

The Farm Bill And Dairy Farmers

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President Bush recently signed into law the Food, Agriculture, Conservation and Trade Act of 1990. This Act, also known as the 1990 Farm Bill, sets basic U.S. dairy policy for the 1991-1995 period. The most important provision of the bill is the establishment of a \$10.10 per hundredweight U.S. support price "floor" for milk testing 3.67 percent butterfat. For milk testing 3.5 percent butterfat, the support price is \$9.90 per hundredweight. This is the current U.S. support price.

The establishment of a support price floor of \$10.10 represents a major change from the 1985 Farm Bill. The Food Security Act of 1985 contained a "trigger" which reduced the support price based on Commodity Credit Corporation (CCC) purchases of surplus dairy products. In addition, the 1990 Farm Bill also changed the way dairy surpluses are calculated. To date, all such accounting has been based on butterfat equivalents. As a result, with heavy butter purchases in recent years and little or no cheese or non-fat dry milk purchased, surpluses have looked much larger than they were in reality.

The new Farm Bill will substitute total solids for butterfat accounting. The Act further provides authority for the Secretary of Agriculture to increase or decrease the support price based on surplus purchases, provided that the price is not reduced below \$10.10 per hundredweight.

For calendar years 1991-1995, if purchases are greater than 5 billion pounds total solids equivalent, the Bill calls for a support price reduction of between 25

cents and 50 cents per hundredweight. If removals are between 3.5 billion pounds and 5 billion pounds, there is no change in the support price. If removals are estimated at less than 3.5 billion pounds, the support price will be increased by at least 25 cents per hundredweight. In no case can the support price be reduced below \$10.10 per hundredweight.

As has been the case in recent years, the Farm Bill had to pass strict "budget muster." For the first time, the 1990 Farm Bill limited total annual expenditures for surplus dairy products at the cost of purchasing 7 billion pounds of total solids equivalent. If annual surplus purchases exceed the 7 billion pound "cap" during any of the years 1991-1995, a uniform assessment per hundredweight will be charged to all U.S. producers. The assessments will be equal to the cost of purchases in excess of 7 billion pounds.

The Farm Bill also provides a vehicle for the development of an "inventory management" program, to limit milk surpluses. By Aug. 1, 1991, the Secretary of Agriculture is to "prepare and submit a report and recommendations" to the House and Senate Agriculture Committees on "milk inventory management programs." USDA will be soliciting supply management proposals from the industry as part of this study. This study will include a review of two-tier pricing. Adoption of another "buy-out" program is prohibited.

The Bill calls for "reform" of the Minnesota-Wisconsin (M-W) price series. USDA is currently preparing a study of alternative price formulas. By Oct. 1, 1991, a national Federal Order hearing will be held to consider proposals

to replace the M-W with a new price mover. U.S. support program. Currently, the state of California provides manufacturing plants with processing margins that are considerably greater than those used by CCC. Given the vague wording of this section of

the Act, there are questions regarding USDA's ability to enforce this provision.

The Bill also provides for the possible establishment of a "processor-funded promotion program." Any monies collected under the program would be generated by an increase in Class I prices. The maximum rate of funding is set at 20 cents per hun-

dredweight. Processor approval is needed to implement the program.

In sum, the establishment of a \$10.10 per hundredweight support price floor represents a major achievement for producers. As significant, the establishment of a ceiling on total Federal dairy program costs signals producers that needed income can only be generated in the marketplace.



In the rush of events, we tend to overlook the important friendships that are the true basis of business relationships. One of the great pleasures of the Holiday Season is the opportunity to exchange greetings with those whose friendship and goodwill are valued so highly.

In this spirit it is a pleasure to say "Thank You" and extend sincere appreciation for the very pleasant association enjoyed with you.

May a bright and prosperous New Year bring happiness to you and to yours.

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