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New Food Policy Issue Brief Analyzes Farm Bill Dairy Programs

The University of Minnesota Food Policy Research Center announces a new Issue Brief “**Dairy Subtitle to the 2013 Farm Bill: Critical Issues and Options**” (lead author Dr. Marin Bozic, University of Minnesota, Department of Applied Economics). The brief summarizes the state of the knowledge on proposed dairy policy reforms, building on five working papers from three different research teams. The key findings relate to the effectiveness, expected cost, distributional effects and policy design shortcomings of the proposed reforms:

- Both the proposed 2013 House and Senate Farm Bills are likely to be very effective in providing catastrophic dairy margin insurance. If effective, the Senate stabilization program could also reduce the duration of low-margin periods.
- Contrary to other Farm Bill commodity programs, these dairy reforms impose no eligibility constraints with respect to farm size or adjusted gross income. The costs of the new policies are estimated up to be up to three times higher than the cost of extending the 2008 Farm Bill dairy programs, with larger share of program benefits accruing to large farm operators. The Senate stabilization program could reduce costs of 2013 Farm bill dairy programs between 5% and 30% relative to standalone margin insurance, with results highly sensitive to market price responsiveness to reductions in milk supply.
- If the current policy proposals enable dairy producers to make the annual insurance sign-up decisions immediately before the insurance coverage period starts, they will encourage producers to use the new programs strategically – over-insuring when anticipated income over feed costs margins are likely to be much below average, and forfeiting margin insurance when forecasted margins are above average. This design feature unnecessarily increases program costs by at least 20%, and can be easily addressed in several ways. One option discussed in the brief is to introduce a six-month gap between the annual sign-up date and the beginning of the insurance coverage period. This change would preserve low and affordable premium levels, while realigning program design with the original purpose of the policy reform – offering affordable catastrophic risk protection.

Full Issue Brief can be downloaded at <http://z.umn.edu/FPRCDairyBrief>
To see Dr. Bozic discuss findings in a video podcast: <http://dairy.wisc.edu/>

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The University of Minnesota Food Policy Research Center, a USDA National Institute for Food and Agriculture funded initiative, is one of five centers nationwide contributing novel perspectives on the policies that shape the food supply. The FPRC examines the intertwined and often competing political, technical, environmental, economic, and cultural influences around what we eat, illuminating the science behind food issues and policies from an interdisciplinary perspective. Our goal is to arm lawmakers, consumers and industry representatives with scientifically sound information about how we grow, process, package, distribute, and prepare what we eat.