



Legislative Watch

Issues important to today's dairy farmers

The MILC Feed Cost Adjustor

The 2008 Farm Bill extends the Milk Income Loss Contract (MILC) Program with a few positive changes for dairy farmers. Under the new bill, producers will receive a larger payment percentage (effective in October 2008) if there are shortfalls in the target milk price as well as incorporating a Feed Price Adjustor.

This program sets the same \$16.94 target price for Class I milk at Boston, then pays farmers 34 percent (through this September 08) or 45 percent (October 2008 through August 2012) of the shortfall of the actual price, for a volume that is capped at 2.4 million or 2.985 million (for the same periods, respectively).

New to the program is a Feed Price Adjustor which raises the target price when feed costs are very high. This adjustor raises the \$16.94 target price by 4.5 percent for every 10 percent that dairy feed costs rise above a target level of \$7.35 per cwt. (or \$147 per ton.) NMPF estimates that this raises the milk price target by about two-thirds of the increase in feed costs in milk production. (It takes 160 pounds of feed to make 100 pounds of milk; the 4.5 percent increase covers the cost increase of about 104 pounds.)

The adjusted target price is then used in the same way as the \$16.94 target. Payments will be capped at 2.4 million pounds for current fiscal year (which ends with September 2008 and is already nearly two-thirds over) and 2.985 in each of the next four fiscal years.

The following is a hypothetical example of how the MILC might work given the specific feed and milk prices:

1. USDA's National Agricultural Statistics Service calculates its monthly 16 percent mixed dairy feed, which is 51 pounds of corn, 41 pounds of hay, and 8 pounds of soybeans:

The numbers below are random figures that provide an example including payments.

Corn price

$\$5.84/\text{bu.} \div 56 \text{ lbs./bu.} = 10.4\text{¢}/\text{lb.}$

Alfalfa hay price

$\$158.54/\text{ton} \div 2000 \text{ lbs./ton} = 7.9\text{¢}/\text{lb.}$

Soybean price

$\$12.39/\text{bu.} \div 60 \text{ lbs./bu.} = 20.7\text{¢}/\text{lb.}$

$(10.4\text{¢}/\text{lb.} \times 51 \text{ lbs. corn}) + (7.9\text{¢}/\text{lb.} \times 41 \text{ lbs. hay}) + (20.7\text{¢}/\text{lb.} \times 8 \text{ lbs. soybeans})$

$= \$10.22/\text{cwt. 16 percent mixed dairy feed}$

2. The target price for this mixed dairy feed is \$7.35 per cwt. If the actual feed price is lower than the target, the feed cost adjustor is not applied. If the actual feed price is higher than this target, the percentage by which it is higher is calculated:

$\$10.22 \text{ is } 39\% \text{ higher than } \7.35

3. This percentage is multiplied by 45%, which is roughly the ratio of the target feed cost (\$7.35) to the target Boston Class I price (\$16.94). The effect of this is to raise the target by slightly more than the increase in a cwt. of feed. However, it takes 160 lbs. of feed to produce 100 lbs. of milk, so this represents about 65% of the feed cost increase per cwt. of milk.

$39\% \times 45\% = 17.6\%$

4. The MILC Boston Class I target is increased by this adjusted percentage:

$\text{Adjusted Target Price} = \$16.94 \times (1 + 17.6\%) = \19.91

5. The shortfall of the actual Boston Class I price below the target price is multiplied by 34% (45% after October 1):

$\text{Actual Boston Class I price} = \19.87

$\text{Target shortfall} = \$19.91 - \$19.87 = 4\text{¢}$

$\text{MILC Payment Rate} = 4\text{¢} \times 34\% = 1.4\text{¢}$

For illustrative purposes only, the projected MILC payment rate would be 1.4¢ per cwt. using the numbers created in this example.

Immigration Reform Measure Fails In Senate

Efforts to provide a transitional solution for America's agricultural employers foundered in May in the Senate, when an immigration reform measure was added to, then dropped from, a spending measure.

Shortly after passage of the Farm Bill, the Senate Appropriations Committee approved including Senator Dianne Feinstein's (D-CA) Emergency Agriculture Relief Act amendment in the supplemental appropriations bill needed to fund the Iraq War. Feinstein's measure in the Appropriations Committee drew broad support, but when the bill went to the full Senate floor, Sen. Robert Menendez (D-NJ) worked to strip the immigration-related provisions from the supplemental appropriations bill. While this procedural challenge was not unexpected, it was particularly disappointing to see it come from an advocate for expanded immigration opportunities. Sen. Menendez claimed that the measures "didn't do enough to help immigrants."

Despite this setback, NMPF will not stop fighting to find a solution to the labor challenges facing dairy operations, including the pursuit of the organization's strategic immigration plan, and continued discussions with reform supporters on Capitol Hill.

CRP Participants Allowed to Use Restricted Land for Livestock Purposes

The USDA has opened previously restricted CRP acres to livestock producers for purposes of haying or grazing. On May 30, 2008 the Commodity Credit Corporation published a Notice in the Federal Register that allows Conservation Reserve Program (CRP) participants to use their land for haying or grazing.

CRP participants may request a contract modification to allow for a special, one-time, critical feed use of the property under contract and not be subjected to a rental rate reduction. The voluntary modification to the CRP contract will require a modified conservation plan for haying and grazing management and must follow the NRCS Field Office Technical Guide for these activities. The critical feed use activity must be completed by November 10, 2008 and there will be an administrative fee of \$75 charged to the producer to make the modification.

USDA Eliminates Downer Cattle Exception

In May, the USDA took actions that NMPF had requested earlier this spring to completely ban the use of non-ambulatory, or downer, cattle in the food supply.

Agriculture Secretary Ed Schafer said the USDA would now make sure that animals that become nonambulatory after initial veterinary inspection are never allowed into the human food supply. He explained that the new rule would be designed "to maintain consumer confidence in the food supply, eliminate further misunderstanding of the rule and, ultimately, to make a positive impact on the humane handling of cattle."

This new stance on the downer issue contrasts with the old USDA rule. Often cited as confusing and misleading, it had stated that cattle that went down after initial inspection could still be included in the human food supply if they passed a second inspection. Problems had developed with this practice, particularly with the Chino, CA meatpacking incident that led to the biggest meat recall in U.S. history.

In April, NMPF had submitted a citizen petition urging USDA to eliminate the old downer rule. NMPF President and CEO Jerry Kozak welcomed Secretary Schafer's announcement, saying: "This clarification of the rules preventing nonambulatory cattle from entering the food chain is a necessary development as much for what it says about consumer perception as its impact on food safety."