

Dairy bill gets mixed reaction

Closing the Gap: Legislation would link milk price to farmers' cost of production
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By MARC HELLER

Milk prices paid to farmers are discouraging enough, having fallen by almost 50 percent in a year. The other side of the farmer's economic equation — how much the milk costs to make — isn't any brighter.

The gap between what dairy farmers are paid and their cost of production has grown sharply in the past few months. But efforts to close the spread through legislation appear to be a long shot in Congress, despite repeated attempts by farmer-friendly lawmakers.

The latest proposal from Sens. Arlen Specter and Robert P. Casey Jr., Democrats of Pennsylvania, would require the U.S. Department of Agriculture to base a key milk price — the amount farmers are paid for milk used in cheese, yogurt and other manufactured dairy products — upon the national average cost of production.

In practice, the bill would fundamentally revamp the way the government dictates minimum prices that food companies must pay farmers for milk. But the bill's ambitious reach appears to be its stumbling block; lobbying groups for farmer-owned cooperatives and the companies that buy their milk both oppose it.

Sens. Kirsten E. Gillibrand and Charles E. Schumer, Democrats of New York, have not signed on to the bill, which was referred to the Agriculture Committee, upon which Mrs. Gillibrand sits. Mr. Schumer did not cosponsor a similar bill by Sens. Specter and Casey in 2007.

Production costs vary by state. In New York, farmers spend nearly \$27 per 100 pounds of milk, including overhead, while the cost is about \$19 in California, \$21 in Wisconsin and \$25 in Vermont, the U.S. Department of Agriculture reported. Operating costs alone are close to \$16 per 100 pounds in New York.

Minimum prices paid to farmers have been about \$12 per 100 pounds this year, although economists predict they could recover to about \$18 by year's end.

"Dairy farmers continue to struggle to make a living at a time when the money they bring home for their milk only covers a fraction of the cost to produce it," Mr. Casey said in a press release. "Today, dairy farmers are receiving the lowest price for their milk since the 1970s."

The International Dairy Foods Association, which represents Kraft Foods, Great Lakes Cheese and other companies that turn milk into dairy products, opposes the idea, predicting sharply higher prices for consumers.

"It's encouraging that they realize the current system is broken, but this is not the way to fix it," said Jerry Slominski, the IDFA's senior vice president for legislative affairs.

The more striking opposition comes from the National Milk Producers Federation, which represents dairy farmer-owned bargaining cooperatives such as Dairy Farmers of America. A spokesman, Christopher Galen, said the NMPF is more focused on "here and now" solutions to low milk prices, such as clearing more U.S. dairy inventory, encouraging exports and paying farmers to retire their herds in an effort to trim production.

One pitfall of the lawmakers' proposal, economists say, is that the government would need to set up a system to keep farmers from overproducing, a likely outcome of sharply higher prices. That could prevent smaller farms from expanding.

On the other hand, basing prices on farmers' costs could steer the government away from taxpayer-supported subsidies that kick in whenever prices fall below a federal target.

Mr. Slominski said the IDFA has been working with dairy farmers' cooperatives to suggest changes to the system that might help farmers without sharply increasing milk buyers' costs. Mostly, he said, companies want a steady, dependable supply of milk.

But the days when milk processors put plants as close as possible to farms and not far from big cities — such as in Northern New York — have been fading somewhat. With modern refrigeration making long-range shipping possible, companies no longer hold to the view that geographical balance is crucial, Mr. Slominski said.

That, however, is exactly the argument Northeast lawmakers have been making — that even with its higher production costs, the region needs to save its dairy industry to keep production relatively close to the tens of millions of consumers within a day's drive.

The bill's supporters, who are largely based in Pennsylvania, are quick to point out the blurry line between large cooperatives and the companies that buy the milk. In many cases, large co-ops such as DFA act as processors as well or have exclusive supply contracts with food companies, cutting down on competition in the market. 5-01-09