N.E. Dairy Compact Commission Sets Management Hearings

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MONTPELIER, Vt. — In about two weeks, details of a proposal for a supply management program for dairy producers in the Northeast Interstate Dairy Compact region are to be published in the Federal Register.

Also to be published are details for Northeast Dairy Compact Commission meetings, and hearings about the proposed program, set for July 7 at the Eastern State Exposition in West Springfield, Massachusetts, and August 4 at the Northern Stage Opera House, in White River Junction, Vermont.

The Compact Commission is a group of delegates from the six New England states enjoined in the Constitutionally authorized Northeast Dairy Compact.

The Commission meetings are to be held at 1 p.m. at the sites, and they are to be the Commission's regular monthly meetings.

The hearings follow the meetings on the same day, and they should be of interest to Compact producers and others, because they have been especially scheduled for 7 p.m., in an attempt to attract testimony from actual dairy producers.

A Commission official said this was done because the Commission considers it has had a lack of direct input from actual farmers, and for months has had plenty of testimony from representatives of dairy cooperatives, dealers, political organizations and related groups, especially with respect to the supply management proposal.

According to Kenneth Becker, executive director of the Compact Commission, when the Commission met the first week in June to consider a condensed proposal for a supply management system, it put off acting on the proposal until later in the year.

Becker said that the "commissioners want to tweak the proposal."

As it was, the proposal would institute an assessment on each 100 pounds of milk sold by a Compact producer. At the end of the marketing year, those farmers who kept their production stable (no more than 1 percent increase) get a refund of their assessment. Those who increased production lose their assessment. Those who decrease production get a regular refund, plus a bonus refund on each 100 pounds of decreased production.

In essence, the proposal creates goals of no-growth and reduced production for the Compact producers.

While just short of an explicit quota system, the proposal is considered a form of a quota system by many.

This has provided much concern for those in Pennsylvania who have been considering the adoption of legislation to allow Pennsylvania to join in the N.E. Compact should the U.S. Congress expand its borders and extend its life.

Started in 1997, the Compact had an original termination of date of April 1, that was extended to Oct. 1, 1999.

In its brief time of operation, it has provided additional income support for New England dairy farmers (as well as some New York and Pennsylvania farmers), but has also been attracting more milk than it needs.

Milk received by processing plants within the Compact region qualifies for Compact payments. Even if the milk is then "diverted" for use outside of the Compact region, it gets priced at the Compact level.

Last fall, the Commission adopted a rule limiting the amount of milk that a processing plant could divert and still receive the Compact price.

As far as can be determined, in brief, this was done because the Commission didn't want a situation that could foster the deliberate shipment of unwanted milk to a Compact processing plant merely to draw a higher price for the milk.

Depending on the ownership of the processing plant, the motivation to do so is considered a possibility.

When that is done, it dilutes the value of the milk, and thus the farmer price, for all within the Compact.

That problem of increased diversions of milk was exacerbated with increased milk production within the Compact.

Testimony was presented to the Commission that the increased milk production was in response to favorable milk-making conditions, not a widespread expansion of, or increase in, dairy herds within the Compact.

The temporary overage resulted in Compact farmers being required to pay the USDA Commodity Credit Corporation to remove low value dairy product to boost the value of fluid milk.

It has been feared by many that the Compact, by offering a guaranteed price, could result in a more rapid demise of small herd family farms.

It is reasoned that such a guaranteed price could attract investments to fund large-herd dairy facilities that could outsupply and outperform long-time small dairy farms.

However, in markets with no return on investment guarantees, there is greater risk to investment. Logic and history indicate that greater risks are more likely assumed by individuals rather than large financial groups.

Reduced return on investment risk has changed poultry and swine production investment sources, and essentially the production industry in those meat production sectors.

The Compact concept is to stabilize the dairy industry, not stimulate its growth or change the nature of the production industry.

The N.E. Compact specifically was instituted to stabilize small herd family farming in the New England states.

What has become tricky with the Compact pricing system is similar to problems experienced by the USDA during its administration of its defunct program — designed to provide a minimum milk price to farmers in order to keep them in business until market prices recovered to profitable levels.

Here's the concept, as understood by *Lancaster Farming*: The Compact Commission sets a minimum retail price on milk used as beverage milk, in an attempt to provide a fair system for compensation for product to consumers and farmers within the Compact system.

If too much milk is made, or shipped in, then, for some of the farmers, their pay will drop below the cost of production, no matter what floor price is set by the Commission.

That is to serve to curtail in-Compact production.

However, it doesn't appear as though that is enough of a tool to deal with the real world.

On top of that, the complicating aspects of the current United States milk marketing and pricing system are many, and they affect the ability of the Compact Commission to keep the system simple and fair.

The federal government sets the value of milk after considering the current market value of manufactured dairy products.

For example, when the USDA determines the current price to be paid to a farmer for his milk, it considers the current open trading market price of cheese on national exchanges — and then uses that price as a major factor in determining the current value of fluid milk (and thus the farmer price).

For the farmer and anyone else without cheese processing company records, trying to match up the value of cheese with the price paid for the milk used to make that cheese is impossible.

Forget trying to determine the value of the milk used to make the cheese whose current market value determines the current value of milk, etc.

The perceived assumption used in establishing cheese as a fluid milk price mover is that cheese use represents a regular use of surplus fluid milk, therefore, low-priced cheese represents greatly excessive fluid milk.

Thus tied together in a pricing formula, the government attempts to stabilize the dairy industry by creating a supply-and-demand cyclical relationship based on two relationship assumptions:

1. Low priced cheese creates low priced milk to the farmer and reduces the milk supply; that results in less excessive milk produced, less cheese being made, and thus causes increases in the price of cheese, which then increases the price of milk, etc.
2. Increases in the price of milk stimulates increases in milk production, while decreases in milk price cause decreases in milk production.

However, real world influences — primarily the decisions made by people within the dairy industry — tend to break down the relationships.

For example, for years some dairy farmers have testified at various hearings that they increase dairy production in response to receiving low milk prices (to maintain cash flow to pay bills), and others have testified that they have increased production in response to higher prices (to exploit profitable opportunities).

Because the price the farmer receives for his milk is calculated after the fact, and because he has no direct control over how it is being marketed, he can't know how much he will receive, but he can know how much he spends to make it.

In the competitive battle to control market supply, the trend has been to high-numbered animal operations of thousands of cows. California, and non-traditional dairy states have seen the most

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