News Release

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NMPF Analysis Shows IDFA-Funded Informa Study Miscalculated Impact of Foundation for the Future Program By Failing to Address Producer Response

New Analyses from NMPF, FAPRI Show Program Would Have Increased Dairy Farmer Revenue

ARLINGTON, VA – The Informa Economics review of the National Milk Producer Federation's Foundation for the Future dairy proposal was extremely limited in its scope and failed to take into consideration how producers would have cut their milk production in response to a reduction in their milk checks, according to a new analysis by NMPF issued today.

The NMPF analysis of the processor-funded Informa study shows that under the Dairy Market Stabilization program, dairy farmers would have received at least $3 billion more revenue had the stabilization program been in place in 2009. That finding is corroborated by a separate, new analysis done by the Dr. Scott Brown at the University of Missouri's Food and Agricultural Policy Research Institute.

NMPF has proposed a series of new programs for the U.S. dairy industry as part of its Foundation for the Future dairy policy package, including the Dairy Market Stabilization Program (DMSP). That program is designed to reduce dramatic swings in market conditions that ultimately result in negative margins, such as those experienced by dairy farmers in 2009. The DMSP is activated only when margins become compressed, due to low milk prices or high feed costs. When they do, the program reduces the amount that farmers are paid, to encourage them to temporarily reduce their milk marketings. That, in turn, results in increased producer margins. The money collected under the DMSP is to be used to stimulate demand, through product purchases.

Last month, Informa Economics issued a report, commissioned by the International Dairy Foods Association, asserting that the Dairy Market Stabilization program, had it been in place in between 2000 and 2009, would have reduced farmers' pay prices by $626 million (with $390 million of that total in 2009 alone). However, the Informa study made no attempt to estimate how producers would have altered their milk output, or how cheese purchases would have helped producer incomes, had the program been active during that period. Had it done so, it would have found that the DMSP program would ultimately have **increased** total farm revenue, according to NMPF.

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"The purpose of the Informa study was transparent. Its sole intent was to pit producer against producer, in region by region, by focusing on the differences in the total dollar reductions producers in various states would have experienced," said Jerry Kozak, President and CEO of NMPF. "But the Dairy Market Stabilization Program treats all producers equitably; they are all subject to the same required production reduction percentages."

In addition, the Informa report was incredibly one-dimensional, in that "it didn't make any effort to acknowledge that when pricing signals are bad, farmers react fairly quickly," said Kozak. "Real-world experience tells us that farmers respond to incentives and penalties, like all rational economic actors. If they know they'll get paid less for their milk in the next month or two, they'll act accordingly. But you won't find any acknowledgment of that reality in the Informa study."

In fact, the Informa report briefly admits that "it's likely that farmers…will try to limit production" during months when the program is active, but then the report says that "it's nearly impossible to say exactly what the impact on milk production will be." In essence, it only applied the structure of the DMSP plan on activities that had already occurred, without any modeling of how people would have responded, according to Kozak.

In order to present a dynamic model of how the Market Stabilization program would actually affect milk production, NMPF's Vice President for Economic Policy, Dr. Peter Vitaliano, estimated the behavior of dairy producers during the months when the program would have been triggered in the past two years. NMPF's own econometric analysis shows that had the DMSP program been in place in 2009, the average U.S. all-milk price would have been $1.90/cwt. higher during 2009, raising farm revenue by $3 billion.

NMPF's assessment is corroborated by an independent analysis of the entire Foundation for the Future program, prepared Dr. Scott Brown, of the Food and Agricultural Policy Research Institute at the University of Missouri. His report, located on the FAPRI website, found that producers would have received an increase of $3.4 billion in cash receipts as the DMSP program would have kicked in during 2009, reducing milk output and ultimately bolstering prices.

NMPF's analysis also points to a real-world experience where farmers did respond to advance incentives urging them to reduce milk output: three years ago in California, when the state's largest cooperatives instituted limits on the amount of milk a farmer could send to market each month. That production-limiting plan had the immediate effect of reducing the state's milk production in 2008 and 2009, while production in other states without that plan tended to rise.

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That's why the Informa analysis found that penalties on growing milk output were relatively smaller in California compared to other states – because producers in the largest dairy state already had been given the signal to cut production. All of the other states cited by Informa as incurring the largest penalties in 2009 are on that list simply because they are the largest dairy-producing states, according to NMPF.

"As the California example vividly demonstrates, dairy producers will react strongly to economic signals that milk they produce, in excess of a given volume, has a lower value," Kozak said. Such a response would mean that farmers, if the DMSP plan were in effect, would not be penalized for producing excess milk because they would reduce their output. Thus, the estimate of hundreds of millions of dollars in penalties is highly suspect, because farmers would seek to avoid the penalties by shipping less milk.