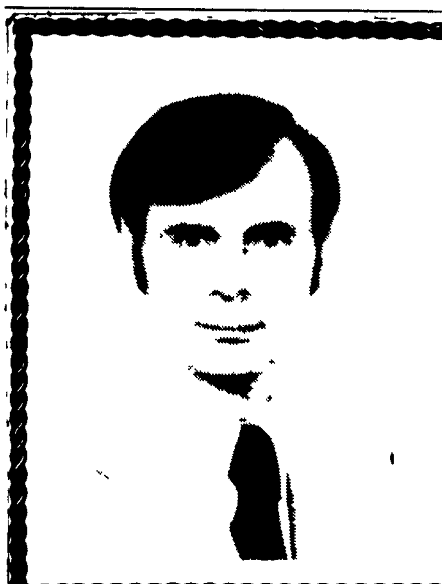

Dairy Pipeline

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Buyout to save $9 billion

The U.S. Government will be paying 14,000 farmers $1.8 billion to slaughter or export their dairy cattle, and to stay out of dairying for five years. That's only part of the story.

The termination of these 14,000 dairy herds, youngstock and all, will prevent – rather permanently – the 12.3 billion lbs. of milk, produced annually by these herds, from ever entering the U.S. market, not just for one year, but forever. To the U.S. Government this represents an annual savings of about $2.1 billion in the purchase of surplus dairy products, or $10.5 billion in five years. It costs the Government about $17 to purchase, store and handle 100 lbs. of surplus milk in the form of other dairy products.

About 38% of the $1.8 billion to be paid to the farmers participating in the program will come from assessments levied upon the remainder of the dairymen who continue to produce milk. These assessments will total about $684 million.

The $1.8 billion farmers will receive is taxable income. For purpose of illustration, let's assume these farmers will be in a 20 percent tax bracket. That being the case, $360 million will be returned to the Government in the form of taxes. Thus, dairymen will be contributing about 1 billion of the $1.8 billion; the Government's share would be about $800 million.

To help prevent slaughtered dairy cattle from depressing the beef market, the Government is also required to purchase an extra 400 million lbs. of red meat during the next five years. I don't know what it costs the Government to buy a pound of red meat. If it is $2 per pound, the total cost would be $800 million. Thus, the Government's total real cost might be about $1.6 billion (a net payment of $800 million to dairymen plus $800 million for meat).

What this really means is, the Government will be buying (preventing) five years worth of surplus production, which would have cost them $10.5 billion. They will be spending about $1.6 billion to accomplish this. That represents a potential savings of approximately $8.9 billion; with inflation, it could be more than this.

Not All Profit

The average farmer participating in the dairy herd buyout program and 50 cows; he will receive a total of about $131,000 in payments over a five year period of time. However, that is not all profit.

Requiring a farmer to sell his dairy herd for non-dairy purposes is similar to asking someone to sell their home for half price. With the exception of a few cattle that are exported, slaughtered cattle are selling for much less than their true dairy value. To an averge farmer this could be a $30 to 50,000 loss of potential income.

The rental value and sale value of the farm are also reduced since the dairy facilities cannot be used for dairy purposes for five years. In addition, farm values in general, are depressed at the present time. If he sells his farm now, he takes an additional licking on price. Because of depressed farm values, most participants will probably elect to keep their farms.

If they keep their farm they can either rent it to someone else or continue to operate it themselves. If they rent out the farm, they may not be able to rent out the buildings because of the restrictions on use of the dairy facilities. This loss in rental income could total $30 - 50,000 in five years. In addition to his, they'll have the expense of taxes, insurance and maintenance on buildings, even though they are not being used. Many of them will also have some debt servicing costs. Many farmers plan to use these payments to reduce debt loads.

If they operate the farm themselves, they may have additional costs if they convert to a new enterprise. And, as they venture into a new enterprise, they may not show a profit for the first year or two. Right now, it is very difficult to find profitable alternatives in agriculture.

These were a few of the many factors that participating farmers had to consider as they prepared and submitted bids for being "bought out." As one might expect these bids varied considerably from farm to farm.

The Government's goal was to terminate about 12 billion pounds of milk production potential by accepting reasonable buyout bids from farmers. This, they accomplished. The top bid price accepted was $22.50 per cwt. The average bid price accepted was $14.88, $2.12 less than the $17 it normally costs the Government for each 100 pounds of surplus milk.

Many of the dairymen, whose buyout bids were accepted, are hard working, honest individuals who are genuinely interested in their community and the welfare of their neighbors.

They are also concerned about the dairy industry, the milk surplus situation, and the Governmental cost of purchasing surplus dairy products and supporting milk prices. They realize if they continue to dairy they are contributing to the surplus problem. To exit from dairying, with no restrictions, they know that their cows and their facilities would probably be used by someone else to continue producing milk; that wouldn't help correct the surplus problem.

Dairying has provided these families a livelihood over the years. Now, they consider it a good deed to participate in the dairy herd buyout program, to return a favor to the industry in its time of need so it in turn can help provide a future for other families interested in dairying. They are not looking to get rich off of the Government; they only want to recover some of the extra costs that are associated with getting out of dairying under the strict guidelines set by the Government.

Unfortunately, the integrity of many of these individuals is now being questioned, and their privacy is being invaded. That's mighty unfair to those who are honestly trying to help the dairy situation.

Whether or not the dairy herd buyout program will overcome the milk surplus situation remains to be seen. One thing is certain, the herds that have been slaughtered won't be creating any milk surplusses! Future surplusses will depend largely upon the number of additional dairymen who will exit from the business, and on milk production from those who remain in business.

As the dairy economy tightens, many dairymen find it necessary to increase milk output in an effort to keep current on the bills. If surplusses continue the milk support price will be triggered downward. Further reductions, or assessments, can be expected too as a result of Gramm-Rudman legislation. As prices continue to fall, more and more dairymen will exit. That may help offset increased production from other dairymen. Some people would like to implement a system of supply management; others prefer a free market. What lies ahead remains to be seen.