



A Future for CWT?

A great deal of time has been spent in recent months reporting on the progress made toward the Foundation for the Future program being developed by National Milk Producers Federation (NMPF), with heavy emphasis on the new components proposed and little mention of the role Cooperatives Working Together (CWT) can play in future dairy policy. So let's take a look at CWT.

What lies ahead for CWT? With seven years of history, it is judged a success by many, if not most, people involved in the dairy industry. Scott Brown of the Food and Agriculture Policy Research Institute (FAPRI) credits CWT with adding \$.84 to the price received for every hundredweight of milk produced since its inception in 2003. The \$.84 calculation does not include the current herd retirement or export enhancements reactivated on March 18 of this year that are responsible for approximately 40 million pounds of cheese exports since that date.

Even though CWT has been successful, you don't hear much about the future for the program. There are many reasons for this. One is that the program was developed to shorten normal cyclical low market prices, which it has done. CWT wasn't designed to correct a problem as massive as the 2009 price decline. The financial crisis that began in 2008 exposed the deficiencies of current dairy policy in a world grown smaller by the volume of trade between countries. The current level of trade didn't exist sixty years ago when the basis of today's current dairy policy was put into place.

Current circumstances require a fundamental change in national dairy policy, and that is what Foundation for the Future as outlined by NMPF is intended to accomplish.

The question is whether a role will be available for CWT if new dairy policy is enacted in the next Farm Bill. I think that CWT will be essential, even if the industry successfully crafts the proposed legislation to provide a workable "safety net" in the form of the Dairy Producer Margin Protection Program (DPMPP) coupled with a moderate supply management program like the Dairy Market Stabilization Program (DMSP). Even before the next Farm Bill, we must remember that CWT will go away on December 31 of this year if the CWT committee, made up of producer members, doesn't agree to continue. If that were to happen, we would operate under the current Farm Bill without the help of CWT for one year before the next Farm Bill becomes effective. Politically, we are in a much stronger position at the bargaining table if we can point to the self-help program (CWT) we have in place to help control our own economic destinies.

Continuing the current program for the next year, even at a reduced contribution rate, would keep CWT "in play" while we negotiate the next Farm Bill and craft a new version of CWT. While the herd retirement portion of the program has been helpful in the past, in all likelihood it will not be part of a revised CWT program. Questions about its effectiveness increase as time passes. Concerns are growing that it removes only cows that

would go to market anyway. But the biggest issue is the "free rider" aspect. The 30 percent of milk produced that contributes nothing realizes the benefit of increased milk prices, just like those who do contribute. The CWT Committee has some good ideas for us to consider as we move forward.

The concept under consideration is that CWT be used primarily for export enhancement in the future. With world markets developing for dairy, focusing CWT on that portion of the marketplace makes sense. While the vast majority of CWT funds have been used for herd retirements in the past, we have over the years had an even better return on our investment when we focused on exports. In 2008 there was a heavy emphasis on exports, and we received better than a ten-to-one return on our investment. Since March 18 of this year, we have had a significant impact on cheese exports with CWT's assistance. Funds that come from a voluntary program have far more latitude with World Trade Organization (WTO) rules than do government funds. We've never received much help developing markets from the Dairy Export Incentive Program (DEIP), a taxpayer funded Farm Bill program.

While I think it is possible to implement reasonable farm policy through the Farm Bill, I also believe that the concept of CWT is very important. CWT provides a tool for the dairy industry to affect future economic stability independent of government programs. It is money well spent.

A handwritten signature in black ink that reads "Ken". The signature is written in a cursive, slightly slanted style.