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MCT COMPASS

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What Comes First: Farm Bill or WTO?

The Farm Security and Rural Investment Act of 2002, otherwise known as the Farm Bill, expires Sept. 30, 2007. The Secretary of Agriculture as well as members of the House and Senate Agricultural committees have been holding field hearings across the country to gauge what producers would like to see in the next farm bill. This may be for naught as meaningful debate on farm bill issues is unlikely for two reasons.

First, it is an election year and politicians will avoid controversial issues that threaten to alienate voters. Members running for reelection in about 30 tight races will be busy campaigning up until the November elections. Appropriation bills needed to fund the government are the only legislation expected to see the light of day. And it is unlikely that even these bills will pass before the end of the government's fiscal year (Sept. 30). Second, members of Congress are waiting until the end of 2006 to see if there is an agreement in the Doha Round of the WTO, and most legislators see little benefit moving forward with farm bill negotiations until it becomes clearer whether there will be a Doha Round Agreement.

Currently, 149 countries are members of the WTO and are involved in the Doha Round which began in Seattle in 1999, where the negotiations broke-up due to protests against trade liberalization and globalization. Negotiations resumed in Doha, Qatar, in 2001, where the Doha Development Round Agenda was developed. The next ministerial meeting was held in Cancun, Mexico, in March 2003. It also concluded with no progress.

With little progress in the multinational trade negotiating arena, U.S. negotiators focused their attention on bilateral and regional trade agreements to increase trade flows. CAFTA and the U.S.-Australian Free Trade Agreement are examples. Some believe these agreements were ploys to get the Doha Round jump started.

The ploys worked. The Doha Round negotiations resumed in July 2004 with a framework for further trade liberalization based upon the three pillars agreed to in the previous Uruguay Round negotiations: elimination of agricultural export subsidies; reduction in amber box subsides by 60%; and cutting tariffs and limiting sensitive products.

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KEN'S CORNER

by Ken Meyers
President
MCT Dairies Inc.

Trade negotiators and world leaders are meeting in Geneva, June 28 to July 3, in hopes of reaching agreement on the exact formulas to cut farm and industrial tariffs and subsidies as the next step toward concluding the WTO's Doha Round by year-end. Like previous ministerial meetings, this one got off to a shaky start with key European trade ministers divided over cuts in farm tariffs. Virtually, everyone called on the other side to make a move before taking unilateral steps.

The steps to a trade agreement are likely to be small if an effective agreement is to be had. For example, some trade analysts believe that a country's ability to declare more than 2% of its products as sensitive will largely dilute the effectiveness of the round. In addition, the line item level of protection creates another, perhaps, greater level of protection as a country could pick a high-volume product like butter to protect rather than a high-valued product like blue cheese.

In the long run, a trade agreement is only as good as the multilateral market access it provides that allows all parties to prosper. MCT

Cheese Output Lull

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
Jun	1.1924	1.1818	11.29	1.1643	10.22
Jul	1.1850	1.1725	11.10	1.1750	10.30
Aug	1.2375	1.2125	11.30	1.2000	10.45
Sep	1.2750	1.2500	11.65	1.2450	10.70
Oct	1.3000	1.2750	12.05	1.2750	10.95
Nov	1.3000	1.2750	12.05	1.2750	11.05

** Block, barrel and butter are monthly averages of CME prices.*

The summer doldrums have hit the dairy product markets with little price movement in either direction. Ample milk and dairy product production as well as stock building have given end-users no supply worries. Still, as July and August approach, one needs to be cautious as summer heat takes its tolls on milk components. July and August are typically the lowest production months for American cheese. As a result, the cheese market could move just because there is not as much cheese that is less than 30 days of age to sell at the CME. MCT

Doha talks resume...

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In October 2005, the United States submitted a drastic proposal in hopes of jump-starting the negotiations prior to the December 2005 meeting in Hong Kong. The dairy sector factors heavily into that proposal. The elimination of export subsidies would abolish the Dairy Export Incentive Program (DEIP). However, the DEIP program has had limited effectiveness in assisting dairy exports other than nonfat dry milk. A more dramatic change would fall under amber box support. Amber Box policies are considered the most production and trade distorting, such as the Dairy Price Support Program (DPSP), and are subject to reductions. Each country has a single quantifiable measure known as the “aggregate measure of support” (AMS).

The DPSP accounts for roughly $4.5 billion of the currently allowable AMS of $19.1 billion for the United States. If Amber box payments, the most trade distorting supports, are cut by 60%, the AMS would be reduced to $7.64 billion. Without any changes, the DPSP would account for 59% of the $7.64 billion AMS after the reductiton.

It seems improbable the DPSP could account for such a large part of the AMS. It’s all in how the support level is calculated: ***The contribution of the DPSP to the AMS is not derived from the program’s actual expenditure but from the supposed transfer from consumers to producers that occurs from providing support to commodity prices.***

Dairy costs are reported to the WTO based on the difference between the price support level of $9.90/cwt and a reference price of $7.25/cwt multiplied by annual milk production. The DPSP has counted for about $4.5 billion per year over the 1995 – 2005 period, compared to the actual dairy program expenditures that average around $1 billion per year. For the United States to fulfill a 60% reduction in the AMS, it is likely that the DPSP would face a significant reduction from $9.90/cwt or face elimination over time.

The impact of tariff reductions on the U.S. dairy industry is less clear. The United States already has relatively low tariff rate quotas. A bigger question is whether countries will be able to declare at least some of their dairy products as sensitive to avoid having to remove or significantly reduce tariffs. For example, the United States has 8,000 tariff lines and reportedly the EU has at least the same amount if not more. The U.S. proposal would allow only 1% of 80 of those lines to be categorized as sensitive, while the EU has requested that 15% of lines be used for sensitive products. It is estimated the EU would require 51 tariff lines (1 for powder, 7 for butter, and 43 for cheese) if it chooses to protect all of its dairy products.

At the end of the day, it is still unclear whether the Doha Round will come to successful completion. Trade experts give it less than a 50% chance prior to Dec. 31, 2006. The year-end is significant because trade promotion authority (TPA), which allows for an up or down vote by Congress without amendment, expires in July 2007. Because it will take months for language to be drafted so that Congress can vote prior to the expiration of TPA, the next few months are critical for the dairy industry. MCT

 MCT Dairies, Inc., 15 Bleeker St., Millburn, NJ 07041 (973) 258-9600 fax: (973) 258-9222 www.mctdairies.com. For more information, email **info@mctdairies.com.**