

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 U.S. 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. Implement 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. The Secretary shall provide Congress proposed amendments to Federal milk marketing orders.

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 then return to the dairy industry either as an owner or operator of a dairy operation.

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 Pricing. 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 PPDs 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.

FEDERAL DAIRY REFORM

*"Encouraging Growth, Capturing World Markets,
Encouraging Industry Investment"*

- **FARMERS:** *Identified problems with and barriers to profitability under the current dairy pricing system*
- **DAIRY ECONOMISTS:** *Provided recommendations for reform based upon identified problems and barriers to profitability existing under 2002 Farm Bill*
- **COOPS/MANUFACTURERS:** *Provided comments and suggestions based on practical application of reforms on the industry*

Growth and Opportunity for the U.S. Dairy Industry:

- SAFETY NET—VOLATILITY
- IMPROVE TRANSPARENCY—PRICE DISCOVERY
- POSITION US FOR LARGE GROWTH IN GLOBAL DEMAND

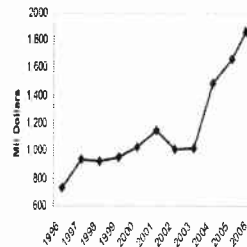
US Production—Export Projections

Table 1. Comparison of Exports of Skim Milk Powder and U.S. Prices

	2003	2004	2005	2006
Exports, skim milk powder, MT	130,920	253,992	266,756	292,777
Western nonfat dry milk, \$/lb	0.8089	0.8364	0.9465	0.8920
Class III price, \$/cwt	11.42	15.39	14.05	11.89
Class IV price, \$/cwt	10.09	12.20	12.87	11.56

Sources: AMS/USDA, and the U.S. International Trade Commission

Value of U.S. Dairy Product Exports



Source: Foreign Agriculture Service, USDA, BICO Export Commodity Aggregation

SAFETY NET

CURRENT

- Dairy Price Support Program

- \$9.90 cwt
- .80 cents/lb powder

- MILC

- 34% differential, \$16.94 Boston Class I
- Cap 2.4 million lbs

Table 2. Dairy Program Payments: MILC and CCC Purchases Under the Dairy Price Support Program (DPSP), FY 2000-2005, Mil. \$

Region	MILC	DPSP
West	295.6	2,131
Northeast	457.9	70.1
Midwest	919.5	28.7
South	299.3	81.9
Total	1,982.3	2,311.7

Source: USDA's Farm Service Agency, Commodity Credit Corporation.

SAFETY NET

PROPOSED

- Direct Payment
- \$12.00 Floor
- Feed Cost Adjustment
- \$50,000 Cap

Table 3. Comparison of the Per Unit Payments Under the MILK and a Milk Target Price Program, January 2002 - December 2006

Year	Target Price/Deficiency Payment	
	MILC	\$12.00
2002	1.21	1.58
2003	1.09	1.24
2004	0.22	0.04
2005	0.01	0.00
2006	0.61	0.49
Average	0.63	0.67

SAFETY NET

Table 4. Estimated Cost of a Milk Target Price Program, January 2002 - December 2006

Year	Target Price Levels
	\$12.00
-----Million Dollars-----	
2002	2,684
2003	2,169
2004	71
2005	0
2006	910
Average	1,167