International Agri Insights

with Professor Bill Bailey

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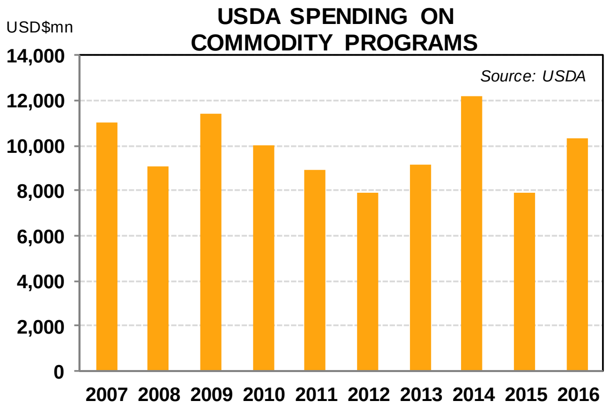
US 2018 Farm Bill: Its bark is worse than its bite

- The Trump administration is now turning its attention to US farm legislation.
- We anticipate only minor adjustments in commodity programs and some modification of nutrition programs.
- As a result and unlike some previous versions, we expect the impact of the 2018 Farm Bill on NZ agriculture to be small.

Trump is now turning his attention to US agricultural policy

After focusing on other more pressing matters, the Trump administration is turning its attention to farm legislation. The Farm Bill is presently under discussion in the US. The current farm legislation was signed into law in 2014 and is set to expire in September 2018. The Farm Bill, directly or indirectly, affects all agriculture in the US and has the potential to have an impact on world agriculture, including agriculture in New Zealand.

The Farm Bill provides direction to an array of US agricultural and food programs. Those programs were originally designed, in the 1930s, to provide assistance and price support to a broad range of commodities including dairy, cotton, wool and feed grains. The legislation has broadened over the years to include a variety of programs in addition to commodity support programs: school feeding, funds for feeding low-income individuals, conservation, international food donation programs, organic programs, agricultural research and bioenergy programs.



The legal guidance provided by the Farm Bill can be very obscure. For example, taken from Farm Bill legislative language, "the Act is amended by changing the semicolon at the end thereof to a colon" or "striking out in the third sentence the language following the third colon". Often the only indication the Farm Bill legislative language refers to agriculture is the occasional mention of "corn", "dairy" or "soybeans."

This column provides a broad overview of the current US dairy program and a discussion of the potential for changes to US agricultural policy, in the upcoming 2018 Farm Bill, that might affect New Zealand agriculture.

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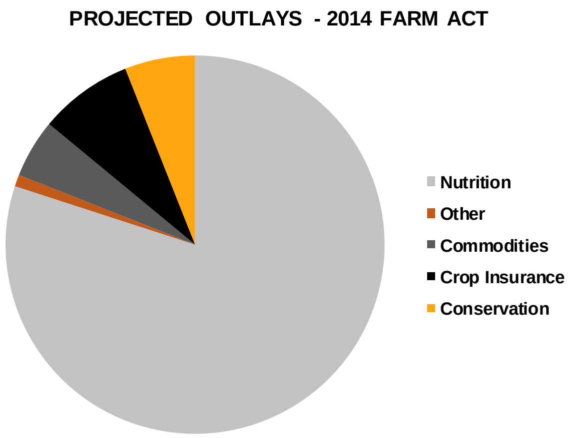
Background to the 2014 US Farm Bill

The 2014 Farm Bill made significant changes to U.S. dairy policy. Prior to that legislation, the government's dairy policy goal was to support the farm price of fluid milk at certain legislated levels. The price was supported by the US government purchasing storable dairy products that were, eventually, either sold or given away, both domestically and internationally.

However, beginning in the 1990s, the farm price of milk began to consistently exceed the fixed federal milk price support level. Producers were subject to wide swings in milk prices and, in 2009, producers were hit with two negative events – milk prices dropped as feeding costs soared.

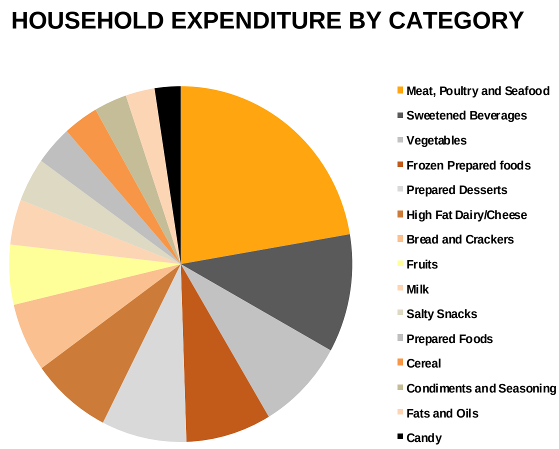


In response, for the 2014 Farm Bill, the industry advocated a new federal dairy support program that protected operating margins rather than supporting prices – Margin Protection Program (MPP). Under MPP, the US government makes payments to participating dairy producers when the national production margin (average farm price of milk minus an average feed cost calculation) falls below a producer-selected level.

Regardless of the mechanism, the effect of the US dairy program is to keep dairy farmers in business, despite what the market is signaling – low commodity prices due to oversupply and low demand for dairy products or high input (feeding) prices. Unlike New Zealand dairy farmers, US dairy farmers are protected from both negative events.

Participation in the MPP federal program is optional and producers can select the level of coverage they wish, paying a higher premium for more comprehensive margin protection. A little more than half of the US dairy farms are participating in the MPP.

Despite hopes that MPP would be an improvement on old programs, it has not provided the margin insurance, and resulting ability to remain in business, dairy farmers anticipated. Milk prices have sunk 33 percent since MPP was first installed in 2014 and many farmers haven't received the payouts they expected. Also, unlike some US dairy programs in the past, MPP has had a limited impact on New Zealand dairy.



The 2014 Farm Bill also eliminated the Dairy Export Incentive Program (DEIP), a dairy export subsidy to help dairy exports, that had been on the books since 1985. Under the program, USDA paid cash to dairy exporters to help them meet prevailing world prices that were lower than the exporters' cost to acquire the products. According to USDA, the major objective of the program was to help US exporters compete against other subsidized dairy products.

While President Trump's current budget proposals call for reduced funding or termination for a broad array of international food programs - the McGovern-Dole International Food for Education Program, the Foreign Market Development Program, the Market Access Program, the Food for Peace program (PL480) - it is not expected a new Farm Bill will reflect those changes. The programs provide funding for a variety of initiatives to both promote and increase exports of agricultural products.

But the biggest item in the 2014 Farm Bill, with a significant impact on dairy prices, are US nutrition programs – which constitute 80% of the entire cost of the 2014 Farm Bill. The key nutrition program retained in the 2014 Farm Bill is the

Supplemental Nutrition Assistance Program (SNAP). The program provides benefits to purchase groceries for eligible low-income individuals.

The effect of the SNAP program is that it puts the purchasing decision for food in the hands of the consumer rather than the government. For example, in the past, the US government would purchase bulk dairy products to support dairy prices and then store those products for eventual distribution directly to consumers.

The change to put the purchase process directly into the hands of consumers has both good and bad aspects. Fig. 3 details the top 15 SNAP items purchased. The SNAP program benefits the US dairy industry, but maybe not as much as it benefits soft drink manufacturers.

Possible changes to the Farm Bill are likely to be minor

The 2018 Farm Bill will have changes to all of the existing programs – including dairy, nutrition, trade, conservation, crop insurance and commodities. A number of these changes will be minor and focused on existing programs, like MPP, conservation and crop insurance. And, unlike most previous farm bills, budget issues, while important, will not be the main driving force behind changes in farm policy. Farm commodity support costs have come down considerably and now constitute a very marginal amount of spending covered by the Farm Bill and USDA (Fig 2).

Two important agricultural issues are, as of yet, unresolved that could have a noteworthy impact on the Farm Bill and New Zealand agriculture: the outcome of NAFTA, including the US – Canada dairy dispute, and potential changes to current nutrition programs – the largest single spending item in both the legislation and at USDA.

By March 2018, it is expected that all NAFTA negotiations will be completed, permitting a clear understanding of the impact of the negotiations on trade and commodities. The March 2018 NAFTA negotiation timeline is driven by several issues, including renewal of expiring authorizations.

But the key factor to a March 2018 completion of NAFTA negotiations is elections in the US and Mexico. Congressional elections in the US will take place the first week of November 2018, with Mexico holding its Presidential elections July 1, 2018. The current Farm Bill expires September 30, 2018. This means Farm Bill negotiations and eventual legislative approval is bracketed between March and September.

Assuming a non-contentious outcome to NAFTA, the key Farm Bill issue may be the nutrition title. While the concept of nutrition programs is well accepted – people should not starve – questions have arisen about a number of issues, including unemployed yet healthy, working age, individuals collecting benefits.

The Trump Administration has proposed changes to feeding programs which include targeting program benefits and encouraging work as a prerequisite to receive benefits. As discussed, the US dairy industry certainly benefits from government feeding programs. Further, since the number of SNAP beneficiaries is significantly higher in more urban states than rural states, agricultural legislators will oppose changes to SNAP legislation in exchange for urban legislators supporting farm programs. Reduced SNAP funding will flow directly into reduced demand for dairy products. Consequently, dairy legislators will oppose the efforts proposed by President Trump to reduced SNAP funding and to tighten eligibility.

All up, we expect the impact on NZ of the new Farm Bill to be small

The 2018 Farm Bill is not expected to have a noticeable impact on the New Zealand dairy industry or the broader New Zealand agricultural sector. The most significant area of a possible negative impact, the termination of NAFTA and resulting efforts by the US, Canada and Mexico to address the consequences of that negative outcome, seems highly unlikely to occur. The results of the NAFTA negotiations will be clear before the Farm Bill is discussed and voted on by the US Congress.

About the author

William C Bailey was Chair of Agribusiness at Massey University for 13 years. He has written weekly world dairy market columns for ASB Bank for almost 15 years. He currently is President of Topker Consulting, specializing in agricultural market research and supply chain issues relevant to agriculture. He retired as Dean, College of Business and Technology, at Western Illinois University, in Macomb, Illinois, in July, 2017. Bill spent 5 years in the US Marine Corps and received his PhD in Agricultural Economics from the University of Missouri. Before shifting to New Zealand, Bill was Chief Economist for the US Senate Committee on Agriculture, Nutrition and Forestry, served as Deputy Undersecretary of Agriculture and was Vice President and Director of Research for World Perspectives in Washington, DC. His beer of choice is Tui.

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