

Dairy Export Incentive Program

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Overview

By providing direct cash payments to exporters of eligible dairy products through the Dairy Export Incentive Program (DEIP), the Commodity Credit Corporation (CCC) helps US exporters compete “primarily” against subsidized prices of competitor countries.

Statutory History

- Established under Section 153 of the Food Security Act of 1985
 - The Commodity Credit Corporation could pay a bonus (subsidy) to exporters either with generic commodity certificates or with CCC surplus dairy products.
 - Because of the existence of large government-owned stocks, the subsidy for DEIP was paid in CCC-owned dairy products, which in turn had to be exported.
 - Subsequent statutory amendments, including the Fact Act of 1990, provided CCC the option to pay the subsidy in cash.

Uruguay Round Limits

- Exports subsidies reduced by 21 percent on quantity and 36 percent on budget from 1986-1990 base period averages.
- Subsidy reductions phased in over six year period, ending in 2000 and resulting in the following limits:

Dairy Product	Quantity (Metric tons)	Budget (\$ millions)
Butterfat	21,097	\$30.5
Nonfat Dry Milk	68,201	\$82.5
Cheese	3,030	\$3.6
Other Dairy products	34	\$0.021

DEIP Program Utilization

- Between 1987 and 1990 the program operated at annual levels of under 10,000 metric tons.
- With cash payment of subsidy, program utilization increased to a high of over 246,000 metric tons in 1995.

Fiscal Year	Quantity (metric tons)	\$ (millions) in subsidy
1987	287	\$0.3
1988	10,660	\$8.1
1990	5,015	\$9.2
1991	30,470	\$39.3
1992	77,889	\$76.0
1993	186,597	\$161.8
1994	133,524	\$117.6
1995	246,236	\$140.2
1997	138,869	\$121.5

Fiscal Year	Quantity (metric tons)	\$ (millions) in subsidy
1998	118,074	\$110.2
1999	136,322	\$145.3
2000	95,004	\$77.3
2001	58,481	\$8.5
2002	86,473	\$54.6
2003	86,155	\$31.5
2004	48,498	\$2.7
2009	50,866	\$18.9
2010	4,811	\$2.4

Evaluating and Approving Proposals for DEIP

- Expected contribution in furthering trade policy goals, including countering competitor's subsidies by displacement of its exports
- Contribution the program has in meeting export goals: developing and expanding markets
- Effect the program would have on non-subsidizing exporters
- Subsidy requirements vs. expected benefits

DEIP Operating Policy

- DEIP Regulations found in 7 CFR part 1494, subpart C and D
 - In part the regulations state -”In the operation of the DEIP, CCC will make reasonable efforts to avoid displacement of commercial export sales of U.S. dairy products and to ensure that sales facilitated by the DEIP are in addition to, and not in place of, any export sales of dairy products that the exporter would have otherwise made in the absence of the program.”

Key Operation Points

- The DEIP is operated in a manner that follows prices, rather than setting prices.
- The DEIP is primarily targeted and operated to combat subsidies from other sources.
- The subsidy awarded is only that needed to bridge the gap between the U.S. market price and the prevailing world market price.

Invitations to Bid

- USDA issues the invitations for offers under one of two types:
 - 1) Invitation for exporters to submit competitive offers for a bonus
 - 2) Invitation for exporters to apply for an announced bonus.

- Under an invitation for competitive offers, USDA reviews all bids for the competitiveness of the bonus value requested and compares the bids with offers from other U.S. exporters and with sales of competitor countries.

- Under an announced bonus invitation, compliant offers meeting all program requirements are accepted on a first-come, first-served basis. USDA has the right to reject any and all bids.

Bid Process

Bids for a subsidy can be submitted and are reviewed daily. Once USDA accepts a bid, the exporter and CCC enter into an agreement. USDA notifies the exporters who submitted offers about the acceptance or rejection of their offers by 10 a.m. Eastern U.S. time the next business day after the date the offers were submitted for consideration.

All awards are announced publicly.

DEIP in 2009/2010

- On January 16, 2009, the European Union (EU) announced it was reinstating dairy export subsidies.
- The U.S. responded on May 22, 2009, by announcing the availability of DEIP to counter weakening domestic market conditions.
- On July 6, 2009, USDA re-announced the unutilized balances from the July 1, 2008 – June 30, 2009 marketing year.
- International dairy prices began strengthening in Fall 2009; as a result, USDA has not awarded any DEIP bonuses since October.
- As of March 22, 2010, CCC has awarded bonuses for 17,468 MT of butterfat; 1,843 MT of cheese; and 37,228 MT of NFDM.

For more Information

- Program & Contact Information

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- DEIP website link:

<http://www.fas.usda.gov/excredits/deip/deip-new.asp>