Dairy Producers Lead The Drive For Major Changes In The 2010 Farm Bill

Will Other Livestock Groups Join In?

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"Tough times never last, but tough people do." That quote, from Minister Robert Schuller, describes plenty of farmers, but is especially applicable to the dairy men and women who have been at the mercy of extremely volatile milk and feed grain markets for the last three years. Decades-old federal dairy policies did little to stop the economic "bleeding."

Out of those difficult times grew some creative thinking about the type of safety net that dairy producers need going forward. After working more than a year with fellow dairymen, staff and economists, the National Milk Producers Federation (NMPF) rolled out their "wish list" for future federal dairy policy last week, dubbed "Foundation for the Future."

"Producers, like me, agree that the more than 70-year-old safety net programs need revamping," emphasized Nebraska dairy farmer and NMPF board member Doug Nuttelman during a Senate Agriculture Committee hearing last fall while the group was developing their plan. "It needs to be made more relevant for the future to avoid the conditions we are now experiencing."

In 2007, milk prices spiked over $19/cwt. and guess what? Dairymen expanded production, only to watch milk prices respond to the oversupply and drop closer to $11/cwt last year. In what seemed like a perfect storm, the price of feed grains skyrocketed during the same time period, squeezing margins and driving many out of business.

"It's clear we need a new safety net that focuses on margins, not just milk prices," said NMPF's CEO Jerry Kozak. "It's also clear we need a system that sends timely, unmistakable signals to farmers that less milk is needed during periods of relative imbalance. The Foundation for the Future addresses both of those key issues, and it does so in a fiscally responsible, politically-realistic fashion."

It's complicated

For those of you who think U.S. dairy policy is already complicated, this new proposal won't change your perspective. In fact, it may make it worse.

The Federation's proposal to revamp the federal safety net involves several components, including the creation of an insurance program tied to the margin between the national average cost of feed, and the national average milk price. In a huge philosophical shift, the program protects margins rather than milk prices.

Conceptually, it is similar to a program currently offered in most states by USDA's Risk Management Agency, Livestock Gross Margin (LGM), for dairy, swine and cattle. The LGM Dairy program provides protection to dairy producers when feed costs rise or milk prices drop. But this program has failed to attract much interest, with only 474 producers enrolling in 2010, and was rejected by NMPF as a workable solution.

NMPF's plan would use different benchmarks and be administered by your local Farm Service Agency (FSA) offices, rather than private insurance agents.

After farmers choose to enroll in the base level of the Dairy Producer Margin Protection Program at no cost to them, they would receive indemnity payments during periods when their margins are tight. In addition, farmers would have the option of purchasing supplemental coverage to protect a higher margin level between feed costs and milk prices, up to 90 percent.

No annual payments

In a conference call with reporters last week, Kozak said payments will kick in only when farmers face serious financial peril. "It's not intended to give a payment out every year, and it's not intended to give a payment when it's not needed," he explained.

The dairymen don't want payment limits, which is understandable, but perhaps not realistic. Crop farmers have been unable to avoid them for years.

The insurance program would pay farmers when the difference between milk prices and feed costs falls below $6 per 100 pounds of milk. Dairy farmers would establish a "base" level of milk production which includes annual production over the past three years. Milk production beyond that level would not qualify for insurance payments.

Another key element of the Foundation for the Future will be a Dairy Market Stabilization Program that sends a signal to producers that a small percentage of additional milk production may impact their margins. This program would encourage producers to lower their milk marketings at appropriate times.

This proposal also includes other measures, such as expanding dairy exports, ending the current federal dairy price support program and the Milk Income Loss Contract program, which pays smaller and mid-size farmers when milk prices fall below a federal target of $16.94 per cwt. Major revisions to the federal milk marketing orders are also part of this comprehensive policy overhaul.

Other parts of the dairy industry are advocating a much stronger supply management program in the next farm bill, but NMPF sources suggested that, if this new proposal is allowed to work, supply management terms might be unnecessary.

That may be true from an economic standpoint, but politically, it will be tough to embrace this large package of changes without building political support from large and small dairy producers, ranging from Vermont to California. And there will be plenty of questions from the cowboys and the pork producers, wondering why one part of the four-legged lobby gets margin protection, while they don't.

Clearly the dairymen who developed the policy have learned from their tough times and are willing to embrace a much bigger vision for the future. Whether or not politicians will also embrace this "tough love," remains to be seen.

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