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MCT COMPASS

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The Farm Bill Standoff

Once again the farm bill is in limbo and dairy remains at the epicenter of the controversy. Last week, the U.S. House of Representatives voted to reject the entire farm bill on a vote of 234-195.

Prior to defeat of the bill, however, the House passed an amendment (291-135) that replaced the National Milk Producers Federation's Dairy Security Act with the The Dairy Freedom Act, backed by the International Dairy Foods Association. The Dairy Freedom Act is also referred to as the Goodlatte-Scott amendment after its authors, Reps. Bob Goodlatte, R-Va., and David Scott, D-Ga. The main difference between the two dairy acts is that the market stabilization program—also referred to as supply management—central to the Dairy Security Act, is not part of the Dairy Freedom Act, and thus was not included in the House bill that fell last week.

If a new farm bill is not approved by the end of September, Congress will likely pass another one-year extension of the 2008 farm bill.

An unlikely coalition of Tea Party Republicans and urban and rural Democrats teamed up to defeat the bill in what some are calling an unprecedented occurrence. Tea Party Republicans opposed the bill due to its large outlay for nutrition and food programs as well as its subsidies to "wealthy farmers," while urban Democrats opposed the 10-year, $20.5-billion reduction in the Supplemental Nutrition Assistance Program (food stamps), and rural Democrats voted it down because it did not contain the dairy market stabilization program.

What's next?

The House is now faced with the arduous task of rewriting the farm bill in an effort to not only address the dairy debate but also to try to appease consumer advocates, those who want to see substantial farm supports left in place, and those who want farm supports eliminated. If a new farm bill is not approved by the end of September, Congress will likely pass another one-year extension of the 2008 farm bill.

Last year a similar extension was approved to prevent farm programs from reverting to 1937 law that would have required the U.S. secretary of agriculture

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Ken's Corner

by Ken Meyers
President , MCT Dairies Inc.

The debate occurring over the market stabilization program is an old one: Does government intervention or freer markets produce a more vibrant industry in the long run?

For some dairy producers, price stability and a guaranteed income are more important than free markets that eventually lead to increased business opportunities. But others believe that expanding markets resulting from open competition outweigh the benefits of a more stable but stagnant market.

With the world's population rapidly expanding and more of the developing world's people moving out of poverty into the lower- and middle-income classes, the opportunities that have been given to the U.S. dairy industry are unprecedented. Why would the U.S. dairy industry want to limit its participation in such an event?

Currently no U.S. commodity has production limits, and other countries are quickly eliminating what quota systems they have so they can take part in feeding the world's advancing population. The U.S. dairy industry should be thrilled to take part in this exceptional opportunity, but it can only do so if it allows milk production to grow unfettered—free of artificial trade-distorting supply constraints. **MCT**

A Market Hangover ...

Markets remain changeable. U.S. milk production is recovering following a brief contraction in March, and stocks of butter and cheese are building. American cheese stocks in cold storage of nearly 720 million pounds are higher than at any time since 1986. Butter stocks near 323 million pounds are more than 24% larger than a year ago. Yet world markets for milk powders are tight. If Oceania production does not climb significantly this fall, world and U.S. markets could rebound sharply. If world output recovers, though, look for a slower, more limited seasonal increase in late summer and early fall. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jun	1.7180	1.7225	18.05	1.5100	18.85	0.5800	1.6875
Jul	1.7100	1.6900	17.50	1.5000	18.65	0.5950	1.7000
Aug	1.7750	1.7500	18.15	1.6000	19.20	0.6000	1.7150
Sep	1.8550	1.8200	19.00	1.7250	19.75	0.6100	1.7150
Oct	1.8850	1.8500	19.50	1.8000	20.15	0.6150	1.7000
Nov	1.8500	1.8250	19.35	1.7800	20.00	0.6150	1.7000

** CME prices.*
***NASS prices.*

Parity again...

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to support milk prices at not less than 75% of parity. Parity prices, which are still reported, reflect the "golden era"' of agriculture (1910-14), when commodity prices were particularly high. Reverting to parity last year would have nearly quadrupled the support prices for dairy products.

The two-year debate over the dairy market stabilization program shows no signs of abating. The National Milk Producers Federation remains in strong support of its brainchild, while processors, consumer groups, and some dairy producers staunchly oppose any attempt to cap milk production based on the premise that it would harm the industry by raising prices, reducing both domestic and international demand for U.S. dairy products. The following facts, some the results of various studies, support that premise.

In the past several years, the United States has moved from being a net importer of dairy products to a net exporter. In 2012, the United States had a dairy trade surplus of almost $2.4 billion and now exports the equivalent of more than 13% of its milk production, making world markets critical to the health of the U.S. dairy industry.

Enacting a supply management program, like the Dairy Security Act, would routinely push U.S. prices above international prices, making U.S. dairy products less competitive in world markets. This, in turn, would hurt those who have invested in new and expanded facilities to help meet the growing needs of the global marketplace.

Costs to U.S. consumers would also increase. The market stabilization program reportedly would have raised the price of a gallon of milk by more than 35 cents at the peak of the Great Recession—when many unemployed consumers worldwide were forced to cut back on milk and dairy product expenditures.

Because the U.S. government is the largest purchaser of dairy products through its food and nutrition programs, higher milk and dairy product prices would result in higher costs for taxpayers and fewer people being served through these programs.

Increasing costs to both U.S. consumers and U.S. taxpayers at a time when government debt, federal outlays, and the U.S. economy are still center stage appears to be bringing disparate political groups together—making House passage of a farm bill with a price tag of $500 billion like that passed by the U.S. Senate earlier this month even more unlikely. **MCT**

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