

****SUMMARY HIGHLIGHTS PAGE**** Followed by a Side-by-Side Comparison on 6 Issue Areas

Farm Bill Dairy Program & Federal Order Reform Bills have now been introduced in both the House and the Senate. There are some similarities between the Dairy Advancement Act and the Dairy Security Act, but also some significant and very important differences.

S. 1682 **THE DAIRY ADVANCEMENT ACT**

- Flexible safety net targets gaps in private options for managing individual margin risk.
- Utilizes coverage limitations, private insurers assuming vast portion of risk and liabilities, and individual margin models to control cost risk to taxpayers.
- In 2009 crisis year, assuming 42% of U.S. milk production is “insured” under LGM-Dairy, the government liability and taxpayer exposure would have been limited to \$447 million (zero in 2003 and 2006). *Report at: http://www.dpac.net/publication_files/further-analysis-of-ffff.pdf*
- Consistent with other commodities: Does not require government supply control on farms that enroll in safety net / risk management.
- Positions U.S. as a consistent supplier producing and marketing dairy products globally.
- Fosters innovation that is good for dairy growth and sustainability to fuel rural economies, improve regional food security and create jobs.
- Sets two-year deliberative course to come up with a simpler and more transparent pricing system through Federal Order Reform & Economic Impact Assessment to stimulate competition for milk between product classes.
- Establishes component prices of protein, butterfat and other solids.
- Improves market transparency by improving the way prices, sales volumes and inventories are reported and made accountable.

H.R. 3062 **THE DAIRY SECURITY ACT**

- Margin protection levels based on an arbitrary, national, one-size-fits-all formula.
- This model forces the federal government (taxpayers) to assume all the risk and liabilities.
- In 2009 crisis year, assuming 42% of U.S. milk production is “insured” under the Dairy Producer Margin Protection Program, the government liability and taxpayer exposure would have exceeded \$5 billion (plus \$1 billion in 2003 and \$550 million in 2006).
- NOT consistent with other commodities: This bill requires government supply control on farms that enroll in the margin protection... essentially transferring the government’s risk (*above*) back onto the dairy farmers in the form of supply management penalties that are activated (when farmers can least afford it) BEFORE the margin protection payments are triggered.
- Sends wrong signal: That U.S. will continue to serve as “balancer” of the world supply instead of leader in supplying the world.
- Preserves status quo; approaches export opportunities with trepidation and does nothing to encourage manufacturers.
- Sets a 270-day hearing process for final USDA rule on Federal Order Reform, which includes competitive survey of only the cheese milk; cooperative-owned plants are not required to participate in price survey. Contains national referendum on final rule, and cooperative bloc voting controls 8 out of 10 Fed Orders.
- Eliminates component prices of protein, butterfat and other solids.
- Contains no improvement of reporting or market transparency.

SIDE-BY-SIDE COMPARISON of Two Major Dairy Reform Bills in 6 Issue Areas

Farm Bill Dairy Program & Federal Order Reform Bills have now been introduced in both the House and the Senate. There are some similarities between the Dairy Advancement Act and the Dairy Security Act, but also some significant and very important differences.

S. 1682 THE DAIRY ADVANCEMENT ACT

Introduced on October 12, 2011 by member of the Senate Committee on Agriculture and Joint Economic Committee Chairman Robert P. Casey, Jr. (D-PA).

CBO Score Pending / Stand-alone score may not reflect the true value of this bill in terms of effect on rural economies and trade balance, when incorporated as part of the entire Deficit Reduction package.

H.R. 3062 THE DAIRY SECURITY ACT

Introduced on Sept. 23, 2011 by House Agriculture Committee Ranking Member Collin Peterson (D-MN) and Rep. Mike Simpson (R-ID).

The language is mirrored in the dairy section of the REFRESH bill introduced by Sen. Richard Lugar (R-IN) & Rep. Marlin Stutzman (R-IN).

CBO Score (Stand-alone) shows \$131 million below baseline over 10 years based on assumptions that some experts are questioning.

As part of a package, the Score may relate differently in terms of economic impact and effect on trade balance.

ISSUE: Farm Bill Dairy Safety Net

- *Eliminates Dairy Product Price Support Program.*
 - Provides **flexible safety net** that targets the gaps in smaller dairy farm access to private options for managing margin risk.
 - Allows producers to choose between a direct payment through MILC (Milk Income Loss Contract) or receive a subsidy to use **individual risk management** through LGM-Dairy to protect a margin between feed cost and milk price.
 - A producer's selection (above) is for the life of the Farm Bill.
 - There is **no supply management requirement**.
 - **Payment eligibility is capped** at the first 3 mil. lbs. of annual milk production per farm. If the LGM option is selected by a producer, that producer can increase his deductible to cover more pounds of milk with no additional cost to the government. Producers who give up the MILC payment and select the LGM option may also buy additional coverage at their own expense.
- *Eliminates Dairy Product Price Support Program and eliminates MILC.*
 - **Establishes one-size-fits-all** Dairy Producer Margin Protection Program (DPMPP) based on **national average margin** between feed cost and milk price calculated by formula that may or may not reflect the way individual producers feed and manage their cows.
 - Enrolled producers receive a base level of margin protection and may purchase supplemental protection at a subsidized premium.
 - Producer enrollment in DPMPP is for the life of the Farm Bill.
 - When producers enroll in margin protection (DPMPP), they are **required to enroll in and be regulated by government-run supply management**.
 - **No eligibility cap on payments** as far as a set number of pounds of annual milk production per farm; however, base margin protection is limited to 80% of an enrolled farm's milk production history (90% for supplemental coverage).

- Does not establish production history base.
- Does not link the safety net to a government-run milk supply control program.
- Allows the dairy farmer to develop a customized safety net and protect the margin that is relevant to his dairy operation without giving up the freedom to operate his business and manage his cash flow.

- Establishes **production history base** for DPMPP-enrolled dairy farms.
- **Requires** producers who enroll in the DPMPP to be enrolled in the Dairy Market Stabilization Program (DMSP).
- **DMSP requires production cuts or penalties, which activate before the DPMPP payments are triggered.**
- All producers enrolled in DPMPP are regulated by DMSP (estimated enrollment is 60% of the milk supply). Production cuts during a margin-trigger event may be larger than anticipated to sufficiently affect the entire U.S. supply as well as unregulated global supply-and-demand balance.
- Ignores the fact that the U.S. has been a milk deficit country since 1996.
- Ignores factors influencing milk-feed margins other than milk price.
- Underestimates the ability of retail, restaurant and foodservice sectors to reduce demand through cost control measures by altering recipes, formulations, package sizes, stocking patterns, and use of substitutions.
- Creates more costly overhead for the dairy industry.

ISSUE: Global Trade - Exports & Imports

- Positions U.S. as a **consistent supplier** producing and marketing dairy products globally.
- Recognizes U.S. is affected by global supply-and-demand; chooses path that is **proactive** in supplying the growing unmet demand instead of being passive and reactive while the opportunities pass us by.
- Provides loan guarantees to facilitate export trade and includes loan incentives for processing equipment and rural industrialization to **encourage manufacturers** to make and market products that have a broader demand.
- **Stops short** of using producer- or taxpayer-funded “discounts” to clear lower-demand products through export channels like the expiring DEIP.
- **Fosters innovation** that is promotes dairy growth and sustainability to fuel rural economies, improve regional food security and create jobs.

- Sends the wrong signal: That U.S. will continue to serve as **“balancer” of the world supply** instead of leader in supplying the world.
- The required production cuts -- as a result of producers enrolling in what would be the only safety net available -- **forfeit U.S. ability to maintain trade advantages** and interfere with U.S. ability to develop and supply export markets through long-term customer relationships.
- Creates **more frequent cycles of volatility** because U.S. policy can not control what is happening with the milk supply in the rest of the world.
- Decreases potential for exports and increases potential for imports. (DMSP de-activates if U.S. price is 20% above world price, but this is an unrealistic spread that has seldom, if ever, occurred.)
- Collection of farmer production penalties may be used as discounts to clear lower-demand products through export channels; bill does nothing to encourage production of higher value products to meet global demand.
- **Preserves status quo**; approaches export opportunities with trepidation.

- Establishes a two-class system for classifying milk, consisting of a fluid milk class and a manufacturing milk class.
- **Establishes component prices** of protein, butterfat and other solids.
- **Secretary shall submit a report** to Ag Committees in House and Senate, which includes the proposed amendments to all Federal Orders.
- Includes **Economic Impact Assessment** reviewing milk-feed margin, milk supply, farm profitability, consumer demand, and market prices.
- Two year process targets 2014 for report and implementation process.
- **Key centerpiece is improved transparency and timeliness of reporting: daily reporting of more products from more plants**; weekly reporting of commodities that are linked to current formulas or future pricing methods; and monthly reporting of commodity inventories (with auditing).

- Eliminates end-product price formulas for setting prices for Class III milk, but continues the formula for Class IV in a specific calculation.
- **Eliminates component prices** of protein, butterfat and other solids.
- Uses **regional competitive price surveys for cheese milk only**.
- USDA renders **final decision for all Federal Orders** 270 days from enactment of law.
- Allows for **one national producer referendum**, not voting Order by Order. One-half of milk volume or persons participating in vote will pass the final decision for all Orders. Cooperatives bloc vote for their members and eight out of 10 Orders are controlled by cooperative bloc voting.
- **No mention of improved reporting of prices, volumes and inventories.**

ISSUE: Federal Liabilities / Impact on Taxpayers

- Utilizes coverage limitations, **private insurers** and individual margin models to control liability risk to taxpayers.
- Is **market-based and market-oriented** with the goal of positioning dairy farmers for the opportunity to be profitable.
- In 2009 crisis year, assuming 42% of U.S. milk production is “insured” under LGM-Dairy, the government liability and taxpayer exposure would have been limited to \$447 million (zero in 2003 and 2006).
Report at: http://www.dpac.net/publication_files/further-analysis-of-fftf.pdf

- Uses **production penalties paid by farmers** to help the government avoid DPMPP payment liabilities.
- If the estimated 60% of milk production is enrolled in the DPMPP, those producers **will need to cut nearly twice as much production** under the DMSP during a margin-trigger event in order to have an effect on the milk price that is large enough to improve negative margins and thereby mitigate the **federal government’s sole liability risk** to fulfill margin payments under the DPMPP.
- In 2009 crisis year, assuming 42% of U.S. milk production is “insured” under the Dairy Producer Margin Protection Program, the government liability and taxpayer exposure would have exceeded \$5 billion (plus \$1 billion in 2003 and \$550 million in 2006).
Report at: http://www.dpac.net/publication_files/further-analysis-of-fftf.pdf

Dairy Advancement Act (S. 1682)

ISSUE: Impact on Dairy Producers

Dairy Security Act (H.R. 3062)

- Modest safety net is targeted to small and mid-sized dairies, which have less access to private options for managing margin risk.
- Flexible LGM-Dairy option is possible if the producer gives up the MILC payment. This flexible option can be customized to the way a particular farm or region manages its cows and feed costs.
- Producers will benefit by knowing their own numbers -- particularly income over feed cost margins -- in order to take advantage of the LGM-Dairy option; and if not, the MILC provides a modest safety net while producers make the transition.
- Producers will benefit from a more transparent market and timely market information.
- Federal Order Reform specifically includes an Economic Impact Assessment that reviews the milk-feed margin and **considers farm profitability.**
- Improves dairy sustainability and growth -- as well as local economies and job creation -- by stimulating the manufacturing sector to produce and market quality dairy products for the well-documented growing gap in unmet global demand for dairy protein.
- Reduces concerns about losing regional processing infrastructure over unpredictable access to local supplies of fresh milk.

- If the estimated 60% of milk production is enrolled in the DPMPP, those producers will need to cut nearly twice as much production during a margin-trigger event in order to have an effect on the milk price that is large enough to improve negative margins.
- Seasonal production trends, while much less than they used to be, will still have an effect on the average reduction required by the triggers depending on the time of the year that supply management is activated.
- When the margin-trigger condition is met, those farms that are enrolled in the DPMPP **would be forced to cut back their production BEFORE their margin protection payment kicks in.**
- In essence, the program assesses those enrolled producers when they can least afford it.
- The DMSP Board of Directors has the authority to recommend changes to the DMSP margin triggers pending biannual review of how it is working.
- Existing producers have one year to enroll and enrollment is locked in for the life of the Farm Bill (5 years). They may choose a “growth option,” which allows them to expand their “production history base” only for the purchased supplemental margin protection.
- The temporary “base” for the DMSP is selected by the producer at the beginning of each year as either using same month from previous year or a three-month rolling base production for the current year.
- Dairy Market Stabilization Program penalties are funneled to Commodity Credit Corporation for use by a Board of Directors whose authority includes buying dairy products through commercial sources for donation to food banks or to expand consumption and build demand for dairy products. ***Dairy producers already pay 15 cents per 100 pounds of milk for the Dairy Production Stabilization Act of 1983 which initiated the promotion assessment on producer milk checks.***
- The Federal Order Reform does not include an Economic Impact Assessment that reviews the effect of the final rule on farm profitability and milk-feed margins.

This side-by-side comparison of the Dairy Advancement Act and Dairy Security Act was compiled by Sherry A. Bunting (serving as correspondence secretary for the grassroots Dairy Policy Action Coalition) Agriculture Writing & Photography Services East Earl, PA Mobile 717-587-3706 Email agrite@ptd.net