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## DEIP ACTIVATION—WHAT WILL IT ACCOMPLISH?

After allowing the program to remain idle since fiscal 2003–2004, the USDA activated the Dairy Export Incentive Program (DEIP) in May 2009. The DEIP provides cash export subsidies based on the difference between the U.S. and world market prices to approved exporters from bids the exporters submit to the USDA for specific dairy products and markets. The export subsidy program was first authorized under the 1985 Farm Bill and extended to the present under subsequent legislation, including the 2008 Farm Bill which authorized continuation of the DEIP to December 2012.

The activated DEIP, the USDA argues, will make U.S. dairy products competitive in depressed world markets and counter dairy export subsidies implemented by the European Union (EU) beginning in January 2009. The current allocation of DEIP export subsidies for fiscal year July 2008–June 2009 reflects the full annual amount authorized for the U.S. under the Uruguay Round WTO Agreement. The DEIP export subsidies will supplement dairy export subsidies provided by the Cooperatives Working Together program.

Mr. Tom Suber, President of the U.S. Dairy Export Council (USDEC), gives a U.S. dairy industry perspective on the need for activation of the DEIP, as follows:

- The full elimination of all export subsidy programs around the world remains a priority goal of ours.
- Until that goal is achieved, we must use all available tools—especially during the present challenging times—to compete against the EU dairy export subsidies.
- The DEIP will sustain U.S. market presence until global dairy demand recovers.

Suber's (and USDEC's) views on elimination of export subsidies reflect those of WTO member country negotiators who recognize that agricultural export subsidies distort trade and depress international market prices. To eliminate such harmful effects, U.S. and other Doha Round WTO negotiators agreed in 2005 to end all agricultural export subsidies by 2013. However, the Doha Round negotiations are stalled and concessions on export subsidies will not be binding until all details of the Doha Round Agreement are completed. Hence, export subsidies remain available for use by WTO member nations until final agreement on the Doha Round is reached. When, if ever, this will happen is unclear.

Unfortunately, the DEIP does not provide a fully effective mechanism for countering EU dairy export subsidies. Except for skim milk powder subsidy limits, which are equivalent to about 17 percent of 2008 U.S. exports of this product, U.S. dairy export subsidy limits are miniscule compared to those for the EU. As noted in the table below, the EU can export all or large percentages of its dairy products with subsidy. Thus, except for skim milk powder, the U.S. is unlikely to counter EU export subsidies effectively with DEIP exports.

**Annual Dairy Export Subsidy Limits Authorized by the WTO**

| Product | EU-27 (1,000 mt) | U.S. (1,000 mt) | U.S. as % of EU | EU WTO Limits as % of 2008 Dairy Exports |
|---|---|---|---|---|
| Skim milk powder | 323.4 | 68.2 | 21.1% | 179.7% |
| Whole milk powder | 232.3 | 0.0 | 0.0 | 58.1 |
| Cheese | 331.7 | 3.0 | 0.9 | 65.0 |
| Butter | 411.6 | 21.1 | 5.1 | 329.3 |

It is also questionable whether the DEIP exports will sustain U.S. presence in foreign markets until the demand for dairy products recovers. As noted, the DEIP will provide modest help for maintaining U.S. skim milk powder exports. But the overall demand for dairy products will not revive strongly until world economic conditions improve. Monetary and fiscal policies in the U.S. and other countries are likely to have more impact on dairy export demand than a fix obtained through small (compared to those of the EU) export subsidies. In the longer-run, completion of the Doha Round would be a sound step for leveling the playing field with regard to dairy exports.

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