NATIONAL FARMERS UNION

NFU Board of Directors Resolution Regarding House Democrats' Proposed Dairy Reforms

House Committee on Agriculture Ranking Member Collin Peterson's recent dairy reform proposal attempts to resolve a number of critical issues that prevent the current dairy safety net from functioning adequately. It is clear that reform is necessary. Rep. Peterson's proposal seems to solve many of the current problems; however, upon further analysis, the proposal proves to be wholly inadequate.

Why Peterson's proposal does not work:

FLAWED PROVISION 1: Rep. Peterson's plan includes a supply management provision (Margin Protection Program) with a floating base. Farmers can choose to use either their last three months' production or their production from the same month of the previous year as their base. As production continues to grow, the base continually adjusts to reflect the new higher production volume. Smaller dairies would have no choice but to add production volume to remain competitive, which would contribute to existing supply management issues and encourage consolidation.
NFU'S SOLUTION: An effective supply management program is critical to reforming the current dairy safety net. However, it must include a fixed rather than floating base in order to effectively manage supply.

FLAWED PROVISION 2: Peterson's proposal claims to be size-neutral. In fact, Peterson's proposal rewards the largest dairies and the largest processors. While the current Milk Income Loss Contract (MILC) program caps payments, the proposed Margin Protection Program does not include a similar cap, which means the largest dairies stand to reap the most financial benefit.
NFU'S SOLUTION: The current MILC program is a fiscally responsible way to manage risk. The program only pays out when margins drop below a trigger price; however, with a fully functioning supply management program as outlined in paragraph 1, MILC will rarely, if ever, pay out, saving taxpayers valuable dollars.

FLAWED PROVISION 3: Peterson's proposal funds the Margin Protection Program through a producer assessment, but the assessment is only collected when margins fall below a certain trigger price. Farmers will be paying into the program only in times when prices are already depressed, when they are most economically vulnerable.
NFU'S SOLUTION: An assessment should be collected on all milk at all times, not only when margins are low, and adjust the current Dairy Product Support Price Program to reflect an adequate safety net level. If a farmer's production stays the same or declines, he or she will receive a refund on the assessment. Using the assessment as a funding source creates an effective supply management system at no cost to taxpayers.

FLAWED PROVISION 4: Peterson's proposal would implement a federally subsidized insurance system that is paid for by taxpayers and inadequately manages risk.
NFU'S SOLUTION: The current MILC program is a fiscally responsible way to manage risk. The program only pays out when margins drop below a trigger price; however, with a fully functioning supply management program as outlined in paragraph 1, MILC will rarely, if ever, pay out, saving taxpayers valuable dollars.

FLAWED PROVISION 5: Peterson's proposal would maintain the make allowance for Class IV milk.
NFU'S SOLUTION: Implement a variable make allowance. When the market price is strong, the make allowance would increase correspondingly. When depressed, the make allowance would shrink so both farmers and processors have an incentive to raise milk prices.

FLAWED PROVISION 6: Peterson's alternative to the current federal milk marketing order would essentially force dairy farmers into forward contracting, benefiting large dairies who have the ability to meet processors' volume-related contract requirements.
NFU'S SOLUTION: Maintain the existing federal milk marketing order system with additional price discovery such as using a CPI (Consumer Price Index) Formula.

Approved by National Farmers Union Board of Directors – July 18, 2011