How would your plan change, if at all, the way milk is priced?

Under your plan, would there be changes in the way milk is priced?

How would your plan change, if at all, the way milk is priced?

Does your plan change the inclusion of Chicago Mercantile Exchange pricing in milk pricing formulas? Why or why not?

Under your plan, would there be changes to processor make allowances? Why or why not?

How would your plan change, if at all, government support programs for milk and dairy products?

Why will processors go along with your plan?

Why is your plan the best plan for ALL dairy producers regardless of where they operate in the U.S.?

Why is your plan the best plan for ALL dairy producers regardless of operation size?

The Federal Milk Marketing Improvement Act of 2009, Specter-Casey Bill

Aldrin Teetsbury, Manager
Progressive Agriculture Organization

The Federal Milk Marketing Improvement Act of 2009, Specter-Casey Bill or S-1645 contains a reasonable, much-needed change in determining the value of raw milk at the farm level. The current practice of pricing raw milk on a Class I milk sales level will be changed to a Class II milk. The value of this milk will be determined by using the national average cost of production. This price will be determined by using the current government support programs that are compiled by the Economic Research Service (ERS), a division of the USDA. The value of Class I milk will be determined by adding an estimated 20 percent of the Class II price. S-1645 calls for the U.S. Secretary of Agriculture to apply comparable Class I differentials where they might not exist.

S-1645 eliminates the inclusion of the Chicago Mercantile Exchange (CME) in determining the value of raw milk at the farm level because the value of raw milk hinges on the dairy farms with the farmers’ input costs. Trading on the CME, end-product pricing, surveying manufacturing plants will be a thing of the past in determining the value of raw milk.

S-1645 prohibits any charges levied on dairy farmers by dairy processors (including California) for the cost of operating milk manufacturing plants. Currently, fees paid to dairy farms are reduced nearly $0.20 per cwt for the cost of operating manufacturing plants. Although operators of bottling plants argue that what they do not receive are any make allowances, the make allowance does reduce the value of manufactured milk, so, therefore, the value of bottled milk is also reduced.

S-1645 does not eliminate the government support program for dairy products. The bill does call for the program that allows dairy products and milk for its programs. If there is excess milk produced, then the supply management program will be implemented. This program allows the U.S. Secretary of Agriculture to reduce the value of milk up to 5 percent of all dairy farmers’ production. This bill would allow for the possibility of new milk products to be used at the discretion of the Secretary of Agriculture.

Four reasons: (1) They will know in advance what they will pay for the milk they purchase. (2) S-1645 should play a major role in assuring dairy processors of a safe supply of milk. (3) The big reason why processors should support the bill is because, for the first time, all processors of milk will be paying the same price for milk used for manufactured purposes.

Approximately 65 percent of the milk produced in the U.S. is used for manufacturing purposes. This geographic pricing framework remains the same, even though some states and unregulated areas may be lower (or higher). However, the price for this milk is usually not high enough to cover the average dairy farmer’s cost of production. Manufacturing milk value must be brought in line with a dairy farmer’s cost of production. S-1645 prices manufactured milk at the same level across the U.S., but at a higher rate, which is fair for all dairy farmers.

S-1645 stays consistent with past pricing formulas in which all dairy farmers are basically treated the same. The authors of S-1645 see no reason to change this philosophy. Although other Class I does may obtain volume discounts on some items that they purchase. However, in manufacturing, these same producers have no potential for any discounts. The supporters of the DPSA come from backgrounds that run the realm of farm size, both small and large. What the DPSA truly tries to do is correct the current market signals so that we have more than a few people in control of producing milk in this country in the future.

The DPSA does not aim to reform the Federal Milk Marketing Orders, for the same reason it does not want to change the way milk is priced. While we realize reform is needed, FMMO reform is an extremely complicated task, and the right way to do it requires additional economic analysis and study. A change that could make things worse should not follow the disastrous 2009 prices.

As stated above, in order to quickly break this devastating boom/bust cycle in the milk industry, the DPSA believes that it is important to alter existing pricing formulas. Without the legal and scientific backup for this type of price discovery mechanism, the actual price support mechanism is only the hope we have of sustainable, profitable prices for dairy farmers.

The DPSA has a simple focus: Send better market signals to dairy producers in an effort to better align future growth in milk production with future demand. The current system is not designed to tie in to other formulas for formula pricing. Any who disagree will be part of the discussion. But dairy farmers around the country agree that some change needs to come sooner than 2012 Farm Bill, and that is when the DPSA comes into play.

The DPSA does not make changes to current programs. However, by maintaining better balance between milk production and consumption, we hope to avoid the lowest prices in our volatile milk pricing cycle which would, in effect, eliminate the use of current government support programs.

In a perfect world, processors would recognize that extreme volatility hurts both milk processors and consumers. But as our nation’s processors have been largely insulated from market risk due to make allowances and a product price support program that guarantees a buyer when markets collapse, they have little incentive to be a “fair” negotiator. Supporters of the DPSA hope processors will recognize the tremendous risk processors are at with each downturn and be a productive part of the discussion.

The DPSA offers equal treatment regardless of geographic location, so it doesn’t change the region-to-region dynamics that exist today. Changes to milk pricing, federal order reform and government price support programs obviously have winners and losers based on where you are located in the country. The DPSA puts all producers on a level playing field by making rules equal for all. This will allow everyone to send signals for where milk production growth is needed in the future.

The DPSA’s offer equal treatment regardless of geographic location, so it doesn’t change the region-to-region dynamics that exist today. Changes to milk pricing, federal order reform and government price support programs obviously have winners and losers based on where you are located in the country. The DPSA puts all producers on a level playing field by making rules equal for all. This will allow everyone to send signals for where milk production growth is needed in the future.

The DPSA gives all dairymen the best chance for long-term sustainability—period. Devastatingly, 2009 has shown us that the forces of our current market are not biased towards large or small farms. Simply, we need dairy farms of all sizes to be in business. For regions to have a viable dairy industry, there must be a balance between feed costs – the key input cost in dairying – and farm-level milk prices. DPSA is a multi-faceted solution: (1) revising existing federal support programs; (2) creating a new Dairy Producer Margin Protection Program to protect against both severe and unsustainable loss of margin; (3) reformatting the Federal Milk Marketing Order system; and (4) establishing a Dairy Market Stabilization Program to help address imbalances in dairy supply and demand.

We believe, yes, moving away from end-product pricing formulas to a competitive milk pricing basis. In addition, we would maintain a minimum price for Class I milk, with no change in differentials, using a new Class I program that is a national weighted average of advanced Class I competitive price pay prices.

Foundation for the Future (FTFT) would move away from using the CME and product price formulas to a competitive milk price for Class II milk where cheese plants pay what they must to get milk. This helps address the concern that some have about the shortcomings of relying on CME trading as the basis for the entire milk pricing structure.

Under a competitive pricing system, there would be no make allowances. This addresses the inequities and inadequacies of end-product pricing formulas that were adopted as part of the Federal Order reform process implemented from the 1996 Farm Bill. Make allowances are divisive and a sore spot for the entire industry; our competitive pricing situation eliminates them.

Our plan would end the MILC and the Product Price Support programs and replace them with a Dairy Producer Index that is a new class that is in effect, more effective in preventing the severe erosion of margin when low milk prices, high feed costs, or the combination of both, affect farmers. We believe that this government-funded base margin of protection, coupled with an optional supplemental level of additional coverage that a farmer would help pay for, is the best approach.

Most processors don’t like extreme price volatility any more than farmers like it. We are not going to be able to completely remove that volatility—but we can help preserve all production infrastructure across the U.S., without which processing plants would be in deep trouble. Our program is also designed to allow for growth and to allow the U.S. to continue serving domestic and international markets. Those goals are also shared by processors.

One of the key elements is that all farmers be treated equally under FTFT, regardless of location or type of production (including organic, seasonal, grass-based, colored breeds, etc.). However, there are special provisions that address seasonal producers in the Dairy Market Stabilization Program, in that they have a choice of which milk production base to use. We still maintain Class I differentials that reflect the cost of serving the fluid milk market, with provisions to help address the cost of balancing those markets.

Whether it is location or size, FTFT is intended to be neutral. In particular, the idea of the Dairy Producer Margin Protection Program isn’t scrapped, so that farmers of varying sizes are not treated in a dissimilar manner. We replace the MILC, which disadvantages farms above about 3 million pounds of annual milk production, with a safety net that is size-neutral. FTFT recognizes that existing safety nets are discriminatory and leave many producers vulnerable. Our plan is fairer to all farmers.