



Dairy Policy for the Future

On June 9, 2010 the National Milk Producers Federation (NMPF) Board of Directors voted overwhelmingly to move forward on the path toward fundamental policy reform for the United States dairy industry. With each passing year, it becomes more evident that the current policy, developed to deal with a dairy world that focused primarily on the domestic industry, is not adequate in today's global dairy economy. The extreme financial challenges experienced in the last eighteen-plus months have spotlighted the need for a better plan, and the plan that has emerged is appropriately known as the Foundation for the Future.

Traveling the path to changes in dairy policy began in June 2009 with the formation of the NMPF Strategic Planning Task Force, of which I am a member. The assignment was to evaluate the current system and recommend ways to improve it. Committee membership represented a wide variety of interest from across the U.S. dairy industry. The Task Force engaged in many, many hours of deliberation. Three subcommittees were formed within the Task Force to more effectively study specific areas. The thorough discussions led to the recommendation made to the NMPF Board that was subsequently enacted as board policy.

The following basic policy components were identified as central to the next Farm Bill: 1. Elimination of the current Price Support Program and the Milk Income Loss Contract (MILC). 2. Creation of a Dairy Producer Margin Protection Program

(DPMPP). 3. Creation of a Dairy Market Stabilization Program (DMSP). 4. Revision of Federal Orders to make them more equitable for everyone. These policy components are designed to work together as a package in order to achieve the maximum benefit for the industry. In addition to these elements that would be addressed legislatively, the current Export Enhancement Program of the Cooperatives Working Together (CWT) program would be expanded, which requires no government involvement.

The Price Support Program that is now in place provides a revenue safety net for dairy producers. The problem is that it provides similar protection to producers outside the U.S., removing our ability to effectively compete. NMPF recommends a better form of protection based on the margin between feed cost and revenue. Information gathered by NMPF indicates that this margin is a very good indicator of economic health for the U.S. dairy industry, despite regional variations. Base production would be set for each producer prior to the Farm Bill enactment and would remain unchanged for the duration of the Farm Bill. Provisions would allow for the entry of new producers. When the margin falls to the trigger point, payments would be made to the producer based on an established formula. Whether the margin is squeezed by higher feed costs, lower revenue, or a combination of both, payments would be made to restore the margin to the predetermined trigger point. Trigger points would

be built into the legislation, thereby removing politics from the equation.

In the past year during the development of this concept, Task Force members have frequently referred to the margin protection program as an insurance program, and this has led to misconceptions about the proposal. To more accurately explain our intent, we should have referred to this as a dairy program under the Farm Bill to be administered by the Farm Service Agency (FSA). We view this program as the new safety net - a replacement for both the Price Support Program and MILC. Funding for this new program would come from the savings to be realized when the Price Support Program and MILC are no longer in place, so the indications are that no "new money" would be required. This would make the program available to all producers at no cost. Voluntary supplemental coverage would also be available to producers who are interested in additional margin protection.

Complementing this safety net concept would be the DMSP, a moderate supply management program. Triggers based on the same margin (income over feed cost) developed for the Margin Protection Program would take effect during times of excess milk production. An individual production base would be established, and for most dairy producers it would be a continuous rolling three month average (however, seasonal producers or producers affected by severe weather could opt for comparing the matching month in the preceding

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NMPF Keeping Markets Open for U.S. Dairy Products

NMPF has been active in working to keep key markets open in both Europe and China, while also attempting to increase market opportunities in Cuba.

The situation in China is a challenging and continually evolving one. The Chinese government indicated in late April that it would continue to accept only U.S. food-grade dairy products accompanied by a certificate dated May 31 or earlier, regardless of when the product actually arrived in China. On May 31, Chinese authorities told the U.S. government that it does not currently plan to enforce the June 1 health certificate deadline that had been previously announced. Chinese customs officers have not been informed that they are to stop accepting shipments lacking a certificate dated prior to June 1. Although this far falls short of the certainty that is needed to restore smooth market functioning, it is better than a definitive market closure. It is NMPF's understanding that swift movement by the U.S. to work towards finding agreement on new certificate language has been helpful, and could resolve this situation, if China accepts reasonable offers by the U.S. government.

Another issue of great concern to many NMPF members has been the EU Somatic Cell Count issue. Late last year, the EU informed the U.S. government that exporters would need to test for compliance to the EU's 400,000 SCC limit at the individual farm level, rather than at the tanker or silo levels, as had customarily been the practice. This poses a significant challenge for many co-ops and as a result, NMPF has been working with our government to evaluate the legitimacy of the EU's requirements, and to evaluate more workable compliance criteria.

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year). Trigger conditions would result in nonpayment to the producer for a percentage of the established base. Every producer in the U.S. would be subject to the structured nonpayment. For example, if the formula indicated 2 percent excess milk production nationwide, a producer would be paid for not more than 98 percent of the producer's established base. The value of the excess production would be collected by USDA to be turned over to a DMSP Board that would use the monies to expand dairy consumption both domestically and internationally. The efforts of the current checkoff program would not be duplicated.

This overview is intended only to summarize the action taken by the NMPF Board on June 9. Even though the Task Force, NMPF staff, and outside consultants have already dedicated many hours to developing these concepts, additional study will take place. I believe the dairy industry has correctly identified many deficiencies in our current programs and is taking careful steps to correct those issues through this effort to lay the Foundation for a Better Future.

Ken

Producers scoring 95 percent or more on Grade A Surveys and Federal Check Ratings

Organic Valley North BTU *February 2010*

Harley S. Schrock*
Leland F. Lehman*
Mervin C. Hochstetler
Raymond D. Yoder
Marlin R. Miller

MMPA South Central BTU *May 2010*

Michael Schwartz*
Hammond Dairy Farm LLC*
Penney Farms*
Ralph Fusco*
Thomas & Gregory Adams
Leo Bur Farms LLC
Magda Farms
Richard & Patricia Hawkins
Joseph Steury
John Graber
Ransler Farms

MMPA Constantine Northern Indiana BTU *May 2010*

Gerald D. Bontrager*
Kenneth R. Bontrager*
David E. Yoder*
Timothy R. Lengacher
David J. Mast
Jerry C. Slabach
Delmar J. Fry
Perry D. Borntreger
David W. Nissley
David E. Miller
David R. Mast
Raymond S. Eash
Ferman R. Bontrager
Maynard J. Mast
Darrel D. Yoder
Cletus H. Miller

** producers scoring 100 percent*