

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

This Cost-Benefit Analysis is similar to that of the Proposed Rule. The information has simply been updated. Table 1 summarizes assessment costs associated with the final rule.

Table 1. Estimated Annual Costs and Benefits

Costs	Benefits
\$ 6 million	Not quantified
Costs reflect assessments to be collected from importers of dairy products and producers of Alaska, Hawaii, the District of Columbia, and the Commonwealth of Puerto Rico. Estimates are based on 2008 data.	
Benefits include equitable distribution of research and promotion costs in compliance with the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) and the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill).	

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 2008, it is estimated that \$1.1 million would have been paid. This is about 0.5 percent of the \$195 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 Chapter 3 of the *Report to Congress on the National Dairy Promotion and Research Program and the National Fluid Milk Processor Promotion Program, 2008 Program Activities*, July 2010. The independent analysis, conducted by Cornell University, has consistently shown that the program has had a positive and statistically significant impact on per capita dairy consumption. Specifically, generic advertising and promotion of dairy products increases both the quantities consumed and prices. For 2008, it was estimated the farm milk price was \$0.21 to \$0.26 per hundredweight higher and the quantity demanded 2.3 percent higher because of the program. Results from this analysis show that the average Benefit-Cost Ratios for the Dairy Program was 5.49 (nonfat solids basis) and 7.07 (milk fat basis) from 1998 through 2008. This means that each dollar invested in generic dairy marketing by dairy farmers during the period would return between \$5.49 and \$7.07, on average, in net revenue to farmers. Additionally, the report to Congress estimates the demand elasticity of advertising to be .034 on a nonfat basis and 0.027 on a fat basis. For further details, see www.ams.usda.gov/AMSV1.0/FindaReporttoCongress.

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 2008 as specified in this rule, it is estimated that about \$4.9 million would have been paid. This is about 0.2 percent of the \$2.6 billion value of the dairy products imported in 2008. The \$4.9 million estimate for 2008 is based upon estimated typical milk solids contents of products imported.

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 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.

Table 2 displays in-quota, high-tier, and special-import-program imports of dairy products subject to TRQs in 2008. As with the 2007 data tabulated in the Cost Benefit Analysis for the Proposed Rule, the 2008 data indicate that TRQs constrain dairy imports in varying degrees. 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 would still benefit from generally higher prices. There are significant quantities of dairy products imported that are not subject to TRQs as displayed in Table 3.

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 2. 2008 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	In-quota percent of TRQ ¹	High tier	High tier percent of TRQ	Special Import Programs not subject to general TRQ ²	Total imports for consumption ³
4	None	Fluid Milk ⁴	kiloliters	11,356	326	2.9	185	1.6	0	511
4	5	Fluid Cream	kiloliters	6,695	538	8.0	734	11.0	2,632	3,904
4	6	Butter	metric tons	6,977	4,993	71.6	203	2.9	236	5,432
4	7	Milk Powders, Non-Fat Or Skim	metric tons	5,261	31	0.6	7	0.1	276	314
4	8	Whole Milk Powders	metric tons	3,321	422	12.7	78	2.3	9,514	10,014
4	9	High Fat Dried Milk and Cream	metric tons	100	2	2.0	0	0.0	0	2
4	10	Miscellaneous Products	metric tons	4,105	3,874	94.4	21,502	523.8	23,625	49,001
4	11	Condensed Milk	metric tons	6,857	4,962	72.4	374	5.5	13,176	18,512
4	12	Sour cream/whey powders	metric tons	296	1	0.3	2	0.7	0	3
4	14	Butter substitutes	metric tons	6,809	5,945	87.3	168	2.5	653	6,766
4	16	Cheese, Other Whole Fat	metric tons	48,628	34,711	71.4	1,568	3.2	5,017	41,296
4	17	Cheese, Blue-Veined	metric tons	2,911	2,842	97.6	1,061	36.4	45	3,948
4	18	Cheese, Cheddar	metric tons	13,256	9,456	71.3	730	5.5	746	10,932
4	19	Cheese, American	metric tons	3,523	2,558	72.6	3,335	94.7	66	5,959
4	20	Cheese, Edam and Gouda	metric tons	6,816	5,895	86.5	51	0.7	75	6,021
4	21	Cheese, Italian Type	metric tons	13,481	12,545	93.1	6,618	49.1	251	19,414
4	22	Cheese, Gruyere-Processed	metric tons	7,855	3,014	38.4	7	0.1	5	3,026
4	23	Cheese, Low Fat	metric tons	5,475	202	3.7	166	3.0	0	368
4	25	Cheese, Swiss/Emmenthaler	metric tons	34,475	21,861	63.4	19	0.1	4	21,884
18	2	High Milkfat Cocoa and Cocoa Preps	metric tons	26,168	14,560	55.6	45	0.2	0	14,605
18	3	Low Milkfat Cocoa and Cocoa Preps	metric tons	2,123	1	0.0	230	10.8	2	233
19	2	Infant Formula	metric tons	100	1	1.0	0	0.0	0	1
21	5	Ice Cream	kiloliters	5,668	3,374	59.5	465	8.2	20	3,859

Sources: USDA Foreign Agriculture Service (FAS) Dairy Monthly Imports circular, January 2009, 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 100 percent filled. 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.

⁴ In the Cost Benefit Analysis for the Proposed Rule, all fluid milk was shown as non-quota. However, fluid milk with fat content exceeding 1 percent but not exceeding 6 percent is subject to a unique TRQ that predates the Uruguay Round. The 1.5 cents-per-liter over-quota tariff for fluid milk is lower than other over-quota tariffs.

Table 3. 2008 Dairy Imports Not Subject to Tariff Rate Quota

Product Category	Units	Quantity
Casein products	metric tons	118,733
Cocoa and cocoa preparations	metric tons	81,312
Milk protein concentrate	metric tons	62,678
Cheese ¹	metric tons	22,978
Whey protein concentrate	metric tons	16,962
Miscellaneous edible preparations	metric tons	9,183
Milk albumins	metric tons	8,022
Lactose	metric tons	7,353
Yogurt	metric tons	6,830
Butter substitutes ²	metric tons	1,274
Fluid dairy products	kiloliters	1,100
Other	metric tons	4,144

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

¹ Non-quota cheese for 2008 included Gammelost, Nokkelost, 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 cow's 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.