

Changes in dairy safety net expected

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By Marc Heller

In the next few years, dairy farmers are likely to see big changes in the safety net that protects them from crashing milk prices — including a first-ever comprehensive system to limit milk production, the chairman of the House Agriculture Committee said.

Rep. Collin C. Peterson, D-Minn., said he believes the past year's deep decline in milk prices will result in momentum for fundamental changes in dairy policy when Congress considers the five-year farm bill in 2012, as long as farm groups can find common ground and opposition from milk processors can be kept to a minimum.

Mr. Peterson outlined his expectations in an interview at his Capitol Hill office in which he also disputed widespread criticism that the dairy industry is plagued by price manipulation and discussed the role Rep. William L. Owens, D-Plattsburgh, may play on the committee, to which he was named two weeks ago.

Mr. Peterson's committee already has begun weekly field hearings on the farm bill, which have generated hundreds of comments from farmers around the country. The farm bill sets farm, food and nutrition programs, as well as rural development initiatives.

"I'm optimistic that we'll see an overhaul of dairy in the farm bill," Mr. Peterson said. "The system isn't working."

HELPING FARMERS

The government protects dairy farmers in a few significant ways. For one, it sets minimum prices that milk plants must pay farmers, based on what final product the milk becomes. It also sets a milk support price, at which the government may buy excess milk products to prop up prices.

And in more recent years, the government has paid subsidies directly to farmers when the price of milk falls below a congressionally set target of \$16.94 per 100 pounds of milk. That program, called the Milk Income Loss Contract, pays part of the difference between market prices and the target price; it was expanded in the 2007 farm bill but may be abandoned in the next one, Mr. Peterson said.

While farm groups have supported the MILC program, farmers increasingly say it pays too little to keep them solvent. Many farmers say they need to be paid about \$20 per hundredweight to make a profit, particularly if feed costs are high.

Even with the program in place, hundreds of farmers in major dairy states, such as New York, were threatened with going out of business in the latest low price cycle, farm groups say. Costs of production are generally higher in New York than in Western states, but the state remains No. 3 in the country in milk production, behind California and Wisconsin. St. Lawrence, Jefferson and Lewis counties are among the nation's leading counties in milk produced, but they have lost some ground over the years.

Mr. Peterson said he does not necessarily believe the MILC program should be abandoned, but that is the direction that lobbyists for dairy farmers are taking.

"I don't think it has to be replaced. It could be part of the equation," Mr. Peterson said. Lawmakers' challenge, though, is to find money to pay for any new dairy programs. With the total cost of farm programs expected to remain about the same, the MILC program is the most obvious place to find funding, he said.

CHARTING A NEW COURSE

When lawmakers map out a new safety net, it will have to include a supply management system to keep milk production in check, Mr. Peterson said. That could be especially true if lawmakers follow Mr. Peterson's approach and limit any measures that steer more money to smaller farms.

"We can't be about advantaging one size farmer over the other," Mr. Peterson said. "We're not going to save the small family farm. The marketplace is going to take care of that."

Supply management could include measures to discourage farms from expanding, as well as a program to spur more dairy exports. In the past, the government has tried buying out farmers' dairy herds, but production eventually recovered and the beef industry suffered from the low prices resulting from so many cows suddenly entering the slaughter market.

"Production management will have to be in it," Mr. Peterson said.

Free-enterprise purists in Congress may shudder at the idea of the government trying to control the milk supply. But they also could face pressure from the other direction if, as Mr. Peterson predicted, an industry-run effort to dampen production ends this year.

Mr. Peterson predicted that a program run by dairy farmers' bargaining cooperatives, called Cooperatives Working Together, will end this year because too few farmers are signing up. The program buys out farmers' herds and seeks out customers for U.S. dairy exports; participating cooperatives pay for it through a deduction from member farmers' milk checks.

As part of the changes, Mr. Peterson said, he also expects Congress will add California to the federal milk marketing system, which sets the minimum prices farmers receive. California's dairy industry has operated in its own marketing order but producers there have often sold milk to other states to take advantage of federal marketing orders.

REGIONAL REPRESENTATION

Northern New York will have two voices on the House Agriculture Committee as farm bill discussions begin. Rep. Scott Murphy, D-Glens Falls, has been a member since joining Congress last year, and Mr. Owens is the latest addition.

Mr. Peterson said he expects Mr. Owens to "vociferously" represent Northeast farmers' concerns. And while the congressman will not be on the subcommittee that handles dairy policy, he is part of an ad hoc group from the committee that is working with the National Milk Producers Federation to devise a new dairy program, Mr. Peterson said. That group is doing more than the subcommittee, he said.

"He'll be at the table. He'll be at the briefings," Mr. Peterson said. 5-22-10