AGRICULTURAL EXTENSION SERVICE
UNIVERSITY OF MINNESOTA

Marketing Information for Minnesota Dairy Farmers

AGRICULTURAL ECONOMICS
FACT SHEET No. 17–1979

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Considerations in Formulating Dairy Import Policy

The United States dairy import policy is a major concern for dairy farmers. This concern peaked in 1973 and 1974 when President Nixon authorized additional import quotas for nonfat dry milk, cheese, and butter. During those years, dairy product prices rose sharply to levels well above the government support prices. Rapid inflation brought public pressure to halt further rises in food costs. By spring 1974, prices of dairy products had dropped sharply to support levels, partly in reaction to increased imports. These Presidential actions combined with earlier talk about opening up the U.S. dairy market to foreign imports in exchange for expanded U.S. exports of food and feed grains, led many dairy farmers to feeling abandoned by their government.

The dairy import issue is complex. Specific import policies involve many trade-offs between the dairy industry, other sectors of U.S. agriculture, consumers, and foreign countries. Reviewing these should describe some of the complexities involved in formulating a national dairy import policy.

WORLD TRADE IN DAIRY PRODUCTS

Except for 1973 and 1974 when dairy imports reached 3.3 and 2.5 percent of U.S. milk production, respectively, dairy imports have been about 1.6 percent of U.S. milk production. About 55 percent of these imports were subject to quotas. From 1975 to 1977, the U.S. imported about twice as much milk fat as it exported, but imported only one third as much solids-not-fat as it exported.

About 2 to 3 percent of total world milk production is exported. New Zealand accounts for about half of total world exports with Australia and the six original countries in the European Community (France, Netherlands, Belgium, Luxembourg, West Germany, and Italy) accounting for much of the rest. Great Britain is the largest importer and has traditionally absorbed much of New Zealand's exports. When Great Britain joined the Common Market, New Zealand was scheduled to be phased out as a supplier so New Zealand actively sought new markets. Australia was immediately excluded from the Great Britain market and its policy has been to reduce total milk production and the need for export markets.

U.S. DAIRY IMPORT POLICY

The U.S. uses several ways to restrict imports of dairy products: (1) quotas on the quantity of specific dairy products; (2) "price break" or minimum prices on certain foreign cheeses—meaning prices are enough higher so that they aren't considered to compete with U.S. dairy products; and (3) countervailing (compensating) duties imposed on dairy products from foreign countries that pay direct subsidies and so undercut the U.S. price.

Quotas

Section 22 of the Agricultural Adjustment Act of 1933, as re-enacted and amended, contains the authorization for import quotas on dairy products. This authorization was first implemented for specific dairy products in 1953. Some quotas were used before 1953 during the Korean War, but no import controls for dairy products existed before 1950. Most of the quotas are allocated to individual importers and countries through a licensing system; but some are on a first-come, first-served basis. Total annual U.S.-issued quotas equal about 1.3 billion pounds milk equivalent.

Quotas are legally justified in protecting the U.S. dairy price support program. Additional imports at a time when the government was purchasing dairy products would directly add to the quantity of dairy product purchases and the cost of the support program. The U.S. Government might be supporting world dairy prices unless some restrictions on imports were imposed.

Section 22 sets out the procedure by which import quotas can be changed, other than by new legislation. First, the Secretary of Agriculture is directed to advise the U.S. President whenever there is reason to believe that any dairy products are being imported so as to materially interfere with the dairy price support program. If the President agrees with the Secretary, the President requests an investigation by the International Trade Commission (the old Tariff Commission) to determine whether or not the imports are interfering with the price support program. This includes a public hearing. The findings and recommendations are reported to the President, who can then determine the fees or quotas to be levied. The additional fees may not exceed 50 percent of the value of the product and the new quotas may not be less than 50 percent of the quantity imported during a previous representative period. If the Secretary reports that a condition exists requiring emergency action, the President may act immediately without waiting for the International Trade Commission's report.

Conditions in 1973 and 1974 raised the question of whether increasing existing quotas would materially interfere with the price support program as long as the dairy product markets were tight and market prices exceeded the support prices. The decision was that they would not interfere, and additional imports were authorized. Some pressure for increased import authorization emerged from the dairy industry itself as some believed it was important for the dairy industry to keep a supply of dairy products on grocery store shelves so prices of milk and dairy products would not go as high as to seriously curb consumption.

The timing of these increased import authorizations also became an issue. The lags in increased imports reaching the

U.S. could destabilize rather than stabilize milk prices. Time is required for each of the following steps:

- recognizing the possible need for additional imports,
- determining the amount needed to avoid shortages except at unreasonably high prices,
- the investigation by the International Trade Commission as required by law,
- the final action by the President, and, then,
- the response by supplying countries and the actual time required to ship dairy products to the U.S.

The final butter and nonfat dry milk import authorizations in 1974 came after prices had started to fall, while the final cheese authorization came at the peak cheese prices.

Price Break

The price break is applied to certain types of cheeses not purchased under the price support program. No quotas are placed on these cheeses imported at prices enough higher than U.S. prices to rule them out of competition with U.S. cheeses. Swiss or Emmentaler cheese is a major example. The "price break" is the Commodity Credit Corporation's purchase price for Grade A cheddar cheese, rounded to the nearest whole cent, plus 7 cents. Cheese imported at or above the "price break" is viewed as meeting a specialized foreign cheese demand that is not in direct competition with U.S. cheeses. Otherwise the purchases of dairy products under the price support program would be affected.

Countervailing Duties

Surplus dairy products often result from foreign dairy countries' policies, particularly Western Europe's. To dispose of surplus dairy products, these countries can subsidize exports while undercutting the domestic prices in other countries, including the U.S. The U.S. Treasury Department has responsibility to monitor this activity and to notify the President when imported dairy products are being subsidized. Unless specifically waived, the President is required to impose a countervailing duty on any subsidized import.

FUTURE OF DAIRY IMPORT POLICY

The future of U.S. dairy import policy tends to be uncertain because it is a small part of the total U.S. import-export policy picture. Changes in trade policy between countries usually involve negotiations which mean give and take for most trading partners.

The balance of payments has been an increasing problem in recent years as U.S. imports such as oil exceed U.S. exports, a situation that cannot permanently exist.

This poor balance of payments situation for the U.S. tends to create pressure to increase exports and/or limit imports. However, some argue that the reverse is true for dairy products—that the U.S. net balance of payments could be improved by allowing more dairy imports in return for increased exports of other agricultural and nonagricultural products. This could be a factor in formulating dairy import policies.

Trade negotiators, however, are concerned about subjecting the U.S. dairy industry to unfair competition with resulting adjustments and instability by making the U.S. a dumping ground for any surplus dairy products.

U.S. policy supporting freer trade around the world creates additional uncertainty about the future dairy import policy.

The Question of Free Trade

It can easily be demonstrated that free trade between geographic areas can increase the general standards of living of people in all of those areas. Imagine a total restriction of trade across state boundaries within the U.S. Each state's population would have to produce its consumer goods with resources available within the state.

For example, to produce cars, each state would need its separate supply of steel, rubber, glass, and oil industries, to name only a few. But, with the wide variation in basic resources among states, the wide choice of consumer goods now available would be sharply reduced while the real cost of those available consumer goods would be higher. In other words, each state would have to be completely self-sufficient.

If this sounds far-fetched it is, but it demonstrates how vital trade between geographic regions is. It also indicates the concern of the drafters of the U.S. Constitution who wrote the provision which prohibits interference with interstate commerce. The same principle applies between countries.

If free trade generally improves the standard of living, then why are there so many restrictions? Most of the reasons for trade restrictions are based either in the political uncertainty that exists among countries or on protection of special interest groups or industries. A certain pressure exists for countries to be self-sufficient and not have the supplies of certain commodities subject to the political whims of foreign countries. Additional reasons relate to a desire to protect the domestic industry from difficult adjustments in price and output.

COMPETITIVE POSITION OF U.S. DAIRY

How would the U.S. fare if all countries were to adopt a free trade policy? Under such a policy, milk prices in all countries would be free to move toward world free trade prices and there would be no import restrictions or export subsidies. Although the possibility of such a situation is highly unlikely, it was estimated in one study that U.S. milk price would decline somewhat from the present levels and that the U.S. could compete price-wise for the U.S. market with all countries except New Zealand and Australia. However, the potential supply from those two countries is small relative to world production and is not enough to drive world prices to their low production costs of these two countries in the long run.

If worldwide trade barriers for dairy products were reduced or eliminated, prices and, therefore, milk production likely would decline in Canada, the U.S., and Europe. Consumption would rise. These decreases in production and increases in consumption would absorb much of the potential growth in milk production in New Zealand and Australia, where milk prices would rise.

A gross estimate of the physical efficiency of labor and land in producing milk was made with farm account data from New Zealand, the Netherlands, and the U.S. Results indicate that New Zealand farms can produce 100 pounds of milk with less labor and land than U.S. farms can. This gives New Zealand an advantage in milk production compared to all size U.S. farms.

Farms in the Netherlands use less land but more labor to produce 100 pounds of milk than U.S. farms. The question of advantage in milk production between the U.S. and the Netherlands, then, is less clear than between the U.S. and New Zealand. New Zealand farms use about the same amount of land but much less labor per 100 pounds of milk produced than Netherlands farms.

Free trade with total absence of export subsidies would encourage importing milk products from Australia and New Zealand and some specialty products from Europe.

The initial impact of immediately moving to free trade would have considerable effect on U.S. milk prices. However, American dairy farms would not vanish under conditions of free trade because the Oceania countries which can produce milk cheaper and more efficiently lack the money and technology for increased production.

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