, by Fiscal Year

	% Change 1985-87	1986-87	1985-86	1984-85	1983-84	1982-83	Average 1977-1982
				(million pounds)			
Purchases (contract basis)	-41.1	556.8	945.1	828.6	767.8	1041.2	574.9
Domestic Sales[a/]	1.3	88.0	86.9	87.3	84.2	63.4	60.4
Export Sales[b/]	34.2	519.8	387.3	123.7	115.2	170.4	102.5
Total Sales	28.2	607.8	474.2	211.0	199.4	233.8	162.9
Domestic Donations, Welfare[c/]	17.2	148.6	126.8	119.0	115.4	77.7	55.4
Domestic Donations, Federal[d/]	-20.0	0.4	0.5	0.6	0.2	0.4	0.3
Foreign Donations	-13.5	509.6	589.2	702.6	560.2	512.0	225.0
Total Donations	-8.1	658.6	716.5	822.2	675.8	590.1	280.7
Total Sales and Donations	6.4	1266.4	1190.7	1033.2	875.2	823.9	443.6
Ending Uncommitted Stocks	-90.9	63.1	696.6	981.4	1204.0	1346.4	713.8

Source: ASCS Commodity Fact Sheet, "1987-88 Dairy Price Support Program," USDA (ASCS), April 1988.

a/ Restricted sales for use of animal feed only, until 1986-87.
b/ Primarily sales to foreign governments for welfare programs; small amounts to U.S. Army overseas; some barter sales from 1981-84; nominal sales under the Export Incentive Program in 1986-87.
c/ Traditionally, product used in schools and institutions, primarily through the School Lunch program; as of 1981-82 also includes direct donations to the needy.
d/ Used by the Department of Defense (military), Bureau of Prisons, and Veterans Aministration.

Farm Prices

USDA estimates for 1987 indicate that national average farm prices differ only slightly from 1986 levels, as shown in Table 13. Grade B or manufacturing grade milk prices declined 9¢ on average; grade A or fluid grade milk prices increased 6¢. The average price for all milk increased 4¢. With an average 17¢ reduction in federal assessments, the net average annual price to farmers increased 21¢ in 1987.

These improved farm prices occurred despite the fact that the support price for milk was reduced 25¢ on 1 January 1987 and another 25¢ on 1 October 1987. Market prices were clearly buoyed by the tighter market conditions created by the Dairy Termination Program.

Table 13. U.S. Farm Prices for Milk

	% Change 1986-1987	1987	1986	1985	1984	1983	1982	1981
Farm Milk ($/cwt., avg. fat):								
All Milk	0.8	12.54	12.50	12.75	13.46	13.58	13.61	13.77
Grade A	0.5	12.68	12.62	12.90	13.61	13.75	13.80	13.95
Grade B	-0.8	11.37	11.46	11.72	12.49	12.61	12.60	12.72
Milk/Feed Ratio[a/]	3.8	1.63	1.57	1.52	1.41	1.45	1.53	1.44

Source: Agricultural Prices, Pr 1-3(88) USDA (NASS), June 1988.

a/ Average farm price of all milk divided by average price of 16% dairy concentrate feed.

Since the Dairy Price Support Program (DPSP) began in 1949, the market price for manufacturing grade milk has been above the support price in almost every month. During the 1980s a different pattern emerged, following three key changes in the DPSP. The Food and Agriculture Act of 1977 initiated the policy of setting supports at no less than 80% of parity, with semiannual adjustments. Congress renewed this policy in 1979. Shortly thereafter, sales of surplus dairy products to the CCC began to mount, prompting USDA to use what little administrative flexibility it has to moderate the price increases Congresses had required. They did so by freezing the make allowances they add to the support price when calculating purchase prices for cheddar cheese, butter, and nonfat dry milk.

Shortly after USDA froze its make allowances, the M-W price fell below the support price. With large sales to the CCC, wholesale prices for cheddar cheese, butter, and nonfat dry milk essentially were set by and rode on top of CCC purchase prices. At these purchase price levels, manufacturers could not both cover their processing costs and return a price to farmers equivalent to the support price. Hence, they covered their costs and farm prices for manufacturing grade milk fell below the support price. This is illustrated in Figure 8. Starting in April 1980, the M-W moved below the support price and stayed below until September 1984.

The Milk Diversion Program (MDP), which began in February 1984 and terminated on 31 March 1985, created an artificial tightening in milk supplies.

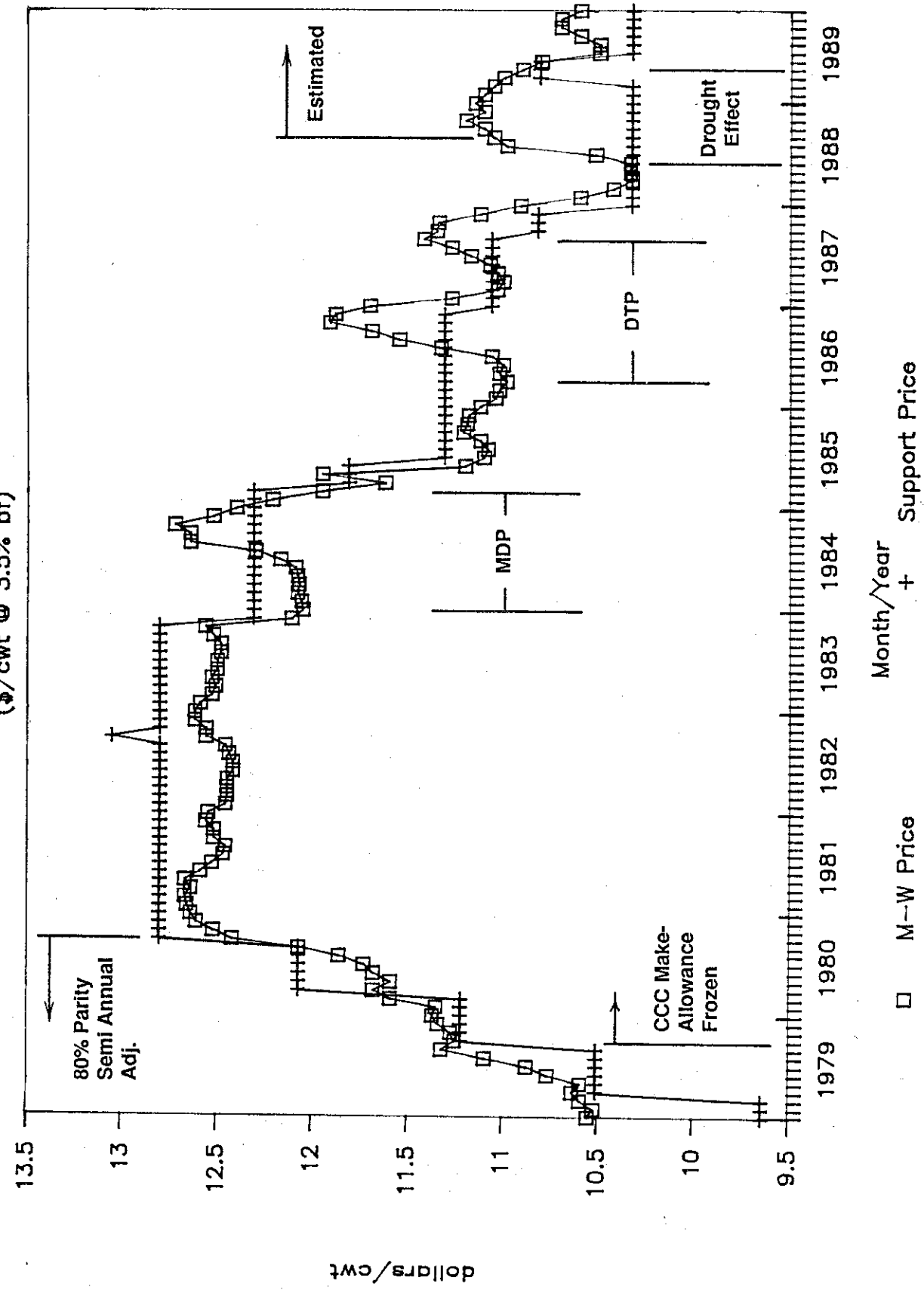


Figure 8. M–W Price v. Support Price
($/cwt @ 3.5% bf)
dollars/cwt
13.5
13
12.5
12
11.5
11
10.5
10
9.5
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
Month/Year
80% Parity
Semi Annual
Adj.
CCC Make-
Allowance
Frozen
MDP
DTP
Drought
Effect
Estimated
M–W Price
Support Price

This on top of the typical seasonal tightening of milk supplies resulted in an M-W above the support price during Fall 1984. During the first quarter of 1985 the M-W fell below the support price again and stayed below through July 1986, with the exception of one month. Thus, with the artificial tightening of milk supplies caused by the MDP gone, the relationship between the M-W and support prices returned to where it had been prior to the MDP.

The Dairy Termination Program (DTP), which ran from April 1986 through September 1987, had a similar effect. Beginning in August 1986, the DTP buoyed the M-W above the support price until the Spring flush of 1987 when it fell just below the support price. After the DTP expired, the M-W began to move increasingly closer to the support price, even as the support price was being reduced.

By April 1988, the M-W had fallen to the support price and stayed there in May and June. The M-W would most likely have moved below the support price once again; however the emerging drought, especially in the Midwest, kept the M-W from falling further. In July, the M-W began to move well above the support price. Drought effects will keep the M-W above the support price through 1988 and most if not all of 1989.

Dairy Product Prices

Wholesale prices for all dairy products increased about 1.6% on average in 1987; retail dairy product prices increased an average of 2.5%. This is certainly larger than the increase in the average farm price; however it is considerably less than the 4.1% average increase in the retail value of all food or the 3.6% average increase in all consumer prices. These data and price estimates for major dairy products are listed in Table 14.

Wholesale and retail prices for fluid milk went up comparably in 1987, 2.4% and 2.7% respectively. The average federal milk marketing order class I price for farm milk used to produce fluid products increased 1.6%.

Wholesale prices for cheddar cheese, butter, and nonfat dry milk typically run very close to CCC purchase prices. With purchase prices following the required decrease in the support price, wholesale prices for these major manufactured products all decreased in 1987. The relative declines for cheddar, butter, and nonfat dry milk were 3.7%, 3.0%, and 1.9% respectively. Retail prices for cheddar cheese and butter increased only slightly last year.

THE NATIONAL ECONOMIC OUTLOOK

Table 15 summarizes the U.S. supply and utilization of milk and farm milk prices over the last ten years and offers estimates for 1988 and a projection for 1989. The key variables in the supply and utilization forecasts for 1988 and 1989 are milk production, commercial disappearance, and net removals under the DPSP. No changes are made in the relatively small quantities of commercial stocks, imports, and farm use.

Milk production for 1988 is estimated to increase 1.0% over 1987. Recognizing that 1988 is a leap year, this implies a 0.7% increase on a daily basis. Prior to the summer drought, forecasts for 1988 milk production were

Table 14. Retail, Wholesale, and CCC Prices and Indexes for Major Dairy Products

	% Change 1986-87	1987	1986	1985	1984	1983	1982	1981
Fresh Whole Milk								
Farm, Class I ($/cwt)[a/]	1.6	13.67	13.46	13.80	14.34	14.57	14.51	14.60
Wholesale Price Index[b/]	2.4	103.9	101.5	101.8	100.7	100.1	99.2	97.5
Retail, $ per 1/2 gal.	2.7	1.14	1.11	1.13	1.13	1.13	1.12	1.12
Cheddar Cheese (¢/lb.):								
CCC Purchase, Grade A or higher, blocks	-2.5	121.9	125.0	127.9	134.8	139.1	139.5	139.7
Wholesale, blocks, National Cheese Exchange	-3.7	121.3	126.0	124.8	134.1	135.3	135.8	135.8
Retail	0.2	305.6	304.9	309.4	306.5	*	*	*
Butter (¢/lb.):								
CCC Purchase, Grade A or higher, Chicago[c/]	-1.8	137.3	139.8	141.5	143.3	148.5	149.0	149.0
Wholesale, Grade A, Chicago	-3.0	140.2	144.5	141.1	148.8	147.3	147.7	148.0
Retail, Grade AA, salted, sticks	0.9	217.0	215.1	212.1	210.7	206.6	204.6	199.3
Nonfat Dry Milk (¢/lb.):								
CCC Purchase, Spray Process, Extra Grade, Unfortified	-3.2	78.3	80.8	84.3	91.0	93.8	94.0	94.1
Wholesale, f.o.b. Central States, high heat (bulk)	-1.9	79.1	80.6	84.1	90.9	93.2	93.1	93.1
Price Indexes[b/]								
All Dairy Products, wholesale	1.6	101.0	99.4	99.6	100.5	100.1	99.4	98.1
All Dairy Products, retail	2.5	105.9	103.3	103.2	101.3	100.0	98.8	97.4
All Food, retail	4.1	113.5	109.0	105.6	103.2	99.4	97.4	93.6
All Consumer Prices, retail	3.6	113.6	109.6	107.6	103.9	99.6	96.5	90.9

Sources: ASCS Commodity Fact Sheet, "1987-88 Dairy Price Support Program," USDA (ASCS), April 1988; Dairy Market Statistics, USDA (AMS), Annual Summaries 1981-87; Bureau of Labor Statistics, Consumer Price Index Data; Dairy Situation and Outlook Report, USDA (ERS), various issues; Federal Milk Order Market Statistics, 1986 Annual Summary, USDA (AMS); California Dairy Industry Statistics, California Department of Food and Agriculture, 1987.

a/ Federal order and California average Class I price weighted by Class I sales.

b/ All indexes are 1982-84 = 100.

c/ Effective April 1, 1985, CCC announced a single nationwide butter purchase price. Prior to that date (from the mid-1950's to April 1, 1985,) the butter price at Chicago was based on an estimate of the freight rate effective at the beginning of the marketing year, but limited to the maximum 3 cent reduction from the New York price.

* Data not available.

Table 15. U.S. Milk Supply, Utilization, and Prices

	1989[a/]	1988[a/ b/]	1987	1986	1985	1984[b/]	1983	1982	1977-81
					(billion pounds)				
Supply									
Production	142.2	144.0	142.5	143.4	143.1	135.4	139.7	135.5	125.7
Farm Use	2.2	2.2	2.6	2.6	2.5	2.9	2.4	2.4	2.5
Marketings	140.0	141.8	139.9	140.8	140.7	132.5	137.3	133.1	123.2
Beginning Commercial Stocks	4.6	4.6	4.2	4.6	4.9	5.2	4.6	5.4	5.2
Imports	2.5	2.5	2.5	2.7	2.8	2.7	2.6	2.5	2.2
TOTAL SUPPLY	147.1	148.9	146.6	148.1	148.4	140.4	144.5	141	130.6
Utilization									
Commercial Disappearance	136.6	136.0	135.3	133.3	130.6	126.9	122.5	122.1	118.9
Ending Commercial Stocks	4.6	4.6	4.6	4.2	4.6	4.9	5.2	4.6	5.2
Net Government Removals	5.9	8.3	6.7	10.6	13.2	8.6	16.8	14.3	6.5
TOTAL USE	147.1	148.9	146.6	148.1	148.4	140.4	144.5	141	130.6
					(dollars per hundredweight)				
Prices									
All Farm Milk	12.26	12.05	12.54	12.50	12.75	13.46	13.58	13.61	11.83
Value of Concentrate Ration	7.70	7.72	6.75	7.00	7.35	8.16	7.88	7.45	6.88
Milk:Ration[c/]	1.59	1.56	1.86	1.79	1.73	1.65	1.72	1.83	1.72

Sources: Dairy Situation and Outlook Report, DS-414, USDA (ERS), April 1988; Agricultural Prices, Pr 1-3(88), USDA (NASS), June 1988.

a/ Estimated by Andrew Novakovic.
b/ Leap year, quantities can be adjusted to 365 day equivalent by multiplying by .997.
c/ Average price all milk divided by average value of concentrate ration fed; note that this is not equal to the traditional milk:feed ratio which uses the same milk price but the average price of 16% dairy concentrate feed as opposed to ERS' estimate of the value of a composite dairy ration.

considerably higher; however by summer the challenge to dairy market analysts became that of guessing how much milk production would be affected by higher feed prices, heat stress on cows, and less available pasture and forage. With wetter weather in many parts of the country in mid and late summer and the feed assistance programs of the Disaster Assistance Act of 1988, some of the effects of the drought are mitigated.

Following a relatively weak second half in 1988, milk production will likely continue to show drought related effects in the first half of 1989. Barring further poor weather in 1989, milk production should recover in the second half of 1989. Given the seasonality in milk production, drought effects will show up more in 1989 milk production, even with production improving over the year. Hence, a 1.25% decrease in milk production is forecast for 1989 (1% when 1988 production is adjusted for leap year).

Given USDA estimates on milk prices for the first half of 1988, we estimated the average national price for all milk to be down about 50¢/cwt in 1988. With higher prices paid for feed, this could move the composite value of the average dairy concentrate ration up by about $1/cwt; thereby reducing the milk:ration ratio down by three points. Relatively tight markets and a 50¢ increase in the support price during the second quarter are projected to result in about a 20¢ increase in the average price for all milk in 1989. The composite value of an average dairy ration will start 1989 at fairly high levels but taper off in the second half if the 1989 crop is more normal. This reverse image of 1988 will result in annual average ration values and a milk:ration ratio for 1989 of about the same values as 1988. Assuming there is no repeat of poor weather next summer, it will be important that milk production will be rebounding at the end 1989, not like 1988.

RECENT POLICY ISSUES AND THE PROSPECTS FOR CHANGE

The last issue in this series was published in February 1985. The quadrennial farm bill was scheduled to expire September 30, 1985, so there was much discussion that year of new directions for dairy and other agricultural policy. The seriousness of the dairy surplus problem was generally acknowledged by this time, but there were still vast differences of opinion as to how the problem should be solved.[6]

The rapid rebound in milk production after the Milk Diversion Program (MDP) expired in March 1985 generally discredited that approach. Its adherents argued that a few technical adjustments would improve the MDP and in any case this approach was far preferable to further price cuts. Nevertheless, there was little support in Congress for repeating the MDP. Although the MDP clearly had no permanent effect on milk production, the 50¢ cuts in the support price

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[6] *A commentary on the competing points of view concerning how to deal with dairy surpluses is provided in the following publication:*

Andrew Novakovic, Reflections on Criteria and Strategies for Choosing Among Dairy Price Support Proposals, Staff Paper No. 83-16, Dept. of Agr. Econ., Cornell University, 1983.

taken on April 1 and July 1, 1985 did not appear to have much effect either. (The April 1 cut coincided with the termination of a 50¢ assessment, so the net effect on farmers of this cut was small if anything.) Thus, those who favored price cuts had no strong evidence to support the efficacy of that approach either.

Numerous proposals were discussed in 1985. Producer groups and their allies generally favored repeating the MDP. Some Southern groups objected to this approach. The large signup of Southern producers under the MDP made it difficult for Southern marketing cooperatives to meet and maintain their obligations to supply milk to Southern processors; hence Southern cooperatives were not eager to repeat this experience. They favored a realignment of prices by dropping the support price but increasing the implicit transportation differential between class I prices across federal milk marketing orders. Processor groups nationally, and their allies pushed for cutting the support price; they supported using a simple trigger mechanism to determine periodic price changes.

The stage seemed set for a repeat of the deadlock which occurred in 1983 before the Dairy Production Stabilization Act was passed. While this brew was stewing, a relatively quiet, behind the scenes effort was made to develop a new approach that resolved the MDP's problem of being a short-term palliative and the problem price cuts have of creating hardships for dairy farmers. The concept that emerged was to pay farmers to remove their cows from production permanently and agree to stay out of dairy farming for a period of years. The whole herd buyout would prevent or minimize the type of rebound effect that occurred after the MDP, it was thought. Although this concept was not pushed strongly in public, it was quietly gaining support as a compromise position.

Following the 1983 pattern, the House of Representatives approved legislation largely patterned after producer proposals. Producer groups, having arrived at a compromise among themselves, were advocating a new MDP, a revised procedure for setting the support price that involved a sophisticated price formula, and regional increases in federal order class I differentials that were small in the North and larger in the South. The Senate favored legislation emphasizing price cuts triggered by levels of CCC purchases. What emerged from their conference was a dairy title to the Food Security Act of 1985 (the farm bill) containing a whole herd buyout program, some assessments, and triggered annual price changes starting one year after the bill was signed.[7]

The Dairy Termination Program (DTP), as the buyout came to be officially named, did not have as large an effect on year to year changes in milk production as the MDP; however production in 1986 and 1987 was certainly much less

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[7]*For details on the Food Security Act, please see:*

Andrew M. Novakovic, Detailed Summary of the Dairy Provisions of the Food Security Act of 1985, A.E. Ext. 86-1, Dept. of Agr. Econ., Cornell University, 1986.

than it would have been without the program.[8] Under the Food Security Act (FSA), the support price was reduced 50¢ in 1987 and another 50¢ on January 1, 1988. Entering 1988, it appeared that the surplus problem, while not exactly solved, was at least steadily improving. The general expectation was that no changes in dairy price support policy would be made until 1990, when the FSA would be expiring. Of course, at this time no one knew that in a few months the country would experience a serious drought, which we will discuss shortly.

In the 1985 publication in this series, the prospects for raising class I differentials were discussed. It was pointed out that USDA was not much interested in changing class I differentials and that it would be unusual for Congress to get involved in such specific pricing provisions. The price of unity among producer groups in 1985 was a linkage of higher class I differentials with price support proposals. Because of this, Congress was persuaded to intervene in the setting of federal order prices. Thus, the FSA resulted in a noticeably larger difference between minimum class I and blend prices across milk marketing areas from North to South.

These changes have focused new attention on price differences across regions and the role of federal orders in general. Midwestern interests, particularly in Wisconsin and Minnesota, have argued strongly that they are unfairly penalized by federal order provisions that have the effect of unduly stimulating milk production outside of the Midwest and making it difficult to supply distant markets with Midwestern milk. Northeastern and Southeastern producers generally believe that current federal provisions are reasonable and, if anything, class I differentials should be increased.

Several studies have recently been issued that are critical of current federal order price structures and of the system itself.[9] Opinions on this

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[8]*The following papers review the signup and production implications of the DTP:*

James Miller, "Participation in the Dairy Termination Program," Dairy Situation, Econ. Res. Serv., U.S. Department of Agriculture, June 1986.

Harry M. Kaiser and Andrew M. Novakovic, Results of the Dairy Termination Program and Implications for New York Milk Production, A.E. Ext. 86-20, Dept. of Agr. Econ., Cornell University, 1986.

Several papers have reviewed the performance of the DTP in various states or regions of the U.S.; the following is a national review:

U.S. General Accounting Office, Dairy Termination Program: A Perspective on Its Participants and Milk Production, GAO/RCED-88-157, Washington. D.C., May 1988.

[9]*U.S. General Accounting Office, Milk Marketing Orders Options for Change, GAO/RCED-88-9, Washington, D.C., March 1988.*

U.S. Department of Agriculture, Federal Milk Marketing Orders: An Analysis of Alternative Policies, Washington, D.C., August 1988.

topic are widely divergent in the dairy industry, such that there is no obvious resolution of the criticisms of the current class I price structure, pool qualification criteria, and the like.[10]

In the 1985 publication in this series, it was also mentioned the dairy import quotas would likely become a topic of discussion again. Indeed, this is very much the case as the Uruguay Round of discussions on the General Agreement on Tariffs and Trade (GATT) have been taking place. The discussions are still far from over; however the outlines of numerous proposals are being seriously discussed.[11] Generally the debate on dairy is much as it was during the last Tokyo Round of discussions. Dairy interests will be forced to defend the current quota system against those who see dairy import quotas as an impediment to progress in gaining trade concessions important to other parts of the economy.

Changes in import quotas are not likely to be made without some compensating changes in European Community dairy export policies. Moreover, some proposals suggest that changes in dairy trade policies should be linked to changes in domestic support policies. With these kinds of compensating changes, many U.S. dairy industry representatives believe they could compete in international markets. Perhaps not surprisingly, their European counterparts feel that Europeans would benefit from more liberalized agricultural trade. How the GATT negotiations will end up remains to be seen; however it certainly seems that it will be much harder for the dairy industry to protect import quotas this time around.

The Omnibus Trade and Competitiveness Act of 1988 includes some dairy provisions which clearly reflect some of the concerns surrounding the GATT discussions. It instructs the Secretary of Agriculture to conduct a study *"to determine whether, and to what extent, the price support program for milk ... would be affected by a reduction in, or elimination of, limitations imposed on the importation of certain dairy products under section 22 ... as a result of multilateral trade negotiations, including negotiations under the GATT. In conducting this study, the Secretary shall assess the likelihood of other nations' agreeing to reduce or eliminate their domestic dairy price stabilization, export subsidization, or import control programs in such multilateral negotiations."*

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[10] *See, for example, the Summer 1988 issue of Dairy Marketing Notes, a quarterly publication of the Department of Agricultural Economics, Cornell University, for a sample of the competing views on federal milk marketing orders.*

[11] *The following papers provide overviews of the GATT discussions:*

David Blandford, "The GATT Trade Negotiations and the U.S. Dairy Industry," Dairy Marketing Notes, Dept. of Agr. Econ., Cornell University, Fall, 1987.

Bringing Agriculture Into the GATT: Negotiating a Framework for Action, International Agricultural Trade Research Consortium, David Blandford, chair, Cornell University, 1988.

This law also instructs the U.S. Comptroller General to study the enforcement of current import quotas. It asks for an investigation of the quality of U.S. Customs Service enforcement and of the ability of exporters to the U.S. to circumvent quotas by exporting dairy products in an unusual form (e.g. chocolate blocks) or through unusual channels (e.g. U.S. foreign trade zones).

The trade bill also changes the classification of casein and lactalbumin from an industrial product to a food product. The dairy industry has been pushing for the reclassification of casein for over ten years in the hopes that this would enable them to then obtain Section 22 quota restrictions on casein. Given the flow of current GATT discussions and earlier reviews of the impact of casein imports on the operation of the dairy price support program, an import quota for casein still seems unlikely.

The topic that occupied most of the discussions on dairy policy in 1987 and early 1988 was regionalism, i.e., the view that dairy policy should discriminate between regions of the country according to the characteristics or performance of their dairy industry. This approach was first espoused in the Northeast and was embodied in the proposed Dairy Farm Protection Act put forward by Senator Leahy of Vermont in November, 1987. The Dairy Farm Protection Act proposed dividing the U.S. into six to ten regions, establishing a base level of dairy product sales to the CCC for each region, and charging dairy farmers in each region for the cost of any CCC sales in excess of a regional quota.

Although passage of this Act was never seriously pursued, it did foster considerable discusssion of the merits of a regionally discriminating approach.[12] Federal orders are inherently regionally discriminating. The recent discussions about federal order class I pricing, mentioned earlier, did not begin from the same premise, i.e. that regions should be directly accountable for the products they sell to the CCC; however the two debates eventually merged. For example, charges that the Midwest sells a large quantity of product to the CCC were countered with charges that the Midwest wouldn't have to if not for the fact that marketing orders inhibit their ability to compete for Southern and Eastern markets. For the time being at least, discussions of

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[12]For example, the National Commission on Dairy Policy commissioned papers on this topic from a regionally representative group of economists, as follows:

James W. Gruebele, "Regionalism in the U.S. Dairy Industry"

Larry G. Hamm. "Upper Midwest Perspectives on the Dairy Price Support Program"

Harold M. Harris, Jr., "Regionalism in the U.S. Dairy Industry -- A Southern Perspective on Policy Issues"

Andrew M. Novakovic, "Regional Differences in the Dairy Industry and Implications for Dairy Support Policy"

Numerous industry conferences also included presentations on regional policy proposals.

regional dairy support policies have abated, but federal order pricing is still very much a topic of discussion. Both are likely to be prominently featured in the next round of farm bill discussions in 1990.

With Congress showing very little interest in making major changes to the Food Security Act before 1990, producer groups began 1988 by focusing their efforts on preventing the support price cut that would likely have occurred on January 1, 1989. They accomplished this with the help of a summer drought throughout much of the U.S. The Disaster Assistance Act of 1988 contains provisions that will result in the support price staying at its current level of $10.60 through March 1989, increasing to $11.10 from April 1 to June 30, 1989, and then returning to $10.60 for the remainder of 1989. Producer groups argued for a greater support price increase and/or an increase over a longer time period. Congress did not agree, so the three-month increase during what is normally a seasonally low price period emerged as a compromise. Given that market prices for milk moved above the support price in July and were likely to remain above the support price until Spring 1989, this legislation may not result in prices much different than those that would have occurred anyway. The extent to which milk production will be affected by reduced forage supplies and higher feed costs remains to be seen.

Barring any very large impact, which at this point does not seem likely, the current dairy price support policy is not likely to be changed until later in 1990. There may be considerable discussion of changes in federal order pricing provisions in 1989. Given the sharply different viewpoints within the dairy industry on federal orders, it seems premature to suggest that any major changes are forthcoming. Thus it seems most likely that 1989 will be a year in which interested parties will be working to define and refine their positions for the 1990 farm bill discussions, and that these positions are likely to cover the entire scope of national dairy policy.