

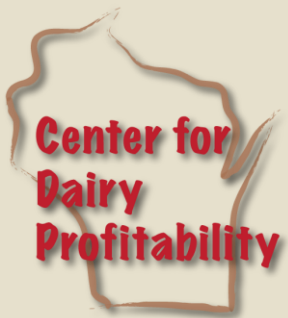
Dairy Policy in 2 Parts...

DIAC and Farm Bill

Mark Stephenson, PhD

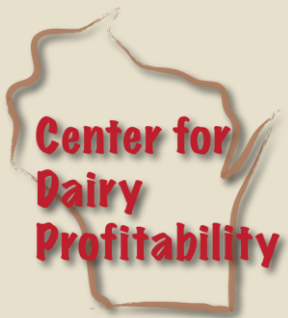
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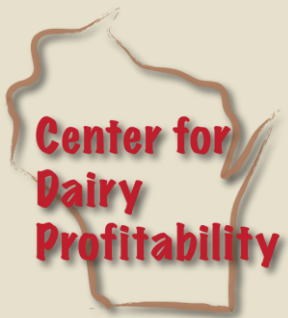
Dairy Industry Advisory Committee

- Established by USDA in August 2009
- Operates under the rules of the Federal Advisory Committee Act
- Advise Secretary Vilsack on policy issues impacting the dairy industry



17 Members Appointed

- Representing Producers
 - Erick Coolidge (Pa.), Tim den Dulk (Mich.), Debora Erb (N.H.), James Goodman (Wis.), James Krahn, (Ore.), Edward Maltby (Mass.), Ray Souza (Calif.), Ed Welch (Minn.), and Ricky Williams (Ga.)



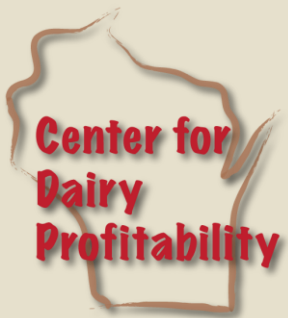
17 Members Appointed

- Representing Processors
 - Jay Bryant (Va.), Patricia Stroup (Calif.), Sue Taylor (Colo.), and Robert Wills. (Wis.)
- Representing state government, retail, academia, and consumers
 - Rod Nilsestuen/Randy Romanski (Wis.), Robert Schupper (Pa.), Andrew Novakovic (N.Y.), and Paul Bourbeau (Vt.)



3 Subcommittees

- Farm milk price volatility
- Dairy farmer profitability
- Use/effectiveness of existing programs



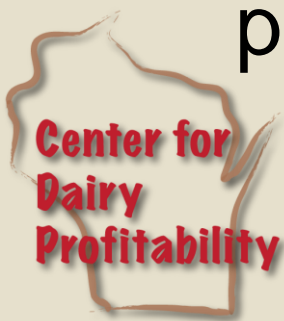
Expect Report Soon

- Committee has met 6 times since the first meeting in April, 2010
- Existing programs subcommittee wrapped up their work early and members joined other subcommittees
- Report should be released in a few weeks but early posting of 24 recommendations



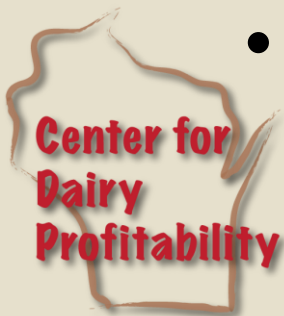
Recommendations

- Maintain and expand programs for export market development.
- Develop a system that provides and accurate assessment of profitability in the dairy industry.
- Simplify and improve risk management products for dairy farmers.



Recommendations

- Establish risk management margin lines of credit.
- Support reduction of somatic cell count standard.
- Adopt tax-deferred farm savings accounts.
- Provide incentive payments for environmental practices.



Recommendations

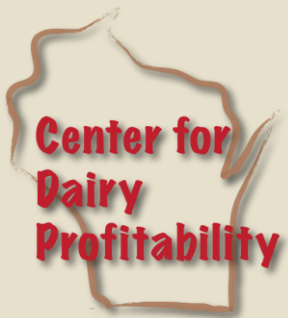
- Continue the EQIP and grant programs.
- Support programs that enhance value-added market development for dairy farms and dairy products.
- Phase out ethanol subsidies.
- Explore enhanced fluid milk standards.
- Review Federal Milk Marketing Orders.

Recommendations

- Strongly consider the elimination of end product pricing.
- New data collection (eg. Competitive pay price).
- Explore elimination of the dairy product price support program and the dairy export incentive program and use budget savings to enhance the safety-net for producers.

Recommendations

- Restrict use of dairy descriptors.
- Modify Milk Income Loss Contract program and provide a margin insurance option using funds from the elimination of the DPPSP and DEIP.
- Adopt a growth management program.
- Dairy herd health programs.
- Dairy labor issues.



Recommendations

- Support competitive marketing structures.
- Examine and overhaul LGM-Dairy and AGR-Lite.
- Promote efficient and effective use of FSA Farm Loan Program for dairy farmers.
- Develop triggers and actions for better use of existing programs.

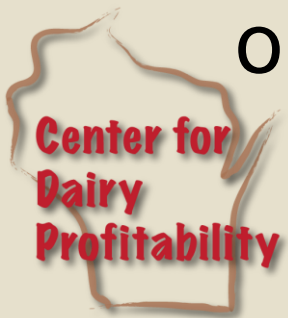


The Farm bill



The Farm Bill

- The DIAC Report will be an important document.
- DIAC advises the Secretary
- The Secretary can/will draft a document for Farm Bill
- The Administration does not draft policy, only signs it into law.



What is the “Farm Bill”

- Amends permanent legislation of the Agricultural Act of 1949
 - This act makes up the major part of permanent commodity legislation (along with the Agricultural Adjustment Act of 1938) and is still effective in an amended form.
- Amends other permanent legislation as needed
- Continues other legislation, as desired
- “Omnibus” legislation
- Was commonly a 4-year proposition until 1996 FAIR Act
 - Lengthened because it’s painful
- New Bills require a careful balancing of
 - What farmers want
 - What other people want (consumers, environmentalists, labor, processors, etc)
 - What we can do (legal restrictions, treaty restrictions)
 - What we can afford to do (budget, “baseline”, pay-go)

Agricultural Policy 1996: Let's Not Support Prices

- 1996 - “Freedom to Farm”
 - Concept:
 - Markets are strong
 - We have a high baseline (planned spending without change in policy) for ag budget, let's use it to:
 - phase out subsidies and supports over the life of the bill and be blissfully free market by 2000
 - Dairy:
 - Reduce then phase out DPSP
 - Reform Federal Orders
 - MILC, but not permanent



Agricultural Policy 2002: Let's Support Prices

- 2002 - “Freedom to Spend”
- Concept:
 - Markets are weak
 - Market Transition payments, now called Direct Payments, contribute to strong production and weak prices
 - Budgets are strong
 - Enough money available to restore costly programs
 - Farmers don't want free markets when prices are low, so bring back the subsidies and supports
- Dairy:
 - Put DPSP back in - at former level
 - Continue MILC



Agricultural Policy 2007-08:

Let's support farmers and worry about other problems later

- 2008 - “Freedom to Pay Later”
- Concept:
 - Markets are strong, output prices are high, but so are input prices
 - Weak dollar, short energy, very strong international demand
 - Budgets are weak
 - Have to get creative on coming up with “new” money
 - Lot's of loose policy threads (environment, energy, trade, food aid) but let's worry about that later. Pass a bill that will help Democrats win elections
 - Change only what absolutely must be changed
 - Keep most old programs going but find some new ways to help farmers
- Dairy: Change DPSP to DPPSP
 - Set minimum purchase prices for dairy products, not exact support price for milk
 - Automatically trigger price cut when stocks exceed certain thresholds
 - Establish sellback prices
 - Renew MILC with some changes

Agricultural Policy 2012 - ?????

- Want to continue to support agriculture, but how is a big question. Anticipate more challenges from critics.
- 2009 requires new thinking for at least some sectors
 - More aggressively protect price?
 - Protect margins instead of price?
 - “Insurance” instead of price support?
- State of economy in 2011 will make a big difference
 - US budget issues
 - Economic growth in the US
 - Economic growth in the world
 - Economic state of dairy



Agricultural Policy 2012 - ?????

- New political realities!!!
 - A three party system?
 - House leadership, different party and Ag Chairman
 - Senate leadership, same party but different Ag Chairman
- 2012 is a major election year
 - Not hard to imagine farm bill being put off for a year
- If we get a 2012 farm bill
 - Dairy facing better milk prices but poor margins for producers buying most of their feed
 - Could be strong push for low-cost supply management program like FFTF
- If we get a 2013 farm bill
 - Probably better milk prices with margin recovery
 - Less outcry to fix problem and tough sell for supply management programs
 - Could be loss of DPPSP and MILC tinkering

