

Many Issues Surround Northeast Dairy Compact For Pennsylvania

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authorizing the existing Dairy Compact provides for possible expansion, should certain adjoining states' legislatures create specific authorizing laws.

Pennsylvania remains the hold-out among those additional states to create such Compact eligibility laws. However, it appears likely that the state Legislature will do so, even if reluctantly, if the dairy farming community and the farm policy organizations continue to request it.

New York State did so when Compact authorizing law was attached at the last minute to legislation that provided salary increases for the state's legislators.

The original Compact legislation was reported to have been added to the 1996 Farm Bill through political negotiation — as a trade-off for votes for other legislation relating to a United States' senator's bid in the presidential election and related federal campaign funding. That report has never been refuted.

Numerous reports from lobbyists and federal lawmakers indicate this week were projected to continue to be low.

However, farmer advocacy organizations and national dairy cooperatives have been urging for the passage of Compact-eligibility laws for Pennsylvania and the other states, and also for the federal Legislature to reauthorize and expand the Northeast Dairy Com-

act, as well as create the other regional Compacts in the United States.

The co-ops and organizations claim that expanding the Compact would bring "price stability" to Northeast dairy producers.

It seems that despite the strength of annualized average dairy prices, the volatility of the monthly dairy price under market conditions is the reason dairy farmers are going out of business.

In other words, while the income for the year may be greater than it has been, the variability of monthly cash flow at the farm — from high profit to high loss — is hurting dairy farmers because they must pay most bills monthly, not annually, and their businesses are mostly not designed to save extreme increases in cash flow to use during periods of extreme decreases in cash flow.

Furthermore, the modern United States dairy industry economic system has developed in an environment of a federal milk marketing order pricing system that continues to set values for milk, milk components and dairy products, rather than allowing the industry to discover its own values and demand for milk.

The transition away from government producer price supports,

as well as competitive pressures to increase productivity, have resulted in a rapid pace of mergers and consolidation in all sectors of agriculture, including, and to some extent especially, the dairy industry.

Also adding to the confusion is the fact that the USDA continues to determine the value of milk, and has recently announced a final order changing the structure and date that reauthorization of the Compact law is not popular in Washington, even though legislation has been introduced.

In recent months, however, Pennsylvania's U.S. Sen. Arlen Specter, R-Philadelphia, held a press conference to announce his support for expanding the Compact.

Up until then, the consensus of sentiment that seemed to be expressed by the Pennsylvania delegation to Washington was that the federal government's role in controlling the price of farm commodities — either through national supply management or through various production control programs — was over.

Since then, however, farm commodity prices dropped across the board, apparently in response to devalued currencies of global trading partners, surplus production, and the failure of intended export

markets. According to published reports and testimony presented at hearings regarding low commodity prices, product intended for export instead has been marketed domestically, adding to, or creating, surplus and lower producer prices.

The domestic dairy industry had been the exception, with record high prices received by producers for much of 1998 and extending briefly into 1999.

In February, the market price for dairy commodities dropped significantly and resulted in a dramatically lower Basic Formula Price (farmer prices respond with a two-month delay after the BFP level moves up or down) that resulted in an unexpected, significant decrease

in milk value.

Especially since then, political lobbying efforts have strengthened considerably to promote passage of Compact legislation.

The issue is controversial and somewhat confusing.

Agricultural economists have forecast that 1999 dairy prices should represent the third highest average price ever. At the same time, feed prices have been lower than they have been for years, and mechanisms by which it assigns milk values.

Dairy and other farmer political organizations have already begun lobbying the U.S. Legislature to create a law changing the final order.



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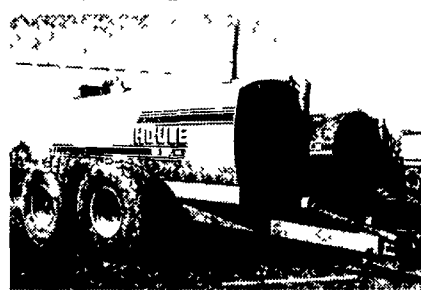
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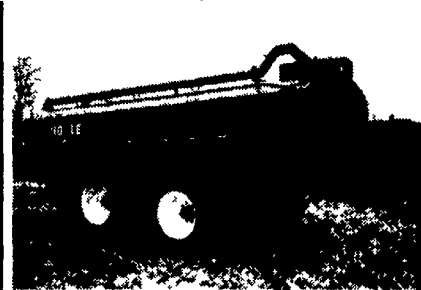
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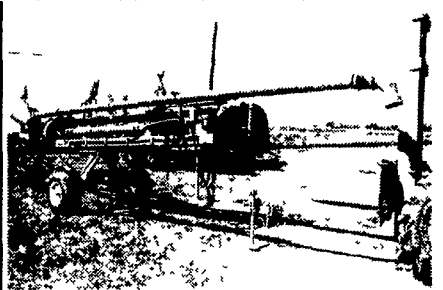
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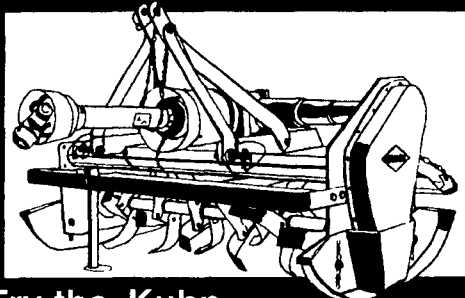
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