



The Potential Increase in the Amber Box Calculation Under S. 1157

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At the request of Senator Kohl, the Food and Agricultural Policy Research Institute (FAPRI) has examined the additional amber box levels that could result under Senate bill S. 1157. This bill authorizes an extension and expansion of the Northeast dairy compact and authorizes new compact regions in other areas of the country that would result in 35 states being in a compact region.

Quantifying the effects of S. 1157 on the dairy sector is difficult. Many economic studies have attempted to show the impacts such a compact expansion would have but there has been no consensus reached in these analyses. The exact impact S. 1157 would have on the sector will not likely be known until the point in time that it were to become law and implementation occurred.

To calculate the contribution to the amber box under S. 1157 the pounds of fluid milk covered by the compacts and the net compact collection are necessary. With the uncertainty surrounding the supply and utilization effects of S. 1157, we have chosen to take a historical look at what the additional amber box calculation could have been using 2000 milk production levels and Class I utilization rates for each of the 35 states.

Although this approach ignores the supply and utilization changes that could occur under S. 1157, it does provide an approximation of what this bill would mean to the amber box calculation. The net compact collection depends on where class I milk prices are in relation to the set compact price. The difference between these prices depends on the market conditions at any particular point in time relative to the compact price.

In periods of short supplies and/or strong demand federal order class I prices could exceed the compact price so that no compact collections are made. In periods of large supplies of milk and/or weak demand federal order class I prices could move below the compact price and that difference would then be collected by the compact. Consequently, rather than try to give estimates of the supply and demand effects which come from the broader compact, a range of possible net collections are examined to understand the compacts potential effect on our trade commitments.

Again, using 2000 milk production levels and class I utilization rates for each of the compact regions one can determine the additional amber box calculation for a range of net assessments. If it is assumed that all 35 states that are a part of a compact region would join, it suggests that for each additional \$0.50 net compact collection the amber box calculation would increase by \$193 million using the 2000 data.

If S. 1157 were implemented in a manner similar to the current Northeast dairy compact (i.e. the difference between the set compact price and the minimum class I price for each of the compact regions is similar to the \$16.94 per cwt compact price relative to the Boston minimum class I price under the Northeast dairy compact) the historical variation in the Northeast compact collection provides some idea of what compact collections could be under S. 1157.

Compact collections under the Northeast dairy compact have ranged on a monthly basis from \$0.00 per cwt to \$3.43 per cwt. Over the 1997 to 2000 period, the Northeast compact collection average \$1.58 per cwt. These are gross collections and do not include reductions that would occur as the commission pays for the various costs associated with the Northeast dairy compact. Looking at the historical behavior of the Northeast compact suggests that the WTO amber box calculation could increase anywhere from zero to over \$900 million depending on the particular market situation and the compact price. That is, in years like 1998 and 2001 when class I prices are strong, compact collections and thus the contribution of compacts to the amber box calculation would be small. In other years like 1997 and 2000 class I prices would fall below the set compact price resulting in compact collections and an increase in the amber box calculation.

Using the historical Northeast compact average net collection, the amber box calculation using 2000 production and utilization levels would increase by approximately \$475 million under S. 1157. These amber box levels would be in addition to the \$4 billion currently included in the amber box for the dairy price support program.