

Cost-Benefit Analysis for Proposed Rule National Dairy Promotion and Research Program

Assessments to Producers of Alaska, Hawaii, the District of Columbia, and the Commonwealth of Puerto Rico

Assessments to dairy producers under the Order are relatively small compared to producer revenue. If dairy producers in Alaska, Hawaii, the District of Columbia, and the Commonwealth of Puerto Rico had paid assessments of \$0.15 per hundredweight of milk marketed in 2007, it is estimated that \$1.1 million would have been paid. This is about 0.6 percent of the \$192 million total value of milk produced and marketed in these areas.

Benefits to producers in these areas are assumed to be similar to those benefits received by producers of other U.S. geographical regions. Cornell University has conducted an independent economic analysis of the Program that is included in an annual report to Congress. For further details, see the Chapter 3 of the *Report to Congress on the National Dairy Promotion and Research Program and the National Fluid Milk Processor Promotion Program*, July 2007, (www.ams.usda.gov/dairy).

Dairy Import Assessment

Assessments collected from importers under the Dairy Promotion and Research Program (Program) will be relatively small compared to the value of dairy imports. If importers had been assessed \$0.075 per hundredweight, or equivalent thereof, for imported dairy products in 2007 as specified in this rule, it is estimated that less than \$6.1 million would have been paid. This is about 0.3 percent of the \$2.4 billion value of the dairy products imported in 2007.

The \$6.1 million estimate for 2007 is based upon default assessment rates listed in the table of § 1150.152(b)(1) of the proposed rule. The actual amount that would have been paid if the assessment had been in effect in 2007 may be significantly less. If an importer has adequate documentation concerning the milk solids content of the imported dairy product, the assessment is based upon milk solids content of the imported dairy product. If an importer does not have adequate documentation concerning the milk-solids content of the imported dairy product, a default assessment rate for each HTS code is applied. For most products, the default assessment rate for each HTS code is based upon the estimated maximum milk solids content.¹

Generic advertising and promotion of dairy products increases both the quantities consumed and prices, including those for imported dairy products. The concept of the dairy import assessment has been controversial. Proponents of dairy import assessments for the Program claim that importers have long benefited from the Program without

¹Default Import Assessment Rates for the National Dairy Promotion and Research Program, a detailed table providing sources used to determine the default assessment rates, is available at <http://www.ams.usda.gov/dairyimportassessment>.

paying the associated cost, a free rider problem. Persons opposed to the Program generally make two claims in opposition to import assessments: (1) that tariff rate quotas (TRQs) constrain imports, rendering the Program ineffective in increasing the demand for imports, and (2) that the Program does not promote many of the types of dairy products that are imported, usually as dairy ingredients.

TRQs seem to constrain dairy imports in varying degrees for some products, but not for others. Table 1 displays in-quota, high-tier, and special-import-program imports of dairy products subject to TRQs. For some products the quota fill rate is nearly 100 percent with little high-tier imports. There are significant high-tier imports for some other products. For some products there are little or no in-quota imports. Some TRQ products have relatively high volumes imported under special import programs. Thus, TRQs do not seem to be a significant hindrance to the volume imported for many dairy products. Those products which will benefit only slightly from increased volume will still benefit from generally higher prices. There are significant quantities of dairy products imported that are not subject to TRQs as displayed in Table 2.

Dairy Management Inc. promotes dairy ingredients for the Program through the Innovation and Ingredients Program and through the web site www.innovatewithdairy.com. The Innovation and Ingredients Program assists the dairy industry in the development of innovative dairy products; provides an annual invitation only Dairy Innovation Forum, which had 189 participants in 2007; has co-organized the Annual Dairy Ingredients Symposium; and provides several informative publications.

With the establishment of the Dairy Import Assessment, importers will have some influence on the allocation of resources for the Program. Each of the two importer representatives appointed to the Dairy Board will have a vote on the types of dairy products to be promoted, the means in which they are promoted, and the markets that the Program will target. If importers establish a Qualified Program(s), resources for the program(s) could be used by importers to tailor their own marketing efforts.

The Dairy Board does not specifically promote all dairy products. For instance, the Dairy Board does not specifically advertise or promote ice cream even though dairy farmers pay a 15-cent per hundredweight assessment for milk used in the production of ice cream. Other examples would be food preparations, infant formula, and milk chocolate, all of which contain dairy products. Thus, the import assessment will be collected on all specified imported dairy products and imported products containing dairy solids, whether or not the Dairy Board chooses to promote such products.

The Promotion and Research Program provides benefits relative to all dairy products, whether or not they are specifically promoted. With increased dairy product consumption, the market for milk solids tightens. Prices are higher for the entire complex of products that contain milk solids, both domestic and imported. Even products that are not directly promoted through the program receive this benefit. We note that, per statute, the assessment rates to be paid by importers will be equivalent to only half of what domestic producers pay.

Table 1. 2007 Dairy Imports Subject to Tariff Rate Quota (TRQ) Categorized by Treatment Under the Harmonized Tariff Schedule (HTS)

Chapter	HTS Additional Note	HTS TRQ description	Units	TRQ	In-quota imports	In-quota percent of TRQ ¹	High tier imports	High tier percent of TRQ	Imports under Special Import Programs not subject to general TRQ ²	Total imports for consumption ³
4	5	Fluid Cream	kiloliters	6,695	1,086	16.2	0	0.0	2,489	3,575
4	6	Butter	metric tons	6,977	6,410	91.9	216	3.1	1,362	7,988
4	7	Milk Powders, Non-Fat Or Skim	metric tons	5,261	316	6.0	7	0.1	170	493
4	8	Whole Milk Powders	metric tons	3,321	1,939	58.4	78	2.3	8,671	10,688
4	9	High Fat Dried Milk and Cream	metric tons	100	2	2.0	2	2.0	136	140
4	10	Miscellaneous Products	metric tons	4,105	4,105	100.0	46,863	1141.6	23,762	74,730
4	11	Condensed Milk	metric tons	6,857	5,161	75.3	752	11.0	12,984	18,897
4	12	Sour cream/whey powders	metric tons	296	49	16.6	2	0.7	0	51
4	14	Butter substitutes	metric tons	6,809	5,215	76.6	131	1.9	1,190	6,536
4	16	Cheese, Other Whole Fat	metric tons	48,628	44,082	90.7	1,611	3.3	6,495	52,188
4	17	Cheese, Blue-Veined	metric tons	2,911	2,885	99.1	1,462	50.2	26	4,373
4	18	Cheese, Cheddar	metric tons	13,256	12,941	97.6	1,048	7.9	475	14,464
4	19	Cheese, American	metric tons	3,523	2,846	80.8	4,836	137.3	243	7,925
4	20	Cheese, Edam and Gouda	metric tons	6,816	6,263	91.9	42	0.6	77	6,382
4	21	Cheese, Italian Type	metric tons	13,481	10,624	78.8	6,849	50.8	1,284	18,757
4	22	Cheese, Gruyere-Processed	metric tons	7,855	5,114	65.1	9	0.1	0	5,123
4	23	Cheese, Low Fat	metric tons	5,475	944	17.2	191	3.5	0	1,135
4	25	Cheese, Swiss/Emmenthaler	metric tons	34,475	26,086	75.7	26	0.1	38	26,150
18	2	High Milkfat Cocoa and Cocoa Preps	metric tons	26,168	16,457	62.9	61	0.2	0	16,518
18	3	Low Milkfat Cocoa and Cocoa Preps	metric tons	2,123	1	0.0	236	11.1	0	237
19	2	Infant Formula	metric tons	100	1	1.0	2	2.2	0	3
21	5	Ice Cream	kiloliters	5,668	4,043	71.3	567	10.0	20	4,630

Sources: USDA Foreign Agriculture Service (FAS) *Dairy Monthly Imports* circular, January 2008, http://www.fas.usda.gov/dmi_arc.asp; USDA FAS *US Trade Internet System*, <http://www.fas.usda.gov/ustrade/>; US International Trade Commission, *Interactive Tariff and Trade DataWeb*, <http://dataweb.usitc.gov/>

¹ Tariff rate quotas are not usually filled 100 percent. Most in-quota imports require a license. High-tier imports and some in-quota imports do not require a license. Sometimes licenses are acquired for quantities greater than the quantities that are actually imported.

² For some special import programs, such as the NAFTA agreement with Mexico, imports are not subject to TRQ and are duty free. For other agreements, such as the Australia-US Free Trade Agreement, imports are subject to TRQs specific to the agreement. Imports under both of these types of agreements are included in this column. For some agreements, such as the NAFTA agreement with Canada, in-quota imports are part of the general TRQ but have no duties or reduced duties associated with them. Imports under these types of agreements are included in the in-quota imports column.

³ Data for in-quota imports and some high tier imports are taken from the Dairy Monthly Imports Circular. FAS receives data for this report directly from US Customs and Border Patrol. This data does not reconcile with data from the US Census Bureau. As a result, total imports for consumption numbers in this table do not reconcile with data from the US Census Bureau.

Table 2. 2007 Dairy Imports Not Subject to Tariff Rate Quota

Product Category	Units	Quantity
Cocoa and cocoa preparations	metric tons	111,193
Casein products	metric tons	89,635
Milk protein concentrate	metric tons	61,090
Cheese ¹	metric tons	23,576
Butter substitutes ²	metric tons	12,773
Yogurt	metric tons	10,861
Miscellaneous edible preparations	metric tons	9,318
Milk albumins	metric tons	7,690
Lactose	metric tons	5,709
Whey protein concentrate	metric tons	5,193
Fluid dairy products	kiloliters	2,801
Other	metric tons	21,681

Source: USDA Foreign Agriculture Service *US Trade Internet System*

¹ Non-quota cheese for 2007 included Stilton cheese from the United Kingdom, non-specific soft-ripened cheese, and Goya cheese not from cows' milk or in original loaves. Cheese that is definitely not from cows' milk is not included in this table. In some cases, such as with Goya cheese, the Harmonized Tariff Schedule does not clearly indicate whether or not the cheese is from cows' milk.

² The butter substitutes category in this table includes only non-quota butter substitutes listed in Chapter 4 of the Harmonized Tariff Schedule of the United States (HTS). Non-quota butter substitutes listed in Chapter 21 of the HTS are included as miscellaneous edible preparations in this table.