

# Senate Approves Dairy Compact Legislation 44-6

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Officially, the Senate bill still needs to be sent to the House Ag Committee by House leadership, before the committee can review it.

The Northeast Interstate Dairy Compact is a multi-state trading agreement originally intended only for the six New England states, that was authorized by the 1996 Farm Bill.

The 1996 Farm Bill set up for the removal of the federal government from its 50-year role in manipulating the market availability and thus the market values of agricultural commodities, and setting up producer-support prices and programs.

The purpose for federal support programs was to ensure the availability of reasonably affordable foods to Americans, as well as to maintain an adequate commodity production sector.

While the dairy industry never demonstrated consensus on what federal policy should be for itself (during a series of meetings held across the nation that resulted in no consensus, and regional and industry sector differences), for the most part the mainstream sector supported removal of federal pricing.

(Some who now support the expansion of the Dairy Compact and the creation of other similar Compacts around the nation have said that the reason the dairy industry wanted to be free of the federal government in the early 1990s was

because, at the time, dairy farmers were being assessed monies by the federal government that were used to help pay down the national deficit, as well as provide a disincentive to expansion. That program ended with the 1996 Farm Bill.)

Federal government support programs were also targeted for removal because they posed barricades to international trade negotiations in achieving free markets for United States' agricultural commodities.

World market prices of various agricultural commodities have been kept artificially low for years as a number of nations sought to maintain certain domestic agricultural sectors, if not all in-country agrarian production and cultures.

(A commonality in many nations' protectionistic programs for agricultural overproduction is essentially that the surplus is purchased by the government, removed from domestic supplies, and offered at a discount to the world.)

The strategy has been shown to temporarily maintain domestic production and standards of living, as long as the burden to the rest of the economy isn't overwhelming, but the strategy of protectionism has not been shown to be a satisfactory plan for long-term stability.

The Northeast Interstate Dairy Compact was achieved in the 1996 Farm Bill because of a trade-off of interests, and because Vermont's U.S. Sen. Patrick Leahy argued

that the Northeast states — a deficit dairy production region — was not a major producer of milk or dairy products, had natural disadvantages to dairy farming and was losing dairy farmers at a rapid rate, which not only hurt the Northeast's rural agricultural business sectors, but the region's tourism industries as well.

In the meantime, the methods employed by the federal government to arrive at a value for milk has resulted in extreme volatility in producer prices.

Furthermore, despite two of the past three years providing all-time record dairy producer prices, and 1999 projected to provide the third all-time highest average producer price (even with the dramatic drop in price early this year), those prices are averages, and dairy farmers don't generally operate on annual averages, but monthly cash flows.

Farmer income can be measured in many different ways, depending

upon the length of time discussed, and whether it be in terms of cash flow to meet debit payment demand or in annual total revenues compared to outlays.

Dairy farmers, unlike other agricultural sectors, have not been familiar with risk management and techniques for dealing with extreme fluctuations in cash flow.

Earlier this year, the federal government followed through with the introduction of its pilot program to offer dairy farmers a virtually risk-free opportunity to learn how to use dairy futures put options as a form of "crop insurance" to prevent extreme drops in prices received, such as is currently happening.

However, farmer participation was less than desired.

In the meantime, Pennsylvania has become a center for political pressure for support of the Northeast Compact.

In order for Pennsylvania, New York, New Jersey, Maryland, and

certain other states to join the Northeast or a new Southern Compact and/or Pacific Compact, the federal Legislature would have to pass legislation authorizing such.

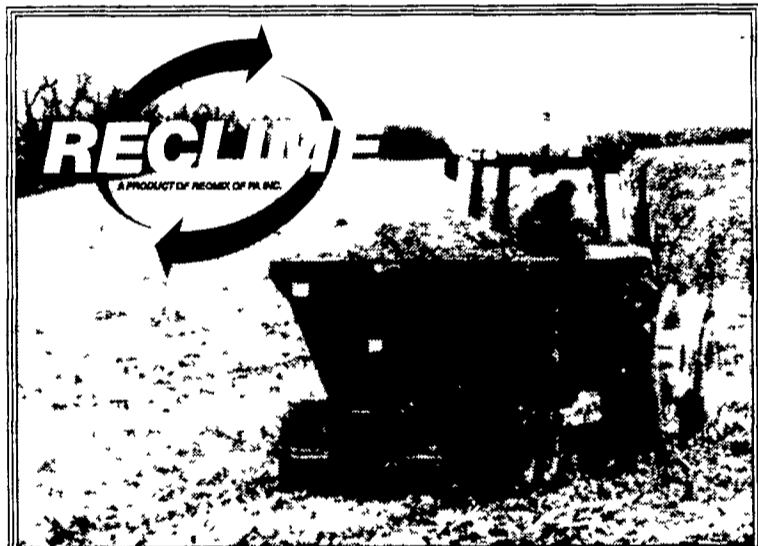
For the Northeast Interstate Dairy Compact, if Pennsylvania would not join, it could isolate Maryland from being contiguous and being eligible, should the federal political body favor expansion and reauthorization of the Compact.

New York's Legislature approved Compact enabling legislation last year, when it was tied into a pay raise for the Legislature and offered in late hour dealings.

While some Compact reauthorization and expansion legislation has been introduced at the federal level for consideration, it is perceived to not be a political imperative.

What has been grabbing national attention has been the military

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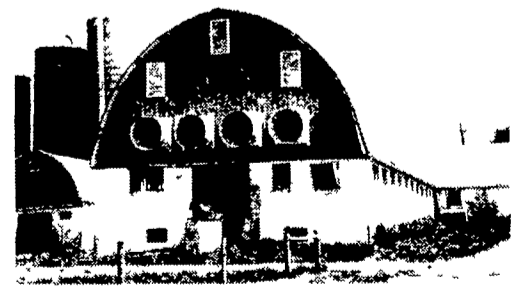
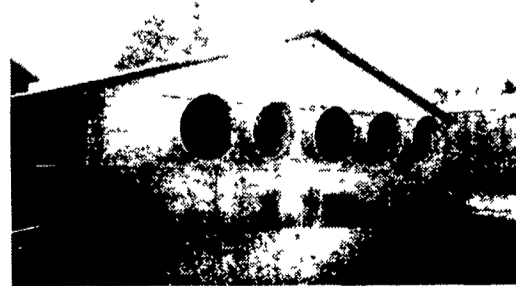
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