WHAT'S IN STORE FOR DAIRY POLICY AND MARKETING ORDERS?

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Since 1995 is a Farm Bill year, the question "What's in Store for Dairy Policy and Marketing Orders" is generating considerable discussion throughout the dairy industry.

In the Senate, Agriculture Committee Chairman Richard Lugar has questioned whether commodity programs and marketing orders should be continued. On the House side, Livestock, Dairy and Poultry Subcommittee Chairman Steve Gunderson, is on record as wanting to redesign current dairy programs.

The organization I represent, National Milk Producers Federation, is anxious to work with the Congress and others to develop politically achievable policies that benefit the entire industry.

The dairy price support program has been a cornerstone of U.S. public policy toward the dairy industry for 45 years. The current dairy price support provisions are authorized through or beyond 1995. The Omnibus Budget Reconciliation Act of 1993 extended the $10.10 minimum price support level and the price reduction to producers when CCC purchases exceed 7 billion pounds through 1996. The same act authorized the budget reconciliation price reduction at $.10 per cwt. for 1996 and 1997.

The Uruguay Round Agreements Act authorized the Dairy Export Incentive Program (DEIP) through 2001. The Commodity Credit Corporation (CCC) dairy purchase, donation and sales programs are permanently authorized under the Agricultural Act of 1949.

The annual net cost of the dairy price program was reduced from $2.5 billion in fiscal year 1983 to $158 million in fiscal year 1994. Without doubt the 1995 Farm Bill provision will be budget driven. Eliminating the dairy price support program is a possibility. At the very least, the program will have to adjust to further cuts in federal funding.

Under the Uruguay Round GATT accord the U.S. must reduce the product volumes and the monetary outlays used to export dairy products under the DEIP and the CCC export sales programs. These commitments, which become effective July 1, 1995, require the U.S. to reduce subsidized dairy product exports in even annual increments from 2.82 billion pounds milk equivalent and $185.6 million in 1995 to 1.53 billion pounds and $116.6 million in 2000.

The CCC dairy purchase program and the $10.10 minimum price support level are considered "domestic support" measures under the GATT agreement. The U.S. has committed to reduce these and many other domestic agricultural supports, but only on an aggregate basis for all commodities and programs. Furthermore, the required reductions are measured from a base in the mid-to-late 1980's, when U.S. farm supports were considerably higher than they are now. The U.S. has therefore already met its total domestic support reduction requirements and will not have to change the CCC dairy purchase program nor the $10.10 per cwt. support price for milk as a result of the Uruguay Round agreement.

Under the trade agreement, producer assessments are treated as reductions in domestic support to farmers. Reducing or removing a producer price reduction such as the budget reconciliation milk price reduction, would count as increasing domestic support. However, the U.S. could totally eliminate all current dairy producer price reductions and easily stay within its total domestic support reduction requirement under the trade agreement.

1995 FARM BILL ENVIRONMENT

LEGISLATIVE OUTLOOK

Federal funding to continue a dairy price support program will be reduced.
Federal dairy price support program funding will end in five years or less.
Federal milk orders will be eliminated unless "reforms" are made.

MARKETS

Current

The U.S. milk supply is increasing faster than domestic demand.
Dairy product imports are limited.
Dairy exports due to DEIP subsidies are over 2.5 billion pounds a year.
Price support removals are moderate and government stocks are low.
Milk prices have remained above the support price level for four years.

Outlook

The U.S. milk supply will continue to increase faster than domestic demand.
The GATT will reduce U.S. barriers to dairy imports.
The GATT will increase export opportunities by reducing import barriers that countries impose.
U.S. subsidies reductions will cut DEIP exports almost in half over five years.

The GATT will strengthen international market prices and enhance export opportunities by requiring other countries to their reduce export subsidies.

FUTURE POLICY

I believe that we should try to improve dairy producer income by developing new markets for U.S. dairy products through initiatives to capture expanded export opportunities available under the Uruguay Round GATT accord. The Uruguay Round GATT accord opens the door, albeit just a crack at first, to new markets for U.S. dairy products. The time to capture these new markets is now, not five years down the road when others have built customer relationships. The 1995 Farm Bill should be structured to help the U.S. dairy industry capture international markets.

I think the dairy price support program and the 11.25 cent budget reconciliation milk price reduction levied on dairy producers to partially fund price support activities should be eliminated. Eliminating the milk price reduction will put money in every dairy producers' pocket, while eliminating the price support program will permit unrestricted access to export markets. One need not look any further than the quick pace of 1995 DEIP sales to get a peek at what unrestricted access to international markets might mean in the way of additional export sales.

The U.S. dairy industry is in a position to compete for unsubsidized international markets. International dairy market prices have moved up close to the U.S, support price for butter and nonfat dry milk. Based on international dairy market prices reported in the USDA Dairy Market News last week (Feb. 13 - 17, 1995), returns to butter-nonfat dry milk plants were close to or above the returns realized using CCC purchase prices.

FEDERAL ORDERS

Turning to federal orders, I think the dairy industry has a continuing need for orders to maintain the statutory authority necessary for marketwide pooling. The federal order issues are very contentious. At stake are issues that involve dividing the pie i.e., who gets less money and who gets more money.

For several years federal orders have been criticized as being inequitable to dairy producers in the upper midwest. One perceived inequity is the Class I price structure. Class I differentials increase as the distance from their lowest in the upper midwest increases ($1.20 Minneapolis & $1.40 Chicago vs. $3.14 New York & $4.18 Miami). A question we hear is: *Why is the Class I differential in Chicago $1.74 less than New York when both markets have an adequate milk supply?*

The current differentials were among several provisions in a legislative package proposed by

NMPF that was enacted in the 1985 Farm Bill. A proposal to change the differentials was considered at a lengthy hearing held by USDA in 1990. USDA decided not to make any changes in the federal order Class I differentials based on that hearing. The NMPF members were split at the hearing and remain divided today over federal order "reforms".

Another criticism of orders involves the federal order market structure. On January 1, 1995 there were 38 federal orders. The orders with the highest Class I utilization are in the southeastern U.S. while upper midwest orders have low Class I utilization. The average federal order blend price to producers in 1993 ranged from $11.91 in the Upper Midwest order to $15.28 in the Southeastern Florida order.

"REFORMS" THAT WILL BE DISCUSSED

NATIONAL POOLING

Under a national pooling scenario with no change in existing Class prices or other order provisions, the blend price to producers would have averaged $12.89 in 1993. Compared to the actual blend price in each order, a $12.89 blend price would have been lower in 24 orders and higher in 13 orders (See table below).

1993 Blend Price Range	No. Orders
<$12.00	1
$12.00 - $12.89	12
$12.90 - $13.24	7
$13.25 - $13.99	9
$14.00 - $14.99	7
> $15.00	1

MULTIPLE BASING POINT PRICING

Under a multiple basing point pricing plan the Class I differential would be fixed at the same level under each order that is adequately supplied with milk for fluid use. An order with an annual average Class I utilization less than 60 percent is generally considered to have an adequate fluid milk supply. Except for 12 southeast orders and a few others, all federal orders have a Class I utilization below 60 percent.

The Upper Midwest has the lowest Class I differential ($1.20) among all federal order. The highest Class I differential among orders with less than 60 percent Class I utilization is $3.24 in New England.

MERGE EXISTING ORDERS INTO ABOUT FIVE REGIONAL ORDERS

LEGISLATE A FLOOR UNDER THE CLASS I PRICE

The 1995 Farm Bill with a new party controlling Congress, with deep budgets cuts that will gut programs and with the GATT accord being implemented provides an opportunity to restructure existing programs. It's going to be tough to convince some in the industry to abandon a price support program that has done a good job in providing a safety net on milk prices. However, I'm convinced that the restructuring can benefit the dairy industry.