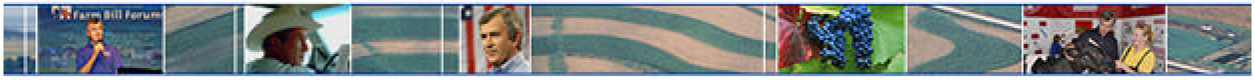

DAIRY POLICY

Background

The Milk Price Support Program (MPSP) is mandated in the 2002 farm bill and carried out through the Commodity Credit Corporation (CCC). MPSP has been modified over the years, but it continues to support milk prices for dairy farmers. Temporary provisions for inventory control and other programs have been added from time to time. The purpose of the MPSP is to support the price of fluid milk received by dairy producers through purchases of dairy products.

The 2002 farm bill authorized CCC to support the price of milk produced in the 48 contiguous States through the purchase of cheese, butter, and nonfat dry milk (NDM). The current milk price support rate is $9.90 per hundredweight (cwt) for milk testing 3.67 percent butterfat (milk fat). The 2002 farm bill allows CCC to allocate the rate of price support between the purchase prices for nonfat dry milk and butter in a manner that will result in the lowest level of expenditures by the CCC, or to achieve other objectives as appropriate. The price of NDM and butter may be adjusted no more than twice within a calendar year. In addition to purchases of bulk products at announced prices, CCC has historically purchased butter, cheese, and NDM in further processed forms or in consumer-size packages to support the price of milk.

Under the MPSP, farmers are not paid directly, but purchases of dairy products enable milk processors of average efficiency to pay farmers the mandated support price for their milk. Under the MPSP, in order to facilitate use in food assistance programs, products purchased in bulk are repackaged in forms suitable for sales and donation. Purchases vary greatly from year to year depending on the dairy market supply and demand situation and the support rate. Expenditures were high in the early 1980s when the support rate was relatively high, averaging about $2 billion per year, and peaked in fiscal year (FY) 1983 at $2.7 billion. A gradual lowering of the support rate brought lower expenditures—with FY 1995 through FY 1997 expenditures less than $100 million. The type of products purchased also varies over time, with all products being purchased in large quantities during the 1980s, but butter dominating purchases in the early 1990s and NDM dominating purchases from 2000 through 2005.

Besides MPSP, the Milk Income Loss Contract (MILC) program is also available to dairy producers. MILC program payments are made on a monthly basis when the Federal Class I milk price in Boston, Massachusetts, falls below the benchmark price of $16.94 per hundredweight (cwt). When the Boston milk price exceeds $16.94, no payments are made to dairy operations. Eligible dairy producers are those who produce and market cow's milk. A maximum of 2.4 million pounds of milk marketed by an operation are eligible for MILC payments per fiscal year. Payments are issued no later than 60 calendar days after CCC receives production evidence for the applicable month. MILC program payment rates are currently determined by multiplying 34 percent of the difference between $16.94 and the Boston Class I (BCI) price for the month.

The BCI fluid milk price is announced to the public the Friday on or before the 23rd of each month for the forthcoming month. Before MILC program payments are issued, all persons involved in a single dairy operation must provide verifiable production and marketing evidence. Dairy operators cannot reorganize the structure of a dairy farm operation for the purpose of receiving multiple payments.

Another Federal program that affects regional dairy prices is the Federal Milk Market Order (FMMO) program, operated by the Agricultural Marketing Service (AMS). The FMMO program was authorized by the Agricultural Marketing Agreement Act of 1937 to help stabilize the marketing relationship between dairy farmers and handlers and to ensure a sufficient quantity of fluid milk. Under the FMMO, raw milk is currently classified into four different classes according to usage. The FMMO specifies formulas for determining minimum handler prices for each class of raw manufacturing milk that are tied to the dairy product produced from that milk: fluid milk, cheese, butter, NDM, and whey. The highest value use, Class I fluid milk price, is determined using the manufacturing formula plus an additional amount that is reflective of the location value. This is the only value that varies by location. The FMMO maintains regional marketing orders that calculate "blend" prices producers receive according to amounts of milk used in each class in the relevant order.

Dairy compacts may also influence milk prices. The Northeast Dairy Compact was created by six New England States with the consent of Congress and became effective in July 1997 but Congressional authority for the compact expired at the end of September 2001. A compact is a regional agreement to support the incomes of producers' prices within the region for the purpose of maintaining regional dairy production.

General Opinions Expressed

- Commenters generally agreed that dairy programs (especially the MPSP) are too complex and need to be simplified.
- Commenters also generally agreed that milk prices are too volatile, at least when they exceed support, which complicates planning and financing dairy operations.
- Many believe the MPSP needs updating to suit present-day marketing and technologies.
- Other commenters, especially in the Southeast, believe the MPSP works fine, but they believe that support rates need to be raised.
- General concern was expressed that regulatory barriers to growth and innovation need to be reduced, especially EPA-imposed rules, but also MPSP purchases interfering with the fluctuation in market prices.
- Some cheese makers preferred to see the MPSP eliminated so that they could pursue private risk-management options.
- MILC comments varied, with Western dairy producers generally opposing and others generally favoring continuation. Many small dairy farmers, particularly outside of Western States, thought the MILC was simple and equitable.

- A desire for risk management tools, such as the discontinued forward contracting program, was expressed, particularly by several Midwest participants.
- Some participants from the Southwest opposed forward contracting.
- Some participants favored reauthorizing dairy compacts while others opposed compacts.
- A few participants thought large producer/handlers should be federally regulated and that their participation in Federal Milk Marketing Orders should be mandatory.
- Some stated that the Federal rule-making process is too long and burdensome.
- Comments from the East, Midwest, and Southeast indicated that programs should maintain a regional production balance, in the sense of not allowing the economic viability of milk production in these regions to be undermined by the lower priced milk from elsewhere.
- Some participants believe additional programs need to be instituted, such as ones that help beginning dairy farmers.
- Support was expressed for continuing the MPSP.

Detailed Suggestions Expressed

<u>Excessive Regulation & Program Reform</u>

- Prices should be unregulated and forward contracting should be used to reduce risk and provide the needed safety net.
- Phase out MPSP and do not extend MILC.
- Policies that facilitate direct consumer purchases from the farm where grown are preferable.
- MILC and MPSP should be continued, albeit with payment limitations. Targeting benefits is important.
- Grade-A producers who do not belong to a cooperative should be allowed to share in pooling.
- Local and small-scale producers can directly market value-added products and should be encouraged with training and short-term financial assistance, in place of the complex, expensive, and centrally administered State-Federal regulatory-pricing system.
- More policy input should be received from small dairy producers.
- Perishable commodities, including dairy products, should be protected by Government programs and fair support prices.
- Regulations should be based on the best and most reliable scientific data.
- Supply management of milk should be supported.

<u>MILC</u>

- Maintain MILC and initiate producer-financed supply programs to keep production and prices at effective levels.
- Support MILC payment limitation of 2.4 million pounds.
- Support MILC but the money should come from producers themselves.
- Extend MILC because it supports rural infrastructure and promotes global competitiveness.
- Reauthorize MILC because it works well with Maine's own dairy stabilization program.
- Oppose MILC because it distorts supply-demand principles.
- Concern was expressed that economically viable dairies are above the MILC payment limitation.

MPSP

- Terminate the Depression-era MPSP to expand markets and competition.
- The Class I floor price should be $13.
- Support MPSP and orderly marketing provisions to maintain minimum farm incomes and adequate milk supplies in high-cost, high-demand areas. Support Direct Delivery Differentials and a Class I floor price to attract dairies to the Southeast Order.
- Decouple MPSP so that price support payments somehow do not encourage over production and lower prices below market clearing levels.
- Support a parity system or some way of stabilizing prices or revenue to help farmers gain bank financing.
- Increase the milk support price above $9.90.
- Support MPSP in its current form because its price stability attracts young farmers into dairying.
- Do not allow Class III or IV prices to fall below the support rate, with no more than one price adjustment per year.

Marketing Orders

- Continue Federal Milk Orders with changes made in an inclusive and deliberate rulemaking process, as in the past.
- A direct delivery differential is needed to cover the cost of moving milk produced in the Southeast to plants beyond the local market. The transportation credit paid by processors should be increased and used to offset the cost of supplemental milk deliveries.
- Improve the efficiency of the Federal Milk Marketing Orders hearings process.
- Support the Milk Marketing Orders program.
- Streamline the Federal Milk Marketing Orders program.

Dairy Compacts

- Support the National Dairy Equity Act, a national dairy compact.
- Oppose compacts to avoid overproduction, but instead encourage farm income to be derived only from prices determined by world markets.

Import/Export and International Issues

- Oppose imports of MPCs that compromise definitions of dairy products and threaten farmgate prices.
- MPCs are not milk and should not be allowed in processed cheeses.
- Suggested import quotas, tariffs, and/or regulation on MPCs.
- Oppose tariffs on MPCs because other countries will retaliate against U.S. cheese exports.
- Requested better enforcement of the dairy check-off dollars for imported dairy products.
- Use the Dairy Export Incentive Program (DEIP) to the maximum level prescribed by law.
- Reduce tariffs and oppose export subsidies (DEIP) and legislative efforts to restrict MPCs.
- Fully implement dairy import tariffs, many of which are not now being utilized.
- The U.S. should unilaterally pursue trade liberalization to encourage multilateral negotiations because liberalized trade is becoming increasingly important.
- The 15 cent assessment on dairy products should be assessed on all imports.
-

Environmental

- Nutrient management programs should be in effect, but not ones that excessively regulate.
- Eliminate notification requirements under section 304(a) of the Superfund Amendment and Reauthorization Act of 1986.

Other Dairy Issues

- The farm bill should stress the uniqueness of the Northeast in providing small-scale local dairy products.
- Pricing on the thinly traded Chicago Mercantile Exchange is a concern.
- Develop a cattle quarantine station in Alaska, and grass hay should be eligible for Loan Deficiency Payments.
- Address the urban sprawl that makes it difficult to expand dairy farms because of nuisance complaints.
- Provide States a stable funding source to experiment with innovative policies aimed at developing new products, markets, and conservation strategies (i.e., Wisconsin Value Added Dairy Initiative).
- USDA programs should complement States' strategic development plans, such as encouraging brand marketing, farm modernization, technical assistance, and development of new products.
- There should be tax incentives to help young people enter the dairy business in partnership with experienced retirees.