



Milk Matters

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2008 Farm Bill – Nuts and Bolts



The Food, Conservation, and Energy Act of 2008, more commonly known as the Farm Bill in Dairy circles finally became law on May 22nd after an override by the Senate and House of President Bush's veto of the Bill on May 21st. While this particular Bill took quite some time to complete, it was not the dairy section which caused the lengthy delay as was seen in the previous two Farm Bills. Both sides of Congress offered no sweeping changes and their respective versions were close enough to work out details at conference committee time. This delay in passing the law for once actually benefited dairy supporters as we were able to further enhance the MILC program to reflect more realistic triggering prices for payments to farmers in the program.

In the next two issues of Milk Matters we will take a closer look at the dairy subtitle of the Farm Bill to gain a better understanding of what these things mean to our members. While much of the Bill is not rocket science, it can be complex enough to create confusion, so strap your seat belt on and prepare for this journey into the Nuts and Bolts of Farm Bill 2008. In this issue, we will address the MILC program, Dairy promotion, and the Forward Pricing program. In the July issue of Milk Matters we will explore Dairy Product Price Support, DEIP, and several changes in the USDA programs and requirements.

Milk Income Loss Contract (MILC) was likely the most positive change made relating to providing a safety net for producer's income. This positive change came in the form of a feed cost adjuster. The objective of the MILC program is to provide direct payments to operators on eligible milk sales whenever the Boston Class I milk price fell below a given target level. This level was unlikely to be seen in the foreseeable future and with rising fuel and feed costs apparent, Congress addressed part of this issue by including a feed cost adjuster to the target Class I price. The MILC program was previously set at 34% but is now

raised to 45%. This percentage is the amount paid out on eligible milk if the market price fell short of the target price. The production cap amount which producers are eligible was raised from 2.4 million pounds annually to 2.985 million pounds.

The feed cost adjuster is based on the estimated cost per hundredweight for a 16% protein dairy ration and compared to the target price. This feed cost adjuster formula is currently used to calculate the Milk-Feed price ratio and consists of a formula ration of 51% corn, 41% alfalfa, and 8% soybeans. U.S. average prices on these items are obtained from USDA's Agricultural Prices and are referred to as the National Average Dairy Feed Cost (NADFC). This base feed cost begins at \$7.35/cwt and increases to \$9.50/cwt in September 2012. How is this feed cost adjustment calculated? At the end of each month the NADFC is calculated and compared to the base value of \$7.35. If the cost is less than or equal to \$7.35, then the MILC Class I (Boston Class) target price of \$16.94 remains. If the feed cost amount is higher then the percentage difference between the current ration cost and \$7.35 is multiplied by 45% (MILC payout rate established) and the resulting percentage is used to increase the \$16.94 target for the previous month. (Example) If the NADFC averaged \$9.82/cwt you then subtract this from \$7.35/cwt base leaving \$2.47 or 33.6% higher than the target feed price. This percentage increase (33.6%) is taken at 45% leaving 15.12% which is then multiplied by the target price of \$16.94 leaving the new month target price at \$19.50 versus \$16.94. This change alone is significant as it will more accurately reflect a major component in overhead cost for producers and change the target price to reflect these safety net needs.

The payment rate level of 45% will go into affect in October 2008 and continue through August 2012 when it will revert back to 34%. The dates for eligible milk

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Interesting Facts:

- The first breakfast cereal was made by adding sugar and milk to popcorn.
- Each man, woman and child in America eats an average of 46 slices of pizza (23 pounds) a year.
- Honey bees must tap two million flowers to make one pound of honey. Each worker honey bee makes 1/12th teaspoon of honey in its lifetime.

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...“2008 Farm Bill” continued.

production (2.985 million pounds) are also October 2008 to August 2012. As with previous rules, producers must stay in the program once they start until the production limit cap is met or a new fiscal year starts. They are not allowed to go into and out of the program.

Dairy Promotion and Research Program has been an area that has received considerable effort over the years to establish a more equitable system for all producers. This program began in 1983 and established a \$.15/cwt assessment which is used for national promotion operated by Dairy Management Incorporated (DMI) and qualified state programs such as the Wisconsin Milk Marketing Board (WMMB). The 2008 Farm Bill continues this program through 2012. In the 2002 Farm Bill an assessment was established to cover the milk equivalent of imported dairy products. This was to address the concerns by many of imports that received a “free-pass” on the assessment. This assessment was never established because USDA would have violated WTO rules because all states were not previously included in the assessment (Alaska, Hawaii, and Puerto Rico were exempt). During this bill, Congress eliminated the domestic exemptions to address the loophole, but only plan to assess imported dairy products at a level of \$.075/cwt milk equivalent. While it’s not equal, it is a step in the right direction as long as the “retaliation” factor doesn’t rear up now that we are a player in the export market.

Dairy Forward Pricing Program allows producers and Cooperatives to voluntarily enter into forward price contracts for future milk production with buyers of milk. This program mirrors the pilot forward contracting program that operated from 1999 to 2004. The program is eligible only in areas regulated under a federal milk marketing order and does not apply to Class I milk (beverage use). After the pilot program expired it was difficult for order-regulated handlers that were not organized as a Cooperative to offer forward contracts because of minimum pricing rules of which Cooperatives were exempt. The passage of this section will again allow all handlers of milk to participate in this program with the following provision. A handler may not require participation in a forward price contract as a condition of accepting milk from a producer/cooperative and the Secretary of Agriculture will investigate any complaints of coercion by handlers to do so. This contracting authority for handlers which are not Cooperatives will expire on September 30, 2012. No forward price contracts entered into prior to the expiration date may extend beyond September 30, 2015.

I hope these *Nuts and Bolts* explanations help address some of the questions surrounding the mechanical workings of the current Farm Bill. We will address the remaining items found in the dairy subtitle of the 2008 Farm Bill in the next issue of your Family Dairies USA Milk Matters.

Congressman Collin Peterson visits Wisconsin



Neil Schwinn (FDUSA Fieldman), Collin Peterson, Stewart & Ben Huber (FDUSA Members)

House of Representative Agriculture Committee Chairman Collin Peterson (D-Minn.) joined Congressman Steve Kagen (D-Wis.) for the Outagamie County Breakfast on the Farm on June 15th and later at a campaign event. Congressman Kagen was the only Wisconsin member of Congress serving on the House Committee of Agriculture. Both individuals played key roles in getting the most recent Farm Bill enacted despite the veto attempt by the President of the United States.