

NATIONAL DAIRY POLICY REFORM

These dairy policy recommendations are designed to provide constructive changes that, coupled with the Farm Bill Reauthorization, provide the dairy industry a rare opportunity to fundamentally change demand for dairy products and strengthen producer prices. Having the right federal dairy policy in place will be critical to promoting growth, capturing international markets, and encouraging investments from the farm to the processors. The goal is to make the US dairy industry stronger—both here and around the globe.

For more information on this proposal, please visit www.agriculture.state.pa.us or contact Mike Pechart at (717) 705-2122

Producer Safety Net. Restructure the *Milk Income Loss Contract program* (MILC) to pay a Milk Target Price to all producers whenever the Class III price drops below \$12 per cwt. Further, to account for escalating feed costs, USDA shall develop a feed price index, using a baseline period of 2001-2005, to reflect the feed cost of producing 100 pounds of milk. A Feed Adjustment Factor would then be derived from this feed index and added to the \$12 per cwt. Under the Milk Target Price program, the maximum annual payment per farm will be \$50,000.

Processor Safety Net. Remove the Dairy Price Support Program (DPSP) and develop a Recourse Loan Program for processors and manufacturers. By removing the DPSP, you would eliminate the sale of manufactured dairy products to the Commodity Credit Corporation and would replace that tool used by processors with a *Recourse Loan Program* based on and structured after the loan program contained in the 1996 Farm Bill.

Explore 2 Classes of Milk. Require the USDA to study the economic benefits to the producer of establishing two classes of milk consisting of a Fluid Class and Manufacturing Class, with the price for both classes being determined using fat, protein, and other dairy solids. If it is determined that a positive producer economic impact would occur, the Secretary shall amend Federal milk marketing orders to implement the change.

Explore adding feed costs. Require the USDA to review the prior 12-month income over feed costs to consider producer profitability, and provide a monthly economic impact assessment over 12-24 months of any proposed changes in federal order formulas on milk supply, farm profitability, consumer demand, and market prices. This would be in addition to the current method of analyzing the annual changes of federal order policies over a five year horizon.

Farm Transition. *Establish a Federal Loan Forgiveness program* for persons who complete and obtain a degree from a 2 or 4 year undergraduate program or technical school and

Timely Decisions. Require the USDA to issue Federal milk market order decisions within 30 days of closing the hearing record.

Market Reporting. Require mandatory daily and weekly reporting of all dairy commodity transactions including prices and quantities by location and product characteristics. In addition, require mandatory monthly reporting of all production of dairy products in the U.S.

Protect Farm Revenue. Develop a voluntary *Milk Revenue Insurance Program* through the USDA Risk Management Agency to help address fluctuations in producer milk revenue. Producers could purchase an insurance policy, similar to crop insurance and specific to their dairy production, to assure a certain level of revenue.

Improved Prices. In lieu of using advanced pricing of Class I and Class II, the USDA shall use current prices. This will require the Class I market to be in sync with the manufacturing market and will prevent negative PPD's and allow a clear link between monthly average commodity prices and the Class I cost of milk.

Risk Management. Re-implement the Dairy Options Program and the Dairy Forward Contracting Program nationwide. These programs established in the 2002 Farm Bill allow proprietary cheese processors and cooperatives regulated under Federal milk market orders to offer their members a forward contracting program. In addition, dairy producers will gain actual experience in trading milk options.

Encourage Investment. Establish a Dairy Processing Equipment Loan Guarantee Fund to encourage investment in new processing technologies. Such a federal grant/loan program would encourage milk processors/dealers to invest in new processing technologies, especially those technologies geared toward producing products for export markets. Technologies geared toward the production of dairy products for the international market would be given priority in funding.

