

The Impact of the CWT Program on the U.S. Dairy Industry

Dr. Scott Brown

Brownsc@missouri.edu

Northeast Dairy Leadership Team Meeting

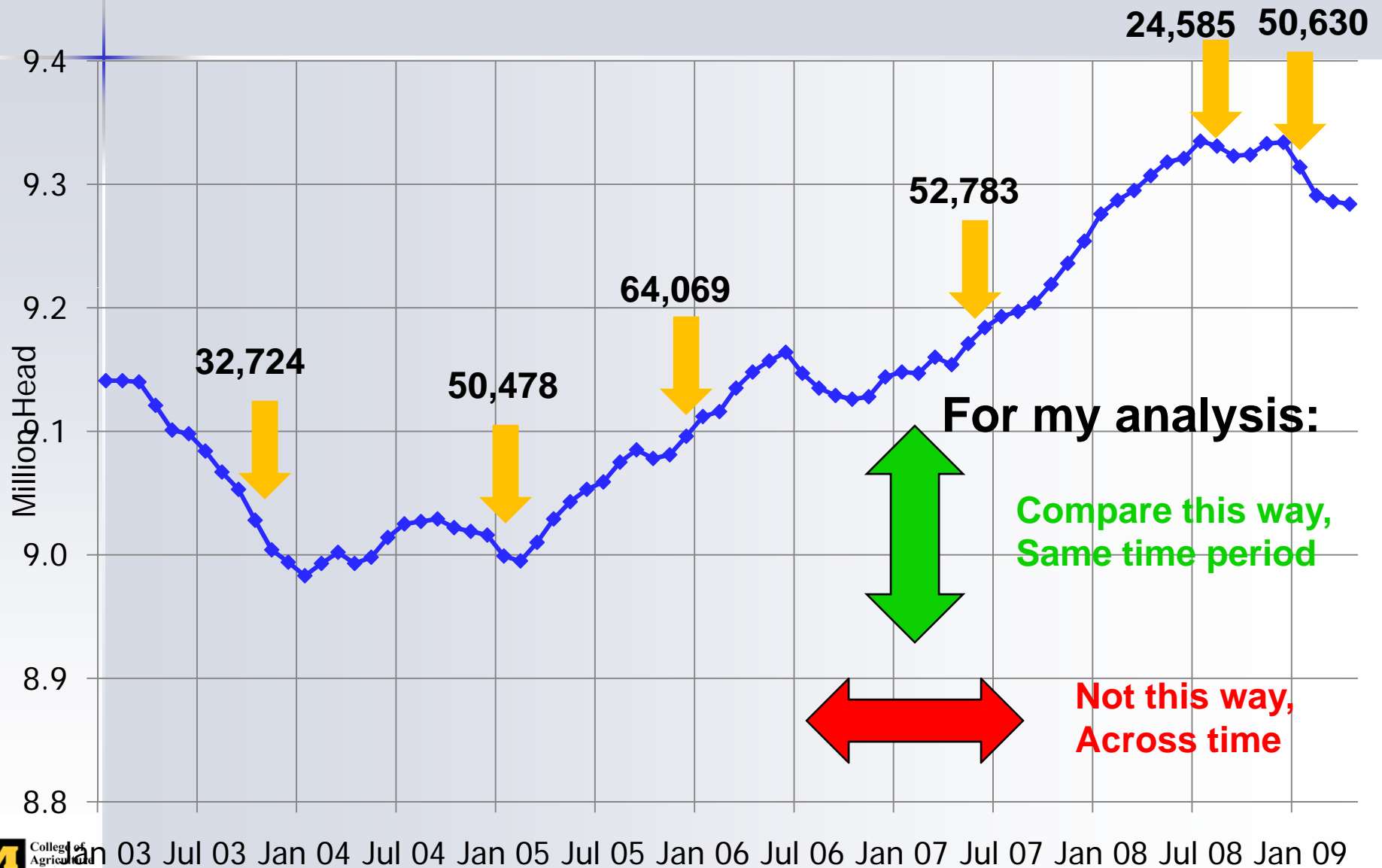
June 2-3, 2009

Binghamton, NY

The Process of Analyzing the CWT Program

- Analysis uses an updated structural econometric model that replicates the important decision points in the dairy industry
 - Used extensively by US Congress to measure policy effects
 - This tool provides a meaningful way to compare alternatives
- This process allows for the effects of the CWT to be separated for everything else that has occurred in the industry during the operation of CWT program
- The analysis shown here examines on an annual basis (2003 – 2008) where the industry would have been without the CWT program

U.S. Dairy Cows



Factors Driving These Results

- Inelastic Demand – small changes in supply give large price effects
- Response by those producers not in the herd retirement

CWT Assumptions

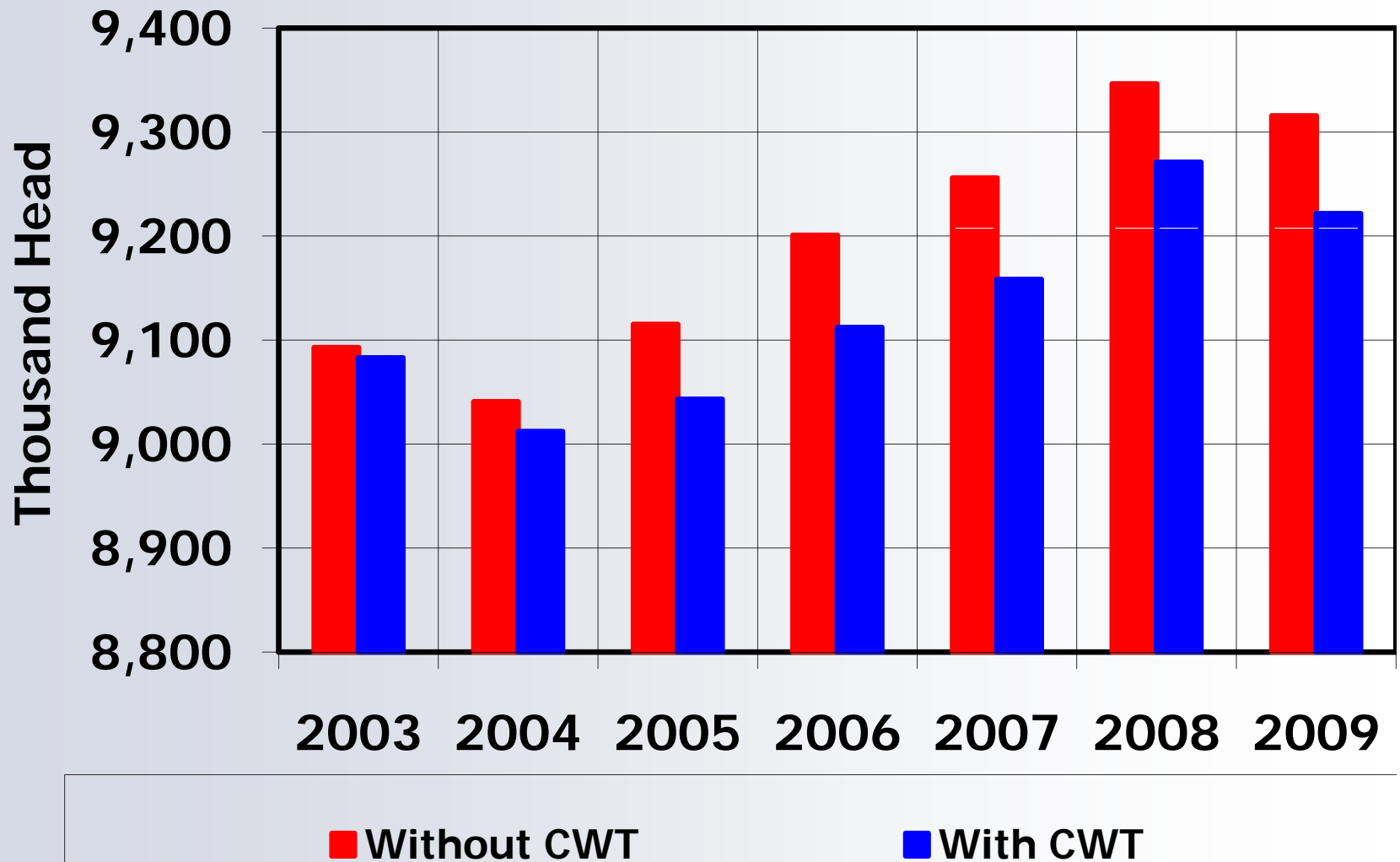
■ Herd Retirement

- Incorporates six herd retirements, the 7th herd retirement has not completed and is not included.
- Explicit accounting of CWT cows removed and the loss of their future heifer calves
- Supply response from higher prices included
- Bred heifers included

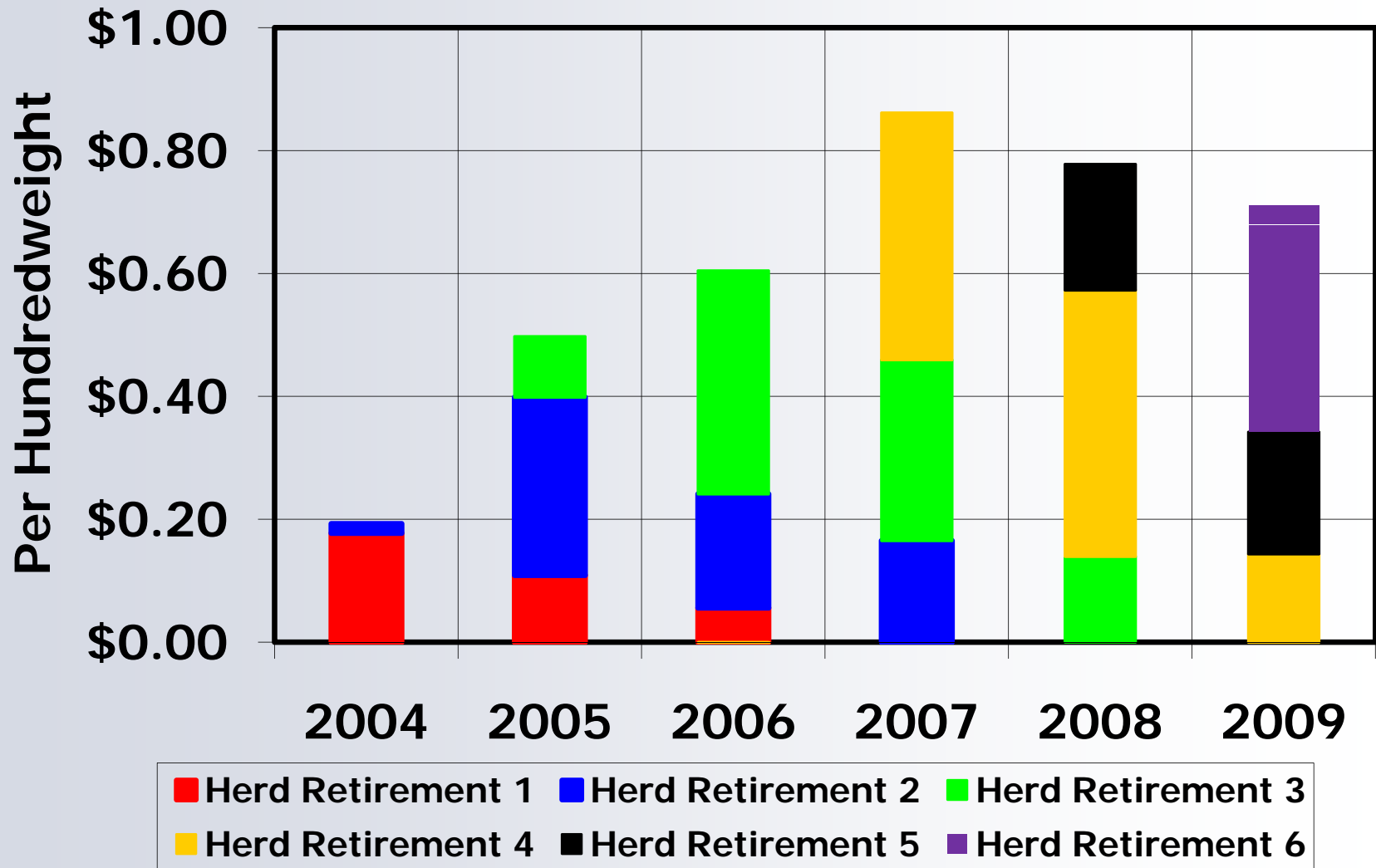
■ Export Assistance

- Very few dairy products moved under this program until 2006
- Actual deliveries are used
- Analysis does not include any effect from long-term market development

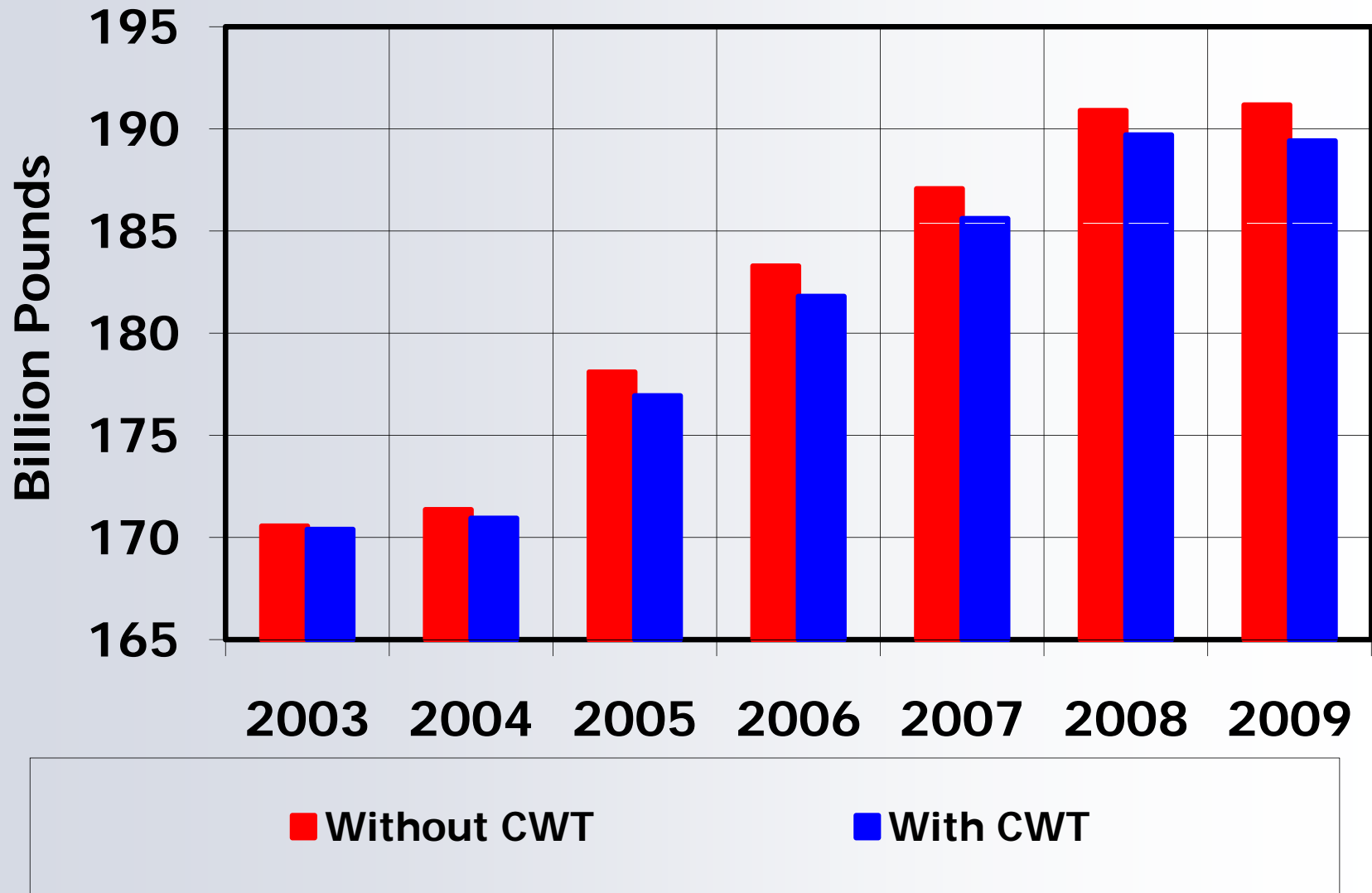
U.S. Dairy Cows



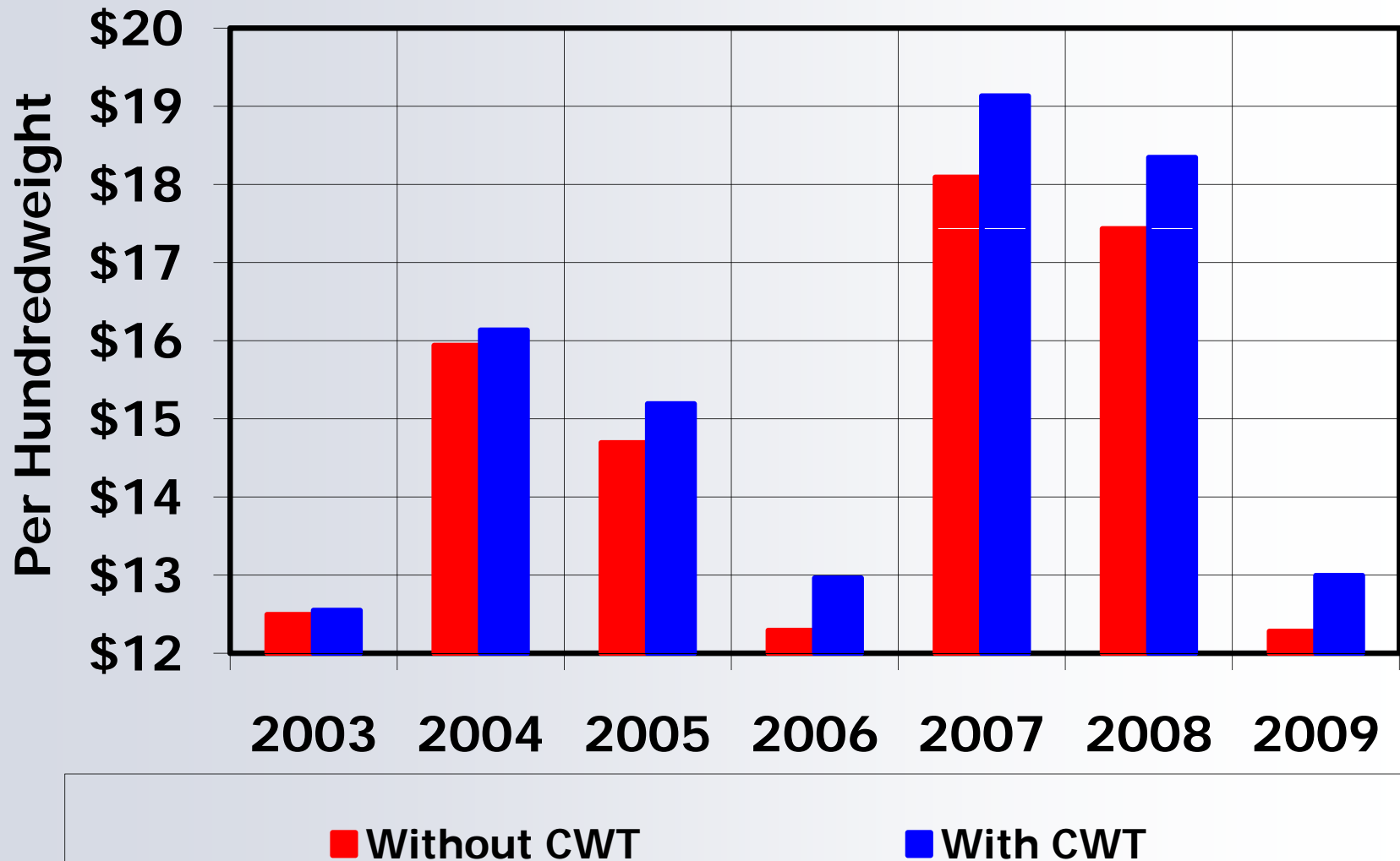
Effects on Milk Prices, by Herd Retirement



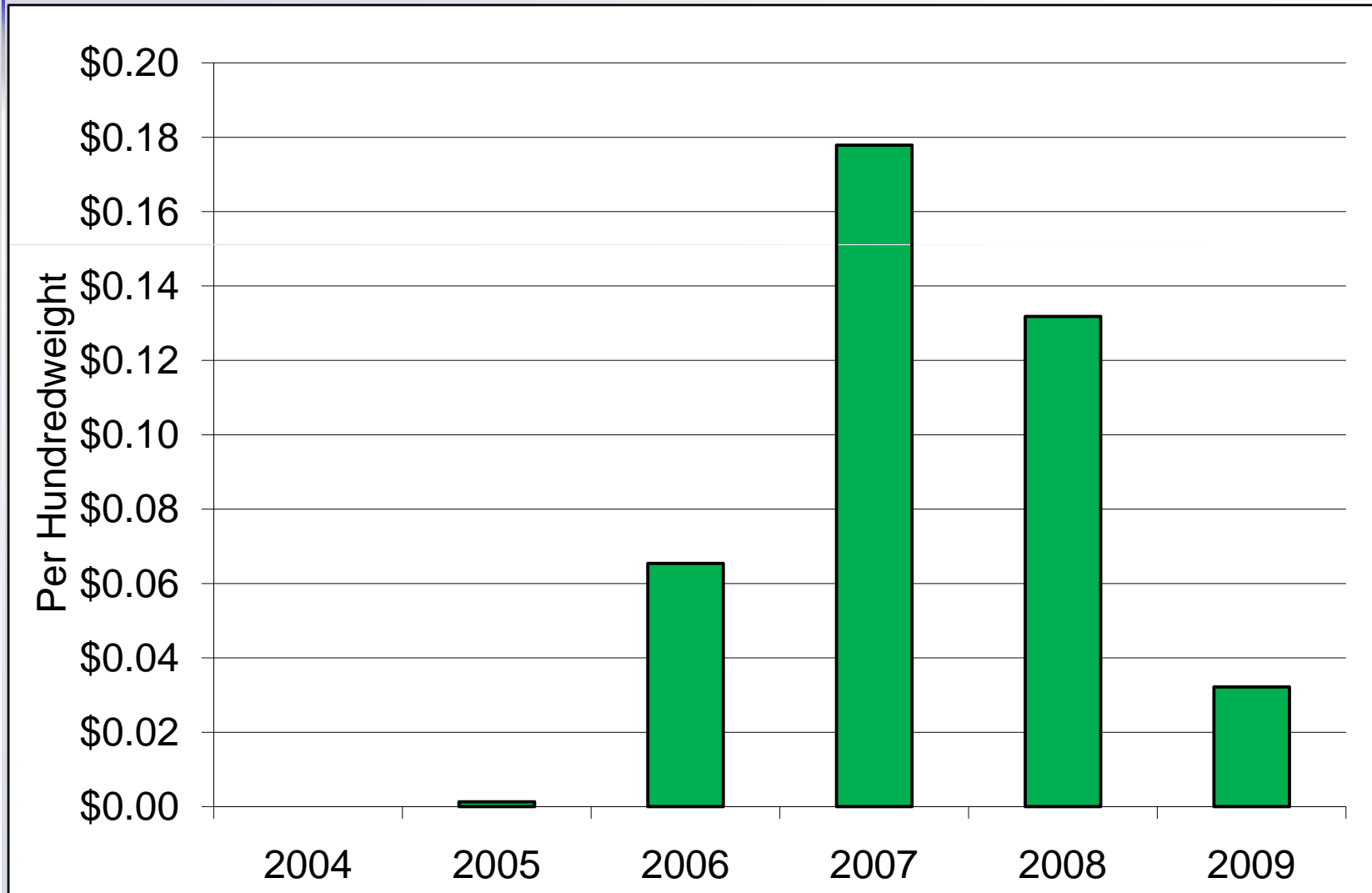
U.S. Milk Production



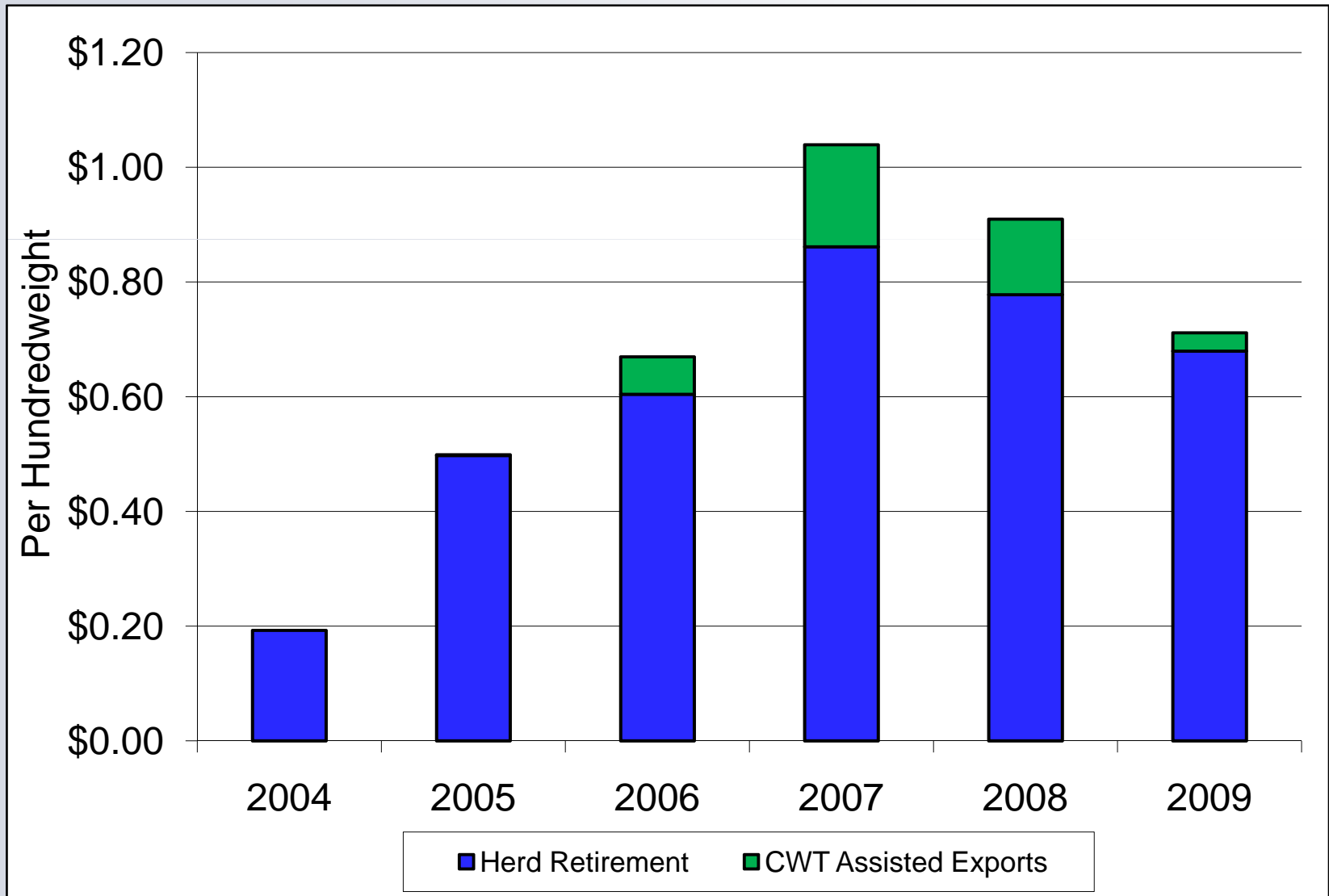
U.S. All Milk Price



Effect of Export Assistance on Milk Prices



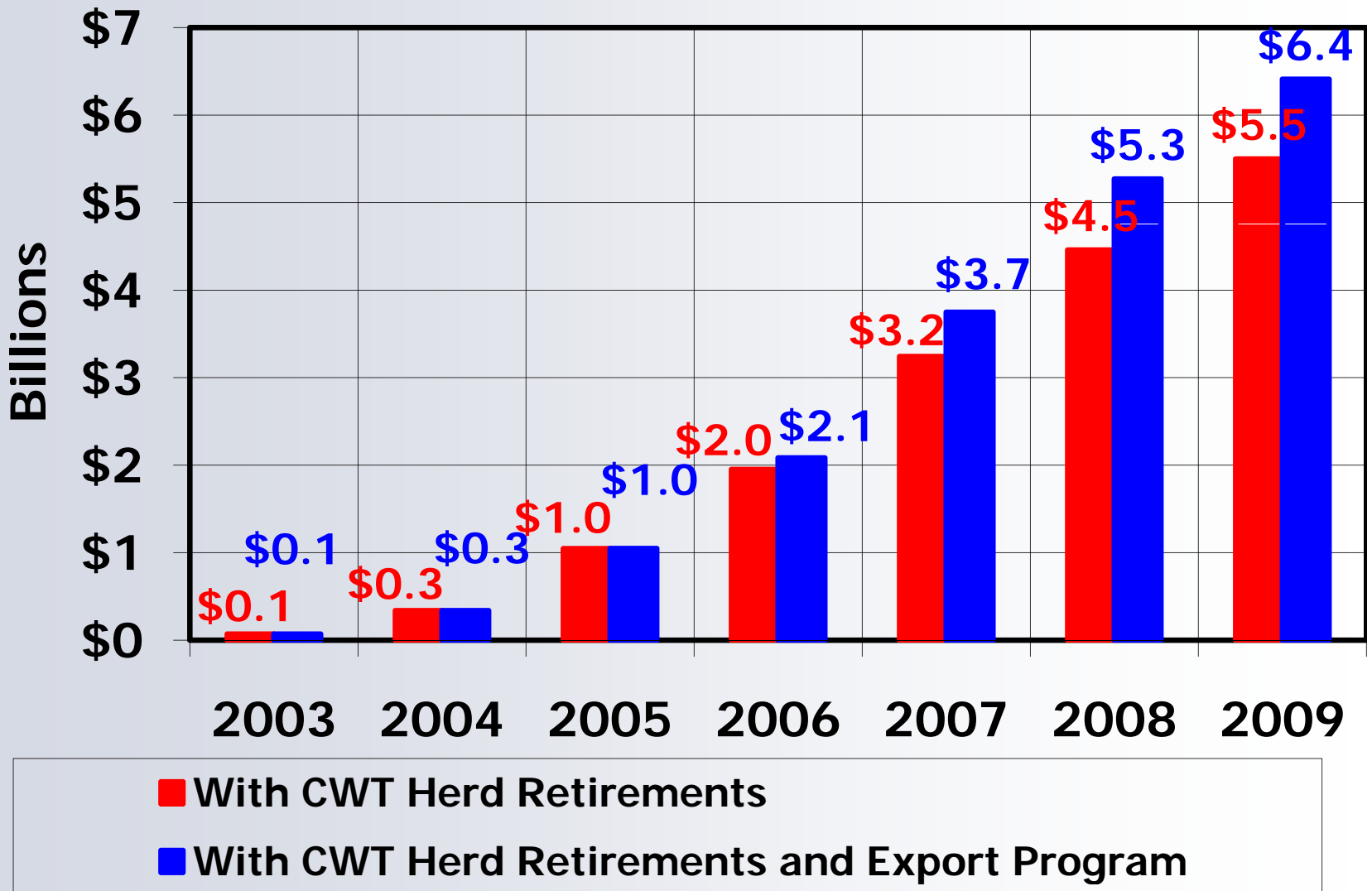
Combined Effect of CWT Programs on Milk Prices



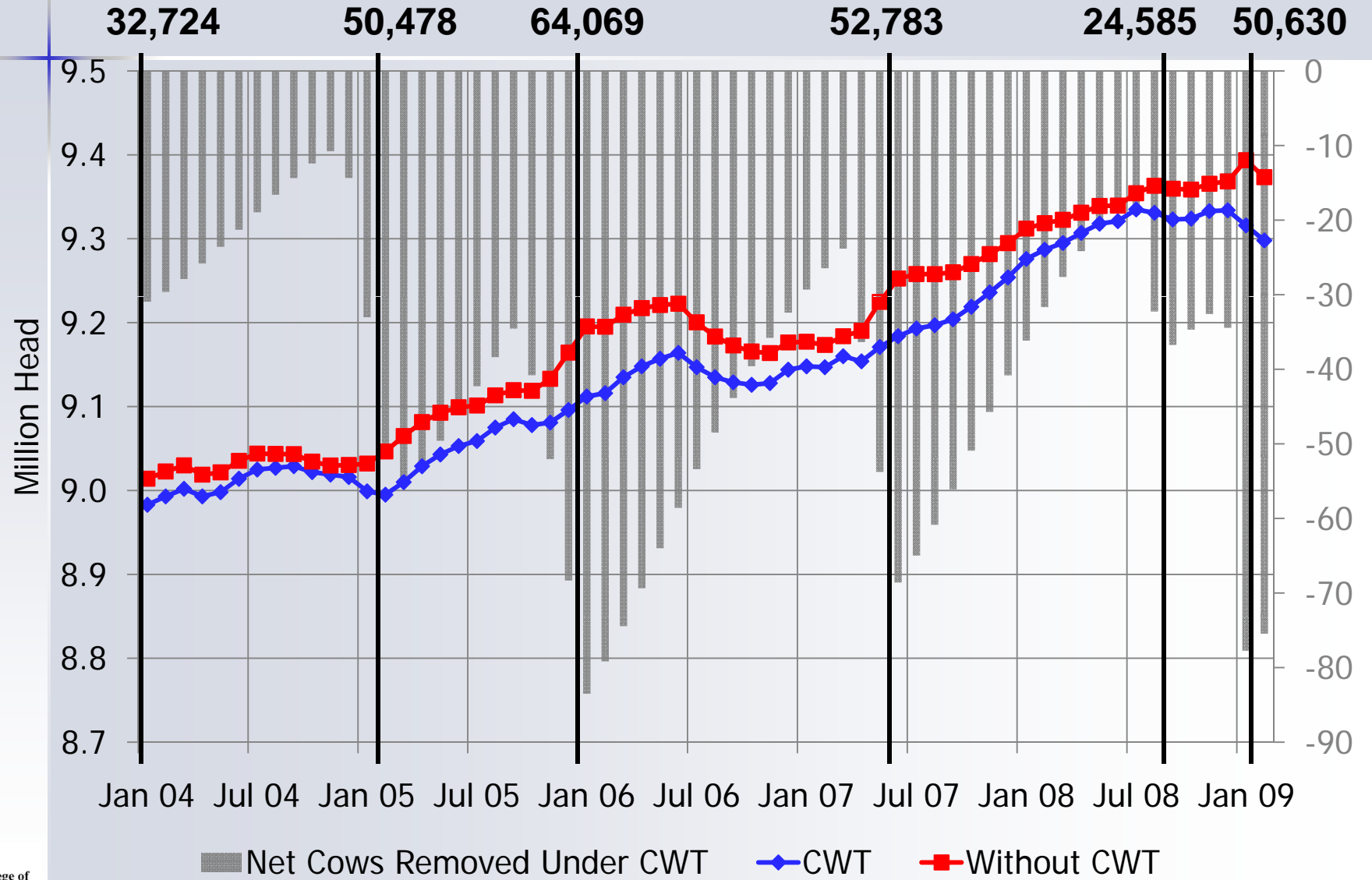
Effect of the CWT Program on the US All Milk Price *

Year	2003	2004	2005	2006	2007	2008	2009
US All Milk Price	\$12.55	\$16.13	\$15.19	\$12.90	\$19.13	\$18.34	\$12.99
CWT Herd Retirement Impact	\$0.06	\$0.19	\$0.50	\$0.60	\$0.86	\$0.78	\$0.68
CWT Export Assistance Impact	NA	\$0.01	\$0.01	\$0.07	\$0.18	\$0.13	\$0.03
TOTAL CWT Impact	\$0.06	\$0.19	\$0.50	\$0.67	\$1.04	\$0.91	\$0.71

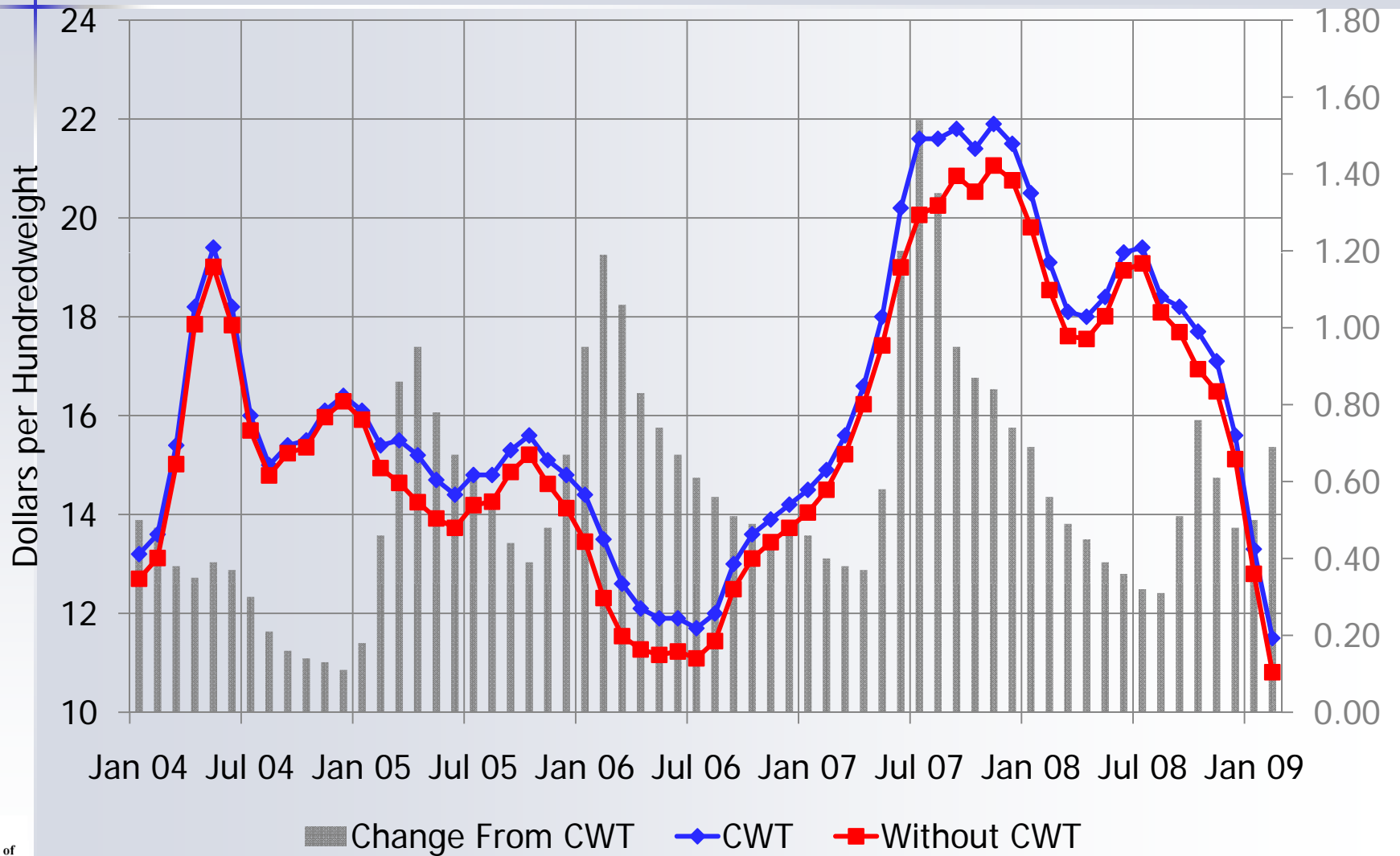
Cumulative Change in Milk Market Revenue Under the CWT Program



U.S. Dairy Cows



U.S. All Milk Price



CWT Summary Points

■ 2008 Bottom Line:

- CWT will increase producers' milk prices by \$0.91 per cwt
- The herd retirement program added \$0.78 per cwt to milk prices and the export assistance program added \$0.13 per cwt

■ On Average Over the 2004 to 2008 Period:

- CWT will increase producers' milk prices by \$0.66 per cwt
- The herd retirement program added \$0.59 per cwt to milk prices and the export assistance program added \$0.08 per cwt

- The current estimate for 2009 that only includes the impact of the 6th herd retirement and no CWT export assistance in 2009 raises milk prices by \$0.71 per cwt

- Continued operation of the CWT program is essential for producers to continue receive benefits from the program