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United States
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Agriculture

Economic
Research
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National
Economics
Division

Proceedings of the Dairy Economics Symposium Kansas City, Mo. March 22-23, 1982

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DAIRY ECONOMICS SYMPOSIUM

On March 22-23, 1982, the U.S. Department of Agriculture sponsored a symposium on the situation facing the dairy industry--milk supplies in excess of demand. This imbalance has led to substantial Government purchases of dairy products to support the price of milk.

The purpose of the symposium was to provide the dairy industry with an opportunity to make input to the Department regarding alternative courses of action that might be taken to work out of the current excess supply situation. Representation at the symposium was widely-based, including most general farm organizations, dairy marketing cooperatives from the major producing areas of the country, dairy processors, and dairy producers. Total attendance was 250, with 50 presenting their views.

Deputy Secretary Lyng and Assistant Secretary Leshner made clear to the industry that, although no decisions have been made by the Administration regarding the handling of the current situation, something has to be done. Moreover, it was stressed that while near-term solutions are imperative, the Department's study of dairy programs mandated in the Agriculture and Food Act of 1981 will provide a basis for longer-term decision-making. This study is scheduled for completion in early 1983.

Current Dairy Situation

A synopsis of the dairy situation was provided by Government and industry analysts at the outset of the symposium. The consensus was that:

- o milk supplies are currently about 10 percent in excess of commercial sales and will remain near those levels next year at minimum prices specified in current legislation.
- o dairy product removals by the Commodity Credit Corporation under the Dairy Price Support Program have escalated:
 - * CCC net removals amounted to 0.9 percent of milk produced in 1979, 10 percent in 1981.
 - * CCC purchased 29 percent of total butter production in 1981 (equal to 4 months of commercial use).
 - * CCC purchased 21 percent of total cheese production in 1981 (equal to 10 weeks of commercial use).
 - * CCC purchased 63 percent of nonfat dry milk production in 1981 (equal to 2 years of commercial use).

- o the supply-demand imbalance was brought about by support of milk prices at levels which were and are high relative to prices of feed and cull cows.

Disposition of CCC Stocks

Several alternatives were suggested for dealing with the current excessive CCC inventories of dairy products and to curb the recent rapid accumulation. Among the suggestions for disposition, the following were most frequently identified:

- o distribute more dairy products through the National School Lunch Program;
- o distribute more surplus dairy products to the needy (e.g., current cheese distribution program);
- o increase P.L. 480 shipments (especially if the charge to AID is reduced from the existing 19 cents per pound for nonfat dry milk); and
- o increase military use (although resistance was noted--the Air Force Surgeon General opposes butter in place of margarine).
- o establish a national dairy board that would be responsible for the disposition of accumulated stocks (losses in the sale of excess production would be assumed by dairy farmers);

Alternative Support Programs

Among the actions suggested were the following:

- o replace the current program with one that would make direct income payments to dairy farmers in times of low prices (as with current grain and cotton programs);
- o achieve price support for Class 1 milk through market orders while eliminating the purchase of dairy products;

Price Support Actions for Next Two Years

There was general recognition that actions were needed to reduce incentives to produce milk in the next 2-3 years in order to redress the supply-demand imbalance. Proposals were of two general types:

- o reduce milk prices across the board to all dairy farmers by lowering support levels.
- o establish a base-excess plan for each producer whereby he would receive prices reflecting the current support level for the share of the total supply which is sold commercially (now about 90%) and an excess price at much lower levels for the remainder. The base would relate to some historical period (say the last 3

years). Those who reduced production to this level would receive the current price.

Other Proposals

A number of proposals were directed at increasing either commercial sales or subsidized use of dairy products:

- o reinstate the Special Milk Program and School Lunch Program at previous levels, increasing use of milk in schools;
- o increase promotional expenditures for dairy products through a national check-off on all milk producers;
- o subsidize dairy exports;
- o shift to multiple component pricing of milk (on basis of fat and nonfat solids content);
- o establish higher minimum standards for fluid milk products, increasing the nonfat solids content;
- o re-establish through subsidization a domestic casein industry.
- o increase commercial exports (although some Government involvement may be required to arrange credit, etc.);
- o increase domestic consumption through product development;
- o lower class 1 price differentials to stimulate consumption and reduce the incentive to produce Grade A milk in excess of fluid product sales;
- o adopt a cull cow program making payments to producers and protecting the domestic beef industry by reducing meat import quotas.

Proceedings

This Proceedings includes all of the statements at the Symposium which were submitted in written form at the meeting or thereafter. Several are from persons who were unable to present them in person at Kansas City. Most were reproduced from the copy supplied by the speaker. Secretary Block's speech in Seattle on March 3 is also included. It provides the call for the Symposium.

U.S. Department of Agriculture
Office of the Secretary

I really appreciate having this opportunity to speak with you here today in Seattle. And thank you for that kind welcome. It reminds me of an observation made by President Reagan when he was speaking in Washington. He entered the room...there was a great amount of applause, of course...and then he reminded the audience that all public speakers share one common thought: They hope they get as much applause after they've finished talking.

There's a reason why I say that today. You see, nothing would make me happier than to stand up here and talk about what a tremendous job we're all doing in getting dairy production back into line with demands. In fact, nothing would make me happier than to see the day when there's a glass of wholesome milk in front of every person...at every table...and at every meal of the day. I'm certain the American public is learning more every day about the nutritional value of dairy products, and we have to maintain our educational efforts in that respect. I'm also certain that you, as responsible dairy producers, also share my vision of the day when we can put all of our problems behind us.

But you also realize that we've got a lot of work to do before that day comes and...quite frankly...we aren't even headed in the right direction yet!

That means we have some serious matters to talk about. In fact, let me take it a step past that -- we have some urgent matters to talk about today!

So, let's use this opportunity right now to face the problem squarely ...examine some figures that are not too friendly...and then lay some groundwork for a cooperative effort to find a solution.

So that none of you misunderstand the direction that I'm coming from, let me make it clear right now that I support the need for a dairy price support program...as long as it achieves what it was intended to do...and nothing more. It's imperative that we have some type of structure that guarantees consumers an adequate supply of dairy products at reasonable prices, while providing producers a fair return.

Remarks prepared for delivery by Secretary of Agriculture John R. Block at the Western States Dairy Conference, in Seattle, Washington, March 3, 1982

A dairy program that would attain these goals has to be considered a friend...a friend to the consumer and a friend to the producer. But we all know what happened. The figures that are before us today are not friendly -- they are the enemy, and they have to be dealt with accordingly.

I'm talking about a quarter of a million dollars! Not every month...or week...or day! The taxpayers of this country are giving the dairy industry a quarter of a million dollars every hour -- twenty-four hours a day. This is embarrassing...it's unacceptable -- ladies and gentlemen...it's intolerable! It cannot continue!

I doubt very much whether the authors of this program could have ever envisioned what was going to happen. Could they ever have envisioned that by 1982 this country would be spending that kind of money...for what?...to build a storage of more than a billion and a half pounds of dairy products, growing so rapidly that we can't give it away fast enough.

And that's what makes this whole situation so intolerable. I could face these costs with much more ease if I knew that something was being done about it...that things were moving in the right direction. But that's not the case. Even with the revisions that were made in the program within the past year -- production continues up...three percent from a year ago...demand is flat...and the taxpayer is forced to buy the difference.

Right now our uncommitted inventory contains 290 million pounds of butter, 581 million pounds of cheese and 920 million pounds of non-fat dry milk. Our storage costs are running about \$42.5 million per year at those current inventory levels...but let me remind you...those levels are growing. Even with the distribution of 100 million pounds to needy people around the country, we still expect our cheese surplus to grow 200 million pounds by September 1, over what it was a year earlier.

We also need to face the fact that the Western States must share their fair responsibility for this problem. Our figures show that the Western States have increased their share of the total CCC purchases of butter and non-fat dry milk over the past 10 years.

California alone accounted for 24 percent of CCC butter purchases last year...and 26 percent of the dry milk purchases. Four Western States -- and I'm referring to California, Idaho, Oregon and Washington -- accounted for 31 percent of our total CCC butter purchases and 38 percent of our non-fat dry milk purchases last year. These figures are up from 14 percent for each product compared to 10 years ago.

Between October 1 last year and Feb. 19 this year, our purchases of butter were up 6 percent from the same period a year earlier. Cheese purchases increased 17 percent, and non-fat dry milk...45 percent. I know that feed is cheap now and cull-cow prices are weak...so we seem to have an incentive for increasing production.

The philosophy is to make the money while we can, pay for those investments... then we can ease off and face the problems later. The trouble is that we are only adding to the problem...we're making it much bigger...and we may be approaching a day of reckoning that could be too much for us to handle.

Now don't let that statement pass over too quickly. There are those in Washington who are not too sympathetic with the dairy industry. They would like to do away with the dairy program altogether, not realizing the consequences of such an action. Fortunately, they are small in number yet...but I am deeply concerned that their numbers will grow sharply when our continued inability to deal with the problem becomes widely known.

As you know, the Administration fought hard for a reduction in support levels to deal with this problem. We fought for them because we knew they were in the best long-term interest of the dairy industry. In our minds, there was no question of our intent.

We were successful in receiving some reductions. And by our estimates, we felt that we were turning the corner and would have the dairy industry headed in the right direction -- a direction in which it would eventually find stability in the market place rather than with government dollars.

It didn't work out that way! Our estimates were wrong! And the estimates by Congress and the dairy industry were even further off. We've already heard the figures. But let me tell you -- it is becoming increasingly difficult to defend the basic intent of this program when we are not moving within the industry itself to correct the situation.

We're losing our grip! We have to face the cold, hard facts. We have to attack the problem from within! We have to discipline ourselves, because if we don't...

Well -- let's talk about the solutions. Let's lay the groundwork for our attack... consider the options...and then move to take some positive action.

Do we sell part of the inventory on export markets for what it will bring in a competitive situation -- about 20 to 50 percent of our purchase price?

Do we expand our dairy gifts to the needy people of the world...including those in this country...and receive little or no reimbursement?

Do we continue to store the surplus in hopes that our domestic commercial markets will absorb it in the near future?

Do we consider changes in fluid milk standards in order to utilize more solids-nonfat ...similar to the current practice in California.

Unfortunately, the export market is a poor alternative...and for a very good reason. First, our prices are substantially above the world market price. Secondly, our administration has been working with great determination to reduce trade barriers, and to convince other nations that they should not subsidize their products sold on the world market. The distribution of dairy products to needy people is also a poor long-term alternative. Our recent move to expand this distribution in cooperation with State agencies and non-profit groups has been an effective method of distribution. But it is not effective in reducing our surpluses.

As for waiting for the domestic market to absorb the surplus...it would not be facing the reality of the situation.

The fact is...none of the above alternatives provide the overall solution for the real problem. The reality of the situation is that currently we have over one million too many cows — and there's only one way we're going to cure that problem. We're going to have to make a voluntary effort to cut back production. I'm not just talking about two, three or four percent. We've got 10 percent too much right now, and we need to start disciplining ourselves before someone else does it for us.

Granted...we aren't going to come up with any solutions today. But I do want you to start thinking about it...and think about it seriously.

I am announcing today that I have directed my chief economist, Assistant Secretary Bill Leshner, to schedule a Dairy Economics Symposium later this month in a central location. His assignment is to obtain information, from a wide range of people, about how we can bring this program under control. No decisions will be made at the conference itself, but we're going to use the input we receive to make specific recommendations to Congress about what further changes should be made in the program. We'll be contacting your industry soon with more details on the meeting.

I encourage you to join together and help us attack the problem...and help us show the doubters that this industry is willing to take matters into its own hands.

We're going to do it, because that's the way agriculture is. We've all learned a harsh lesson from history that the solution is not to sit back and hope that the government -- already too big -- will lead us up that golden path to prosperity. We will not condemn ourselves to relive that kind of history.

Certainly, it would be much easier for us to help ourselves in the dairy industry if the state of the general economy were in better shape. But if it were easy...then there wouldn't be a problem.

President Reagan is doing a lot of things now that agriculture has asked him to do for a long time. And what he's doing makes sense. It makes sense to cut taxes and let us invest more of our money...to reduce the strangle-hold of regulation...and to slice away at government spending. And if we have the patience to allow it to happen -- then his economic recovery will work. I have no doubt about that.

But the dairy industry cannot afford to wait for this to happen. To do that, you would be working against the recovery...to the tune of a quarter-million dollars every hour. But if you take the initiative now...if you plan your attack and discipline yourselves to stick with it -- then you'll be part of the nation's recovery.

We in agriculture have to chart our own destiny...and we have to fight to make it happen.

Thank you.

DAIRY ECONOMICS SYMPOSIUM
March 22-23, 1982
Kansas City, Missouri
Marriott Hotel

Monday, March 22
Supply and Demand Prospects 1982-83 Under
Present Legislation

Bill Leshner, Moderator

9:00 a.m. Introduction and Purpose of the Meeting
Richard Lyng, Deputy Secretary of Agriculture

Supply and Demand Prospects
Charles Shaw, Agricultural Stabilization and Conservation
Service

International Market
Bryant Wadsworth, Foreign Agricultural Service

Use in Domestic Food Programs
John Bode, Deputy Assistant Secretary
for Food and Consumer Services

Government Purchases, Stocks, and Disposition
Merritt Sprague, Agricultural Stabilization and Conservation
Service

Other Views of Supply and Demand Prospects
Under Present Legislation
John Mengel, National Milk Producers Federation
Linwood Tipton, Milk Industry Foundation
Ivan Strickler, President, Mid-America Dairymen
Rodney Carlson, Land O' Lakes

General Discussion

Alternative Policies to Deal With the Situation

Reactors Panel: Judson Mason, National Milk Producers Federation
Herbert Forest, Agricultural Marketing Service
Andrew Novakovic, Cornell University
Bryant Wadsworth, Foreign Agricultural Service
Linwood Tipton, Milk Industry Foundation & International
Association of Ice Cream Manufacturers
John Bode, Deputy Assistant Secretary

2:15 p.m. Purpose of Session
William Leshner, Assistant Secretary for Economics

An Overview of Alternative Policies
Andrew Novakovic, Cornell University

Other Proposals and Panel Reaction

Bob Cropp, Wisconsin State University, Platteville
Bob Anderson, National Cheese Institute and American Butter
Institute
F.B. Daniel, National Farmers Union
Stewart G. Huber, President, Farmers Union Milk Marketing Cooperative
Paul E. Hand, Interstate Milk Producers Association
Linwood Tipton, MIF-IAICM
LaVerne Ausman, Secretary of Agriculture, Wisconsin
Charlie McGinnis, National Dairy Herd Improvement Association
Albert Scott, National Farmers Organization

8:00 p.m. The Federation Proposal

Pat Healey, National Milk Producers Federation

Another View

Bill Knox, Hoard's Dairyman

Panel Reaction

Discussion

Tuesday, March 23

8:00 a.m. Other Proposals

Irvin Elkins, President, Associated Milk Producers, Inc.
Jim Tillison, Executive Director, Wisconsin Cheesemakers Assn.
Bill Blakeslee, Vice President-Economics, Mid-America Dairyman
Warren S. Clark, Jr., Executive Director, American Dry Milk
Institute and Whey Products Institute
Jay Goold, League of California Milk Producers
Don Randall, National Independent Dairy-Food Association
Hollis Hatfield, American Farm Bureau Federation
James Grubele, Dairyman's Cooperative Creamery Assn.
J.G. Walker, Sulphur Springs, Texas
Andy VanderMeulen, Gen. Mgr., Dairy Marketing Services
Truman Graf, University of Wisconsin
Joseph Westwater, Dairyman, Inc.
Jim Neu, Neu Cheese Co.
Pete Hardin, Editor and Publisher, The Milkweed
Erwin Bruder, Bruder Dairy Products
Chip Goodman, Affiliated Food Processors, Inc.
Clint Warby, Utah Dairy Commission
Daniel Shaughnessy, Pres., Western Great Lakes Maritime Assn.
Roy Brog, Pres. & Gen. Mgr., Dairy Monitoring of America
Ray Gambonini, Consolidated Milk Producers of Calif.
Henry Polinder, United Dairyman's Association, Seattle, Wash.

Good morning! Welcome to this dairy program economic symposium. I must say that I am pleased and somewhat astonished at the large attendance at this meeting. As I look out over the people assembled here I guess my reaction is similar to that of General George Custer, just before the Battle of the Little Big Horn when he gazed at the Sioux and said, "Good gracious, aren't there a lot of them."

Your numbers are large, but even more important, you are truly the cream of the crop. Here in this room are the top leaders of the U.S. dairy industry, gathered together to address a problem, a problem which demands a solution.

The purpose of this dairy economic symposium was delivered by Secretary Block in his talk to the Western Dairy Conference in Seattle on March 3. He asked Assistant Secretary Bill Leshner, the Department's Chief Economist, to convene this session to obtain information from a wide range of people about how we can bring the dairy price support program under control. No decisions will be made at this meeting, but the Department will use the input received here to make needed decisions and to make specific recommendations to Congress for further changes in the dairy price support program.

The Department stands four-square behind the basic idea of the dairy support program. As the Secretary said in Seattle, "I am in full support of the dairy price program...as long as it achieves what it was intended to achieve... and nothing more. It's imperative that

Remarks presented by Deputy Secretary of Agriculture, Richard Lyng, at the Dairy Economics Symposium in Kansas City, Missouri, March 22, 1982

we have some type of structure that guarantees consumers an adequate supply of dairy products at reasonable prices, and provides the producer a safety net protection in times of low economic activity. A dairy program that would attain these goals has to be considered a friend...a friend to the consumer and a friend to the producer. But we all know what happened. The figures that are before us today are not friendly... They are the enemy, and they have to be dealt with accordingly."

You will be reviewing the situation in detail today and tomorrow, but let me summarize briefly how it looks to me. This year we are on the way to spending over \$2 billion of Government funds to build a stock of more than 1.5 billion pounds of dairy products.

Even with the revisions that were made in the program within the past year, production is up 3 percent, per capita demand is flat, and the taxpayer is buying the difference. Right now, our uncommitted inventory contains 270 million pounds of butter, 581 million pounds of cheese, and 920 million pounds of nonfat dry milk.

The Reagan Administration fought hard to prevent an increase in 1982 support levels in the 1981 Farm Bill. In spite of strong arguments to the contrary we believed our position to be in the best interests of the dairy industry. We were successful in holding the line. At that time, we felt that we had turned the corner and that by now the dairy industry would be heading in the right direction--a

direction in which it would bring production more in line with demand.

It didn't work out that way. We miscalculated. Production is still going up, demand is still flat, the Government is buying increasing quantities of dairy products. There are lots of reasons for this. But much of this is history which should be left to dairy historians. Our task today is to look ahead, not spend our time on past errors.

So what can be done? At U.S.D.A. we have not made up our minds. Our purpose at this symposium is to see if we can come up with some new ideas. It may be that the time has come to make some very basic changes in dairy policy. Let's keep our minds open as creative proposals are presented.

Outlets are not there to give away enough dairy products at home or abroad. The commercial market is not going to expand enough to dispose of the surplus. The adjustment must, somehow, come in production. This means that we must milk fewer cows. We have at least 10 percent too many cows right now and the total number of milk cows continues to grow!

The program for this meeting is essentially organized into two parts. Various experts first will discuss the supply and demand prospects for dairy and the CCC purchases and disposition. This will serve as a basis to begin a discussion of alternative policies to deal

with the current situation. A panel will react to the alternatives presented at various times, in hopes of surfacing the strong and weak points of each proposal. We have planned a program to provide ample time for everyone to make his or her input--at times, however, we may have to limit discussion to make sure everyone has a turn. We have planned that Tuesday afternoon will be an open time for anyone to make comments and suggestions. Please plan on staying for this important session.

Thank you for taking the time to help us. As I look at this room full of dairy experts I am optimistic that an effective solution to our problem will be found.

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DAIRY SITUATION AND OUTLOOK

BY

Charles N. Shaw

I appreciate the opportunity to participate in your program today. I was asked to summarize the supply and demand prospects -- given the current legislation.

I will approach the subject by discussing this recently enacted legislation and some of the factors which will be important in determining the price support level under this legislation. Primarily, I will discuss the current situation in the dairy industry as a basis for determining where we are and what we might expect in the next 12 to 18 months.

A year of uncertainty for the dairy industry characterized 1981. This followed three years when support prices were at 80 percent of parity with semi-annual adjustments -- as mandated in the Food and Agriculture Act of 1977. Recall that early last year the Administration requested, and Congress approved, legislation to forego the April 1, 1981 (semi-annual) adjustment in support prices. Thus, the support price was held at \$13.10 per cwt. for milk at the annual average milkfat content of 3.67 (\$12.80 at 3.5 percent fat).

Because the 1977 Act expired on September 30, 1981, the support level was raised (as required) to 75 percent of parity on October 1. Subsequent special legislation "rolled back" that increase to the pre-October 1 level of \$13.10 on October 21.

For presentation at the Dairy Economics Symposium, Kansas City, Missouri, March 22, 1982.

During the last half of 1981, formulation of the new farm bill was underway on Capitol Hill. Finally, after much deliberation, the Agriculture and Food Act of 1981 was enacted in December. This legislation continues the current minimum support price at \$13.10 through the 1981/82 marketing year ending September 30, 1982.

Additional provisions of the Act include:

1. The minimum support price shall be \$13.25 per cwt. in FY-83, \$14.00 in FY-84, and \$14.60 in FY-85.
2. If, at the beginning of any fiscal year the Secretary estimates that the net cost of Government dairy price support purchases will be less than \$1 billion during the fiscal year, the price shall be supported at not less than 70 percent of parity.
3. If the Secretary estimates that net Government dairy price support purchases will be less than 4.0 billion pounds (milk equivalent) in FY-83, 3.5 billion pounds in FY-84, and 2.69 billion pounds in FY-85, the price shall be supported at not less than 75 percent of parity as of the beginning of the relevant fiscal year.

Now I'll discuss the outlook for the remainder of this marketing year and the next marketing year.

Feed Prices Down, Will be Below a Year Earlier

The decline in feed ingredient prices last summer was reflected in lower dairy feed prices. The price of 16 percent protein dairy ration was \$180 per ton during February, down \$21 from a year earlier and \$18 below May. This decline, coupled with a fairly stable farm milk price, has led to improvement in the milk-feed price ratio. This ratio, at 1.54 in February, was up from 1.40 a year earlier and up from 1.35 in May.

With the record crops recently harvested, feed prices likely will trail year-earlier levels at least through the first three-quarters of this marketing year--and possibly year/through the entire year. This, coupled with slightly lower farm milk

prices, will leave the milk-feed ratio throughout the first three-quarters of this marketing year well above the year-earlier levels. Feed prices during the next marketing year will depend, in part, on this years harvest, although prices are likely to strengthen from the 1981/82 levels. While it is difficult to precisely determine future milk-feed ratios, they are likely to remain favorable.

Milk Production Continues to Expand

The expansion in milk production, which began in mid-1979, continued throughout the first 5 months of this marketing year. Production in October-February was 2.7 percent above a year earlier. Production for the current marketing year is estimated to total 135.5 billion pounds -- up nearly 3 percent. This gain will result from about 1.2 percent more milk cows and a gain of slightly under 2 percent in milk production per cow.

The continued increase in milk cow numbers relative to a year earlier has been possible because of the large number of replacement heifers available to enter the milking herd. In addition, lower cull cow prices throughout the year may have led to a reduced culling rate. Finally, relatively favorable income conditions for dairying, compared with other farm enterprises and off-farm employment opportunities, have likely contributed to the increase in cow numbers. January cow numbers stood at 11.015 million, the largest total since October 1976 and 145,000 more than a year earlier. Thus, we began calendar 1982 with a larger dairy herd than a year ago and with the expectation that cow numbers will exceed year-earlier levels during most of this year.

Output per cow has continued to increase, even with relatively flat feeding rates. Many of the genetically improved heifers brought into the herd at the beginning of, and during, the expansion have reached their more productive lactations. Output per cow during October-February averaged 1.5 percent more

than a year earlier.

In 1982/83, I look for milk production to be about the same as in 1981/82 -- with small declines in cow numbers offsetting small gains in output per cow. Farm milk prices will show only small gains as surplus conditions persist. Milk-feed price relationships will still be favorable, but gains in output per cow may slow as older cows are culled from the herd and are replaced by first-lactation heifers. However, as these heifers move to later lactations, gains in output per cow could again pick up. The culling rate will be dependent on development of next year's feed crop, pasture and forage conditions, cull cow prices, and the financial condition of individual farmers. Returns over concentrate costs likely will improve over this year, but in real terms (adjusted for inflation) they will decline. An improving general economy may provide more attractive off-farm alternatives for some dairy farmers.

Under the conditions described above, total milk production in 1982/83 may be unchanged from this year.

Small Price Increases Likely in 1982

During 1981, manufacturing grade milk prices failed to reach the \$13.10 support price (at 3.67 percent fat; \$12.80 at 3.5 percent fat) established on October 1, 1980. After adjusting for fat content, manufacturing grade milk prices averaged about 35 cents under the \$13.10 support level. This shortfall from support can be attributed to reduced competition among manufacturers because of the excess supplies of milk and weak demand for dairy products that continued in 1981. The oversupply situation has been reflected in the price received by farmers for all milk. In December, the all-milk price was \$14.00 per 100 pounds, below a year earlier, compared with 8 to 10 percent gains early last year. The 60-cent seasonal price increase from June to December compares with a \$1.60 increase during the comparable period in 1980.

The all-milk price is expected to average about \$13.75 for all of 1981/82, about unchanged from 1980/81. First-half prices will likely average below a year earlier as excess supplies persist. If production gains slow during the second half and the general economy improves, prices could move above year-earlier levels.

With no increase in the support price last April and continued large supplies, wholesale prices of dairy products were relatively flat throughout 1981. In December, the Bureau of Labor Statistics (BLS) index of wholesale dairy prices stood at 247.2 (1967 = 100), up 2 percent from a year earlier--but up only 1 percent from both January and May. For the year, wholesale prices averaged about 6.5 percent above 1980. Wholesale prices likely will remain relatively stable through the first half of 1982, then increase later in the year if the economy improves, and production slows.

Retail price gains, relative to year-earlier levels, slowed throughout 1981. During December, the BLS index of retail dairy prices stood at 245.5 (1967 = 100), up 3.2 percent from a year ago, but up only 2 percent from the first of the year. For the year, retail prices averaged about 7.1 percent above 1980. In 1982, retail dairy prices are expected to rise again, but the rate of gain is expected to remain slow and average only around 2 to 4 percent higher than in 1981. Farm-to-retail marketing costs will contribute to the increase and the retail price pattern during the year will likely follow farm and wholesale price movements.

Commercial Use

Commercial disappearance of all milk and dairy products during calendar 1981 was up 1.0 percent from 1980 levels--on a milk equivalent basis. Increased sales of cheese, and unchanged butter sales outweighed lower sales of fluid milk.

Fluid use of milk in 1980 was down 1.9 billion pounds from 10 years earlier. Fluid use accounted for about 40 percent of the total market supply in 1980, compared with about 46 percent in 1970. In 1981, sales of fluid milk products were down less than 1 percent from year-earlier levels, as increased sales of low-fat products failed to offset continued declines in whole milk sales.

Commercial use of all milk and dairy products is expected to increase at a faster rate in 1981/82 than in the previous year. With no change in the support price level and with the surplus production, increases in retail dairy product prices are expected to be very modest. This is expected to make dairy products a more favorable alternative for consumers and thus result in a 1 1/2 to 2 percent rise in commercial use. Commercial use was up only about 1.1 percent in the October-December quarter, so this forecast does assume more strength in the demand for dairy products in coming months. This strength would result from relatively favorable retail prices, and an improving general economy and consumer income picture.

Commercial use is forecast to continue to rise in 1982/83 as retail dairy prices again show modest increases, and population increases. The expected rise in commercial use is again projected to be 1 1/2 to 2 percent.

Commercial Stocks

Commercial stocks of dairy products last summer dropped below year-earlier levels, and remained below for the rest of the year. Industry holdings of milkfat were down 7 percent from 1980 on December 1, while stocks of solids-not-fat were about 6 percent less. The decline in stock levels held by the industry occurred as the industry moved large quantities to CCC last summer, because of heavy production, sluggish sales, and high storage costs. With no increase in the support price expected on October 1, the industry did not have much incentive to hold stocks. Accordingly, commercial butter stocks

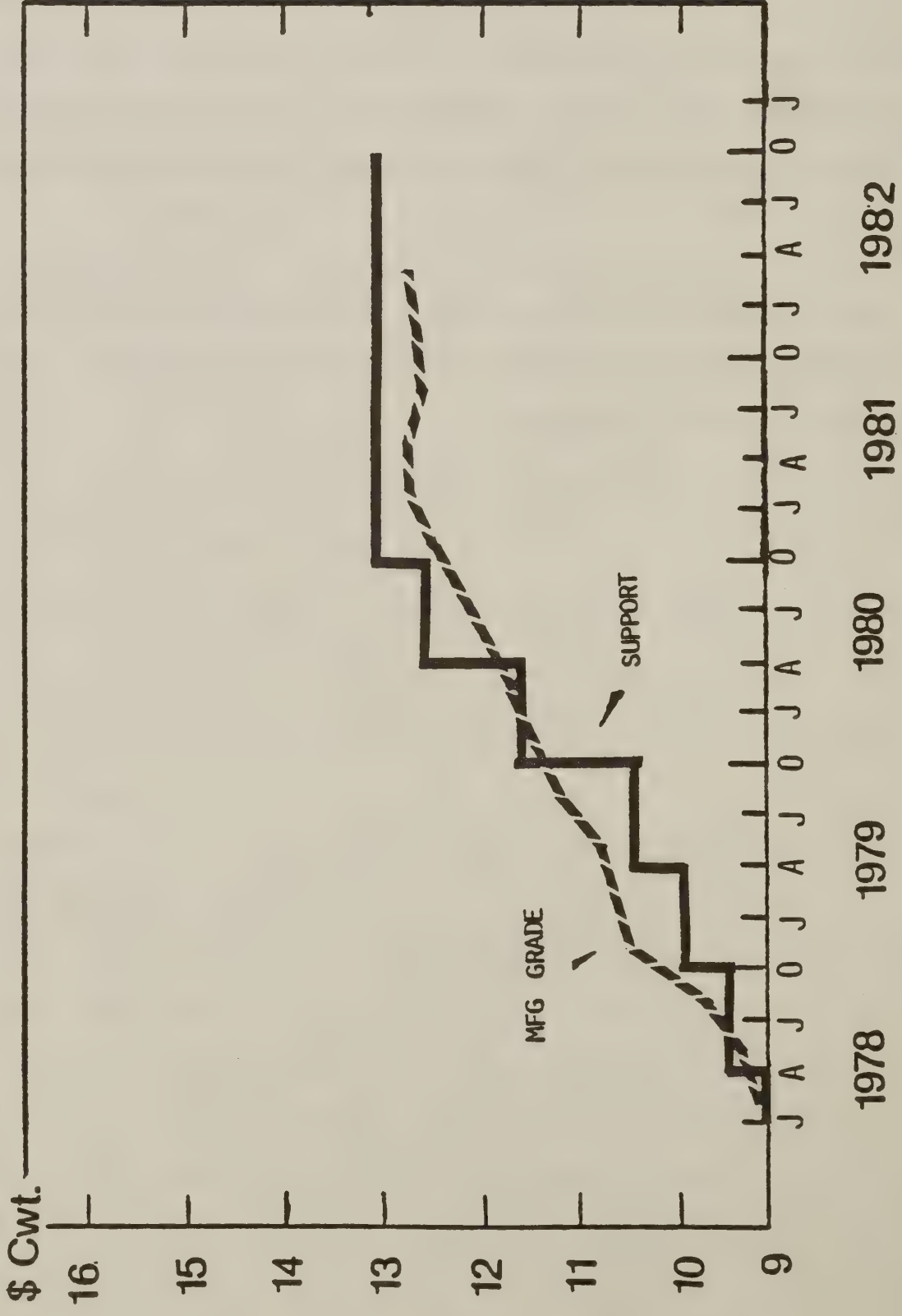
on September 30, 1981, were down a fourth from a year earlier and were the lowest on that date since 1978. Industry stocks of American cheese on that date were the lowest since 1975, and were 13 percent below a year earlier.

Industry holdings of dairy products have likely remained relatively tight through early 1982. If interest rates decline and sales strengthen, commercial stock levels would likely be rebuilt during the flush milk production period this spring. Conversely, if interest rates increase and the economy remains sluggish, commercial stock levels might not be rebuilt.

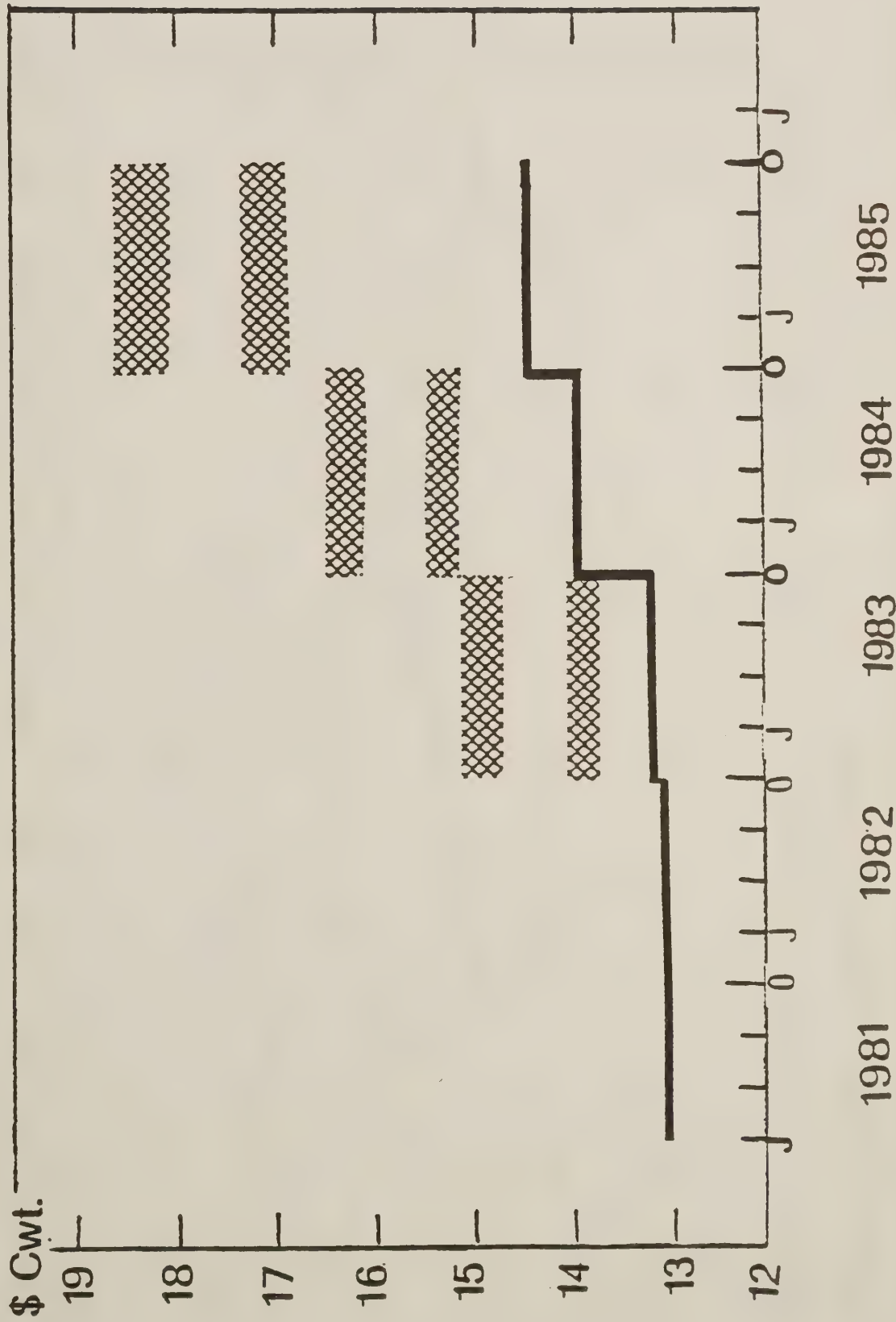
Summary

When one looks at these levels of production and consumption it is obvious that large quantities remain to be purchased by the CCC. Later speakers will address this issue.

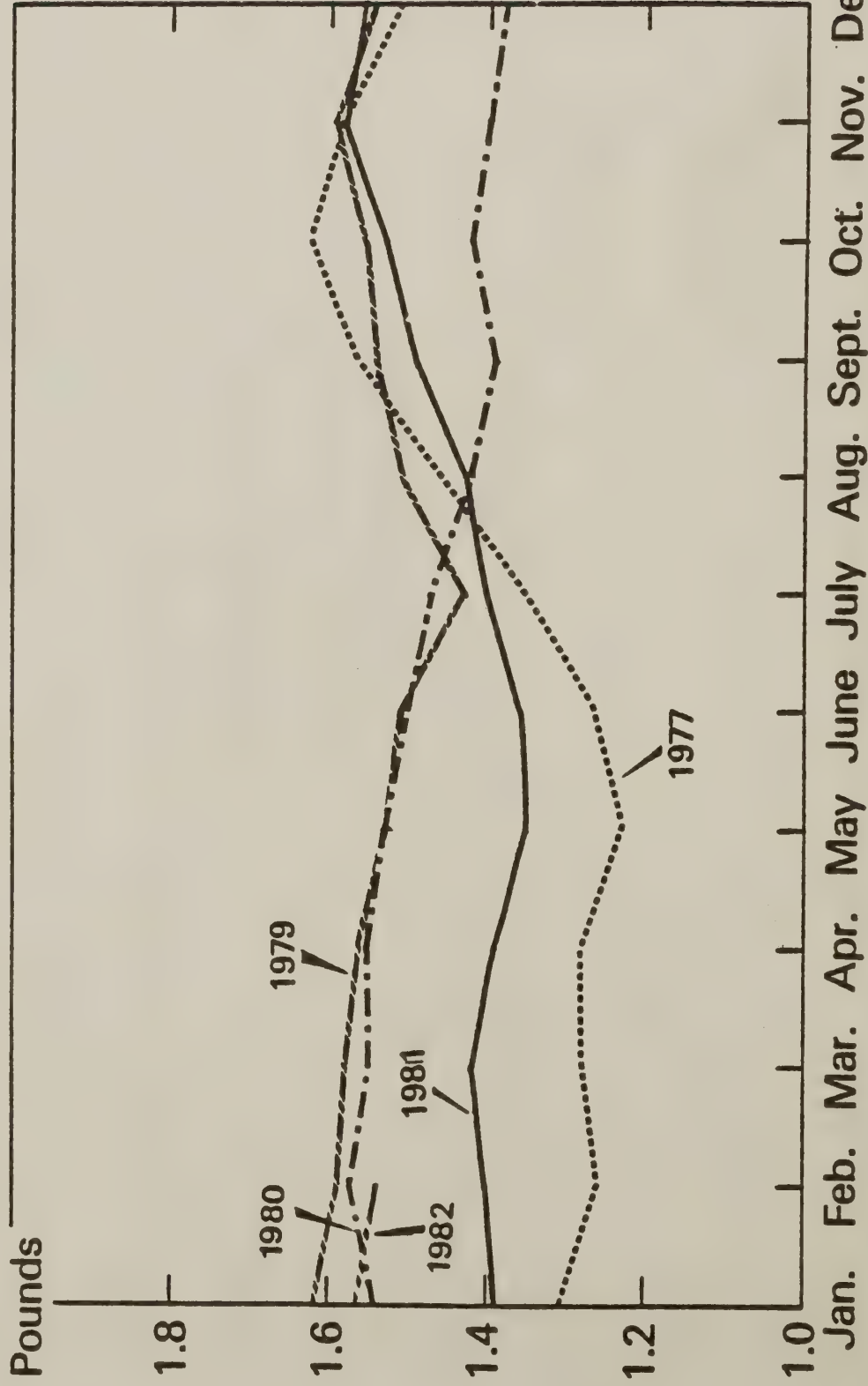
Milk Prices



Milk Prices

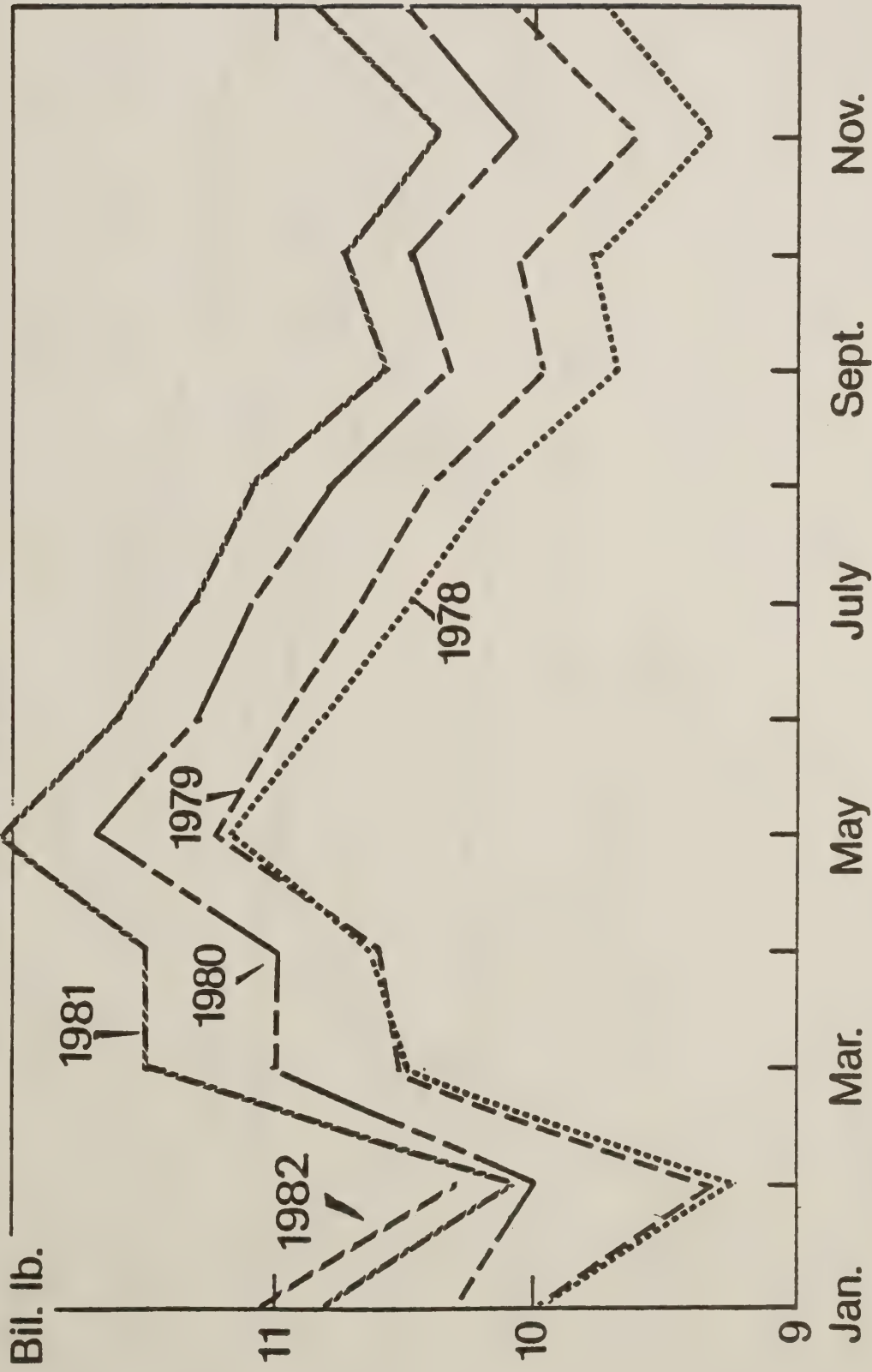


Milk-Feed Price Ratio*



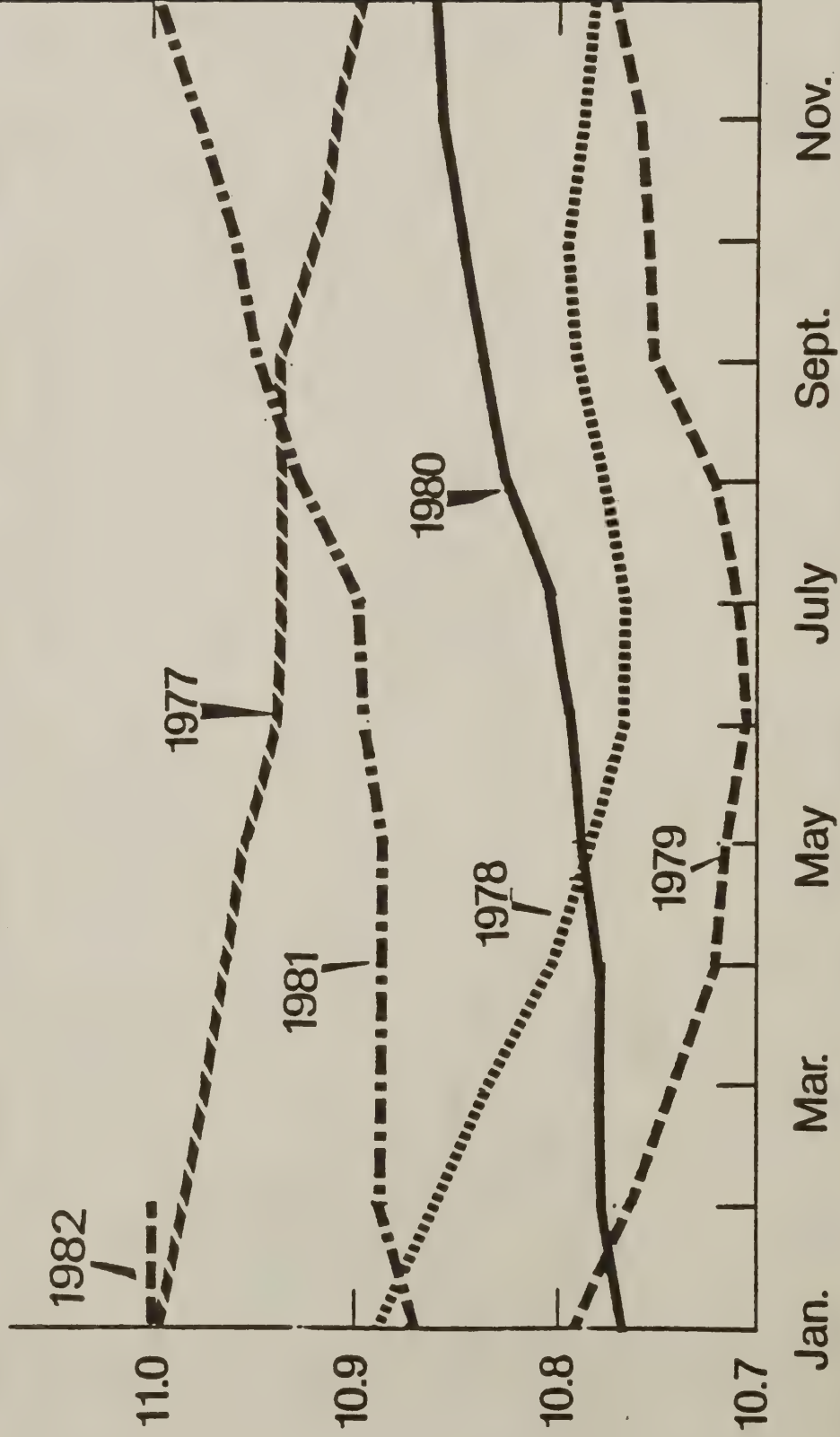
*Pounds of 16% protein ration equal in value to one pound of milk sold to plants and dealers.

U.S. Milk Production by Months

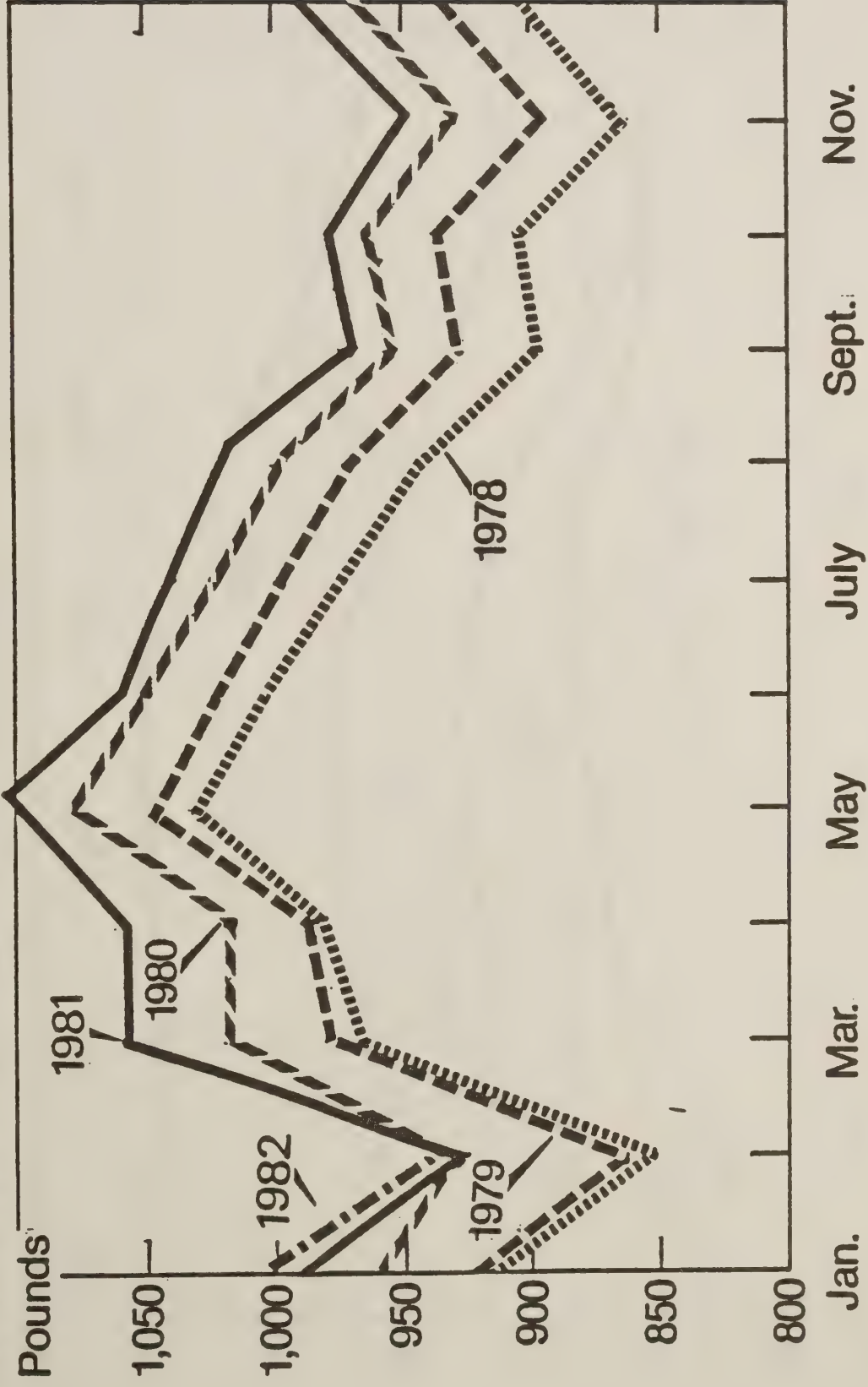


Milk Cows on Farms

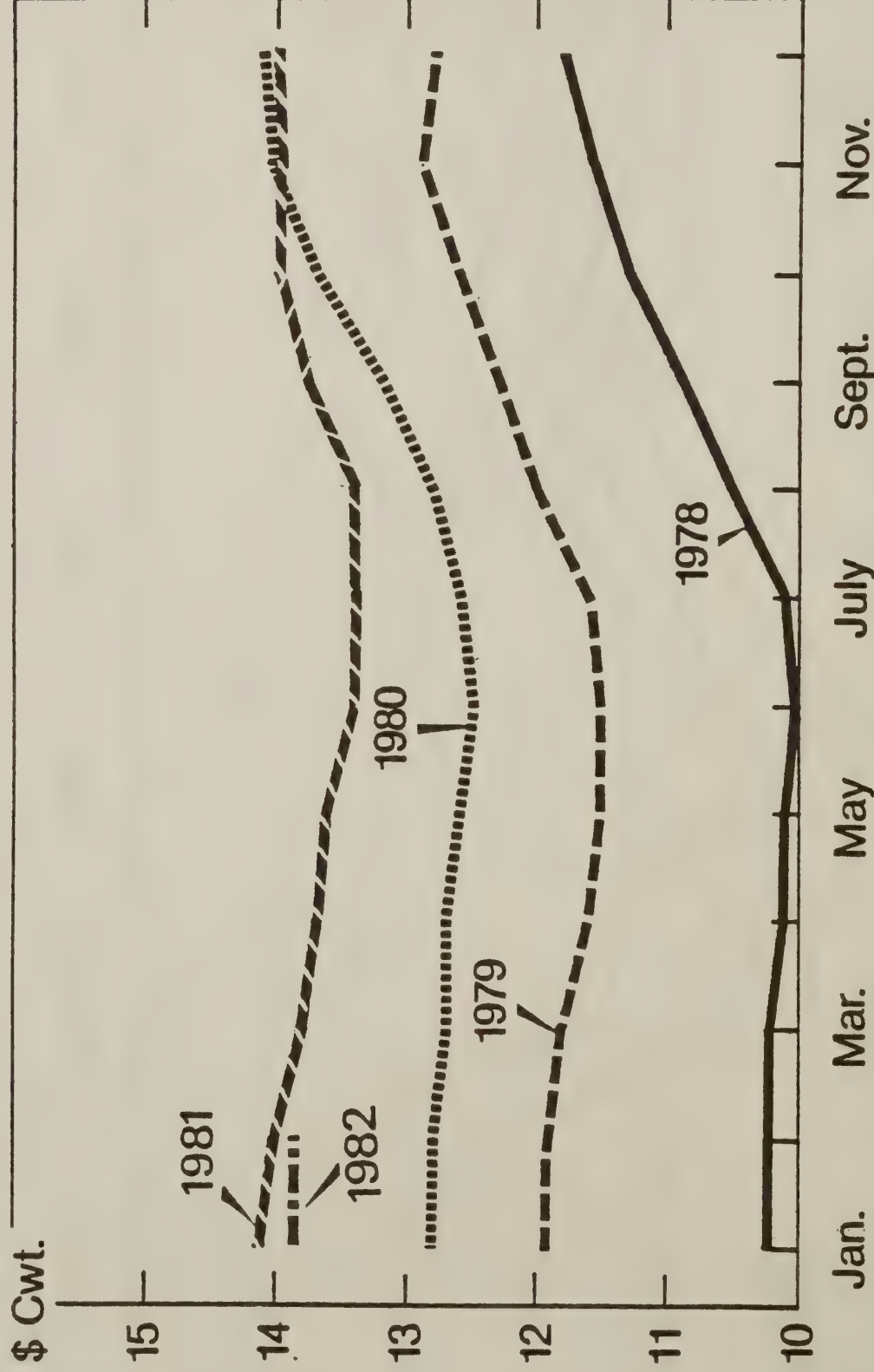
MIL. HEAD



Milk Production per Cow

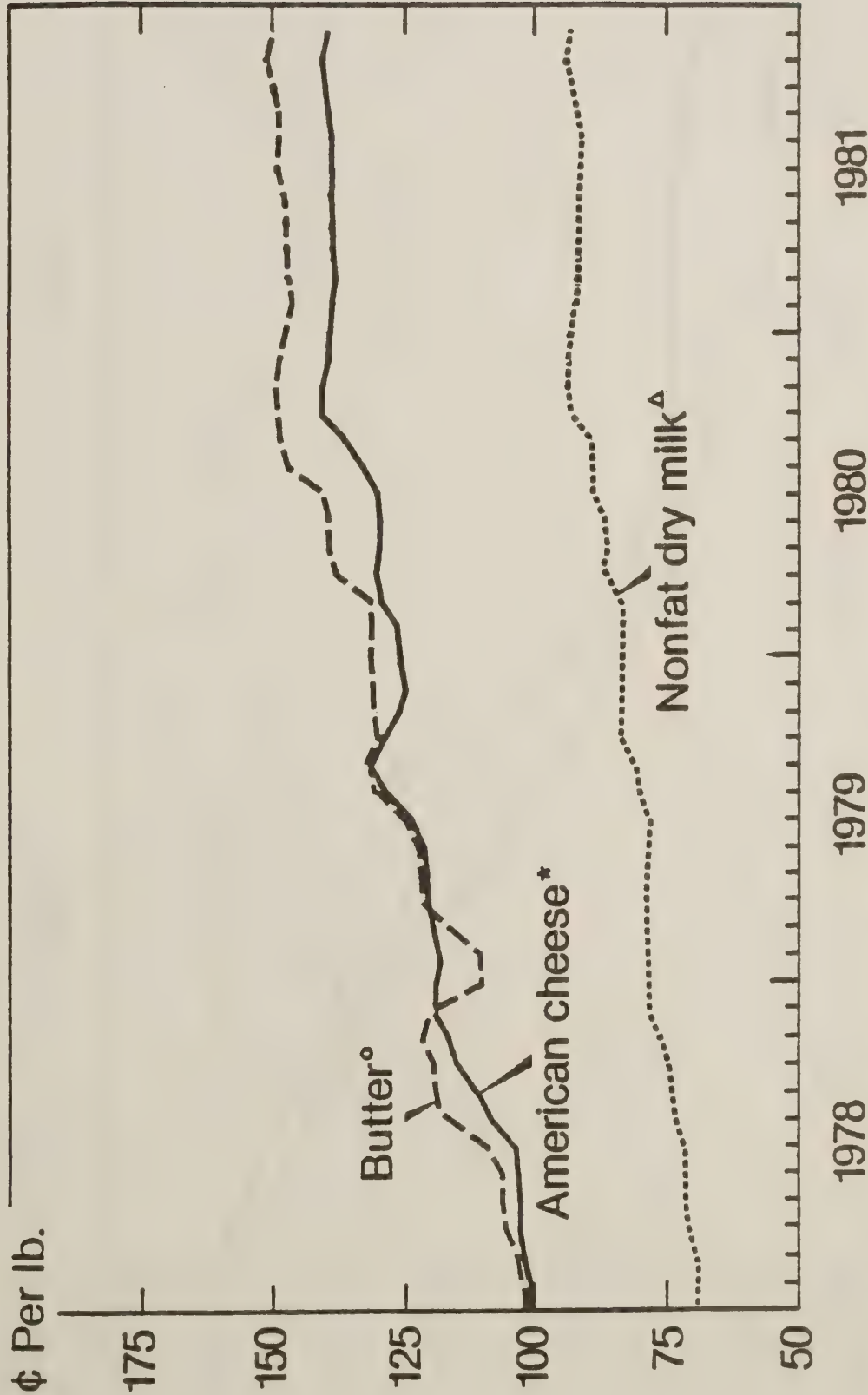


Milk Prices*



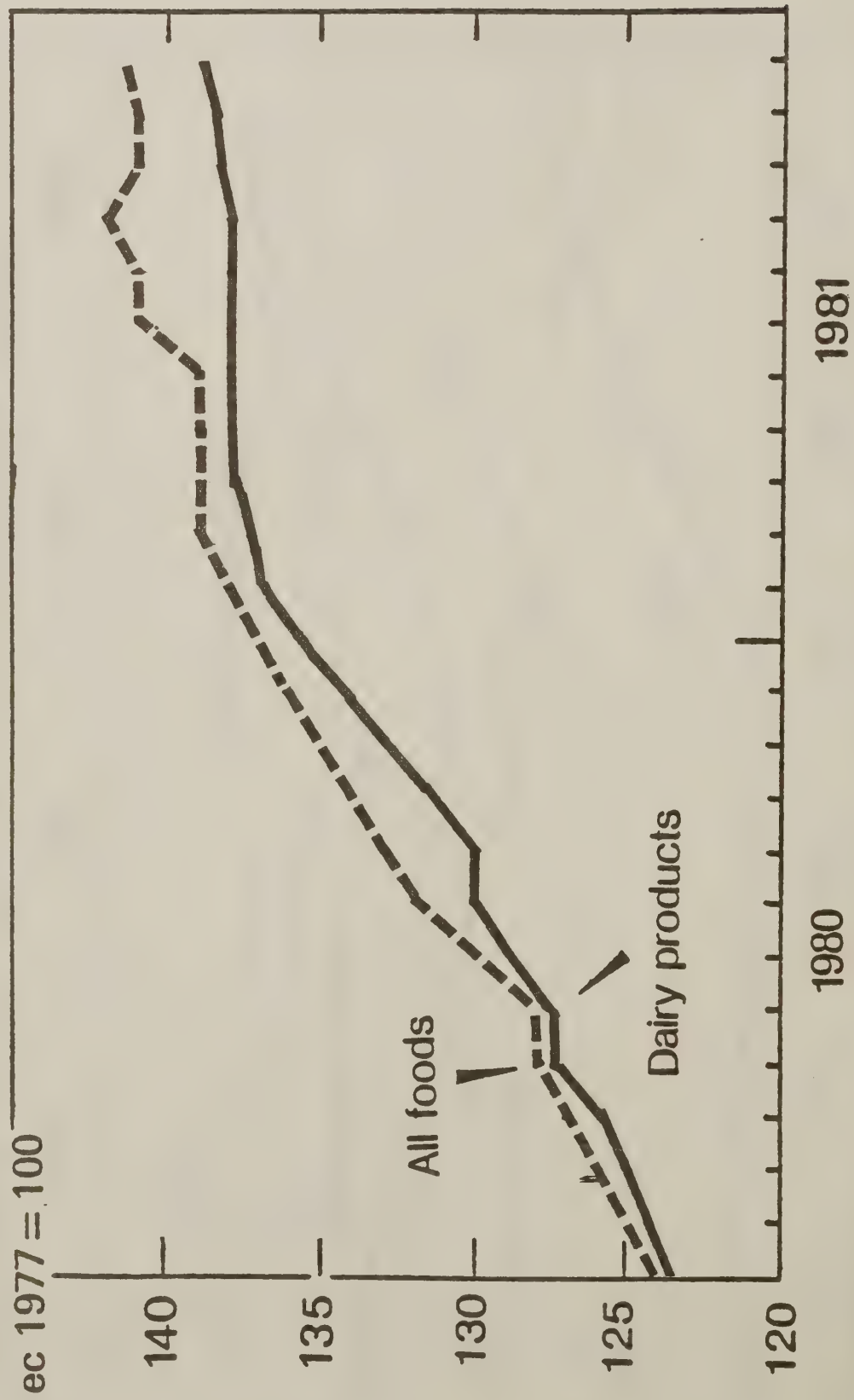
*U.S. average price received by farmers for deliveries to plants and dealers.

Wholesale Dairy Product Prices

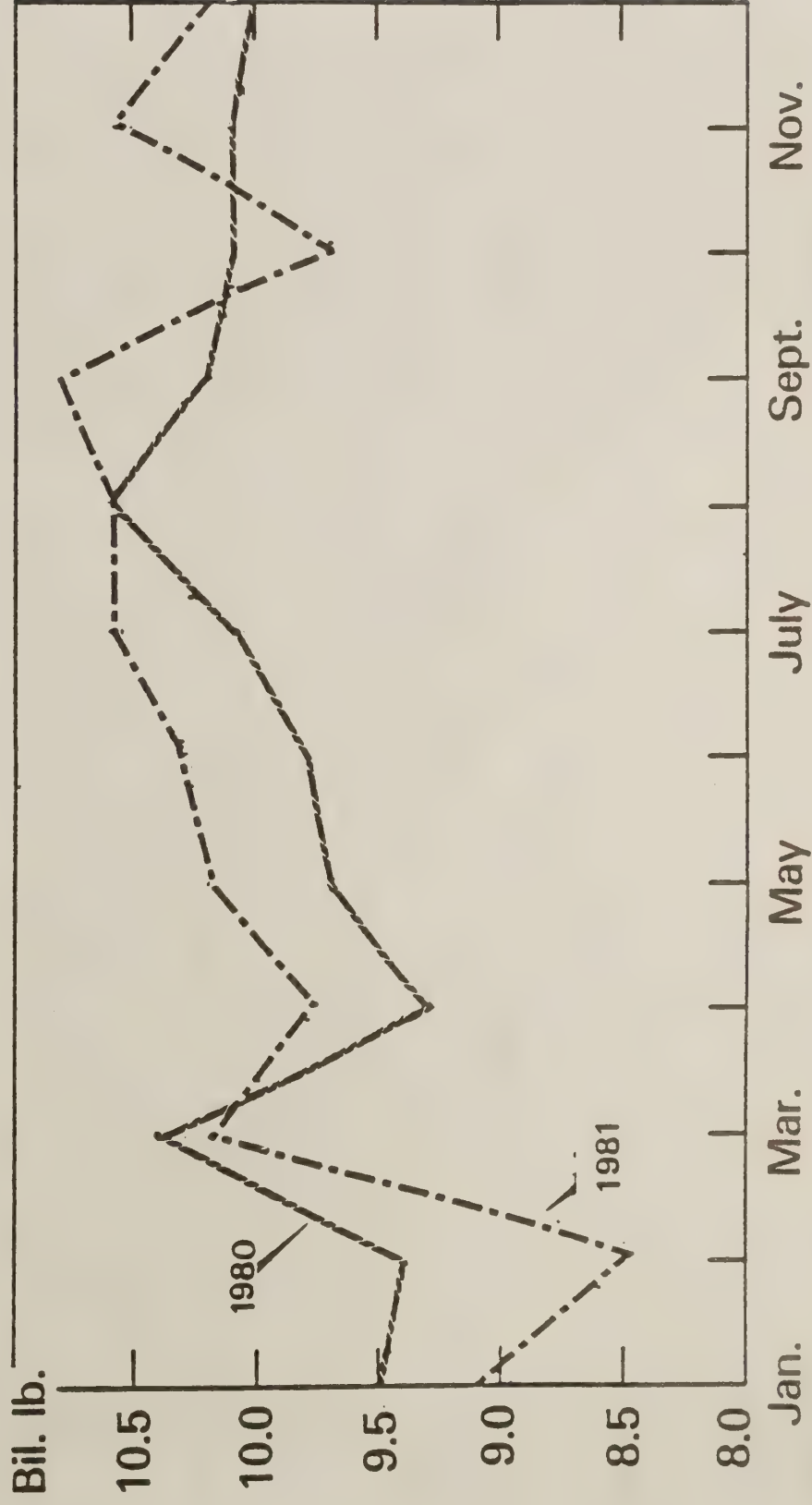


°Grade AA Chicago. *40-lb. block, Wisconsin assembly points. ^Δ High-heat, central-states.

Retail Food and Dairy Product Prices

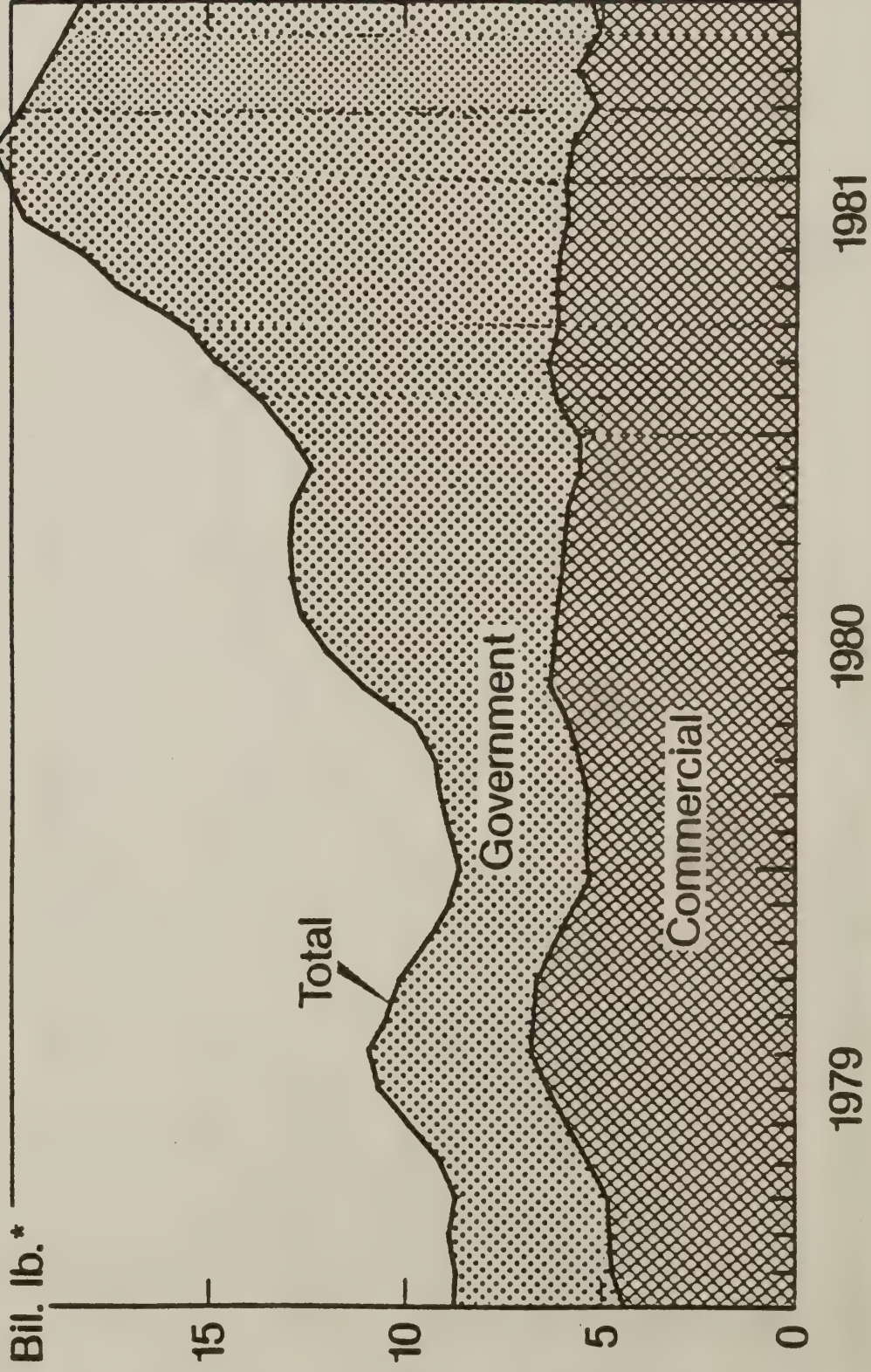


Commercial Disappearance of Milk in All Products*



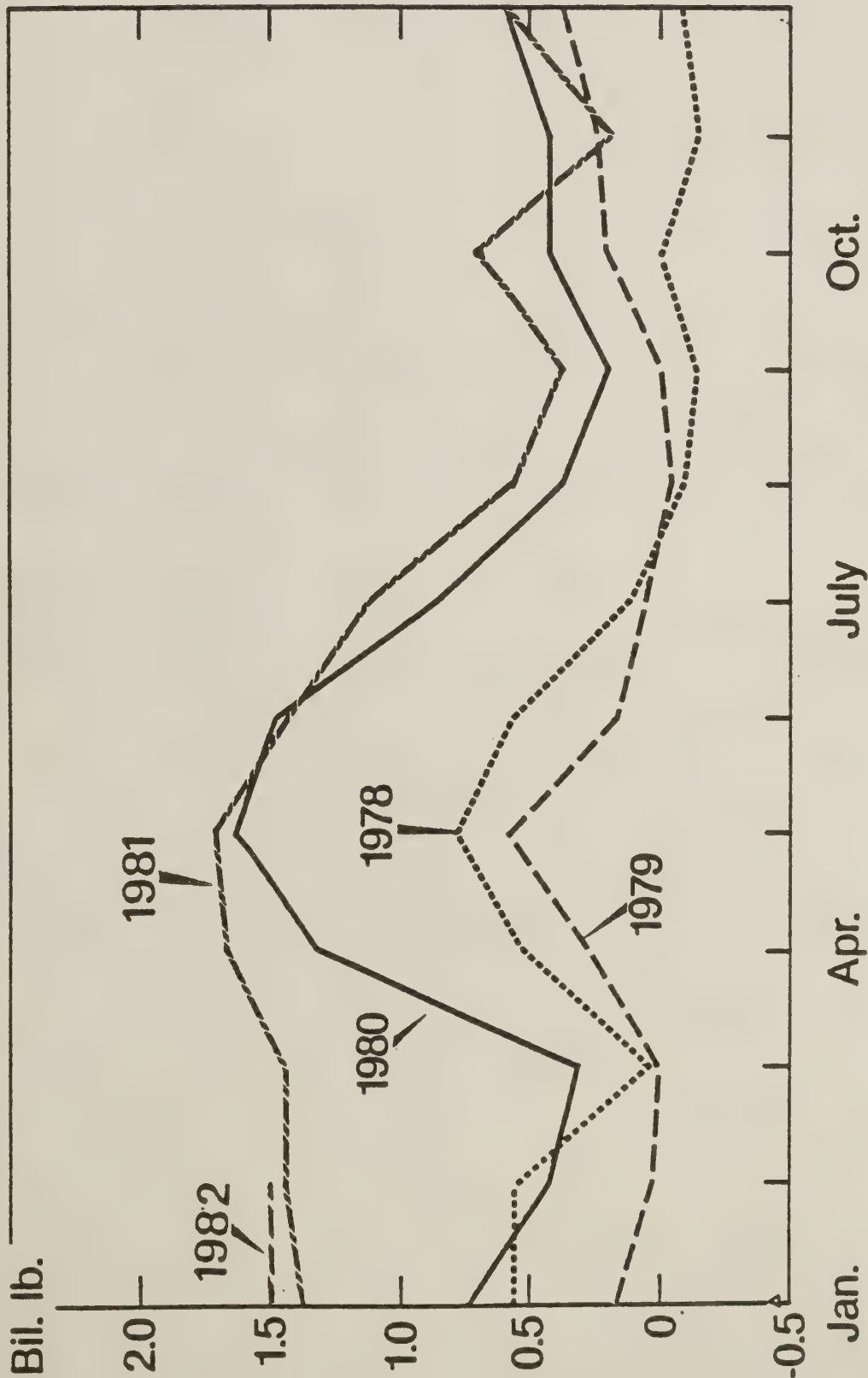
*Milk equivalent.

Dairy Product Stocks°



°As of first of month. *Milk equivalent, fat-solids basis.

U.S.D.A. Dairy Product Purchases*



*Net removals, milk equivalent, fat-solids basis.

▲ Negative figures denote domestic sales exceeded purchases.

Milk production, utilization, and CCC removals

| Item | Unit | 1979-80 | 1980-81 | 1981-82 | 1982-83 |
|------------------------------|-----------|-------------|---------|---------|---------|
| Support level | Dol./cwt. | 11.49/12.36 | 13.10 | 13.10 | 13.25 |
| Percent of parity | Pct. | 80 adj. | 80 | 72.9 | 67.4 |
| Milk production | Bil. lb. | 127.3 | 131.7 | 135.5 | 135.5 |
| Farm use | Bil. lb. | 2.4 | 2.2 | 2.2 | 2.1 |
| Marketings | Bil. lb. | 124.9 | 129.5 | 133.3 | 133.4 |
| Beginning commercial stocks | Bil. lb. | 6.6 | 6.1 | 5.2 | 5.6 |
| Imports | Bil. lb. | 2.1 | 2.3 | 2.4 | 2.4 |
| Commercial supply | Bil. lb. | 133.6 | 137.9 | 140.9 | 141.4 |
| Commercial use | Bil. lb. | 119.3 | 120.0 | 122.0 | 124.1 |
| Ending commercial stocks | Bil. lb. | 6.1 | 5.2 | 5.6 | 6.0 |
| Total utilization | Bil. lb. | 125.4 | 125.2 | 127.6 | 130.1 |
| CCC net removals | Bil. lb. | 8.2 | 12.7 | 13.3 | 11.3 |
| Butter | Mil. lb. | 233 | 356 | 390 | 340 |
| Cheese | Mil. lb. | 336 | 532 | 530 | 430 |
| Nonfat dry milk | Mil. lb. | 592 | 787 | 855 | 755 |
| Evaporated milk | Mil. lb. | 15 | 20 | 15 | 15 |
| Estimated CCC purchase costs | Mil. dol. | 1,262 | 1,991 | 2,124 | 1,859 |
| Net outlays | Mil. dol. | 1,031 | 1,934 | 1,941 | 1,838 |
| Number of cows | Thous. | 10,786 | 10,888 | 11,020 | 10,950 |
| Milk per cow | Lb. | 11,800 | 12,092 | 12,300 | 12,375 |
| Prices received by farmers: | | | | | |
| Manufacturing grade | Dol./cwt. | 11.75 | 12.72 | 12.75 | 12.85 |
| All milk sold to plants | Dol./cwt. | 12.76 | 13.73 | 13.75 | 13.85 |
| Farm cash receipts | Mil. dol. | 16,070 | 17,893 | 18,530 | 18,680 |

Table 1—CCC Milk Support Program: Net Removals, Uncommitted Inventories, Purchase Costs and Net Outlays, 1978-79 Through 1982-83

| Item | Unit | 1978-79 | 1979-80 | 1980-81 | 1981-82 | | 1982-83 |
|--------------------------------|-----------|---------|---------|---------|---------------|-------|---------|
| | | | | | As of | Total | |
| | | | | | Mar. 12, 1982 | | |
| CCC Net Removals (milk equiv.) | Bil. lb. | 1.1 | 8.2 | 12.7 | 5.4 | 13.3 | 11.3 |
| Butter | Mil. lb. | 46 | 233 | 356 | 180 | 390 | 340 |
| Cheese | Mil. lb. | 12 | 336 | 532 | 167 | 530 | 430 |
| Nonfat dry milk | Mil. lb. | 202 | 592 | 787 | 355 | 855 | 755 |
| Evap milk | Mil. lb. | 17 | 15 | 20 | 8 | 15 | 15 |
| Uncommitted inventory (Ending) | | | | | | | |
| Butter | Mil. lb. | 147 | 266 | 216 | 328 | 445 | 675 |
| Cheese | Mil. lb. | — | 196 | 554 | 584 | 818 | 1,106 |
| Nonfat dry milk | Mil. lb. | 448 | 548 | 811 | 935 | 1,222 | 1,584 |
| CCC purchase costs | Mil. dol. | 247 | 1,262 | 1,991 | 846 | 2,124 | 1,859 |
| Net outlays | Mil. dol. | 46 | 1,031 | 1,934 | N.A. | 1,941 | 1,838 |

Table 2—Butter: Supply and Utilization Under the Milk Support Program, 1978-79 Through 1982-83

| Item | Unit | 1978-79 | 1979-80 | 1980-81 | 1981-82 | | 1982-83 |
|-----------------------------------|----------|---------|---------|---------|---------------|-------|---------|
| | | | | | As of | Total | |
| | | | | | Feb. 28, 1982 | | |
| Uncommitted inventory (Beginning) | Mil. lb. | 204 | 147 | 266 | 216 | 216 | 445 |
| Purchases (contract basis) | Mil. lb. | 60 | 236 | 356 | 156 | 390 | 340 |
| Total supplies | Mil. lb. | 264 | 383 | 622 | 372 | 606 | 785 |
| Utilizations | | | | | | | |
| Sales—unrestricted use | Mil. lb. | 14 | 3 | — | — | — | — |
| Sales—restricted use | Mil. lb. | 1 | 1 | 1/ | 1 | 1 | — |
| Noncommercial export sales | Mil. lb. | — | — | 2/292 | 22 | 50 | — |
| Sales to Dept. of Defense | Mil. lb. | — | 1 | — | 1 | 1 | — |
| Domestic donations | | | | | | | |
| Schools and needy | Mil. lb. | 93 | 100 | 108 | 43 | 100 | 100 |
| Bureau of Prisons | Mil. lb. | 1 | 1 | 1 | 1 | 1 | 1 |
| Dept. of Defense | Mil. lb. | 7 | 9 | 9 | — | 8 | 8 |
| Veterans Admin. | Mil. lb. | 1 | 1 | 1/ | 1/ | 1/ | 1 |
| Foreign donations | Mil. lb. | — | — | — | — | — | — |
| Total utilizations | Mil. lb. | 117 | 116 | 410 | 68 | 161 | 110 |
| Uncommitted inventory (Ending) 3/ | Mil. lb. | 147 | 266 | 216 | 306 | 445 | 675 |

1/ Less than 500,000 pounds. 2/ Negotiated contracts with deliveries extending into 1982. 3/ Totals may not add due to rounding.

Table 3--Cheese and Nonfat Dry Milk: Supply and Utilization Under the Milk Support Program,
1978-79 Through 1982-83
(Million Pounds)

| Item | 1978-79 | 1979-80 | 1980-81 | 1981-82 | | 1982-83 |
|-----------------------------------|---------|---------|---------|----------|-------|---------|
| | | | | As of | Total | |
| | | | | Feb. 28, | | |
| | | | | 1982 | | |
| <u>CHEESE</u> | | | | | | |
| Uncommitted inventory (Beginning) | 3/ | 1/ | 196 | 554 | 554 | 818 |
| Purchases (contract basis) | 17 | 2/343 | 2/533 | 2/149 | 2/540 | 440 |
| Total supplies | 43 | 343 | 729 | 703 | 1,094 | 1,258 |
| Utilizations | | | | | | |
| Sales--unrestricted use | 1/ | 2 | 7 | 4 | 10 | 10 |
| Sales--restricted use | --- | --- | --- | 1/ | 1/ | --- |
| Noncommercial export sales | --- | --- | 3/1 | 18 | 23 | --- |
| Sales to Dept. of Defense | --- | --- | --- | --- | 1 | --- |
| Domestic donations | | | | | | |
| Schools and needy | 41 | 145 | 164 | 104 | 240 | 140 |
| Bureau of Prisons | 1/ | 1/ | 1/ | --- | --- | --- |
| Dept. of Defense | --- | 1 | 3 | --- | 2 | 2 |
| Veterans Admin. | --- | --- | --- | --- | --- | --- |
| Foreign donations | --- | --- | --- | --- | --- | --- |
| Total utilizations | 41 | 148 | 175 | 126 | 276 | 152 |
| Uncommitted inventory (Ending) 4/ | 1/ | 196 | 554 | 585 | 818 | 1,106 |
| <u>NONFAT DRY MILK</u> | | | | | | |
| Uncommitted inventory (Beginning) | 585 | 448 | 548 | 811 | 811 | 1,222 |
| Purchases (contract basis) | 202 | 592 | 787 | 318 | 855 | 755 |
| Total supplies | 787 | 1,040 | 1,335 | 1,129 | 1,666 | 1,977 |
| Utilizations | | | | | | |
| Sales--unrestricted use | --- | --- | --- | --- | --- | --- |
| Sales--restricted use | 72 | 73 | 52 | 22 | 50 | 50 |
| Noncommercial export sales | 3 | 122 | 3/183 | 49 | 128 | 80 |
| Sales to Dept. of Defense | 9 | 9 | 9 | 3 | 10 | 10 |
| Domestic donations | | | | | | |
| Schools and needy | | | | | | |
| As dairy product | 46 | 43 | 45 | 24 | 41 | 38 |
| Furnished for manufacture of | | | | | | |
| Mozzarella cheese | 34 | 9 | --- | --- | --- | --- |
| Bureau of Prisons | 1/ | 1/ | 1/ | 1/ | --- | --- |
| Dept. of Defense | --- | --- | --- | --- | --- | --- |
| Veterans Admin. | --- | --- | --- | --- | --- | --- |
| Foreign donations | | | | | | |
| As dairy product | 135 | 173 | 183 | 57 | 180 | 180 |
| Furnished as an ingredient | | | | | | |
| in corn-soya-milk | 34 | 44 | 36 | 17 | 35 | 35 |
| Total utilizations | 333 | 473 | 508 | 172 | 444 | 393 |
| Uncommitted inventory (Ending) 4/ | 5/448 | 5/548 | 5/811 | 5/921 | 1,222 | 1,584 |

1/ Less than 500,000 pounds. 2/ Includes Mozzarella cheese. 3/ Negotiated contracts with deliveries extending into 1982.
4/ Totals may not add due to rounding and inventory adjustments. 5/ Reflects contract adjustments.

ASCS/CMO/Dairy/3-17-82

U.S. DAIRY PROBLEMS IN AN INTERNATIONAL SETTING
REMARKS FOR THE PUBLIC DAIRY SYMPOSIUM MARCH 22-23
BY BRYANT H. WADSWORTH

The Dairy, Livestock and Poultry Division of the Foreign Agricultural Service of USDA is responsible for both dairy import controls and basic analysis and policy guidance on world dairy supply and distribution, including trade. Our division was deeply involved in the butter sale to New Zealand last year since the impact on world dairy trade was an important consideration. Although controversial, that sale has gone quite well to date. The New Zealand Dairy Board lifted about 60,000 metric tons (MT) and will, in all likelihood, take 110,000 MT, the upper limit of the contract. The sale was very political when measured by the high level of correspondence and rhetoric it generated both here at home and abroad.

To export significant quantities of U.S. dairy products would require a subsidy since world market prices are much lower than ours. Subsidizing exports causes U.S. taxpayers, as well as low cost producing nations like New Zealand, to feel unfairly treated. Under the General Agreement on Tariffs and Trade (GATT) export subsidies are not prohibited but those that subsidize agree not to disrupt world markets.

Our policy today is for "free world markets" devoid of subsidized commodities. However, up until the Russian's bought a year's production of wheat, the United States had been using subsidies to support wheat exports. During the period of FY 1966 thru FY 1973, U.S. wheat export subsidies average \$108 million annually. After the "great grain robbery" in 1972-73 export subsidies were no longer needed and we began to support the philosophy of non-subsidized export sales.

In effect, we taught the EC how to use export subsidies and have been trying over recent years to get them to ease away from their use with little success. However, to revert to aggressive subsidized exports of surplus dairy products at this time may complicate our efforts to get the EC to back off on subsidies.

The EC is currently spending over \$4 billion per year to support dairy production with more than half of that going for "export restitutions". They have succeeded in reducing their dairy stocks from 60 percent of the world total in 1978 to a projected 32 percent by the end of 1982. Over that same period U.S. stocks rose from 18 percent of world dairy product inventories and by year's end we may hold 45 percent. Today the EC accounts for only 9 percent of world dairy imports. The USSR accounts for over 25 percent of imports even though that country remains the world's largest single country milk producer. The USSR needs our farm commodities but subsidizing butter to them is counter to many American taxpayers' views.

This seems to leave us with three options:

1. Subsidize exports and take the political heat at home and abroad;
2. Let supports fall until we become competitive on world markets without subsidies (50-60 percent parity is our best estimate to accomplish that);
3. Just wait and hope for a) higher feed and meat prices, b) a thaw in U.S.-USSR-Polish relations, or c) an upsurge in domestic demand.

On balance we import more dairy products than we export largely because our prices are above world levels. Last year we brought in a total of 248 million pounds of cheese and 128 million pounds of casein, our major dairy import

items. Cheese imports were up 7 percent last year and we expect some additional gains in 1982. Nearly 85 percent of the cheeses we imported in 1981 were under quota and that category registered all of the gain. The 240 million pound quota was still not filled last year as imports reached 212 million pounds. We are likely to have some further filling of the quota in 1982. Casein imports dropped sharply in 1981 due in part to lower world output and to a cutback in U.S. demand. Casein imports in 1982 could recover somewhat but any gain may be small.

On the export side we sell and donate for foreign relief over 220 million pounds of nonfat dry milk each year. In 1981 the United States shipped 53 million pounds of butter, with most of it Commodity Credit Corporation (CCC) sales to New Zealand and Poland. Normally our exports of butter are very small. Last year our sales of canned evaporated and condensed milk totaled 34 million pounds, down sharply from 43 million pounds in 1980. Cheese sales showed little change at 13 million pounds last year. The picture is a bit clouded for 1982 and, of course, action by the CCC to export surplus dairy products would have a profound effect in our sales abroad.

GOVERNMENT PURCHASES, STOCKS, AND DISPOSITIONS
OF DAIRY PRODUCTS, 1978-79 TO DATE

Merritt Sprague, ASCS

In recent years the dairy price support program has moved from conditions where supply of milk and dairy products was nearly matched up with demand--in marketing year 1978-79, only 0.9 percent of the milk produced was purchased by CCC under the dairy price support program. Since then milk production has increased sharply, and in 1980-81, CCC purchased 9.4 percent of every pound of milk produced. At this rate, nearly one out of every 10 cows needs to be removed from the Nation's cow herd. Furthermore, CCC's net removals of dairy products during the first 5 months of this marketing year are 9 percent above milk equivalent purchases of a year earlier. Nonfat dry milk purchases are up nearly 40 percent or 100 million pounds compared with this time a year ago.

| CCC NET REMOVALS | | | | |
|------------------|---------------|---------------|------------|-----------------|
| <u>MY</u> | <u>BUTTER</u> | <u>CHEESE</u> | <u>NDM</u> | <u>MILK</u> |
| | | (MIL. LBS.) | | <u>Eqvty. *</u> |
| 1978-79 | 46 | 12 | 202 | 1,111 |
| 1979-80 | 233 | 336 | 592 | 8,159 |
| 1980-81 | 356 | 532 | 787 | 12,661 |
| 1981-82 ** | 390 | 530 | 855 | 13,300 |
| 1982-83 ** | 340 | 430 | 755 | 11,300 |
| <u>PERIOD</u> | | | | |
| 10/80 - 2/81 | 150 | 118 | 226 | 4,285 |
| 10/81 - 2/82 | 156 | 144 | 318 | 4,666 |

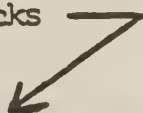
* INCLUDES EVAPORATED MILK PURCHASES

** PROJECTED

In the past 3 years, CCC dispositions have been at a slower rate than purchases. CCC's inventories were at reasonable levels on October 1, 1979--it owned less than 50 thousand pounds of cheese, 147 million pounds of butter and 448 million pounds of nonfat dry milk. The butter and NDM were less than 1½ times CCC's usual annual disposition rate. Since then inventories have grown to record levels. Only the large sale of butter to New Zealand last August has prevented CCC's butter stocks from being at a record level now. Although the butter sales to New Zealand Dairy Board have already been subtracted from the uncommitted inventory, nearly 56 million pounds of butter are yet to be shipped.

CCC's uncommitted inventory of butter is equal to 4½ months of commercial use, the cheese is equal to about 3 1/3 months and the NDM equals more than 2 years supply. If these inventories were placed in railroad cars, the train of cars would reach from Washington, D.C. to New York City.

Review Stocks



CCC UNCOMMITTED INVENTORY

| <u>DATE</u> | <u>BUTTER</u> | <u>CHEESE</u> (MIL. LBS.) | <u>NDM</u> |
|-------------|---------------|------------------------------|------------|
| 10-1-79 | 147 | 0 | 448 |
| 10-1-80 | 266 | 196 | 548 |
| 10-1-81 | 216 | 554 | 811 |
| 10-1-82 * | 445 | 818 | 1,222 |
| 10-1-83 * | 675 | 1,106 | 1,584 |
| 3-12-81 | 383 | 294 | 598 |
| 3-12-82 | 328 | 584 | 935 |

* PROJECTED

Review Costs



CCC MILK SUPPORT PROGRAM

| <u>FY</u> | <u>PURCHASE</u> <u>COSTS</u> | <u>NET</u> <u>OUTLAYS</u> |
|-----------|---------------------------------|------------------------------|
| | (MIL. DOL.) | |
| 1978-79 | 247 | 46 |
| 1979-80 | 1,262 | 1,031 |
| 1980-81 | 1,991 | 1,934 |
| 1981-82 * | 2,124 | 1,941 |
| 1982-83 * | 1,859 | 1,838 |

PERIOD

| | | |
|-----------------|-----|------|
| OCT 80 - FEB 81 | 603 | N.A. |
| OCT 81 - FEB 82 | 738 | N.A. |

* PROJECTED

Dispositions

With the increase in price support purchases, this Administration has taken several steps to maximize use of CCC-owned dairy products.

A. Domestic

1. The policy to provide dairy products for school lunches at no cost to the schools has been extended.
2. 100 million pounds of process cheese has been made available for distribution through food banks to needy.

B. Export

1. CCC initiated sales of dairy products to Department of Defense at world market prices for resale in PX's and commissaries overseas.
2. Noncommercial export sales are up sharply. Substantial quantities of nonfat dry milk have been sold to Mexico for use in its welfare programs. In addition to the sale of butter to New Zealand Dairy Board, CCC has sold more than 200 million pounds of dairy products for distribution in Poland. All products contracted for Poland since April 1981, are being distributed under the direction of CARE and the Catholic Relief Services. We have also bartered with Jamaica to exchange 4 million pounds of anhydrous milkfat and 16 million pounds of NDM in exchange for bauxite. Additionally, nonfat dry milk has been sold to voluntary agencies at highly subsidized prices for distribution through orphanages, hospitals and schools in Mexico, Haiti, Senegal, and other countries.

3. In 1981-82 we donated 219 million pounds of NDM to many developing third world countries for foreign feeding programs under P.L. 480. Of this amount, about 36 million pounds were used in the manufacture of corn-soya-milk. The Agency for International Development (AID) reimburses CCC with appropriated funds at the rate of 19 cents per pound for all nonfat dry milk donated under P.L. 480. In order to increase use, or prevent a decrease due to budget cuts, CCC is considering reducing the reimbursement rate.

As I have explained the USDA donation programs are used to the maximum practical extent. The Department is careful that the donations do not materially interfere with commercial sales and the price support program. For example, the cheese donated to the needy through food banks goes mainly to recipients who would not normally purchase cheese. We have initiated a pilot program in Iowa for butter.

In spite of CCC's means of increasing the dispositions of dairy products, we experience problems in giving the dairy products away. We have advised the established ongoing recipient programs--school lunch, military, prisons, V.A. hospitals, etc.--that they may order without cost all of the dairy products they can use without waste. However, the continuing debate regarding cholesterol intake has a definite negative effect on the use of these free products. For example, in the past the Department of Defense bought very little margarine when butter was available. Today, DOD buys about 1 pound of margarine for each two pounds of butter donated by CCC.

As you can see, presently CCC has an opened-ended or no-limit purchase program for dairy products. These products purchased by CCC are being poured into a funnel with a limited opening at the base. At the present time, dairy products are pouring over the top of the funnel and without question, the CCC purchases must be slowed.

NATIONAL MILK PRODUCERS FEDERATION
SUPPLY DEMAND SITUATION THROUGH FY '83
COMMENTS FOR DAIRY SYMPOSIUM
BY JOHN R. MENGEL
KANSAS CITY, MISSOURI
MARCH 22, 1982

WITHIN THE PAST SEVERAL YEARS THERE HAVE BEEN SIGNIFICANT CHANGES IN THE STRUCTURE OF THE DAIRY PRODUCTION INDUSTRY. CONDITIONS HAVE BEEN SUCH THAT DAIRY FARMERS HAVE BEEN ABLE TO MAKE FIRM COMMITMENTS TO THE PRODUCTION OF MILK. ALSO, WHERE OTHER AGRICULTURE RESOURCES WERE FLEXIBLE THEY WERE DIVERTED TO MILK PRODUCTION. MUCH OF THE MILK PRODUCTION WHICH WE ARE SEEING TODAY IS BASED ON COMMITMENTS MADE TWO OR THREE YEARS AGO. LIKEWISE, COMMITMENTS HAVE BEEN MADE WITHIN THE PAST YEAR AND A HALF WHICH WILL SHAPE MILK PRODUCTION IN THE MONTHS AHEAD. INVESTMENTS HAVE BEEN MADE IN NEW EQUIPMENT, NEW BARNES, NEW TECHNOLOGY, AND LIVESTOCK. AND THESE INVESTMENTS HAVE EXPANDED THE STABLE BASE OF THE MILK PRODUCTION INDUSTRY. WE NOW HAVE A GREATER PROPORTION OF WELL FINANCED, WELL MANAGED COMMERCIAL DAIRY OPERATIONS THAN WE EVER HAD. THIS WILL RETARD PRODUCTION ADJUSTMENTS WHICH USUALLY OCCUR AS MARGINAL FARMERS SHIFT OUT OF MILK PRODUCTION. ADJUSTMENT THIS TIME WILL NOT BE EASY AND IT WILL NOT BE PAINLESS.

ALTERNATIVE OPPORTUNITIES

CONDITIONS BEYOND THE DAIRY FARM GATE, BOTH IN THE GENERAL ECONOMY AND ON OTHER FARMS, WILL NOT MAKE THE ADJUSTMENT IN DAIRY ANY EASIER. UNEMPLOYMENT FIGURES WERE RECENTLY RELEASED FOR THE MONTH OF FEBRUARY. THESE FIGURES SHOWED THAT UNEMPLOYMENT NATIONALLY WAS 8.3 PERCENT. THOSE SAME ESTIMATES SHOWED THAT IN FEBRUARY 5.1 PERCENT OF THE POPULATION WAS EMPLOYED ONLY PART-TIME. FOR THE YEAR, UNEMPLOYMENT IS EXPECTED

TO REACH 9.5 PERCENT. BUT THESE NUMBERS DON'T BEGIN TO IDENTIFY THE PROBLEM FOR A DAIRY FARMER WHO WAS INTERESTED IN FINDING A JOB OFF THE FARM. THE 3.8 PERCENT FIGURE FOR FEBRUARY WAS AN AVERAGE NUMBER FOR UNEMPLOYMENT IN ALL INDUSTRIES. HOWEVER, MANY DAIRY FARMERS WHO WOULD BE LOOKING FOR EMPLOYMENT OFF-FARM WOULD BE LOOKING IN THOSE INDUSTRIES WHERE UNEMPLOYMENT IS WELL ABOVE AVERAGE. FOR EXAMPLE, THE CONSTRUCTION INDUSTRY IN FEBRUARY HAD AN UNEMPLOYMENT RATE OF 18.1 PERCENT, THE LUMBER AND WOOD INDUSTRY HAD AN UNEMPLOYMENT RATE OF 19.1 PERCENT, AND THE AUTO INDUSTRY HAD A RATE OF UNEMPLOYMENT OF 20.8 PERCENT.

WHAT ABOUT OTHER AGRICULTURAL ALTERNATIVES? DAIRY HAS BEEN THE BEST ALTERNATIVE FOR SEVERAL YEARS AND THAT HAS BEEN PART OF THE PROBLEM. AND WITH THE OUTLOOK FOR THE OTHER MAJOR SECTORS OF THE AGRICULTURAL ECONOMY, IT APPEARS THAT A MAN WHO IS IN DAIRYING NOW WILL BE BETTER OFF TO STAY THERE.

NET FARM INCOME FOR ALL AGRICULTURE THIS YEAR IS PROJECTED TO BE BETWEEN \$5300 AND \$7400 PER FARM. THIS WILL PUT FARM INCOME BACK TO THE LEVEL IT WAS AT IN 1970, 12 YEARS AGO. IT WILL BE ONLY HALF OF WHAT IT WAS IN 1979.

IF WE LOOK AT THE PRICES FARMERS ARE RECEIVING FOR OTHER PRODUCTS WE CAN SEE WHY NET INCOME IS DOWN. CORN, FOR INSTANCE, WAS \$2.40 PER BUSHEL IN FEBRUARY COMPARED TO \$3.22 PER BUSHEL A YEAR AGO. SOYBEANS WERE QUOTED AT \$5.96 PER BUSHEL COMPARED WITH \$7.50 IN FEBRUARY 1981. AND CHOICE BEEF IS RUNNING ABOUT 60 CENTS A POUND, THE SAME AS LAST YEAR'S UNFAVORABLE LEVELS. IT HAS BEEN THE UNFAVORABLE CONDITIONS IN THESE OTHER SECTORS OF AGRICULTURE WHICH HAS CAUSED A REDIRECTION OF MANY AGRICULTURAL RESOURCES INTO MILK PRODUCTION. (AS A SIDELIGHT, I HAD A TELEPHONE CALL LAST MONDAY FROM A BEEF PRODUCER WHO HAD THE OPPORTUNITY TO BUY SOME 650 POUND HOLSTEIN HEIFERS. HE WANTED TO KNOW IF THIS WAS THE PROPER TIME TO RAISE AND BREED DAIRY HEIFERS.)

WITH A LACK OF ANY ALTERNATIVE, EITHER ON-FARM, PRODUCING OTHER AGRICULTURAL COMMODITIES, OR OFF-FARM, THE DAIRYMAN HAS NO CHOICE BUT TO CONTINUE TO PRODUCE MILK.

WHAT ARE THE FACTORS THAT THIS DAIRYMAN IS GOING TO LOOK AT AS HE MAKES HIS PRODUCTION DECISIONS IN THE NEXT FEW MONTHS? HE WILL BE LOOKING AT FEED PRICES AND THE COST OF OTHER PRODUCTION ITEMS. HE ALSO WILL TAKE INTO CONSIDERATION CULL COW PRICES, THE HEIFER REPLACEMENTS WHICH HE HAS ON HAND AND THE REPLACEMENT PRICE OF MILK COWS IF HE HAS TO BUY THEM.

FEED SITUATION

FIRST, LET'S LOOK AT THE FEED SITUATION. ON JANUARY 1, 1982, THERE WAS AN ESTIMATED 3.3 BILLION BUSHEL OF FEED GRAIN ON HAND. THIS IS A RECORD FOR THAT DATE. DURING THE COMING YEAR, DOMESTIC CONSUMPTION OF FEED GRAINS IS EXPECTED TO BE UP ONLY MODESTLY, IF AT ALL. WEAK CONSUMER DEMAND HAS RESTRICTED FOOD AND INDUSTRIAL USAGE AND REDUCED ANIMAL NUMBERS HAVE RESTRAINED FEED USE. THE WORLD DEMAND FOR FEED GRAINS IS ALSO SLUGGISH WHICH HAS SLOWED EXPORTS. END-OF-SEASON STOCKS NEXT YEAR ARE EXPECTED TO SET A NEW RECORD.

CORN IS A MAJOR INGREDIENT IN DAIRY COW FEED. CORN PRODUCTION IN 1981 WAS 3.2 BILLION BUSHEL, 23 PERCENT ABOVE 1980. ADDING THIS PRODUCTION TO BEGINNING STOCKS OF 1 BILLION BUSHEL HAS CAUSED A SHARP DECLINE IN CORN PRICES. CORN PRICES AT THE FARM IN FEBRUARY WERE \$2.40 PER BUSHEL, DOWN FROM \$3.22 LAST YEAR. THE LARGE SUPPLY AND SOFT DEMAND WILL KEEP THE CORN PRICE DOWN THE REST OF THE YEAR.

THE SOYBEAN HARVEST LAST YEAR WAS THE SECOND LARGEST ON RECORD. AND WAS 13 PERCENT MORE THAN THE 1980 CROP. STOCKS OF SOYBEANS ON JANUARY 1, WERE 3 PERCENT ABOVE A YEAR AGO. THIS PLENTIFUL SUPPLY HAS DEPRESSED THE PRICE OF SOYBEANS AND SOYBEAN MEAL. IN FEBRUARY THE PRICE OF SOYBEAN MEAL, 44 PERCENT PROTEIN, WHICH IS ANOTHER MAJOR PART OF

THE DAIRY RATION WAS \$13.90 PER HUNDRED POUNDS. THIS IS 10 PERCENT LESS THAN THE PRICE WAS IN FEBRUARY LAST YEAR. THE LARGE SUPPLY OF SOYBEANS AVAILABLE ARE EXPECTED TO KEEP PRICES LOW THROUGH THE REMAINDER OF THE MARKETING YEAR.

IN FEBRUARY, THE MILK-FEED RATIO WAS 1.54. THIS IS UP FROM 1.40 IN FEBRUARY 1981. ALTHOUGH THE ALL MILK PRICE IN FEBRUARY THIS YEAR WAS 15 CENTS BELOW THE ALL MILK PRICE IN FEBRUARY 1981, THE DECREASE IN THE COST OF FEED WAS EVEN GREATER, THUS THE MILK-FEED RATIO INCREASED. AS WE PROGRESS THROUGH THE REMAINDER OF THIS MARKETING YEAR, MILK PRICES MAY FURTHER WEAKEN DURING THE FLUSH AND ALTHOUGH THERE MAY BE SOME SMALL SEASONAL INCREASE IN THE PRICE OF FEED GRAINS, THE MILK-FEED RATIO IS EXPECTED TO REMAIN FAVORABLE FOR THE PRODUCTION OF MILK.

WITH FEED SUPPLIES PLENTIFUL AND LESS EXPENSIVE THAN LAST YEAR, WE CAN EXPECT DAIRY FARMERS TO MAINTAIN THEIR FEEDING RATES AND OUTPUT PER COW COULD INCREASE ANOTHER 1.75 PERCENT THIS YEAR.

MILK COW NUMBERS

DURING THE 1981 MARKETING YEAR, MILK COW NUMBERS AVERAGED 10,388,000 HEAD, AN INCREASE OF 1 PERCENT OVER THE PREVIOUS MARKETING YEAR. ON A CALENDAR YEAR BASIS, THE NUMBER OF MILK COWS HAS INCREASED FOR THE LAST TWO YEARS. AND LIKELY COW NUMBERS WILL CONTINUE TO INCREASE THIS YEAR. THE NUMBER OF REPLACEMENT HEIFERS ON HAND ON JANUARY 1 DURING THE PAST THREE YEARS IS SUBSTANTIALLY ABOVE THE LEVELS THAT EXISTED IN PRIOR YEARS WHEN WE SAW A DECLINE IN THE DAIRY COW HERD. ON JANUARY 1, 1982, THERE WERE 41.2 HEIFERS FOR EVERY 100 MILKING COWS. THIS IS A RECORD LEVEL AND WELL ABOVE THE RATIO OF 35 TO 36/100 THAT EXISTED IN THE LATE 1970s. AS IN 1980 AND 1981, IT IS LIKELY THAT THE RECORD AMOUNT OF REPLACEMENTS WILL LEAD TO AN INCREASE IN THE DAIRY HERD THIS YEAR.

FARMERS WHO ARE NOT RAISING THEIR OWN REPLACEMENT HEIFERS ARE FINDING THAT MILK COW REPLACEMENTS ARE SLIGHTLY LOWER PRICED NOW THAN

THEY WERE A YEAR AGO. THE RELATIVELY ATTRACTIVE DAIRY SITUATION AND THE EXPANSION TAKEN PLACE IN THE LATE 1970S AND 1980S CAUSED A SUBSTANTIAL INCREASE IN THE COST OF MILK COW REPLACEMENTS. MILK COW REPLACEMENTS ROSE FROM SOMETHING UNDER \$500/HEAD IN 1977 TO MORE THAN \$1,200/HEAD IN 1980. ALTHOUGH CURRENT PRICES ARE ONLY SLIGHTLY BELOW THE \$1,200 MARK, PRICES FOR REPLACEMENTS COULD CONTINUE TO DECREASE BECAUSE OF THE LARGE SUPPLY OF REPLACEMENTS AVAILABLE AND BECAUSE OF THE WEAKENING MILK PRICE PROJECTED FOR THE REST OF THIS YEAR.

THE SIZE OF THE DAIRY HERD ALSO IS IMPACTED BY THE CULLING RATE. REASONABLE CULL COW PRICES CAN DO MORE TO REDUCE HERD SIZE THAN ANY OTHER FACTOR. RECENT CULL COW PRICES ARE QUOTED IN THE HIGH \$30S OR THE VERY LOW \$40S AND THIS PRICE HAS NOT BEEN SUFFICIENT TO ATTRACT ADDITIONAL CULLING OF THE DAIRY COW HERD. WITH MEAT SUPPLIES DURING THE REMAINDER OF MY 1982 EXPECTED TO REMAIN RELATIVELY LARGE COMPARED TO DEMAND, THERE WILL NOT BE MUCH INCREASE IN CULL COW PRICES. CULL COW PRICES WILL LIKELY REMAIN UNDER THE \$.45 PER POUND LEVEL DURING THE REMAINDER OF THE MARKETING YEAR. THIS IS \$.10 TO \$.15 PER POUND LESS THAN THE PRICE THAT IT TOOK IN 1979 TO BRING ABOUT A SUBSTANTIAL REDUCTION IN THE DAIRY HERD.

SO, WITH NO INCENTIVE TO INCREASE CULLING AND A LARGE AMOUNT OF DAIRY REPLACEMENTS AVAILABLE TO BUILD THE HERD, IT IS LIKELY THAT THE DAIRY MILK COW HERD WILL INCREASE ANOTHER 1.2 PERCENT THIS YEAR.

PRODUCTION SUMMARY, MY 1982

TO SUMMARIZE, THE PRODUCTION OUTLOOK THEN: (1) THERE IS A LACK OF ALTERNATIVES EITHER ON-FARM OR OFF-FARM AND THUS THE DAIRYMEN WILL STAY ON THE FARM AND WILL CONTINUE TO PRODUCE MILK AS LONG AS HE CAN, (2) WITH PLENTIFUL AND CHEAP FEED AVAILABLE AND BETTER MANAGEMENT PRACTICES IT IS LIKELY THAT WE WILL SEE ANOTHER 1.75 PERCENT INCREASE IN OUTPUT PER COW, (3) WITH A PLENTIFUL SUPPLY OF MILK COW REPLACEMENTS AND UNATTRACTIVE

CULL COW PRICES, IT IS LIKELY THAT THE DAIRY HERD WILL INCREASE ANOTHER 1.2 PERCENT THIS YEAR. THEREFORE, MILK PRODUCTION IS EXPECTED TO TOTAL 135.6 BILLION POUNDS FOR 1932 MARKETING YEAR.

PRODUCTION, MY 1933

THESE PROJECTIONS ASSUME A \$13.25 SUPPORT LEVEL.

AS WE LOOK INTO THE FOLLOWING MARKETING YEAR WE SEE THE FEED SITUATION TO BE NOT GREATLY UNCHANGED FROM THE CURRENT YEAR. THAT IS, LARGE SUPPLIES AT MODERATE PRICES. FEBRUARY INTENTIONS TO PLANT INDICATED THAT CORN PLANTINGS WILL BE UP ONE PERCENT THIS COMING YEAR AND SOYBEAN PLANTINGS WILL BE UP TWO PERCENT. HOWEVER, AS THE SURVEY WAS BEING MADE, USDA ANNOUNCED A SET ASIDE PROGRAM FOR FEED GRAINS WHICH MAY RESULT IN THE REDUCTION IN CORN ACREAGE PLANTED. HOWEVER, GIVEN NORMAL WEATHER CONDITIONS THIS YEAR, THE SUPPLY OF FEED GRAIN AND SOYBEANS AVAILABLE FOR THE 1933 DAIRY MARKETING YEAR COULD BE LARGE. THERE MAY BE SOME STRENGTHENING IN THE DEMAND FOR FEED GRAINS NEXT YEAR IF THE ECONOMY BEGINS ITS REBOUND AND THERE IS AN INCREASE IN THE DEMAND FOR MEAT. ALTHOUGH FEED PRICES MAY INCREASE MODERATELY AND REDUCE THE MILK-FEED RATIO, IT IS NOT EXPECTED TO BECOME UNFAVORABLE FOR MILK PRODUCTION.

ALTHOUGH A REDUCED MILK-FEED RATIO MAY CAUSE DAIRY FARMERS TO LIGHTEN UP SOMEWHAT ON THEIR FEEDING RATES, OUTPUT PER COW COULD INCREASE ABOUT 1.25 PERCENT NEXT YEAR. ALSO ADDING TO OUTPUT PER COW, BOTH THIS YEAR AND LAST, IS A CONTINUED IMPROVEMENT IN MANAGEMENT AND BREEDING PRACTICES.

DURING MY 33 THE DAIRY COW HERD WILL LIKELY DECREASE. NEXT YEAR WILL BE THE THIRD YEAR IN A ROW THAT DAIRY FARMERS WILL NOT HAVE HAD AN INCREASE IN THE MILK PRICE, AND THIS WILL RESULT IN THE LOSS OF SOME DAIRYMEN. WHEN A DAIRY OPERATION GOES OUT OF BUSINESS, NOT ALL THE COWS ARE SOLD INTO OTHER DAIRY HERDS; ONLY THE BETTER COWS ARE BOUGHT, ESPECIALLY WHEN TIMES ARE TIGHT. THE REMAINDER OF THE HERD, THE MARGINAL

COWS, ARE SHIPPED OFF TO SLAUGHTER.

THERE ALSO MAY BE AN INCREASE IN THE CULLING RATE NEXT YEAR.

ANOTHER YEAR WITHOUT A PRICE INCREASE MAY CAUSE DAIRY FARMERS TO INCREASE CULLING IN ORDER TO MAINTAIN CASH FLOW. IF THERE IS AN IMPROVEMENT IN THE GENERAL ECONOMY, AND THE DEMAND FOR MEAT INCREASES, IT SHOULD RESULT IN HIGHER CULL COW PRICES AND INCREASE THE INCENTIVE FOR DAIRYMEN TO CULL.

AS FAR AS ALTERNATIVE OPPORTUNITIES IN MY 83, AN INCREASE IN THE GENERAL ECONOMY SHOULD DECREASE UNEMPLOYMENT AND INCREASE THE OFF-FARM OPPORTUNITIES. ALSO IF THE ECONOMY INCREASES BRINGING WITH IT AN INCREASE IN THE DEMAND FOR BEEF, DAIRYMEN MAY BE ABLE TO MOVE SOME OF THEIR RESOURCES OUT OF THE PRODUCTION OF MILK AND INTO THE PRODUCTION OF BEEF ANIMALS.

PRODUCTION SUMMARY, MY 1983

IN SUMMARY FOR MY 1983 THEN; (1) ALTERNATIVE OPPORTUNITIES OFF-FARM AND IN OTHER SECTORS OF AGRICULTURE MAY IMPROVE AND DRAW SOME OF THE RESOURCES AWAY FROM THE PRODUCTION OF MILK, (2) THE NUMBER OF MILK COWS LIKELY WILL DECREASE AS DAIRYMEN CULL COWS TO KEEP UP THEIR CASH FLOW AND AS MARGINAL FARMERS ARE FORCED OUT OF BUSINESS AND THEIR HERDS GO TO SLAUGHTER. HOWEVER, BETTER MANAGEMENT PRACTICES AND NOT UNFAVORABLE FEED PRICES WILL BRING ABOUT A CONTINUED INCREASE IN OUTPUT PER COW WHICH MAY OFFSET THE DECLINE IN MILK COW NUMBERS. THEREFORE, MILK PRODUCTION IN MY 83 WILL BE ABOUT THE SAME AS MY 82.

COMMERCIAL USE, MY 1982

THE COMMERCIAL USE OF MILK AND DAIRY PRODUCTS DURING THE MARKETING YEAR LIKELY WILL IMPROVE OVER LAST YEAR'S LEVELS BUT ONLY AT ABOUT .75 PERCENT. NO SIGNIFICANT INCREASE IN THE RETAIL PRICE LEVEL OF MILK AND DAIRY PRODUCTS IS EXPECTED THIS YEAR. AND THIS SHOULD MAKE MILK AND DAIRY PRODUCTS A SOMEWHAT BETTER BUY RELATIVE TO OTHER PRODUCTS. HOWEVER,

MUCH OF THE STRENGTHENING WHICH SHOULD ACCOMPANY FLAT RETAIL PRICES MAY BE OFFSET AS A RESULT OF CUTS IN CHILD FEEDING PROGRAMS AND HIGH UNEMPLOYMENT.

FLUID SALES

FLUID MILK SALES FOR THE FIRST QUARTER OF THE MARKETING YEAR, (OCTOBER - DECEMBER 1981), WERE DOWN 1 PERCENT IN FEDERAL MILK MARKETING AREAS. PRIMARILY THIS REDUCTION HAS COME ABOUT BY DECREASED SALES OF FLUID MILK THROUGH THE SCHOOL LUNCH AND OTHER CHILD FEEDING PROGRAMS. OUR MEMBER ORGANIZATIONS HAVE REPORTED THAT DECLINES IN THEIR SCHOOL MILK SALES ARE RANGING BETWEEN 10 AND 25 PERCENT. FEDERAL ORDER DATA SHOWS FLAVORED LOWFAT AND WHOLE MILK PRODUCTS DOWN ALMOST 11 PERCENT. FLUID MILK CONSUMED UNDER CHILD NUTRITION PROGRAMS REPRESENT ABOUT 6 PERCENT OF THE TOTAL SALES OF FLUID MILK. TOTAL FLUID SALES REPRESENT ABOUT 50 PERCENT OF ALL MILK AND DAIRY PRODUCTS. PRIMARILY, BECAUSE OF THIS DECREASE IN SCHOOL LUNCH SALES, TOTAL FLUID SALES FOR THE MARKETING YEAR ARE PROJECTED TO BE DOWN ABOUT A HALF OF A PERCENT.

CHEESE AND OTHER PRODUCT SALES, MY 1982

CHEESE SALES DURING THE MY 1981 WERE UP ABOUT 4.5 PERCENT AND WE PROJECT THEM TO INCREASE ABOUT 4.0 PERCENT DURING MY 1982. HERE AGAIN, CHEESE SALES HAVE BEEN HURT BY THE CURRENT POOR ECONOMIC CONDITIONS. ALSO, WITHOUT QUESTION THE AVAILABILITY OF IMITATION CHEESE HAS HAD A NEGATIVE IMPACT ON CHEESE CONSUMPTION. THIS IMPACT WILL CONTINUE UNTIL THE U.S. TAKES ACTION TO CURB THE IMPORT OF MILK PROTEINS. THE USE OF MILK IN CHEESE REPRESENTS ABOUT 25 PERCENT OF THE TOTAL SALES OF MILK AND DAIRY PRODUCTS.

ALL OTHER DAIRY PRODUCTS COMBINED REPRESENTS THE REMAINING 25 PERCENT OF THE SALES OF MILK AND DAIRY PRODUCTS. ALTHOUGH INDIVIDUAL PRODUCTS MAY INCREASE OR DECREASE, AS A GROUP WE ARE NOT LOOKING FOR ANY INCREASE THIS YEAR.

COMMERCIAL USE SUMMARY, MY 1982

IN SUMMARY, SALES OF FLUID MILK THIS YEAR MAY BE DOWN ABOUT ONE HALF PERCENT. WHILE SALES OF CHEESE MAY INCREASE 4.0 PERCENT, SALES OF ALL OTHER PRODUCTS COMBINED WILL REMAIN AT LAST YEAR'S LEVEL. AS A RESULT, TOTAL COMMERCIAL SALES OF MILK AND DAIRY PRODUCTS THIS YEAR MAY INCREASE ABOUT .75 PERCENT.

COMMERCIAL USE, MY 1983

FLUID MILK SALES IN THE NEXT MARKETING YEAR MAY INCREASE AT ABOUT THE SAME RATE AS THE LONGTERM TREND: THAT IS BETWEEN 0 AND .5 PERCENT. WITH PROJECTIONS OF BETTER ECONOMIC CONDITIONS IN MY 83, CHEESE CONSUMPTION IS EXPECTED TO INCREASE. STRONGER MEAT PRICES MAY ALSO STRENGTHEN THE DEMAND FOR CHEESE AS CONSUMERS LOOK FOR SUBSTITUTES. WITH FARM MILK PRICES REMAINING NEAR FLAT FOR STILL ANOTHER YEAR, THE RELATIVE RETAIL PRICE OF MILK AND DAIRY PRICES SHOULD BE FURTHER IMPROVED. TOTAL COMMERCIAL USE COULD INCREASE 1.75 PERCENT OVER THIS YEAR'S LEVEL.

CCC PURCHASES AND COSTS

NOW THAT WE HAVE ESTIMATED PRODUCTION AND CONSUMPTION, FOR THE NEXT 18 MONTHS, WE COME TO THE BOTTOM LINE - CCC PURCHASES. IF OUR ESTIMATES ARE CORRECT, CCC COULD PURCHASE BUTTER AND CHEESE TOTALING SOME 14.5 BILLION POUNDS M.E. THIS YEAR AND 12.9 BILLION POUNDS NEXT YEAR. CCC IS PRESENTLY BUYING NONFAT DRY MILK AT A FASTER RATE THAN LAST YEAR AND THAT LIKELY WILL CONTINUE AND ADD TO PURCHASE COSTS. UNLESS USDA CAN CARRY THROUGH ON SOME ADDITIONAL EXPORT SALES, SUCH AS THE NEW ZEALAND SALE, IT IS LIKELY THAT THE NET PURCHASE COST WILL BE NEAR \$2.2 BILLION THIS YEAR AND NEXT.

MILK SUPPLY

MY 1982

MY 1983

SUPPORT PRICE (\$/CWT.)

13.10

13.25

NUMBER COWS (1000 HEAD)

11,019 (+1.0%)

10,900 (-1.0%)

MILK PER COW (LBS.)

12,304 (+1.75%)

12,450 (+1.25%)

MILK PRODUCTION

135.6 (+3.0%)

BILLION LBS.

135.7 (0%)

FARM USE

2.2

2.1

MARKETINGS

133.4

133.6

BEGINNING COMMERCIAL STOCKS

5.2

5.6

IMPORTS

2.4

2.4

COMMERCIAL SUPPLY

141.0 (+2.2%)

141.6 (+0.4%)

MILK AND DAIRY PRODUCT UTILIZATION (BIL. LBS.)

| | <u>MY 1982</u> | <u>MY 1983</u> |
|--------------------------|----------------|----------------|
| COMMERCIAL USE | 120.9 (+.75%) | 123.0 (+1.75%) |
| ENDING COMMERCIAL STOCKS | 5.6 (+7.7%) | 5.7 (+1.75%) |
| TOTAL UTILIZATION | 126.5 (+1.04%) | 128.7 (+1.75%) |

CCC PURCHASES AND COSTS

| | <u>MY 1982</u> | <u>BILLION POUNDS</u> | <u>MY 1983</u> |
|--------------------|----------------|------------------------|----------------|
| SUPPLY | 141.0 | | 141.6 |
| UTILIZATION | 126.5 | | 128.7 |
| CCC PURCHASES M.E. | 14.5 | | 12.9 |
| BUTTER | 409 | <u>MILLION POUNDS</u> | 364 |
| CHEESE | 612 | | 545 |
| NFDM | 950 | | 845 |
| NET CCC COST | 2,248 1/ | <u>MILLION DOLLARS</u> | 2,208 |

1/ NEW ZEALAND SALE NETTED \$155 MILLION

Executive Offices

MILK INDUSTRY FOUNDATION • INTERNATIONAL ASSOCIATION OF ICE CREAM MFRS.

MIF/IAICM DAIRY PRODUCTION AND CONSUMPTION ESTIMATES

Presented by
E. Linwood Tipton, Senior Vice President
Milk Industry Foundation
International Association of Ice Cream Manufacturers

at the
Dairy Economics Symposium
March 22-23, 1982
Kansas City, Missouri

Milk Production

U.S. milk production will continue to increase during 1982 and the first half of 1983, but possibly at a decelerating rate. During fiscal year 82 (Oct. 81 - Sept. 82) we expect a 2 1/2% increase, down slightly from the 3 1/2% jump in FY 81. This is based on anticipated increases in milk cow numbers and milk production per cow. This, if accurate, would bring 1982's production to about 135 billion pounds. If beef and feed prices remain depressed, 1983 milk production may be even slightly higher than the record 1982 output.

After years of decline, the number of cows being milked turned upward at the beginning of this decade and last year increased 1%. We expect the milking herd to grow another percent during this fiscal year. This makes the third year in a row when the number of milk cows in the herd have increased. The dairy herd will probably remain at the 1982 level during 1983. The anticipated increase in the dairy herd is due to the large number of replacement stocks presently on hand and the depressed beef prices. Beef prices are expected to remain low throughout the year. Additionally, the differential value between the price for a milk cow for milking and her value for beef is currently about \$600. This clearly indicates culling rates will be minimal and replacement stock will remain high. Simply stated, milking even a relatively low producing animal returns a lot more than slaughter.

Milk production per cow is anticipated to run about 1 1/2% above last year's level. This is a fairly moderate increase when compared to the 3.4% jump in 1980 and a 2.5% rise in FY 81. Even with a moderate comeback in the grain markets, the milk-feed price ratio is likely to continue to encourage high feeding rates.

The compounding impact of a 1% increase in cow numbers with a 1 1/2% lift in production per cow will result in a total increase of about 2 1/2%. We conclude, therefore, that in FY 82 U.S. raw milk production will set a new record, 135 billion pounds.

Depressed feed and beef prices are major contributors to the continued expansion in production. We believe last year these factors offset other increases in the cost of production. This year feed prices have remained relatively low and energy costs are coming down for the first time after many years of rapid inflation. Consequently, the stabilizing of raw milk prices has not, and for the next year or so, will not have the deterrent affect on production which would normally be experienced during an inflationary period. With today's poor off-farm employment opportunities, weak agricultural alternatives and high interest rates depressing farm sales opportunities, we see little incentive for dairymen to change to other agricultural commodities or different careers.

It should be noted that a major increase in feed costs or run up in beef prices could cause production trends to turn around. We do not expect either in 1982.

Commercial Consumption

We are anticipating a slight increase, approximately 1% in commercial consumption of dairy products during FY 82. Even with relatively flat prices fluid milk sales are expected to be down 1% due to cuts in the special milk and school lunch programs. On the up side, commercial cheese sales should grow about 3%.

Milk support prices will not be increasing during FY 82 and raw milk values at the farm are running a little below the 1981 level, also. However, it is significant to note that sugar prices, a major component of competing beverages, have declined substantially from last year's very high levels. Prices of other traditional juice beverages are not expected to increase as much as inflation either. Also, and probably the most significant factor, is a substantial reduction in sales through the school milk program. Our members tell us this year school milk sales are off as much as 15%. This alone would account for a 1% decline in fluid sales. Demand for a few products remains strong, but they use a relatively small portion of the total milk supply. Among these are yogurt, sour cream, dips and dressings, flavored milks, milkshakes and other specialty products. Cottage cheese, butter and ice cream product sales are expected to be very close to last year's level. This scenario would provide an overall increase in commercial consumption of dairy products of about a half to one percent. In conclusion, we expect commercial sales of 121 billion pounds.

CCC Purchases and Expenditures

The Commodity Credit Corporation, which bought 12.7 billion pounds of milk equivalent during FY 81, is likely to buy 14 to 15 billion pounds this marketing year. The cost of the Milk Support Program will set a new record and could reach \$2 1/2 billion.

The outlook for the first half of '83 is not much better. Unless there is a substantial rise in feed and beef prices, or a major legislative initiative, we do not foresee any turn around in today's problems, at least until the second half of '83.



News Release

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HOLD FOR RELEASE A.M. OF Sunday, March 21, 1982

Mid-America Dairymen cites drop in milk production as a key factor to be considered in developing a new national dairy policy

Officials of Mid-America Dairymen Inc. today announced that milk production among the more than 11,000 dairy farmers served by Mid-Am has dropped for the first time in the past 25 months.

Ivan Strickler, president of Mid-Am, said that milk production by Mid-Am members in February 1982 was below that of February 1981. The Iola, Kansas, dairyman added, "This represents the first month in 25 months that Mid-Am's member milk production has been below the same month a year earlier."

Strickler's remarks will be included in testimony he will give at the dairy symposium called by Secretary of Agriculture John Block in Kansas City for March 22 and 23.

"We have observed that changes in the direction of Mid-Am members' milk production is followed two to three months later by changes in national milk production figures," Strickler said.

He also pointed out in his prepared statement for the dairy symposium that milk production in Wisconsin dropped by 2.2 percent during February. "Reports of freeze damage to cows is a common occurrence in these areas," Strickler said, noting that such damage has resulted in a large number of cows being sent to slaughter in recent weeks.

"When milk production has decreased in the past, Mid-Am members' production numbers have reflected this decrease two to three months prior to USDA milk production numbers reflecting this decrease," he said.

Citing these lowered production figures, Strickler said that Mid-America Dairymen does not agree with government projections that milk production in fiscal 1983, which begins October 1, 1982, will be above the level of milk production for the 1982 fiscal year.

Strickler also expressed great concern over a plan proposed by the Administration's Office of Management and Budget to lower milk price supports by 50 cents per hundredweight every six months, beginning in October 1982, for a total potential reduction of up to \$3.00 per hundredweight.

"This is not the solution to the problem," Strickler said. "The solution is to increase farm income and improve the economic position of all agriculture, improve the overall economy and reduce unemployment, and allow dairy farmers to implement and operate their proposed self-help program."

Statement of Ivan Strickler
President, Mid-America Dairymen, Inc.

Dairy Symposium - Kansas City, Missouri
March 22 - 23, 1982

My name is Ivan Strickler. I am President of Mid-America Dairymen, Inc. and a dairy farmer from Iola, Kansas. I appear here today on behalf of and in my capacity as President of Mid-America Dairymen.

Mid-America Dairymen is a cooperative association representing 11,500 dairy farmer member owners in the twelve state area of Minnesota, Wisconsin, North Dakota, South Dakota, Iowa, Nebraska, Kansas, Missouri, Oklahoma, Arkansas, Illinois and Texas.

We are aware of the present imbalance in the supply and demand for milk and are concerned about the cost of the price support program. Certainly expenditures by the Commodity Credit Corporation of \$2 billion per year is of great concern to us. However, we do not believe that the present environment justifies pushing the panic button. We believe that proposals that have been advocated to reduce the present price support level for milk by between \$2.00 and \$3.00 per hundredweight are unjustified, unwarranted, and uncalled-for. A number of factors have worked together to bring about the present supply-demand imbalance that have not all operated together at one time. We, therefore, believe that this period is somewhat unique in nature because of these interplaying factors.

Agriculture is more than a producer of food and fiber for the consumers of the United States and the world. Agriculture plays a vital role in the economy of the United States. Agriculture's importance was demonstrated by Agriculture Secretary Block's statement before the Senate Committee on Budget, March 8, 1982:

"It is important to recognize agriculture's important role in the general economy. Broadly defined, agriculture is the nation's largest industry, with assets equal to about 88 percent of the capital assets of all U.S. manufacturing corporations. Agriculture also is the nation's largest employer. Economic activity in the U.S. food and fiber system requires the services of more than 23 million people, or about 22 percent of the labor force. Farming alone requires 3.7 million workers -- as many as the combined workforce of the transportation, steel and automobile industries. One out of every five jobs in private enterprise is related to American agriculture.

"Agriculture's impact on the entire economy is also significant. The value added to farm products as they flow through the economic system amounts to about 20 percent of the gross national product. Agricultural output has increased more than 70 percent since 1950, while total input use increased less than 4 percent. Today each farmer provides food and fiber for 60 Americans as well as a growing number of foreign customers; 60 years ago, one farmer supplied only 10 Americans with food. It is important to remember that few resources are as important as agriculture to the economic strength of the country.

"The economic condition of the farm sector is obviously a vital concern. U.S. agriculture faces difficult financial conditions this year."

This last sentence of Secretary Block's statement may prove to be the understatement of the year. All sectors of agriculture are extremely depressed and have been referred to as "depression era" conditions. Dairy is no exception. Dairy farmers are suffering financially and while all of agriculture is depressed and hurting, dairy is not hurting quite as much as some of the other agriculture enterprises. The plight of all of agriculture is best demonstrated by comparing farm prices as a percent of parity in 1974 with those that have existed during January and February of 1982, and by comparing changes in net farm income. The USDA publication Agricultural Prices reveals that in 1974 corn averaged 119 percent of parity compared to 50 percent of parity in January and February of this year. During the same time period, soybeans dropped from 116 percent of parity to 48; wheat - 107 to 52; beef cattle - 72 to 58; hogs - 82 to 55; and milk - 83 to 66.

Farm operators have also watched their net farm income decrease dramatically during the past few years. 1979 was a very good year for the farming community, with net farm income of \$32.7 billion. In 1980, net farm income dropped 39% to a total of \$19.9 billion. 1981 presented some improvement, with net farm income increasing 16% to \$23 billion; however, projections for 1982 reveal that net farm income will be the lowest since 1971, with projected ranges by USDA of \$13 to \$18 billion. If a figure of \$15 billion is assumed, net farm income in 1982 will be 35% below the 1981 level. Net farm income at \$15 billion in 1982 would represent a decrease of 54% from the 1979 level.

Farmers will not be able to remain viable and continue the production of food and fiber in such depressed conditions. The consumers of the United States are all too familiar with the problems of the energy crisis that resulted from our dependance on foreign oil.

The failure of the Administration to improve the economic conditions of all of agriculture may result in a food crisis for this nation. For the good of the country, the consumers, and the farmers, programs must be implemented to improve the economic position of all segments of agriculture.

Because milk has not suffered as greatly as some of the other agriculture enterprises, the dairy industry has drawn assets from other agriculture enterprises which have contributed to the increases in milk production. It is not uncommon for farmers who are unable to obtain additional financing to be told by the banker, "If you want to milk cows, we will loan you additional money to get into the milking business." Such a circumstance has added to increased milk production. We believe that programs should be enacted to improve the economic position of all farmers and all of agriculture and maintain the food production capacity of this nation to meet future food and nutrition requirements rather than pull down dairy to the depressed levels of other agricultural commodities.

Another factor that has contributed to the present supply-demand imbalance is the rate of unemployment. The high levels of unemployment that have existed in the past two to three years, along with the generally depressed economic condition, have had an adverse impact on the consumption of milk and milk products and has resulted in flat consumption rates. In addition, the high levels of unemployment have had an impact on the level of milk production. A recent study conducted by Ohio State University has revealed a high correlation between the rate of unemployment and the rate of milk production in this nation. The tax cut and other programs proposed by the Administration should improve the general economic condition of the country and improve the consumption of milk and milk products and at the same time have a dampening effect on the level of milk production.

Studies conducted by Texas A&M and Ohio State University have revealed that the attitude dairy farmers have has a high impact on milk production. In other words, if dairy farmers perceive the future to be bright, they are inclined to increase milk production while if they perceive the future to be dark or gloomy, they are inclined to decrease milk production. During the past two to three years, dairy farmers have perceived the future of milk production and milk prices as being good and have responded with expansion of herds and increases in milk production. Dairy farmers no longer feel this way about the future of dairying. Many dairy farmers are now discouraged about

the future and this change in attitude will be reflected in a decrease in milk production levels.

One of the main deterrents to stabilized milk production has been the build-up of the cow herd which, in part, has resulted from depressed beef and cull cow prices. There are some indications that this situation may improve during the latter part of 1982. The Outlook for Livestock and Meat, published February 12, 1982, indicates that during the fourth quarter of 1981 choice steer prices at Omaha averaged \$60.17 per hundredweight. This same publication is forecasting steer prices to increase to between \$65.00 and \$67.00 per hundredweight this Spring. This would represent a price increase of almost 10% and should result in a strengthening of cull cow prices which would provide an incentive for dairy farmers to reduce their dairy herds. This, of course, would result in a decrease in milk production.

The harsh winter weather experienced in Nebraska, Iowa, Minnesota and Wisconsin has already had an impact on milk production. Reports of freeze damage to cows is a common occurrence in these areas and has resulted in a large number of cows going to slaughter. This may explain the 2.2% decrease in milk production in Wisconsin during February. Another indication that changes are occurring in the attitude of dairy farmers and the production of milk is the fact that the milk production by members of Mid-America Dairymen in February was below February of 1981. This represents the first month in 25 months that Mid-Am's member milk production has been below the same month a year ago. We have observed that changes in the direction of Mid-Am members' milk production is followed two to three months by changes in national milk production figures. For example, when milk production began its increase, Mid-Am members were showing the increase two to three months before these numbers were reflected in USDA milk production figures. Likewise, when milk production has decreased, Mid-Am members' numbers have reflected this decrease two to three months prior to USDA milk production numbers reflecting this decrease. We believe all these factors are indicating that milk production will not continue to increase and, for that reason, we do not agree with projections or forecasts that indicate that milk production in fiscal year 1983, which begins October 1,

1982, will be above the level of milk production for the 1982 fiscal year.

This is not to say that we do not believe new legislation is needed or that action must not be taken. We do not believe that the adjustments that would take place in the production of milk that would result from a harsh decrease in price support levels of \$2.00 to \$3.00 per hundredweight are warranted. The present decrease in milk prices, along with high interest rates, has placed young dairy farmers in a tremendous economic bind that threatens their very existence as dairy farmers. These young dairy farmers must remain viable in order to maintain the productive capacity of the dairy industry to meet future milk and dairy product requirements for this nation. The impact on the income of dairy farmers must be cushioned as much as possible. We believe that the self-help program proposed by the National Milk Producers Federation is the logical course of action for the Administration, the Congress, and dairy farmers to pursue. This program provides dairy farmers with the tools to establish programs and procedures to deal with the milk production and the resulting products that they are generating. The self-help program, as contemplated by National Milk Producers Federation, would provide dairy farmers -- through the dairy board -- sufficient flexibility to deal with the supply-demand imbalance existing today and those that may exist in the future. We believe this is the best program for dairy farmers and one that should be supported by all parties involved.

I thank you for the opportunity to present my thoughts to the Secretary.

S U M M A R Y

The supply and demand of milk and milk products is not balanced. We do not argue with that fact. The reasons for the lack of balance, and proposed solutions, are very important and sound logic must prevail to prevent disaster in all of agriculture.

Unstable conditions prevail in all sectors of agriculture, including dairy. The instability has drawn assets from other agriculture enterprises into dairy. The additional assets have contributed to the increase in milk production.

The instability in the overall economy and the accompanying high unemployment rates have resulted in decreases in milk consumption and increases in milk production.

The solution is not to reduce the support price for milk by \$2.00 to \$3.00 per hundredweight and lower dairy to the rest of agriculture. The solution is to increase farm income and improve the economic position of all agriculture, improve the overall economy and reduce unemployment, and allow dairy farmers to implement and operate their proposed self-help program.

SELECTED FARM PRICES AS PERCENT OF PARITY

| <u>YEAR</u> | <u>CORN</u> | <u>SOYBEANS</u> | <u>WHEAT</u> | <u>BEEF</u> | <u>HOGS</u> | <u>ALL MILK</u> |
|-------------|-------------|-----------------|--------------|-------------|-------------|-----------------|
| 1974 | 119 | 116 | 107 | 72 | 82 | 83 |
| 1975 | 86 | 74 | 80 | 60 | 99 | 79 |
| 1976 | 66 | 95 | 57 | 60 | 84 | 81 |
| 1977 | 58 | 77 | 46 | 59 | 71 | 75 |
| 1978 | 61 | 76 | 56 | 78 | 76 | 75 |
| 1979 | 58 | 62 | 64 | 92 | 59 | 74 |
| 1980 | 59 | 59 | 59 | 75 | 50 | 72 |
| 1981 | 60 | 56 | 55 | 63 | 53 | 69 |
| 1982 * | 50 | 48 | 52 | 58 | 55 | 66 |

* JANUARY - FEBRUARY

COMMENTS FOR PUBLIC DAIRY SYMPOSIUM

March 22, 1982

by

RODNEY K. CARLSON

Agricultural Marketing Analyst

WE APPRECIATE THIS OPPORTUNITY TO EXPRESS OUR VIEWPOINTS CONCERNING THE PRESENT DAIRY SITUATION AND OUR VIEWS OF THE SHORT RUN OUTLOOK FOR DAIRY.

FIRST THE QUESTION MUST BE ASKED; DO WE HAVE A PROBLEM? THE ANSWER IS OBVIOUSLY YES! THE MAGNITUDE OF THE PROBLEM IS WELL STATED BY MR. MENGEL. I HAVE HAD AN OPPORTUNITY TO REVIEW HIS ESTIMATES AND HAVE NO DISAGREEMENT WITH THEM.

THE SITUATION HAS NOT BEEN UNNOTICED BY DAIRY FARMERS AND THEIR COOPERATIVES. AS FAR BACK AS APRIL OF 1980 THE NATIONAL MILK PRODUCERS FEDERATION ADVANCED A PLAN TO THE CARTER ADMINISTRATION THAT WOULD HAVE EASED THE PROBLEM SOMEWHAT. THERE WAS NEVER ANY ACTION TAKEN ON THAT PROPOSAL MUCH TO OUR DISMAY.

WE, AT LAND O'LAKES, HAVE EXPRESSED OUR CONCERN OVER THE SURPLUS PRODUCTION AND GROWING GOVERNMENT INVENTORY FOR SOME TIME. LAST FALL WE PROJECTED CALENDER YEAR 1982 MILK PRODUCTION OF 135.7 BILLION POUNDS AND CCC PURCHASES OF 14.6 BILLION POUNDS OF MILK EQUIVALENT. WE FURTHER EXPRESSED OUR FEAR THAT UNLESS ADDITIONAL STEPS WERE TAKEN TO MOVE CCC STOCKS THAT UNCOMMITTED INVENTORIES' BY THE END OF 1982 WOULD INCLUDE OVER 500 MILLION POUNDS OF BUTTER, ABOUT ONE BILLION POUNDS OF CHEESE AND 1.6 BILLION POUNDS OF NFDM.

OUR CONCERNS AND THAT OF OTHER DAIRY FARMER ORGANIZATIONS HAVE CAUSED US TO DISCUSS THE SITUATION THROUGH THE NATIONAL MILK PRODUCERS FEDERATION. YOU WILL HEAR THE ALTERNATIVE THAT WAS AGREED UPON AS THE MOST ACCEPTABLE SOLUTION LATER ON IN THIS MEETING. LAND O'LAKES' STRONGLY SUPPORTS THE ALTERNATIVE TO BE PRESENTED BY THE NATIONAL MILK PRODUCERS FEDERATION.

IN RETROSPECT, THE DAIRY INDUSTRY PROBABLY DID NOT REACT QUICKLY ENOUGH TO THE WARNING SIGNS OF GROWING MILK PRODUCTION WHEN WE REQUESTED EXTENSION OF THE DAIRY PROVISIONS OF THE 1977 FARM BILL IN 1979. THESE PROVISIONS UNDOUBTEDLY CONTRIBUTED TO THE IMBALANCE OF SUPPLY AND DEMAND. AS I SAID, A PROPOSAL WAS MADE IN EARLY 1980 TO HELP RECTIFY THAT PROBLEM. BUT THAT'S "WATER OVER THE DAM" AT THIS POINT.

ANOTHER CONTRIBUTING FACTOR, HOWEVER, THAT STILL CAN BE ADDRESSED IS THE GROWING DEPRESSION IN OTHER SEGMENTS OF AGRICULTURE. THERE IS A PROBLEM IN THE DAIRY INDUSTRY AND WE CAN'T IGNORE THAT. AT THE SAME TIME THERE IS A PROBLEM IN ALL OF AGRICULTURE AND WE SHOULDN'T IGNORE THAT EITHER. TO ILLUSTRATE, I REFER TO A UNIVERSITY OF MINNESOTA FARM MANAGEMENT SURVEY WHICH FOUND THAT THE AVERAGE NET FARM INCOME OF COOPERATING FARMERS IN SOUTH WESTERN MINNESOTA DECLINED 98 PERCENT FROM 1980 TO 1981. THE AVERAGE NET FARM INCOME WAS FOUND TO BE JUST OVER \$1000 IN 1981 FOR THESE FARMERS; AN OBVIOUS INDICATION THAT THERE IS A DEPRESSION IN THE AGRICULTURAL ECONOMY. A FACT FINDING SYMPOSIUM IS REQUIRED FOR ALL OF AGRICULTURE IN MY OPINION TO DRAMATIZE THE NEED FOR

FURTHER SOLUTIONS TO THE ECONOMIC DEPRESSION OF AGRIBUSINESS. ALL AGRICULTURE IS TOO INTER-RELATED TO DISCUSS ONE AGRICULTURAL ENTERPRISE TO THE EXCLUSION OF ALL OTHERS.

ONE FURTHER NOTE OF CAUTION; THE AGRICULTURAL ACT OF 1949 , AS AMENDED REQUIRES THE SECRETARY TO "ASSURE A LEVEL OF FARM INCOME ADEQUATE TO MAINTAIN PRODUCTIVE CAPACITY SUFFICIENT TO MEET ANTICIPATED FUTURE NEEDS". WE MUST NOT OVER-REACT TO THE CURRENT SURPLUS SITUATION TO SUCH A DEGREE THAT WE LOSE SIGHT OF THAT OBJECTIVE TO THE DETRIMENT OF AMERICAN CONSUMERS.

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3/12/82

Agricultural Extension Service
Communication Resources
University of Minnesota
St. Paul, Minnesota 55108
February 26, 1982

Source: Delane Welsch
(612) 376-3563

Editor: Jack Sperbeck
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FARM EARNINGS SHARPLY DOWN BUT
FARM SPENDING CONTINUES TO RISE

Farmer-members of the Southwestern Minnesota Farm Management Association spent an average of \$290, 226 each in their communities during 1981, according to association records analyzed by University of Minnesota farm management specialists.

Delane Welsch, extension economist, and Erlin Weness and Perry Fales, area extension farm management agents, who are preparing the association's annual report, add that the spending figure was an increase of 12 percent (\$31,000) over 1980.

Data from 172 farms showed that an average of about \$96,000 was spent on the farming inputs of fertilizer, chemicals, seed, feed, repair, and fuel, which is up 23 percent (\$18,000) from 1980.

Another \$65,000 was paid to other farmers for livestock and custom work (down 12 percent or \$9,000) and \$21,000 was used to purchase machinery and equipment (up 26 percent or \$4,300).

Members spent \$39,000 for use of other people's capital, of which \$26,200 was interest (up 32 percent or \$6,400) and \$12,800 was cash rent (up 9 percent or \$1,100). Local government (property taxes) took \$2,250 and \$2,100 was spent on the farm share of utilities.

Returns to operator and family labor, management, and equity capital (net worth) declined 98 percent from \$46,713 to \$1,069! Major causes of this large decline were:

- Rapidly falling crop prices.
- Increasing production costs, especially high interest payments.
- Generally poor earnings by hog and beef cattle enterprises.

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MINNESOTA FARM EARNINGS
DOWN SHARPLY IN 1981

Farm earnings in 1981 were sharply lower than in 1980 for most types of Minnesota farms, according to an early analysis of farm records.

The records are those of farmers in southwestern Minnesota who cooperate with the Agricultural Extension Service and the Department of Agricultural and Applied Economics at the University of Minnesota.

Delane Welsch, extension economist in farm management, and Erlin Weness and Perry Fales, area farm management extension agents in southwestern Minnesota, caution that these preliminary findings may change slightly as more records are analyzed.

Farm earnings are defined in the study as returns to unpaid operator and family labor and management and equity capital (or net worth). This concept of earnings is an accrual concept, because in addition to cash receipts and expenses, it also includes changes in inventory of crops, livestock, and farm inputs, and changes in the capital stock held by the farmer.

Average earnings thus defined for 172 farms declined from \$46,713 per farm in 1980 to \$1,069. Of the 172, 104 farmers supplied detailed data on their net worth. For the 104, the average decrease in net worth was \$10,450.

The large decline in farm earnings was caused primarily by three factors:

- Rapidly falling crop prices coupled with failure of crop farmers to adopt marketing strategies to cope with such drops.
- Increasing production costs, especially high interest payments.
- Except for dairy, a poor earnings performance by livestock, especially feeder cattle.

Crop prices bear a large share of the blame, Welsh says. Corn and soybeans were held in inventory at \$3 and \$8 per bushel at the beginning of the year. At the end of the year they were valued at \$1 and \$2 per bushel less. This decline in inventory value was an important part of the drop in farm income. Low crop prices at the end of the year also meant that crops produced during the year were sold or went into inventory at prices at or below production costs.

Returns above direct costs declined by \$50 to \$80 per acre for corn and by \$70 to \$100 per acre for soybeans. Corn yields actually increased about 15 percent on the record keeping farms from 1980 to 1981, but declining corn prices and rising operating costs brought down returns over all costs by \$80 per acre.

Soybean yields increased by about one bushel per acre, but declining commodity prices and rising costs resulted in a \$98 per acre drop in return over all costs from this crop.

Changes in overall farm operating costs varied among farm types; ranging from 1 percent to 30 percent, with no discernable pattern.

Rising level of liabilities, interest rates and consequent interest payments also reduced earnings. Interest payments increased by a range of 0 to 60 percent from 1980 to 1981. One group of farms (crop and cattle feeding

farms) paid an average of \$35,159 of interest in 1981. That's nearly \$100 every day of the year', Welsch says.

While crop prices, operating costs, and interest payments were the major problems in the farm earnings story, feeder cattle and some hog enterprises were also to blame, Fales says. Only dairy cows were earnings heroes, at least in 1981.

Milk production on the farms studied rose 500 lbs. per cow, or 4 percent (up to \$13,524 lb/cow). Average number of cows increased by three head, or five percent (to 50.3 head/farm). Price received for milk sold was up nearly 6 percent on these farms.

All of this contributed to an 9 percent increase in returns and net increases from livestock on dairy farms, but this was more than offset by a 25 percent decline in returns from the crop enterprise on these same dairy farms.

"Aside from dairy farms, the livestock picture is pretty grim," Weness says. Farmers with crops and hogs saw feed costs holding steady to slightly increasing (about \$2/cwt. gain). Returns above feed cost varied from a 3 percent decline to an 11 percent gain over 1981. Returns above feed costs were generally in the range of \$9 - \$9.50 per cwt. of pork produced.

Farms with crops and feeder cattle saw feed costs rise by 7 percent, but average returns over feed costs more than doubled. The "on the average" obscurs the fact that about one-third of these farms had negative returns (losses) above feed costs)as compared to about one-half of the farms in 1980). In addition, average returns above feed costs were only about \$5.50/cwt. of beef produced.

Out of this return above feed costs per cwt. of pork or beef produced, the following costs must also be paid. First, direct costs of veterinary and medicine, miscellaneous supplies, trucking and hauling, marketing commission and utilities, can easily run to \$4 - \$6 per cwt. produced for hogs and \$2 - \$3 per cwt. for feeder cattle.

Second, overhead costs such as repairs and maintenance of buildings and equipment, vary a great deal and depend on the production system being used.

Third, interest is a big cost. For the typical hog producer, interest on total investment could run as high as \$10 per cwt. For the typical cattle feeder, interest on the purchase price of the animal alone will run \$7 - \$10/cwt. produced.

Farms with crops, hogs and feeder cattle showed cost and returns movements similar to the crop-hog and crop-feeder cattle farms. Feed costs for both cattle and hogs moved up by two to three percent. Returns above feed costs per cwt. of beef produced doubled, moving from a minus \$3 - \$5 (loss) to a plus \$3 - \$5 (gain).

But these modest gains were more than offset by declines in crop returns and increased operating costs and interest payments.

AN OVERVIEW OF DAIRY POLICY OPTIONS

Andrew Novakovic
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It seems clear that there is little disagreement that the current surplus milk production and large USDA purchases of and expenditures on dairy products is a serious problem having important consequences for the price support program and the future of the dairy industry itself.

The basic issue for this conference and the issue facing all components of the dairy industry is what do we do about it? It is not my intention to tell you what should be done. Others will make specific proposals later. My purpose today is to:

- discuss some of the general alternatives,
- try to focus some of the advantages and disadvantages of these alternatives, and
- comment on why we have dairy programs in the first place and some of the conditions surrounding the current problem.

What are Some of the Alternatives?

Alternatives to the price support program have been discussed for the last 30 years. Many that we hear today have been kicking around for years. I don't want to dwell on a long list of alternatives, but I would like to point out the ones that come to mind and how I would characterize them. The alternatives range from fine-tuning efforts to radical departures from the current program. Many of these options do not relate to our current problems, but they are alternative ways of achieving price support policy objectives.

- I. Support farm prices by purchasing manufactured dairy products, as is currently done. The farm price goal is achieved by setting the purchase prices for dairy products at appropriate levels. Alternatives exist for the mechanisms used to establish the support price or purchase prices, such as:
 - A. Use parity as the pricing standard for the support price, but:
 1. update the base year for the prices paid and prices received indices from 1910-1914 to something more current. (1967 is often suggested; this is the base year used for the Consumer Price Index.)

2. the weights assigned to the components of the prices paid index could be changed to more accurately reflect the amount of each component used by dairy farmers, rather than the amounts of inputs used by all farmers as is currently the case. This is the so-called dairy parity approach.
3. the current parity formula uses the most recent monthly prices paid index and the most recent ten-year averages for the prices received index and the wholesale price of milk. Only the more current data on the prices received index and wholesale prices could be used to calculate a current parity price.

B. Replace parity as the pricing standard with:

1. cost of production, as calculated by USDA,
2. an economic formula that may take into account several factors such as dairy product prices, supply and demand balances, cost of production, and so on, or
3. prices determined by a public hearing, as is done with Class I prices in some State milk marketing orders.

C. Change other administrative procedures, such as:

1. tying changes of support prices to changes in or projections of price support purchases and/or expenditures. This is the so-called trigger mechanism. Quantity and dollar triggers are specified in the Agriculture and Food Act of 1981.
2. changing the date on which support prices must be announced or requiring more frequent revisions, such as the semiannual adjustment which was used from 1978 to 1980.
3. creating more formal procedures for calculating and updating purchase prices.

II. Support farm prices but not via dairy product purchases. There are a number of theoretical possibilities, many of which are fatuous. The two most likely options are:

- A. a direct payments plan that gives farmers a cash subsidy based on the quantity of milk sold. This is similar to the target price program used for grains.

- B. Use federal milk marketing orders to support farm prices. Federal orders establish minimum Class and blend prices. The level of these prices is tied to the Minnesota-Wisconsin (M-W) price, which is influenced by the price support program. If the price support program did not exist, minimum order prices could be set in some other fashion; in fact any of the pricing standards discussed above could be used. Without government purchases, supply and demand would have to be kept in balance through price adjustments in manufactured milk markets. If Class III prices continue to be based on unregulated Grade B milk prices, Class I differentials could be adjusted to compensate for changes in Class III prices in order to achieve a blend price consistent with price "support" objectives. Establishing minimum prices in lower use classes in some other manner could become a problem if Class III prices became out-of-line with Grade B milk prices.
- III. A direct income subsidy could be given. This would be a cash payment of fixed amount not based on an individual's milk sales, as opposed to the direct payment alternative discussed earlier. This would be more of the nature of an income subsidy than a price subsidy.
- IV. Production control programs can result in higher prices or they can be used to limit milk surplus problems in conjunction with some kind of price support program. There are several types of production control or supply management programs including:
 - A. dairy product import restrictions, either tariffs, quotas, or other non-tariff barriers to trade,
 - B. culling incentives that subsidize, reward, or otherwise encourage culling beyond normal levels.
 - C. production or marketing quotas that establish price penalties for over-quota milk; these are often called base-excess plans, and
 - D. surplus pricing plans that work somewhat like a base-excess plan but without formal or complicated procedures for establishing a producer's base. In theory, a low, surplus-value price is paid for all milk estimated to be in excess of commercial needs with all producers sharing equally in the surplus price.
- V. Programs to stimulate demand can also be used to increase returns to producers; these demand side initiatives include:
 - A. promotion programs for milk and milk products,
 - B. marketing research and product development,

- C. consumption subsidies that enable people to buy dairy products who could or would not otherwise consume dairy products. Consumption subsidies can focus on either or both of the following:
1. domestic markets, e.g. Special Milk, School Lunch, recent cheese distribution programs, military or other governmental use, or even broad price subsidies such as those commonly used for food in Second World countries, or
 2. export markets, e.g. P.L. 480, other international aid programs, or even price subsidies to exporters as are used by many exporting countries in world trade.
- D. change product identity standards to require higher concentrations of nonfat solids and/or butterfat in milk or dairy products.
- VI. The final alternative to any public regulatory policy is deregulation. In this case that means abandoning the price support program altogether and perhaps milk marketing orders as well.

Another aspect of these alternatives is how these programs would be administered. In general, I think there are 3 types of administrative organizations:

- I. Direct and exclusive Government control such as exists for the current price support program, import quotas, School Lunch, Special Milk and export assistance programs.
- II. Indirect or shared government control, implying that the affected parties have some choice in participating in a program offered by the government and/or some opportunities for direct input into decision-making processes or the administration of a program. The chief characteristic of this type of institution is that nongovernment control is involved but the institution could not exist or survive without governmental assistance or authorization. Examples of this type of administrative organization are milk marketing orders, marketing boards, and some promotion programs.
- III. Voluntary private control, such as is the case when a cooperative initiates promotion programs, base-excess plans, and the like for its members.

It is possible for virtually any of the support program alternatives to be administered in any of these three ways; however, the administrative organization chosen to implement a program can profoundly effect the overall effectiveness of a program and the distribution of the benefits and costs of the program.

How Do we Evaluate These Options?

The current immediate imperative is to balance supply and demand and thereby minimize government purchases and expenditures. A corollary theme today is that deregulation in general is good and perhaps we should pay more attention to nonproducer interests.

If these are our only criteria then the deregulation alternative looks appealing. But, I think it should be recognized that our immediate concerns do not reflect some of the good reasons why we have programs and that some of the historical problems used to justify government intervention in and regulation of the marketplace are still relevant concerns.

I think there were three principal problems that led to the development of most agricultural policies in the first half of this century:

1. low farm income relative to nonfarm income
2. production and marketing risks were borne mostly by farmers
3. inequality in bargaining power.

These problems could very well re-emerge in a deregulated environment and thus merit our attention.

As the gap between farm and nonfarm incomes narrowed over time, interest in income enhancement has waned and rightly so. I am optimistic that low farm incomes and serious inequities with nonfarm incomes will not become a major problem again, but we have not reached a stage where that prospect can be totally ignored.

In recent years, price stability has clearly replaced income enhancement as the dominant public objective of the price support program. Prices can be stabilized above, at, or below market clearing levels. The remaining vestiges of the income enhancement objective led to a support program philosophy that preferred prices stabilized slightly above market clearing levels. The definition of acceptable price levels is changing as concerns for incomes decreases and program costs increases.

The historical issues of risk-bearing and equality of bargaining power are related to the price stability objective. Dairy price supports have contributed to the solving or easing of these two problems by transferring most of the risk associated with seasonal or cyclical over production from producers to taxpayers. In so doing the bargaining position of cooperatives is strengthened; because manufacturing dairy products even in an oversupply situation is a viable, even good, alternative. Cooperatives have a manufacturing option when they deal and bargain with processors that they did not have prior to the 1930s.

Thus when we consider alternatives we must consider how well an alternative deals with the inherent problems of the market as well as its ability to satisfy our current short run desires. Although some would disagree, I think the fundamental problems of inequities in risk-bearing and bargaining power would re-emerge in a deregulated environment. I cannot say whether society would or should judge that as a fair risk for producers to take, but these are factors that should be considered.

Sorting Out the Options

It seems to me that the immediate need to reduce the over supply of milk has to be a dominant factor in selecting price support strategy. Nonetheless, my concern that some of the problems that led to the development of price supports would re-emerge and my feeling that those problems are real and probably merit some kind of government intervention, leads me to conclude that some type of program that addresses these fundamental problems is justified. Total deregulation is probably not desirable.

So what program is best for today? Among the alternatives I mentioned earlier, I think almost all could work. Many of the alternatives discussed in the past deal with problems that are not particularly relevant now, many never were relevant. For example, there has been much discussion about modifying the parity standard or replacing it altogether. Frankly, I don't think it makes that much difference, and that kind of "solution" misses the problem.

When it introduced the flexible parity concept in 1949, Congress recognized that no formula could establish support prices without help in the form of human judgement. Congress defined boundaries on the support price but left the specifics up to program administrators who are better able to respond to market situations in a timely fashion. As long as the principle of flexibility remains, and it should, I don't think it makes a great deal of difference what pricing standard is used. The boundaries set by Congress 32 years ago need to be changed and the current parity standard could be improved, but I do not think the current situation was caused because of the parity standard we use nor would our problem be solved by changing that price standard.

What of the options that do not involve product purchases? Direct payments in whatever form are expensive when applied to milk. For a given level of price or income support, the current program is cheaper.

Increased reliance on federal orders to support prices is certainly an option, but I am afraid that doing so would draw further critical attention to a program that is already controversial enough in today's political environment. Federal orders serve an important role in creating an orderly marketing environment and should not, in my opinion, be used to enhance or overly distort prices. It should also be recognized that doing so would not necessarily solve the current problem, it could simply transfer the cost of the problem from taxpayers to consumers and processors.

Various production control alternatives are often espoused in times of oversupply, but they repeatedly have failed to be endorsed. Cow culling is too expensive and impractical as a long run replacement of price supports. Tighter import quotas imply tricky and undesirable conflicts with our trade policy and would not be enough to offset more than 15 percent of the total oversupply now anyway.

Production or marketing quotas have not been popular with producers in the past and are not in vogue politically these days. Some have suggested that a base-excess plan having an excess price lower than direct costs of production would be more effective in reducing production in a timely manner than an equivalent drop in market prices. This may be true, but this advantage, if it exists, does not come cheaply. Base-excess plans (or surplus pricing plans) require complicated and elaborate systems for determining who gets paid what for how much milk. This is unavoidable in any plan that seeks to give clear incentives to contraction and disincentives to expansion. Thus a costly infrastructure is required for determining the rules of the game. Moreover, biblical wisdom and patience is required of those who must decide on how bases are apportioned and how allotments can be changed or traded.

Another important consideration is that the adjustment process that would take place with a base-excess plan is very different from what would occur with a simple price drop. With a base-excess plan, production is reduced everywhere with few farms going out of business because of the pricing system. With a simple price drop, production is more likely to be reduced by farms going out of business. Either plan can be tailored to achieve a comparable impact on total production, but they can have quite different implications for future production adjustments. It is much easier to increase production after a period of contraction with a base plan. This is good if increased production is needed but not so good if a longer term, more permanent reduction is required.

One last caveat about base-excess plans is in order. Such plans may result in inequities between buyers, depending on how the plan is designed. If the plan is such that one group reaps most of the benefits of paying the lower excess price, there is clearly an inequity. This is not uncommon and ironically it is often world importers that benefit from lower prices at the expense of domestic consumers.

Consumption subsidies, whether domestic or external, are expensive, and when they apply to exports only, it is easy to see that they also are controversial.

Other demand side approaches are less controversial but have other limitations. Promotion programs alone are highly unlikely to solve the current problems. Research and product development suggest some hope for future increases in the use of milk but such efforts clearly pay off in the long run and do not address the immediate problem. Changing product identity standards may increase milk sales, but they restrict

the range of products available to consumers. This approach must be justified at the farm. In any case, efforts on the demand side should not be discouraged, but it is highly unlikely that they alone will solve the problem.

Finally there is the straightforward objective of reducing prices. Frankly, it is not clear to me that any plan is uniformly superior to another for an equivalent price reduction. No plan offers a magical or easy solution. Simple price reductions are the easiest administratively but may take a while to take effect and do not address program defects. Changes in parity, trigger mechanism and the like aren't likely to work any better in the short run and may or may not be any better or less mischievous in the future than the current program.

The problem of oversupply will not disappear overnight under any plan yet there are those who want a plan that will quickly reduce government expenditures. Frankly, I can see no easy way to avoid \$2 billion of government expenditures in 1982 and about the same amount in 1983 short of a budget ceiling or refusing to buy dairy products, which is tantamount to deregulation. Whatever specific form it took, deregulation would not solve the problem of oversupply in 1982; it would only transfer the cost of the problem from taxpayers to the dairy industry--mostly producers. Maybe taxpayers should be relieved of this burden, but deregulation would be a shortsighted solution.

Predictions for 1983 are difficult to make, but a simple price drop alone is not likely to make a large dent in production next year. Production adjustments will depend at least as much on corn prices, beef prices, and the strength of the overall economy. Without help on those fronts, milk prices would have to drop precipitously to eliminate overproduction by next year, and the havoc that would follow would be worse than another \$2 billion year for USDA dairy expenditures.

Three Final Comments

First, whatever change in policy is ultimately sought, careful consideration should be given to the adjustment process. For every proposal that is made someone should ask who will survive under this program and who won't. The answer is not always the same.

Second, I am fearful that the frenzy for action-now and short run solutions will result in a less desirable long run situation than a more gradual approach. This relates to the adjustment process and who will survive. What will the dairy industry look like 5 to 10 years from now after we fix it today? Another aspect of this problem of long and short run is that we should avoid locking ourselves into programs that are complicated, messy and may have adverse long run implications simply because they achieve short run objectives. The idea that we could do something in the short run and then phase it out as it becomes less useful is tempting but may be wishful thinking. Radical changes in the

current program should not be adopted unless they have clear long term advantages or the cost of eliminating short run changes once they have served their purpose is very low.

My third and final remark follows up on this theme; that is, don't panic. The dairy industry has faced similar problems before and survived. Overproduction problems in the fifties and early sixties were a little easier to handle, but we will survive this one also. This is not to say that we can go blithely along ignoring the problem; obviously a response is in order. But neither do I think it is time to plunge wildly into unknown and untested waters; we are not that desperate. This is a time for action but not rash action.

Although the dairy industry has survived similar trauma, the fact that these problems reoccur is also a lesson. It points to the failure of the system to finally solve such problems. In my opinion our current situation reflects a failure in the political process for allowing the situation to develop. It was not totally unforeseen and could have been avoided in a less politicized environment. Perhaps we ought to also spend some time thinking how we could improve the political process and program administration so as to avoid such problems in the future or at least reduce their severity.

Dairy Stabilization Program
Presented at Public Dairy Symposium
Marriott Hotel, Kansas City, Mo.
March 22-23, 1982

By
Robert A. Cropp
Agricultural Marketing Specialist
University of Wisconsin Extension
University of Wisconsin-Platteville

Introduction

The seriousness of the milk surplus situation has been adequately pointed out at this meeting. There is no question that the milk price support program needs to be changed in order to address the milk surplus problem. For the past two months I in consultation with Wisconsin Congressman Steve Gunderson have been working on a dairy stabilization program that not only addresses the surplus situation, but also and most importantly does so without seriously disrupting the dairy farm structure.

Through my work as an extension marketing specialist I have had the opportunity during February and early March to discuss ~~this~~ proposed program with some 1500 actual dairy farmers and with many dairy leaders. The response has been very favorable.

Basics of the Program

- A. The price of manufacturing milk shall be supported at 70 percent of parity, adjusted annually.
- B. The federal government is responsible for purchasing the first 3.5 billion pounds, milk equivalent, annually. Any farm marketings in excess of 3.5 billion pounds would be purchased using assessments received from dairy producers.
- C. At the beginning of each marketing year, a National Dairy Board will estimate the amount of farm marketings in excess of commercial consumption including milk needs for the government food programs. If the amount is greater than 3.5 billion pounds, the National Dairy Board shall prescribe the percentage reduction each dairy farmer is expected to decrease his marketings to alleviate the surplus situation. Dairy producers will be encouraged through a price incentive to produce at their base less this percentage.

- D. Each individual dairy producer will therefore be assigned a base in the following manner:
1. Farmers producing three or more years---a moving average of the last three years of production.
 2. Farmers producing two years, but less than three years---the average of the first two years of production.
 3. Farmers producing one year, but less than two years---the first year's production.
 4. Farmers producing less than one year or new producers---assigned a maximum base of 500,000 pounds in discretion of the State Dairy Commission.
- E. These bases are not saleable but are tied to the dairy production facility. If a production facility is sold, the purchaser obtains the existing base upon application and approval of the State Dairy Commission. A renter obtains the existing base of the rented facility. If no base exists, the renter is treated as a new entrant. Bases are lost if not utilized for one year and at which time the State Dairy Commission may reallocate the base, or any portion thereof, to another producer. First priority goes to beginning low net worth producers, second priority goes to a beginning producer who is joining an existing producer in his family and expanding the family production facility.
- F. Assessments against the marketings of individual dairy farmers will be determined by the National Dairy Board as follows:
1. No assessment against those producers marketing at or less than his base less the percentage reduction set by the National Dairy Board. A support price of 70 percent of parity will be applicable for 100 percent of their marketings. This is estimated to be \$13.95 for the 1982/83 marketing year.
 2. Those producers marketing 100 percent of their base will receive an assessment against that percentage reduction set by the National Dairy Board. On that percentage it is estimated that the net price would be \$6.45 for the 1982/83 marketing year.

3. Those producers marketing over 100 percent of their base would be assessed the same as number 2 for their base marketings, and be assessed an even greater penalty for the amount of over base marketings. Over base marketings would receive a net price of only \$5.00 for the 1982/83 marketing year.

The assessments shall be large enough to reduce the surplus problem and shall approximate, as nearly as possible, the amount necessary to purchase excess dairy production over 3.5 billion pounds, milk equivalent, and the expenses of the National Dairy Board and the State Dairy Commissions.

The assessments will be placed in a special revolving account that will be used to purchase excess dairy marketings and pay for the expenses of the National Dairy Board and the State Dairy Commissions. The proceeds from sales of dairy products purchased by assessments shall also be placed in this account.

Assessments will be determined on a quarterly basis by comparing current quarterly marketings with an amount equal to one-quarter of the producer's base. The assessment will be collected by the plant or organization writing producer checks in equal one-third payments out of the producer's next three milk checks.

Administrative Bodies

A. A NATIONAL DAIRY BOARD will be appointed by the President and confirmed by the Senate made up of twelve (12) members.

1. There will be eight (8) members who are dairy producers from eight different production areas recommended for membership by producers or producer organizations; one (1) member from the dairy processing industry; two (2) members from the general public; and the Secretary of Agriculture or his designee. Three-year staggered terms.
2. The National Dairy Board would have the final authority to:
 - a) determine the percentage reduction in total dairy marketings necessary to bring production in line with consumption;
 - b) determine the assessments on marketings in excess of that prescribed by the Board;
 - c) determine how any surplus in the

revolving account will be allocated (including the power to refund a portion of the same to the producers); and d) hear appeals of base determinations of the State Dairy Commissions.

3. In addition, the National Dairy Board shall have the power to advise, recommend and submit proposals to the Secretary of Agriculture and the President on: a) the development and enhancement of domestic markets; b) the development and enhancement of foreign markets; and c) dairy product research.
- B. Each state shall have a STATE DAIRY COMMISSION made up of five (5) dairy producers from that state appointed by the Secretary of Agriculture for staggered three-year terms based upon the recommendations of dairy producers and state dairy producer organizations.
1. Each State Dairy Commission shall: a) review and approve applications for transfers of base from one producer to another if the applications comply with the law; b) reassign, in their discretion, unused bases; and c) grant producers increases in their bases in hardship circumstances in which cases they have the authority to increase a base by the estimated lost production due to the hardship.
 2. A State Dairy Commission is not required to reassign an unused base. If it chooses to do so, first priority goes beginning low-net worth producers, second priority goes to a beginning producer who is joining an existing producer in his family and expanding the family production facility.

CHART ASSUMPTIONS

1. The farmer has a herd of 40 cows, each producing 12,500 lbs. annually, for a total annual production of 500,000 lbs.
2. FY '83 dairy support price under the Farm Bill is \$13.25/cwt.
3. The farmer's three year average production is 500,000 lbs.
4. Cost of production per cwt:

| | |
|----------------------|---------------|
| Variable costs--feed | \$6.00 |
| other | \$2.00 |
| total | <u>\$8.00</u> |

| | |
|-------------|---------------|
| Fixed costs | <u>\$4.80</u> |
|-------------|---------------|

| | |
|------------|---------|
| Full costs | \$12.80 |
|------------|---------|

5. Cull cow price--\$400/cow.
6. A National Dairy Board has determined that there will be 10 percent too much dairy production in the United States in FY '83 (the 1983 milk marketing year).

Advantages of This Base Plan Proposal

1. It offers a dual incentive to producers to cull cows and reduce production. By reducing production and marketings in times of surplus, the producer is awarded through a higher price and a larger net income. Producers will reduce production if by doing so, a higher net income is realized so that production and living expenses may be met. Past proposals and the National Milk Producer's Federation proposal penalizes a producer who cuts production in the same manner as a producer who expands production and thereby does not offer a positive incentive to reduce production. History shows that there is a tendency for producers to increase rather than decrease production, at least in the short run, if merely price is reduced. All they can think of is expand production to meet their cash flow needs. This was true when the April 1, 1981 adjustment was foregone and when the October 1, 1981 support price was left at \$13.10.

The second part of the incentive is that producers can see that if they expand, their average price drops significantly, resulting in a lower net income. We need to demonstrate to the producer that it is not how many cows you milk but rather what is the profit per cow. For example, our 1980 Wisconsin data showed that for a holstein herd with an average production of 10,000 pounds per cow, it cost \$14.86 to produce 100 pounds of milk compared to only \$11.93 for herd average of 16,000 pounds per cow. This assumes full cost of production and under specific assumptions, but it illustrates a point. With these costs in order to make \$15,000 of labor and management income for the producer a 10,000 pound herd average would require 366 cows and milk sales of 3,660,000 pounds. However, for the producer with 16,000 pounds per cow only 32 cows are required and milk sales of only 512,000 pounds. Thus better management and more milk per cow does not cause a surplus milk situation, but rather the surplus is caused by adding more low producing and unprofitable cows. This proposal recognizes this concept and rewards those producers who cull their poor cows that are not making a profit but merely contributing to the milk surplus.

2. The young or low-net-worth producer is offered some assurance of survival under this proposal. Even if this type of producer maintains the same level of production, he will not receive a lower price but actually some improvement in price (\$13.20). These producers cannot afford a \$6 - \$7 per hundred weight drop in price for 10 percent of their milk resulting in average milk price of at least a \$1.00 lower than currently receiving. All you need to do is visit with a few young dairy farmers and credit institutions to bear this out. Credit institutions are fearful as to the consequences of some changes in the milk price support program being suggested.

Concern is always expressed over the young farmer's ability to get started in farming, to obtain financing. FHA is directed towards this very issue. Yet some are now suggesting let's drop market prices and put these individuals out of business. This really concerns me because many of these young farmers who are well educated are the better managers and most efficient operators in the dairy industry. However, they are caught by high interest rates, increased operating costs and a possible drop in their milk price of \$1.00 or more per hundred weight. In contrast some older farmers with little debt can do a poor job of management and yet survive. In fact, they even have an income tax problem. These older farmers will quit dairying in a few years through retirement. We can't afford to lose our good young and progressive dairy farmers, however.

3. The program has a 3 year moving base. This allows a producer to improve feeding, and breeding, management and get a 1 or 2 percent increase in production per cow per year without being penalized. This is more feasible than adding more poor producing cows. The program awards good management and discourages poor management.
4. The surplus is created by expanding and adding more cows. This proposal particularly addresses that issue. Assessments are greatly higher against producers who expand in times of surplus production.
5. Government costs for the milk price support program are reduced to well within budget guidelines. Government purchase costs for 3.5 billion pounds of milk equivalent would total about \$540 million.

6. The program offers flexibility in making adjustments in assessments against producers so as to effectively reduce surpluses.
7. The program will not result in an over-reduction in the milk supply by forcing a number of young or low-net-worth dairy producers out of business and with a result in 2 or 3 years a shortage of milk and rising consumer prices. Thus, it assures consumers a continued adequate supply of milk at reasonable prices even after the surplus problem is solved.
8. Dairy producers appear to be very receptive to this base plan idea. At least I get that reading loud and clear in Wisconsin. This appears to be very true among younger farmers. I can honestly say that seldom have I had an extension meeting this fall and winter with dairy producers where some producer, and often a younger producer, hasn't suggested a quota or base plan. These young farmers are fearful of other proposals that lower their milk prices \$1 or more per hundred weight. They are concerned that this will put them out of business. I receive calls daily from young farmers with a concern over lower prices.
9. This program would be well received by agricultural credit institutions. Because of the stability of the dairy industry, agricultural credit institutions have been able to extend credit to dairy farmers to a greater degree than for most other types of agricultural enterprises. If milk prices are merely reduced, credit institutions will advise that their credit customers milk more cows to meet cash flow needs. This type of advice is currently taking place. However, we can show through this base program that their credit customer can actually increase net income and meet cash flow needs by cutting back.
10. I believe that the positive approach of this proposal to reduced production will bring about a quick solution to the surplus problem. A reduction in milk marketings of about 5 percent in the first year of operation appears reasonable. This would put milk production at about 128 to 129 billion pounds for 1983. In addition a 1 percent increase in commercial milk sales would result in a milk surplus of only 3 to 4 billion pounds by the end of 1983. This is a quantity of milk that can be utilized in government programs. The calculations on the last four pages demonstrate how quickly the surplus milk situation may be solved under this base plan.

Amount of an Individual Farmer's
3 Year Base Needed for 10/1/82 - 9/30/83

| | <u>Farm Production</u> - - - (Billion Pounds) | <u>Farm Marketings</u> - - - |
|-------------------|--|---------------------------------|
| 10/1/79 - 9/30/80 | 127.3 | 124.9 |
| 10/1/80 - 9/30/81 | 131.7 | 129.5 |
| 10/1/81 - 9/30/82 | <u>135.5</u> | <u>133.3</u> |
| Average | 131.5 | 129.2 |

| | |
|-------------------------------------|---------------|
| 3 Year Moving Base | = 129.2 |
| 10/1/82 Beginning Commercial Stocks | = 5.6 |
| 10/1/82 Government Stocks | = <u>14.0</u> |
| Total Base Plus Stocks | = 148.8 |
| Plus Imports | <u>2.4</u> |
| Overall Total. | = 151.2 |

10/1/82 - 9/30/83 Total Use:

| | |
|--------------------------|--------------|
| Commercial Use | = 124.1 |
| Ending Commercial Stocks | = <u>6.0</u> |
| Total | = 130.1 |

Amount of 3 Year Base Needed:

$$130.1 + 151.2 = 86\%$$

This considers moving out all old CCC stocks as well.

| | 1981 -- (Billion Pounds) | 1982 | 1983 --- |
|-------------------|-----------------------------|--------------|--------------|
| Production | 132.4 | 135.7 | 128.9 |
| Farm Sales | 130.0 | 133.3 | 126.5 |
| Commercial Sales | <u>120.3</u> | <u>121.7</u> | <u>122.9</u> |
| Excess Over Sales | 9.7 | 11.6 | 3.6 |

The double incentive to reduce production makes the above excess reasonable.

- 1) A drop in average price if exceed base.
- 2) An increase in net income if reduce production.

| FY '83 | Gunderson Plan--Producing at: | | | | |
|---------------------------------|-------------------------------|--------------------------------------|---------------|--|--|
| | Current Farm Bill | Outlays over Total Excess Production | 90% Base | 100% Base | 110% Base |
| Cows X | 40 | 40 | 36 | 40 | 44 |
| Production/cow = | 12,500 # | 12,500 # | 12,500 # | 12,500 # | 12,500 # |
| Total Production | 500,000 # | 500,000 # | 450,000 # | 500,000 # | 550,000 |
| X Price/cwt = | \$13.25 | \$11.36 (or lower) | \$13.95 | \$13.95 | \$13.95 |
| Gross Income on Milk Production | \$66,250 | \$56,800 | \$62,775 | \$69,750 | \$76,725 |
| Assessments (if any) | None | None | None | \$7.50/cwt X 50,000 # = \$ 3,750 | 1) \$7.50/cwt X 50,000 # + 2) \$8.95/cwt X 50,000 # = \$ 8,225 |
| Net Income on Milk Production | \$66,250 | \$56,800 | \$62,775 | \$66,000 | \$68,500 |
| Income on Culled Cows | None | None | \$1,600 | None | None |
| Feed Cost | None | None | (+) \$4,000 | None | (-) \$4,000 |
| Savings (+) or Expense (-) | | | | | |
| Net Farm Income | \$66,250 | \$56,800 | \$68,375 | \$66,000 | \$64,500 |
| | | | | | |
| Program Cost to Gov't | \$1.84 billion | \$253 million | \$540 million | \$540 million | \$540 million |

STATEMENT

| | |
|---|---------------------------|
| R. F. Anderson | Executive Director |
| National Cheese Institute, Inc. | American Butter Institute |
| Before Dairy Symposium | |
| Kansas City, Missouri March 22-23, 1982 | |

My name is Robert F. Anderson. I am Executive Director of the National Cheese Institute and the American Butter Institute. The following comments are mine, as the short time span between the announcement of this symposium and its call, precluded formal approval by the respective Boards.

The butter and cheese industries are two of the three engines that help make the price support system work. The dairy price support system calls on butter, nonfat dry milk, and cheese producers to perform an important function. They are the mechanism needed to move surplus milk in the form of cheese, butter, or nonfat dry milk to the government at CCC announced prices, which in turn makes it possible for the market prices for farm milk to reach the price support goal. These stocks of dairy products assure consumers of steady supplies, but they also depress market prices as well as profits. The dairy support system has worked as intended. However, it has worked best when market forces were permitted to function with the minimum of government mandates. The current extreme imbalance is the result of several unfortunate circumstances. We are aware adjustments, under the dairy program enacted last year, are not going as fast as the Secretary wants. The need for action is apparent. But the momentum for growth was so strong that it will take more than a few months to redirect our milk supply capacity.

Under the price support program, it is axiomatic that if consumption of any dairy product falls, or if milk production builds beyond need, milk is ultimately diverted to butter, nonfat dry milk, and cheese as the products of last resort. I say this because manufacturers of these three products receive the blame for the burgeoning government stocks. Whereas, if blame is to be assessed, it should be metered out to the entire dairy industry from farmer to distributor.

Government policy can take its share as well. That is why a meeting, such as this, is helpful. Everyone's definition of the problem can be heard and solutions considered.

This symposium reminds me of the ancient fable about the ruler who sent four blind men to study an elephant and report back to him the characteristics of the huge beast. After the examination, the four returned and each gave a different description. The one standing at the head and studying the trunk said it was a snake, the short one on one side who felt the leg said it was a tree trunk, the tall one at the other side said it was a wall and the fellow at the back grabbed the tail and proclaimed it a rope.

That is not to say we are blind, but rather we don't all look at the dairy surplus elephant in the same way. Further, the persons hearing and acting on the individual reports of the "elephant's" characteristics should realize that each bit of information adds a clue to its identity. For this reason, all of the proposals made yesterday and today should be carefully considered. I suggest resolution of the following five factors would help solve the problem.

- Adjustment of herd size
- More rational relationships between dairy products and other foods
- Increased export of agricultural products including milk ingredients
- Information to monitor our progress out of the present maze
- Research and development plus promotion

1. Adjustment of herd size.

A dairy farmer is a thinking businessman who must meet certain financial obligations, provide income for family members who try but can't find urban employment, and if other agricultural uses of the land are not as profitable may decide to increase dairy herd size.

This decision will not reduce the surplus situation unless the need for the additional milk increases dramatically, an event not likely to occur.

On the other hand, a decision by the dairy farmer to reduce herd size or to get out of dairying would be the result of declining income from dairying, improved off-farm employment, or more profitable use of the land for other agricultural endeavors. These are individual decisions that will be made after due consideration of conditions. But prudent reductions seem to be required.

2. More rational relationships between dairy products and other foods.

The dairy price support program provides an incentive to maintain a supply of milk at stable prices. The level at which such prices are set by government should not discourage consumption of milk as it competes with other foods for consumer acceptance.

3. Increased export of agricultural products including milk ingredients.

We know the dairy farmer can produce an abundance of milk efficiently. We are also aware of a potential market for our dairy products in the world. But in recent years, U.S. supply and world demand for our farm products has not included dairy products. Probably because our prices are too high and because we do not make the type of dairy product or dairy based foods desired by other countries. Both price and our non-recognition of national or ethnic preferences contribute to our inability to establish and expand international trade in dairy products and foods containing dairy ingredients. To increase world use of our dairy products in the future, these factors should be carefully examined and worked on to see if we could enter the arena.

Bartering is a tactic that should be used to deal with the problem of today's surpluses. Certainly there are governments or agencies in the world with minerals of other basic commodities, which need, and thus would barter for, our government owned dairy products. Tin, copper, oil, nickel, and bauxite can be stockpiled in this country for future use.

I wonder if the USSR would consider withdrawing some missiles or troops in exchange for butter or cheese or nonfat dry milk? In this same vein, the State Department often accuses the dairy industry of trying to start a dairy war. Why not try a dairy peace initiative?

4. Information to monitor our progress out of the present maze.

To chart a course out of the present severe problems of dairy surplus and increased costs of government support payments requires a consistent flow of accurate information. As a former navigator, I know you are not going to get to the target and back if you can't track where you've been and where you are, especially if all hell is breaking loose around you.

So, I'm disappointed to see the USDA's Statistical Reporting Service eliminate weekly butter and cheese production reports, data on the milk/feed ratio and cut back to a quarterly report on cold storage holdings and dairy products production records. These are vital statistics that must be available on a regular and prompt basis to guide management decisions.

Frankly, the elimination or reduction of this information makes as much sense as the ruler who upon hearing bad news from a courier, had the courier's head lopped off.

Or, it recalls the story of the ruler sending blind men out to report on the characteristics of an elephant. We need to go after this problem with all the vision and foresight possible.

Mr. Secretary, these are important reports, especially with all hell breaking loose. Please reconsider this decision which must have been made without considering the severe problem we are discussing today. If a more streamlined report is needed, or if a fee for use is required, I'm sure the industry would understand and cooperate.

5. Research and development plus promotion

As stated earlier, there is enough blame to go around, but there is also enough work to go around. Promotion of dairy products has been good, but it could be better. Every single use of milk that can be thought of should be exploited. Dairy products should have the quality that make them the number one choice by the consumer. New uses, new products and expanded use of traditional dairy products coupled with aggressive promotion will help reduce the problem and return dairying to its properly respected place in the food industry.

Thank you for this opportunity to contribute to the resolution of the dairy surplus problem.

Remarks of F. B. Daniel

for

National Farmers Union

before

The National Dairy Symposium

The Marriott Hotel

Kansas City, MO.

March 22-23, 1982

Mr. Secretary, honored guests, ladies and gentlemen. I am F. B. Daniel of St. Paul, Minnesota. I am happy for the opportunity to speak today for National Farmers Union. Our membership includes many thousands of family dairymen. However, the implications of what we do here today do affect all farmers.

Recent reports have been circulating out of Washington pointing up the "intolerable" nature of our dairy program. These articles invariably point to the current excess supply of milk being produced by American farmers, and then proceed to show the expense of maintaining our current structure. As a result, dairy producers are unfairly maligned by writers and various spokesman who do at the same time illustrate they have almost no understanding of the real situation in farming today. But you know there is a saying, "repeat a thing often enough and people will come to believe it."

One gets the impression from talking with many consumers that they believe dairy farmers' store of money is as large as the nation's store of milk. Needless to say, they're wrong. Editorials in many metropolitan newspapers have called for the abandonment of our dairy program. Both elected and appointed officials have gotten into the act of ridiculing farmers and the products they produce. Only a few days ago the American public was shown a picture of a piece of moldy cheese, supposedly representative of the seemingly wreckless abandon of American dairy farmers. Such conduct on the part of any public official in our opinion, brings embarrassment and shame to the office.

We understand that it's difficult for people to comprehend a system that last year accounted for a 10% excess supply of milk. But public sarcasm will do little to raise the necessary awareness and appreciation. We need an atmosphere which will promote and foster a healthy discussion of programs and alternatives. We do not need the insults, innuendos and half-truths which are so increasingly apparent of late.

Let me say here we do not come to this hearing in any adversary role. The dairy program is in need of change and debate. It is our firm belief that the time has come to temper differences and strive for areas of agreement. So we welcome the opportunity to be here and we hope the proposals we offer will be beneficial.

We would preface our proposals with two rather pertinent observations. One, the current condition in the dairy industry is neither the sole creation nor responsibility of dairy farmers. Equal responsibility rests with government policies which have had the affect of keeping local grain and livestock prices well below current costs of production. Many months of impossible cow and feed grain prices have caused a lot of farmers to shift to milk production just to cut their losses. Milk has been about the only farm commodity with any hope of turning a profit.

Farmers, just as any other Americans, want and need some return on their investments. Any they keep hoping they might even get something for their labor and that of their families!

Surely we can agree now that neither farmers nor this nation are well served by farm policy written on a commodity-by-commodity basis. We need to look at the total picture. As demonstrated by milk and feed grains, the policies we adopt for one farm product will impact the operation and success of the other commodity programs.

The futures and fortunes of all farmers are linked together. Either we move toward success together or we will eventually go down together. The divide and conquer strategy has effectively diffused the voice of agriculture in Washington, but it has no place in any real effort to develop a cohesive and integrated farm policy.

An equal share of the blame for the current dairy situation must be attributed to both public and private financial institutions. Lending authorities for several years have encouraged and at times have actually insisted upon a shift to dairying, because it offered cash flow and a reasonable prospect for making a living. This is particularly true for young farmers. Any future changes in the dairy program must be done with appreciation for the debt-ridden condition of most young farmers today.

Our second point is simply that the Administration got exactly what it wanted last year with the dairy program. Its initial victory was in the bypassing of the April 1st price-support adjustment. Then, last fall the Administration succeeded in setting dairy support prices at their lowest level in 30 years. It is since these actions were taken that we have seen the most dramatic increase in milk production. And that really ought not surprise anyone. When net farm income is reaching depression levels, and bank loans — at exorbitant rates of interest — still must be repaid, farmers are naturally going to try to maximize their output in hopes of meeting fixed costs. Most have no choice.

Unfortunately, we seem to be making the same mistake with other commodity programs. In the 1977 Farm Bill the loan rate for corn was 2¢ above the cost of production. Now it's 70¢ below. The wheat loan rate in 1977 was 20¢ below cost of production. Under the new Farm Bill it will be more than \$2.00 under.

We really cannot wonder that U.S.D.A. projections show planting intentions less than 1% under last year; and that indications for crop set-aside are less than promising to say the least.

Our reason for being here today is to share in the examination of steps which must be taken to improve and bolster our dairy program. What can we do to bring supply closer in balance with demand?

National Farmers Union has created a committee of dairy farmers, Ag. business leaders and consumers which will no doubt have some recommendations soon. While this group has not issued a report to date, I think I can indicate basically where Farmers Union believes dairy policy must go.

We start with the belief that American farmers and policy makers must accept the concept of production controls. It is a proposition many people find difficult. But the time has come to face reality. We do not believe that current conditions can be rectified through increased consumption.

We are kidding ourselves, however, if we believe that cutting the price of milk to farmers will reduce milk output. It has not worked and will not work for reasons previously mentioned. We do not discount or discourage promotion. But we think experience of the recent past has demonstrated production problems will not be resolved through public relations and checkoffs. We cannot accept a mandatory promotion checkoff as a principle part of the solution to the problem at hand.

Political manipulations which have pitted commodity against commodity and farmers against farmers have resulted in gutting all commodity programs. I think many farmers are now beginning to realize they've been sold a bill of goods.

We are in accord with and have long advocated self-help programs, including supply management for most farm commodities, including dairy. But let me hasten to add that any such program, to be successful, must be a partnership of producers and government. Dairy farmers did not create this problem of excess production and bulging CCC warehouses alone. They cannot and must not be expected to resolve the problem alone. There are just too many influences over which dairymen have no control, including ruinous grain prices and federally imposed export restrictions.

Producers, consumers and government have a shared interest in this matter and must pursue it in concert. Government, for example, cannot tell farmers they must resolve the problem while forbidding them to use production quotas.

One essential element of the solution we seek must be a reduction in milk production. And we submit, many years of experience in trying to bring nationwide commodity production in line with market demand have demonstrated, that to be successful, incentives and/or disincentives must be part of the program.

We have the capability, through our county ASCS offices, to compile production history for milk just as we now do for wheat and feed grains. Ours is a free society. We cannot demand compliance. But there should be a price for any producer or production area whose unbridled production negates the good efforts of the majority of milk producers who are paying the price of curtailed production.

Farmers must have freedom to devise programs of discipline within their numbers and the support of their government to implement those programs.

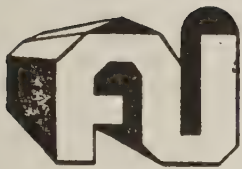
I repeat, cutting a farmer's milk check below cost of production is in itself not an exceptable way to seek the necessary reduction in milk production. Doing so is certain to eliminate thousands more family farmers, a big percentage of whom are the coming generation of milk producers. The result will be that a still greater percentage of our total milk supply will have been shifted to producers who are motivated primarily by the current price ratio of milk and feed grains. When that ratio changes, their sell-down can be as rapid as their growth has been.

Before we consumers - all of us - conclude that we don't care whether our milk and meat and grains are produced by corporations or family farmers, we would do well to remember that unlike a new home, a new car, new furniture, new clothes or almost anything we buy week to week, not one of us can postpone until next year, or even next month, our purchase of food because the corporations who produced it are asking to high a price!

In summary, we believe that cutting the milk price to farmers has been counter productive. We believe the problem before us calls for the best efforts of farmers and government working in consort. We believe that supply management based on incentives and/or disincentives is essential to this effort.

We do not see checkoffs and promotions contributing significantly to the solution we seek. We believe in periodic producer referendums. And we firmly believe that members should vote individually or votes cast on their behalf counted proportionally in any referendum.

We are convinced the hour is right to improve, not dismantle, our national dairy program.



FARMERS UNION
Milk Marketing Cooperative

STATEMENT OF
STEWART G. HUBER
PRESIDENT
FARMERS UNION MILK MARKETING COOPERATIVE
TO
U.S. DEPARTMENT OF AGRICULTURE
DAIRY SYMPOSIUM
MARCH 22-23
KANSAS CITY, MISSOURI

I am Stewart G. Huber, president of the Farmers Union Milk Marketing Cooperative, a marketing and bargaining association of 6,200 family dairy farmers in Wisconsin, Minnesota, Illinois, Iowa and Michigan.

I am an active dairy farmer, milking 85 cows in partnership with my wife and sons on our farm in Clintonville, Wisconsin.

I appreciate the opportunity to testify here today at this public dairy symposium called by Agriculture Secretary John Block to discuss the current dairy situation.

It would be an understatement to say there are problems in the dairy industry. We're in trouble. We are well aware of that. As detailed by U.S. Department of Agriculture officials and others here at this meeting, milk production is outstripping consumption by over 10 billion pounds a year.

We in the industry know that cannot continue. Farmers are concerned about the cost of the program. They do want to reduce both the program's cost and the surplus stocks. But let me tell you that farmers are also concerned about the national media campaign which is being orchestrated to portray them as greedy abusers of federal assistance in an attempt to persuade Congress that support levels must be cut drastically.

Dairy farmers, individually, feel helpless in the present situation. They know production must be reduced to meet demand. They, better than anyone, understand the folly of producing milk without a market for its consumption. But they also must face economic reality on their farms every day of the week. They know they must have sufficient income to pay their bills and provide an adequate income for their families.

While many view them as the cause of their own problems, they know they're really the victims...victims of a depressed economy--in agriculture and throughout the country--and victims of a failed national economic recovery policy.

The constant effort to direct public scorn and ridicule toward dairy farmers does nothing but divert attention from the government's failure to solve the economic problems that have caused the present situation in the dairy industry.

Clearly, the nation's agricultural economy is in a depression. USDA projects that 1982 net farm income will drop to \$14.5 billion, a decline of 30 percent from 1980's \$22 billion level and even 13 percent less than farmers made last year when they were squeezed tremendously by high interest rates and low commodity prices. Incredible as it may seem, interest outlays by farmers are projected to exceed net farm income this year by some \$5 billion!

During this period of high interest rates and depressed farm income, dairy has been one of the few commodities providing producer returns even approaching production costs. The combination of cheap grain prices and poor returns for beef and pork has resulted in increases in dairy cow numbers and in farmers feeding higher quality and quantity feed to their herds.

The impact of cheap grain cannot be emphasized enough. Unable to get adequate returns from grain markets, many producers have increased their herds to utilize the cheap grain. Moreover the greatest production increases in the nation have come in feed deficit areas where producers rely on purchased grain supplies to feed their herds.

In my home state, Wisconsin, dairy farmers added 10,000 cows to the state's herd total last year. But with 45,000 dairy farmers, that's less than one cow added for every four farms. On the other hand, California's 5,600 milk producers (purchasing the bulk of their feed supplies) added 30,000 cows during 1981. That averages out to an additional five cows per farm. And last year's increase is on top of a 25,000 head increase in 1980 over 1979 levels. From January 1979 to January 1982, California producers brought 81,000 additional cows into the nation's herd total. That's an increase of nearly 15 cows per farm, largely due to cheap feed.

In this depressed economy, dairy farmers have simply responded to today's economic challenges the only way they can-- by increasing productivity and efficiency. Faced with rapidly rising costs and high interest rates, dairy farmers have compensated by trying to increase their milk check to cover those added expenses.

It is ironic that increasing productivity is the very challenge President Reagan has issued to the nation; dairy farmers meet that challenge and are told their action is embarrassing, intolerable, unacceptable. Should they be faulted for doing everything in their power to maintain their economic status and improving their efficiency?

Dairy farmers are also bewildered by their government's stated commitment to reducing the cost of the dairy price support program when opportunities to accomplish that objective are rejected.

The U.S. Department of Agriculture acknowledges that imports of the milk protein casein are displacing sales of domestic nonfat dry milk, forcing the government to purchase more milk powder than it otherwise would. But when dairy farmers ask their government to limit casein imports, a move which would strengthen the nation's dairy economy and reduce government support program costs, the government denies the request.

There is no question that we could convert much of the government's 900 million pounds of nonfat dry milk stocks into casein and use it in place of the 150 million pounds of casein which the U.S. will import in 1982. Since roughly three pounds of nonfat dry milk are needed to manufacture one pound of casein, this measure alone could cut nonfat dry milk stocks in half.

The government's program to distribute dairy products to needy Americans is a positive step. But it is clear that much more product could be provided for both domestic and foreign aid donations. The government's unwillingness to use food aid as a positive instrument of foreign policy is unfortunate. We think it is wrong to discourage food aid to needy countries while focusing instead on increased military aid.

We all hear about the tremendous cost of the dairy price support program. Purchase outlays are called the net cost by government officials who ignore the fact that much of the product is used in various government programs--for the military, schools, for the poor and elderly--without crediting the cost of such donations to the Agriculture Department budget.

And while officials express concern over growing government dairy stocks, many of the programs that provide an outlet for those products are being reduced and eliminated. Cuts in the school lunch program have forced millions of the nation's children to drop out of the program. The federal Special Milk Program has been targeted for elimination. It is clear that these cuts will add to the government's dairy product stocks when we could in fact put the cheese, butter and nonfat dry milk in children's stomachs.

I don't defend the present cost of the dairy price support program. I think it is costing too much. But at the same time, I think we should acknowledge that this is a program which contributes to the stability of the nation's rural economy and to the nation's people.

It is not my wish to divert attention from the situation we face in regard to the dairy program. But, quite frankly, dairy farmers are sick and tired of being described as greedy obstructionists of the President's economic program when in fact they are victims of an economic situation which they did not create and one which they do not control.

With farm milk prices lower today than a year ago, producers who have not increased milk output are generally worse off because of rising production costs. And yet, increasing production is the very thing we want to discourage.

The problem in the dairy industry is that at the individual producer level, there is no incentive to reduce production. In fact, many producers are being advised by land grant college dairy economists that they would be unwise to reduce production. And we all know they're right. Collectively, the industry needs to reduce milk production. But individually, there is no incentive to make that decision.

And it is clear from experience that simply cutting the support level will not accomplish the task. We are not at all surprised that milk production has increased since supports were frozen at \$13.10 per hundredweight. Long before the freeze was enacted we advised the Secretary of Agriculture and Congress that the action would do just the opposite as intended. Producers have attempted to compensate for the lower real milk prices by increasing their output. That's their only alternative.

A support price cut is the wrong solution. It will force producers to again increase their production, further exacerbating the situation we want to correct. If supports are held at extremely low levels for an extended period of time, production will eventually drop. But the decrease will come not by individual producers scaling back their production slightly. It will come as dairy farmers are forced into bankruptcy by farm milk prices which don't cover production costs, combined with their inability to obtain credit at reasonable interest rates.

What of the other alternative receiving much attention: transferring the cost of the program to dairy farmers and setting up a producer board to work with the Agriculture Department on disposing of surplus production? Is this the way out of the present situation?

I fear the proposed two-tier pricing system would be little more than another way to reduce farm milk prices without addressing the basic problem: how to curb escalating milk production. Like a support price cut, the two-tier pricing system will lower net returns to dairy farmers without offering any incentive for individual producers to reduce their milk output.

By paying producers a "world market price" on the percentage of their production which corresponds to the nation's surplus production, the plan would apparently allow increased export sales of U.S. dairy products at prices below domestic markets.

But will our government allow dairy farmers, through a producer board, to export dairy products without interference? In light of the State Department's refusal to allow USDA to sell surplus butter stocks to private traders last year, it would be naive to believe dairy farmers would be permitted to dispose of surplus products without interference. And without such authority, I fear, a dairy board would be only so much window dressing.

Furthermore, to market the equivalent of perhaps 12 billion pounds of milk in world trade--a trade presently controlled by foreign governments marketing highly subsidized products--would be an extremely expensive proposition for American dairy farmers.

Clearly, dairy farmers must produce for a market. We must shrink milk supplies to meet market needs in a manner which will encourage individual producers to reduce their production to appropriate levels.

Of the major commodity programs, the dairy program is the only one in which the Department of Agriculture has no authority to provide incentives to producers aimed at balancing supply with demand.

We are prepared to work with the department, the Congress and others in the dairy industry on program modifications aimed at bringing the milk supply into closer balance with current demand, reducing government stocks and federal support program outlays. But the modifications must also be designed to minimize economic hardship on the nation's dairy farmers.

We believe Congress should grant the Secretary of Agriculture authority to implement, with producer support, programs to manage the milk supply utilizing incentives for individuals to reduce production and disincentives for expanding production.

Neither a wholesale milk price cut--as will occur if the support price is reduced--nor the proposed two-tier pricing system offer incentives for individual producers to cut production or disincentives to discourage producers from expanding output. In fact, the natural reaction of producers to either scheme will be to increase production to compensate for the reduced net return.

We must have a program which rewards and penalizes producers based on their individual actions...not one which penalizes everyone when somebody increases production and rewards everyone when somebody reduces production. The penalties and rewards must be structured to affect individual producer decisions if we are to accomplish the positive results we all desire.

Thank you for the opportunity to offer our views here today.

STATEMENT PRESENTED BEFORE
A
DAIRY SYMPOSIUM
on behalf of
INTERSTATE MILK PRODUCERS' COOPERATIVE
Southampton, Pennsylvania

at

Kansas City, Missouri

March 22, 1982

by

Dr. Paul E. Hand
Assis⁺ant General Manager and Economist

Interstate Milk Producers' Cooperative has 3,200 dairy farmer members who reside in Pennsylvania, Maryland, New Jersey, Delaware, Virginia and West Virginia. Interstate is a charter member of the National Milk Producers Federation. We would like to thank Secretary Block for the concern he has shown for the continuing over-production condition which plagues the dairy industry. My comments regarding this problem and alternative solutions are on behalf of Inter-State.

The condition of over-production has been developing over the last three years. It has been the result of excessive economic advantage in dairy farming compared with most other farm enterprises. Also, there is a lack of off-farm opportunities for many dairymen. Even with reduced prices for milk and dairy products, these alternate conditions may persist.

Individual dairy farmers and most cooperatives are confronted with the dilemma facing any competitive enterprise. The only rational economic response is to increase out put to maximize efficiency. Any change in dairy programs must recognize this fundamental aspect of the dairy industry.

There are a large number of federal programs which impact upon the dairy industry. Only two directly affect prices; i. e., the federal order program under the Agricultural Marketing Agreement Act and the price support program. Prices established under the federal order program are directly related to the national level (competitive) of manufacturing milk prices; which, in turn, are undergirded by the price support program.

In other programs, the USDA and Congress have reduced federal expenditures on the school lunch and school milk programs which has substantially reduced sales of milk this school year. This displaced milk is showing up as increased purchases by CCC of butter, NFDM, and cheese.

Other actions by the federal government have decreased transfer payments to low income persons and have decreased economic activity resulting in increased unemployment. These have contributed somewhat to a "flat demand" and increasing CCC purchases. Dairy farmers do not believe that the entire blame or focus of the problem should be transferred to them or to the dairy industry.

Solutions to the current problem should involve a renewed commitment by USDA to the value of dairy foods in the diet and efforts to increase usage of dairy foods domestically. School lunch, school milk, and direct distribution programs should be increased--not diminished.

We recognize that these actions cannot alone solve the basic problem of current overpricing for all milk being produced. We believe that some bold actions must be undertaken to achieve positive results. In this light, we support the concepts being developed by the National Milk Producers Federation which will be presented at this symposium.

If there is any weakness in the proposal, it is that there may be a delay in the necessary adjustment to an equilibrium level of price and output. I can visualize that jurisdictional arguments which will be

raised by the proposal of the NMPF can be extended ad nauseam. This will not contribute to a solution to the problem. If any procedural delays are encountered, our cooperative, through the NMPF, is willing to continue working with the USDA and Congress to take the necessary steps, consistent with the objectives to be outlined by the NMPF to solve this problem.

Thank you Mr. Secretary for the opportunity to present these views.

Executive Offices

MILK INDUSTRY FOUNDATION • INTERNATIONAL ASSOCIATION OF ICE CREAM MFRS.

Dairy Economics Symposium
March 22-23, 1982
Kansas City, Missouri

Presented by
E. Linwood Tipton
Senior Vice President

We congratulate Secretary Block, Deputy Secretary Dick Lyng, and their fellow executives at the Department of Agriculture for taking the initiative to call this meeting. We are especially pleased to participate.

First, let me try to place in perspective milk processors' interest in the price support program. We are very supportive of the program and want it to continue. It has helped stabilize U.S. milk supplies. However, we are now in a period of severe overproduction and the entire program is in trouble. It was in trouble last year and it remains in trouble now.

Secretary Block has labeled the present level of government expenditures as "intolerable" --- this seems to be the operative word within the Executive Branch as well as on Capitol Hill.

This present situation distresses us very much, for unless some corrective action is taken, the entire program could be jeopardized. Knowing the tenor of the Congress and the great emphasis on reducing the budget deficit, this is not an idle threat. It could easily become a reality. As the late Senator Dirksen used to say about government spending --- a few billion here and a few billion there, pretty soon it adds up to real money. The cost of the milk support price program is now "real money".

There are basically two ways of dealing with the problem --- reduce production or increase consumption --- and, of course, a combination of these.

First, let's talk about the supply side. The oversupply was not an unexpected or abrupt change to most of us. We anticipated the excess, the MIF and IAICM convened a special task force over two years ago to review various alternative plans for the price support program. That task force predicted the surpluses even more accurately than we had heretofore done. However, our voice was unheeded. The political momentum was favorable to higher support prices and even though both beef and feed prices were drifting downward, the law had locked in a minimum of eighty percent of parity with semiannual adjustments. Both elected officials and most representatives of dairy farmers continued to urge the maintenance of high support prices. Although then Secretary of Agriculture, Bergland, initiated discussions to eliminate some of the support price increases required by the 1977 act, the matter was not rigorously pursued, and surplus milk production continued its long and persistent increase.

It is unfortunate that so many productive resources have been attracted to milk production, because now, a way must be found to rechannel these resources. That is always a wrenching experience. Through the normal course of attrition, milk production cannot be brought in line with consumption at present support price levels. It now appears most dairy farmer organizations agree with that assessment. A way must be found to reduce the productive capacity of our nation's dairy farmers.

Current surpluses of about fourteen to fifteen billion pounds of milk represent the average output of about 1.2 million milk cows, or the average production of about 22,000 dairy farms, or roughly about ten percent of the total.

How can some of these resources be redeployed? Either with an incentive to move them elsewhere or providing a disincentive to remain where they are. With the present depressed state of the general economy, and other relatively unattractive farm alternatives, it is clear the problem must be attacked internally. Producing milk simply must be made less attractive, or the surpluses will continue to grow.

How can this be done? Obviously, in a number of ways. One could provide an incentive to slaughter part of the milk herd for beef. It has been suggested that dairymen be paid a subsidy for all cows culled. However, this has the problem of further exacerbating the situation by reducing beef prices for cutters and canners even more. The cattlemen regard this as a transfer of the problem rather than a solution. However, I must emphasize that one of the basic problems is too many cows and too many replacement heifers in stock. Therefore, a way must be found to remove some of them from production.

Of course, an obvious way to both increase culling and decrease the retention of replacement stock is to reduce the rate of return from dairying. This implies some reduction in prices paid for raw milk.

This could come through a reduction in the support prices, but another contributor which should not be overlooked is over order premiums under Federal Milk Marketing Orders. It is estimated that eighty-five percent of the Class I milk sold under the Federal Order program is subject to over order premiums and even Class II milk in most areas commands a premium also. There appears to be an incongruity here --- tremendous surpluses but prices being charged well above the Federal Order minimums, and in many cases, the excess charges are well above the cost of providing services to the market.

A further reduction in the milk support price level is another way of reducing production. Although this is direct and easily understood, it has a negative political factor. However, in our opinion, there is little chance of reducing milk production increases, let alone bringing

about actual reduction in milk production, between now and after the flush of 1983, unless the take home pay of dairy farmers is reduced. We believe the costs of producing milk this year may well be less than they were last year.

Although the proposal to establish a joint government/dairy farmer financed stabilization program is not being cast as a price reduction, as we understand it, it would in fact be a price reduction to dairy farmers, also. However, the problem of who is then going to own the surplus stocks and have the responsibility and authority to dispose of them, seems to be a very controversial point. Furthermore, none of the price reduction realized by the farmers would be transferred to consumers. The cost of milk to processors and manufacturers would be held higher than would be the case under a direct support price reduction, and the money deducted from individual farmers would be used to finance the cost of handling the surplus.

This has the advantage of probably being the more acceptable to dairy farmers since it's cast not as a price decrease, but as a deduction from the pay check.

There are some suggestions for using marketing or production quotas. This appears to us to be the least acceptable course. It would keep prices higher than they otherwise would be; becomes a rigid restriction which interferes with shifts and changes for efficiency; and creates a windfall gain to those who initially receive the quota, but a cost of production to all those who have to purchase quotas later on. We could continue, but I think you get the picture.

Now, let's look at consumption. "The real way to solve the over-production problem is to increase consumption." How many times have we heard that? I am sure you can get unanimous agreement among all segments of the industry that this is the best solution if it could really be done. However, this is the much more difficult side of the equation to affect.

Several proposals attempting to increase consumption have been tossed in the ring. The proposal to increase the minimum standards for milkfat and solids not fat in milk, lowfat and skim milk has probably received the greatest attention and study at this point. Its proponents offer it as a means of selling more milkfat and nonfat solids to consumers and thereby reducing CCC inventories. Milk processors continue to have serious reservations about whether this would in fact be the case, but also have even more concern about the magnitude of such a proceeding, how it might be done, the time required to make the change and the competitive inequities and turmoil created by the change. When this matter was reviewed by our Board of Directors a few years ago, they were unanimously opposed. Although it will again be reviewed at our soon to be held Board meeting, I am not very sanguine that their attitude will be any different.

Time does not permit us to elaborate on all our concerns about this proposal, but we would point out that in our opinion, this could not even be implemented without simultaneously inaugurating protein or nonfat solids differentials similar to those applicable to milkfat. Otherwise, it could be extremely disruptive to producers whose milk was less than the minimum standard. Likewise, milk processors who were receiving low solids milk but having to purchase added solids would be at a substantial disadvantage. This would require a long lead time to accomplish.

It would require a change to the Federal Standard of Identity, which would apply to milk moving in interstate commerce. However, until and unless all of the states changed their state laws governing intrastate commerce, there could be some extremely unstable marketing conditions. Companies marketing products within a state's boundaries which permit lower solids levels would have a substantial competitive advantage over those meeting the higher Federal Standards. It would require several years before all of the state laws could be changed to incorporate the new Federal Standards.

We doubt that there is in fact any increase in sales of milkfat or nonfat solids from this proposal, and when all the other aspects are considered, it is obvious this one needs to be studied very thoroughly before jumping on the band wagon. The amount of time to implement it renders it a least likely solution. In our opinion, the surplus problem will have been long gone before this program could be in place.

Another proposal is to increase advertising of dairy products. This one we are studying very carefully, but know that many of our members have grave concerns about "Generic" or industry-wide "Commodity advertising" without branded tie-ins.

One suggestion which we'd like to see receive further analysis is the restoring of the special milk program. Our arithmetic shows that there may in fact be a budget decrease if the special milk program is restored to its "precut level" --- maybe \$128 million. Our analysis indicates the cost of acquiring the milk which is not consumed under the special milk program as CCC surpluses, is about equal to the budget expenditures under the special milk program. If that is a fact, we believe the special milk program should be reinstated forthwith. This would improve the nutritional well being of the nation's children while also reducing the CCC's inventory problem.

Obviously, we don't have all the answers. We have been trying to raise some issues and offer some observations that may be helpful in further developing some plans.

We should point out that these observations and comments are somewhat preliminary, pending further review and discussion by our Boards of Directors. To help our Boards in their deliberation we have instituted a special study which is jointly being done by the consulting firm, Economic Perspectives, Inc., and several of the nation's most knowledgeable dairy economists. This should be available soon and we believe it will be most helpful to everyone in focusing on the problems and some of the solutions.

STATEMENT BY

La Verne Ausman, Secretary
Wisconsin Department of Agriculture,
Trade and Consumer Protection

on

DAIRY PRICE SUPPORT PROGRAM

Introduction

On behalf of the Board of Agriculture, Trade and Consumer Protection, a policy-making body comprised of seven Wisconsin citizens, I appreciate the opportunity to be part of this symposium. The dairy industry in Wisconsin contributes over \$3 billion to the state's economy with 44,000 dairy farmers and over 500 bottling and manufacturing facilities.

As a fourth-generation dairy farmer and administrator of an agency with over 700 employees assisting the dairy industry in production practices, marketing, fair trade practices, food safety and consumer protection, I recognize we have a problem. Most dairymen do. As a former legislator, I know that solutions are not easy to come by.

Based on a series of discussions with farmers held throughout Wisconsin last month, some thoughts emerged about the concepts presented at this symposium. I would like to share some of these thoughts.

Discussion of the Support Program

Over the years, the price support program and the concept of parity has generally served the dairy industry well. However, we seem to have come to regard the program as an end result, rather than simply as a device through which policies bring about the desired results. Initially designed to compensate for seasonal imbalances,

Presented at the Dairy Economics Symposium, March 22-23, 1982, Marriot Hotel,
Kansas City, Missouri.

with little net cost to taxpayers, the program has become so rigid that it remains unresponsive to changes in commercial markets. As a "safety net," the program provided adequate protection for farmers and processors to make sizeable capital investments while assuring consumers ready availability of wholesome products.

Looking at the performance of our crop and livestock sectors, foreign policies, economic policies and fiscal policies (all of which are beyond the control of individual farmers) it is easy to see why more resources have been drawn under the protective umbrella of the program, and are reluctant to move.

There seems to be considerable agreement that the short-term gains resulting from the support levels becoming "locked" two years ago at 80% of parity should be critically weighed against the position we're presently in. I am not about to assign blame; we were all involved and there is enough blame to go around. For some time, manufacturing margins have not been raised to reflect actual processing cost, forcing some processors into the financial strain of paying competitive prices while their non-recoverable costs have increased. Also for some time, the CCC has provided relatively cheap storage through its sell-back policies.

As if this weren't enough, the U.S. has imported 2.3 billion pounds of milk equivalent for the last three years (576 million pounds of milk equivalent during the third quarter of last year alone). The U.S. has become the buyer of one-third of the world output of casein. Casein imports of 150 million pounds per year are being used in imitation cheese and other food production, displacing over 400 million pounds of domestically produced non-fat dry milk. In a sense, the USDA is being forced to "buy" dairy products moving into this country.

Alternatives

The dairy industry, generally, has not done the best job possible in market research and development; but the momentum is there. The ADA of Wisconsin projects almost a 33% increase in voluntary contributions this year compared with 1981; contributions which have been spurred by recent findings at major universities showing the dollar benefits of generic advertising and a growing awareness among producer groups as to the need for self-financed market expansion.

For the past year, we have been working with the state legislature and major farm groups on major revisions to Wisconsin's agricultural marketing act. We hope that by next month, we will be able to hold this law out to the state's dairy industry as a workable means of financing market development programs.

Few will argue about the need for new marketing strategies. However, any concerted national effort must take into account differences milk production and Class I utilization of Grade A milk supplies among states. Any program which stimulates Class I sales as a primary objective, holds less opportunity for Wisconsin since less than one-fourth of our milk supply is utilized as fluid milk. Major dairy states will have different objectives in any national promotion program.

While we in Wisconsin are concerned about the state (for that matter, the traditional upper midwest milk shed) bearing the brunt of needed adjustments in the dairy industry, we are also sensitive to issues common to all dairy states. Supply management through production quotas will tend to favor Wisconsin with a strong base; however, provisions should be made for entry of new producers and transfers limited to the sale of the farm.

If price support activity were evenly distributed among all dairy farmers, the \$1 per hundredweight cost would have represented about \$5,000 to the average Wisconsin farmer last year. This amount does not even come close to the annual debt service required by present interest rates. And we know that price support activity is not evenly distributed; at about 40 cows per herd, price support activity is not tilted in our direction.

Summary

Enabling legislation should be flexible and responsive to changing commercial needs. If the price support program were allowed to do the job for which it was intended, we would not have the magnitude of surplus problems that we have today. The program is simply a device through which policies bring about the desired results. This device has served the dairy industry and consumers well for many years. History has shown that when inconsistent policies are implemented through this device, the problem is usually self-correcting in about three years.

The present dairy surplus has been compounded by further inconsistencies in our other food, economic and foreign policies. Recognizing the need for broad-based consideration when deciding on specific program operations, internal and external events should be weighed carefully; when external events change, the effects on the dairy industry must be mitigated to reduce internal shocks.

Responding to what may be a relatively temporary problem, long-term changes to present policies should require the least amount of costs and provide the most benefits. Emerging from the pack is the need for additional market research and development. Differences in needs among states must be taken into account, and state credits provided for, if a national promotion effort is to be successful.

POSITION PAPER
PRESENTED BY
THE NATIONAL FARMERS ORGANIZATION

Dairy Symposium
Kansas City, Missouri
March 22-23, 1982

The National Farmers Organization recognizes the problem of over-production existing today in the dairy industry and its impact on producers, processors, consumers and taxpayers.

Various farm groups throughout the nation, as well as the Federal Government, in seeking a solution to the problems facing the dairy industry today, have directed their efforts not toward the immediate problem of stemming over-production but, rather, toward what to do with the excess production once it has been manufactured into a storable commodity. One such solution - the so-called "Self-Help Program" - addresses itself only to the problem of disposing of the finished product by providing for the sale of the product on the world market with the dairy farmer absorbing the cost. QUERY: Where is the world market and how can U.S. dairy products be exported in competition with a subsidized world market which today has an adequate supply?

We propose, as a solution to the problem of over-production, that a supply/management program be initiated immediately whereby each dairy farmer would cull at least 10% of his milking cows over the next six months. However, such a step cannot be carried out in an orderly fashion unless the Federal Government severely restricts or discontinues the import of beef.

The National Farmers Organization has the facilities and marketing expertise to implement such a program without breaking

the cull cow market price. We have offered and continue to offer our facilities and expertise to all dairymen and organizations.

It is further recommended that the Federal Government participate in this program by offering dairy farmers an incentive of Two Hundred Dollars per head for each milking cow sent to the slaughterhouse. This program would cost the Federal Government approximately Three Hundred Million Dollars while saving them approximately Two Billion Dollars in not having to purchase the finished product. Dairy farmers will support such a program so long as they know all other dairy farmers are cooperating, and such a program could be administered by the County ASCS offices.

Although the foregoing will solve the immediate problem of over-production, a long-range plan must follow in order that the dilemma presently plaguing the dairy industry does not recur.

Dropping the support price by 50¢/cwt. for the next four calendar quarters, as proffered by the present administration, is not the answer. Such will only cause dairy farmers to produce more milk each quarter to maintain their present dollar income. At the same time, processors would not be inclined to process and store product in the greatest time of need because of the uncertainty of the price of such commodities.

The National Farmers Organization proposes that, effective October 1, 1982, the support price be increased to \$14.00/cwt. and that CCC purchase prices be adjusted accordingly. At the same time, all casein products imported for food usage should be halted, since one pound of casein displaces three pounds of powdered milk in the manufacture of imitation cheese.

Many Federal Orders presently contain base and excess plans, but the basic problem today is there is not enough spread between the base price and the excess price. We further propose that a base and excess plan be incorporated into each Federal Order and recommend that the excess price be not greater than 25% of the base price. Approximately 70% of the milk being produced today is pooled under the Federal Milk Market Order program. Quota programs are not new, i.e., tobacco, peanuts, and now the idling of land in the present "Grain Set-Aside Program". By using the various Federal Orders, the base and excess could be established on the basis of how much milk is needed for fluid consumption compared to what is being produced in that particular order. If the Government felt it necessary, it could also regulate the manufactured-grade milk and milk marketed under State Marketing Orders. The bases could be established by using a three-year average production of each producer reduced by the amount of production not needed for domestic consumption.

We also recommend that a "Dairy Parity Index", reflecting accurately the changes in production costs, be established to increase or decrease, based upon such changes, the \$14.00 support price effective October 1, 1982 and adjusted semi-annually on the first day of April and October of each succeeding year.

STATEMENT OF PATRICK B. HEALY, SECRETARY
NATIONAL MILK PRODUCERS FEDERATION
USDA ECONOMIC DAIRY SYMPOSIUM, KANSAS CITY
MARCH 22-23, 1982

"...embarrassing...unacceptable...intolerable."

Strong words. Those, as you know by now, were the words Secretary of Agriculture Block used in Seattle three weeks ago to describe the current situation under the dairy price support program.

At the same time, Secretary Block announced the convening of this Symposium as a forum through which the Department of Agriculture could assemble views and recommendations for the development of plans which the administration can support in the Congress. The Secretary is to be commended for inviting us here today.

I have been asked today to discuss a very specific program which has been developed by the dairy farmers of the nation through National Milk Producers Federation.

But before doing that, it is essential that each of us--whether a dairy farmer, college analyst, milk marketer or government employee--fully understand and appreciate the basic workings and intent of our price support system and how the current problems have developed.

The price support system--and I use this broadly in reference to all price supported crops and commodities--is designed to provide an adequate supply of food and fiber for all Americans and for our export markets. In a very large sense, the framers of this legislation wrote the first consumer program passed by the Congress as it is meant to assure that the people of this nation can purchase what they want at reasonable prices.

These purposes are accomplished by inducing farmers to make the necessary commitment of labor, capital, land and management to the production of food and fiber.

Early on it was determined that this goal could be achieved by concentrating on a number of basic commodities ranging from corn to milk. Generally speaking these commodities are produced widely across the nation thus providing farmers in all parts of the nation an alternative use for their resources.

The price support program provides assurance to the farmer that he can keep his productive resource vital by producing one of the basic crops.

The program encourages the farmer to produce other commodities at prices generated in the market, but it assures him that if those prices are not at levels which will maintain his productive capacity, he can divert his resource to the production of one of the basic crops. Similarly there is the ability to divert among the basic crops.

And this concept has worked. It is working today. The greatest success story in America is not to be found in its mines, or in its factories or in its financial centers. It is on the farms and ranches across the nation.

But this success and the basic workings of this program are also a factor in the problems that beset the dairy industry today. The root of the problem lies in the lack of balance among major sectors of the agricultural economy--a lack of balance induced by disparity in pricing systems for the several basic commodities.

Ten years ago a combination of factors--poor crops in major areas of the world, a reduced value of the dollar relative to other currencies and others--combined to greatly increase the demand for the products of the American farm. Suddenly, the farm problem shifted from one of concern over too much production to one of producing enough. "Plant fencerow to fencerow" was the word that went out from Washington to the American farmer. And he has responded.

New technology has been applied as quickly as it has been proven. Acreage which was formerly idled as part of farm program operations or which was considered nontillable has been brought into crop production. In 1972 farmers harvested 292 million acres of the principal crops produced in the U.S. In 1981, USDA reports that this reached 356 million acres.

But food and fiber has also become a political tool. Embargoes or the threat of embargoes have hung over the market leaving the farmer, who has sought to meet his earlier instruction, without a market for much of this production. This, coupled with record production and a lagging economy has resulted in fully predictable conditions.

In 1973, net farm income reached a record level. Since then, the track record has been up and down. As recently as 1979, it was about \$31 billion. But in the last three years it has been all down. The most recent USDA reports say realized net farm income last year was about \$19 billion. The Department is predicting \$15 to \$16 billion for 1982 but I understand that some expect it to be lower than that--roughly one-half of what it was three years ago.

And with good reason. If we look at the prices farmers are currently receiving, they are mostly down. The February Agricultural Prices report of USDA placed All Farm Prices more than seven percent under last year.

And so we come to the dairy situation. The ills which affect other parts of the farm economy today are attracting resources into milk production and keeping resources in milk production which under normal circumstances would be used for other purposes. For example, too many heifers are accumulating for lack of an alternate market, and cows which should be culled are remaining in the herd. To a very large degree,

the problems of all agriculture have been accumulating in the dairy industry.

The national dairy herd has been increasing for the past two years following a 27 year decrease. Milk production has expanded rapidly--at a much more rapid pace than the commercial market can absorb. High unemployment has had its affect on the market, and the problem has been compounded by the cut-back of dairy products, including milk, under the nutrition programs. And this all has resulted in pressures on the structures which the dairy farmer relies upon for price assurance and stability such as we have not seen before.

This additional milk is being accumulated in warehouses under the Dairy Price Support Program. Last year, the Commodity Credit Corporation spend almost \$2 billion in dairy price support operations. This year, the costs may reach \$2.5 billion. Projections for next year^a place outlays at close to \$2 billion once again.

In writing the Agriculture and Food Act of 1981, the Congress sent a clear signal that it wants to hold these costs under \$1 billion annually. Current debate over the Federal budget and the budget deficit provide no reason to believe this intent has changed. It may, in fact, be even firmer.

From the administration, we have heard Secretary Block describe the current costs as "intolerable." Other highly placed officials of the administration have talked of \$10 milk.

It is not enough to say that we have faced similar problems before and that they have gone away. In the current situation of tight budget controls, rising Federal deficits and an increasing amount of publicity aimed at the costs of the Dairy Price Support Program, something will be done.

Dairy farmers, acting through their cooperative marketing associations in the National Milk Producers Federation, have taken the lead in addressing this issue. They have decided that it is essential that those who produce the nation's milk and who bring it to the market have both the expertise and the experience to design an effective program. An even greater impetus underlies this resolve--it is the dairy farmer who will be most directly affected.

This program meets all of the requirements set forth by Secretary Block. It will:

- + Establish an immediate limitation on the government cost of the program.
- + Assure the production of an adequate supply of milk.
- + Provide a reasonable level of return for dairy farmers for milk needed to satisfy the domestic commercial market.
- + Provide an orderly and systematic means of management and disposition of dairy products acquired under the price support program.

The program calls for legislation which would establish a two tier price support system. For the marketing year which begins next October, the price support level would be maintained at the present \$13.10 for that portion of the milk supply determined necessary to meet domestical commercial market needs. In succeeding years, the price support level on this portion of the milk supply would be at the level of parity--about 67 to 68 percent--which \$13.10 represents next October 1.

A lower level of price support would be established for that portion of the milk supply deemed excess to the needs of the domestic commercial market. The difference between the two price tier would be remitted to CCC by the first purchaser of milk from farmers and would provide the farmers share of financing the program.

Under the program, each farmer would participate in the sale of milk into the domestic commercial market to the same degree. Similarly, each farmer would be called upon to bear an equitable portion of the cost of excess production.

The program would also establish a National Dairy Board which would have responsibility for determining the excess milk supply, the level of price support on that portion of the milk supply, and for disposition of the stocks of dairy products acquired through price support operations.

A brief outline of the program's operations will illustrate both its simplicity and its practicality.

The Secretary of Agriculture, through the Commodity Credit Corporation will be responsible for the actual conduct of price support operations. CCC will buy the products, it will store them, provide for grading and inspection, shipment and all of the other activities presently carried out in connection with the program.

But there is one basic difference. The Federal government will pay for just five billion pounds milk equivalent of purchases. Any removals in excess of this will be the financial responsibility of dairy farmers.

Funding of removals beyond the five billion pound level will be provided as the plant of first receipt of milk remits the difference between the \$13.10 support level and the support level on excess milk to the CCC for the account of the Dairy program. CCC will use these funds to provide additional financing.

For its part, the Dairy Board will be responsible for the disposition of all products acquired. In exercising this total dominion over these products, the Board will seek markets in international

trade. It will meet the needs of government food assistance programs. It will provide products for international food assistance. It will provide a pool of reserve stocks to meet the need of the domestic market. And in doing so, it will be utilizing program funding provided by dairy farmers themselves. In establishing a lower level of support for milk it makes available unsubsidized products at world price levels.

Any proceeds realized from the sale of products would be available to reduce the producer financial responsibility under the program.

One thing must be clearly understood in examining the concept. This does propose, for the first time a clearly defined limitation on government financial participation. CCC will encumber government funds for no more than the five billion pounds of milk. Current estimates for 1983 place this cost at about \$800 million. The balance of 1983 estimated costs--more than a billion dollars--would be the responsibility of dairy farmers.

This program will work!

It preserves the basic structure of the price support program that has given the industry stability for more than 30 years.

It preserves the parity concept.

It provides the basis for the operation of market forces.

It sends a clear and immediate signal to the dairy farmer, in the form of price, that a production adjustment is needed.

Secretary Block and others in the administration have set forth several guidelines--more specifically they have indicated what would not be considered in any such program.

They have made it clear that the administration will not accept any base or quota system or any program which limits entry into dairying. This program embodies no base plan, no quota, there are no limitations on entry.

They have made it clear that program costs must be reduced. This program not only would reduce program costs, it gives government an absolute assurance of the level of cost it would bear.

They have made it clear the government will not enter into an export subsidy program to market products acquired under the program. But this program would be utilizing product bought at lower price levels with producer funds, product that producers will sell at world prices in any export market.

This program is not a scheme to avoid facing the reality of a most serious problem. When the Board of Directors of National Milk Producers Federation unanimously approved the program three weeks ago, they did so knowing full well its implications. Not everyone was totally satisfied with every feature. But the overall plan was adopted in the knowledge that action must be taken.

This represents the distillation of the thoughts and plans of the dairy farmer leadership over the past 3 years.

As stated, it will:

- + Limit government costs.
- + Assure an adequate supply of milk.
- + Provide a reasonable return for dairy farmers for milk needed to supply the domestic commercial market.
- + Provide for the disposition of dairy product stocks.

This is a reasoned and responsible address to a very specific problem by dairy farmers themselves. But the broader problem of declining farm income cannot be dealt with by the dairy sector alone. Too often, it appears as if our policy makers are seeking to address the dairy price support problems by reducing the relative economic position of the dairy industry to that of the rest of agriculture. Such an attitude would be a grave mistake.

I call on Secretary of Agriculture Block to work with the dairy industry in the development and refinement of this program so that we can jointly present it to the Congress and move it into place without delay.

At the same time, I call upon the Secretary to address with all the resources available to him a problem that is far more serious than the one he described when he told his Seattle audience that the Dairy Price Support Program was costing the taxpayer \$250,000 an hour.

That problem is the more than half million dollar per hour decline in net farm income that has been taking place for the past three years. If that problem is not addressed, whatever we do here will fall short of the mark.

NATIONAL DAIRY PRODUCTS PROMOTION PROGRAM

National Milk Producers Federation

March 3, 1982

Federal government outlays under the Dairy Price Support Program have risen substantially over the past two years. These increases can be attributed to an increase in milk production and little or no growth in consumer demand for milk and dairy products. This combination of circumstances has placed great pressures on the Dairy Price Support Program as witnessed by the substantial program revisions approved by Congress as part of the Agriculture and Food Act of 1981. Unless the situation is corrected, budget pressures will force even greater changes in the price support program on which all dairy farmers rely for a basic level of price assurance and for price stability.

As part of an overall industry effort to address this issue, the Board of Directors of the National Milk Producers Federation has directed that legislative authority for establishment of a National Dairy Product Promotion Program be sought.

The purpose of this paper is to briefly outline the proposed program.

Purpose of the Program

The basic purpose of the program is to assist in maintaining and improving dairy farmer income by increasing the consumption of basic manufactured dairy products. This would be accomplished through product promotion and market development programs specifically designed to develop the market through promotion of the sale and consumption of basic manufactured dairy products with emphasis on those which have been purchased by Commodity Credit Corporation.

Authority would be provided for the implementation of such promotion efforts directed at fluid milk and other dairy products if the Board of Directors determined that such efforts would further the purposes of the program.

A related purpose would be to relieve budgetary pressures on the Dairy Price Support Program so as to allow the program to continue to provide a reasonable level of price assurance to dairy farmers.

Need for the Program

Over the past several years, there has been a marked slowing in the growth of cheese consumption. Consumption of butter and nonfat dry milk has actually declined. Per capita cheese consumption in the United States had increased substantially during the 1970's, growing from 11.5 pounds in 1970 to 17 pounds in 1978. By 1980, however, this had increased to just 17.6 pounds and all of that growth had been in types of cheese other than American. American cheese consumption was unchanged from 1978 through 1980. Preliminary data for 1981 indicate little change in this picture. Butter consumption was 5.3 pounds per capita in 1970 but has stood at 4.5 pounds in 1979 and 1980. In 1970, nonfat dry milk was placed at 5.3 pounds per capita. This has declined steadily to 3.2 pounds in 1980. It is to arrest this picture of declining consumption or no-growth that such a program would address itself.

There is another area--imitation dairy products--that is of major concern. It is estimated that 200 million pounds of imitation cheese was manufactured in the United States in 1980. This equated to five percent of the cheese market for the year. Such a market loss affects dairy farmer income. One estimate of this loss potentially places reduced milk prices as the result of imitation cheese sales at 30 cents per hundredweight on all milk marketed in 1980. Based on 1980 marketings of 124.5 billion pounds of milk, this represented an estimated income reduction of almost \$375 million.

Most anticipate expanded production of imitation cheese products. From the dairy farmer's perspective, each percentage point loss of cheese market to imitations has the potential of reducing farm milk prices by about six cents per hundredweight for an estimated reduction in farm income of \$75 million annually.

General Concept of the National Dairy Products Promotion Program

1. The program would be financed by a uniform checkoff of five cents per hundred-weight on all milk marketed. The collection would be made at the plant of first receipt with the funds transmitted to the Dairy Promotion Board.
2. The National Dairy Products Promotion Program is not designed to supplant other existing advertising and promotion efforts operated through state, regional and national organizations.
3. The program would be administered by a Board of Directors composed of dairy farmers. The Board would be appointed by the Secretary of Agriculture from nominees submitted by producers. Board membership would be on a geographic basis to assure representation of all milk producing regions. The draft legislation calls for a Board of not less than 36 members selected on the basis of geography and milk production volume. In determining regional representation, states would not be divided. A region might include more than one state and a region might have more than one director.
4. The program would be directed primarily toward increasing sales and consumption of the basic manufactured dairy products with emphasis on those products which have been purchased by the Commodity Credit Corporation under the price support program.

This would provide a national program which avoids duplication of existing programs, concentrates effort on those products least advertised and therefore provide greatest potential for increased sales, and whose impact would yield benefits to all dairy farmers through the milk pricing structure.

Authority is provided which would allow the Board discretionary power to implement promotion efforts with regard to fluid milk and other dairy products. The use of funds for such programs would, however, require a specific determination by the Board.

5. The program would go into effect only if approved by a majority of dairy farmers in an industry-wide referendum. In such referendum, members of cooperative associations would be allowed to vote as a unit. If this were done, the cooperative's Board of Directors would be required to notify the membership of how their vote was cast and the reasons for such vote. At the same time, opportunity would be provided for the individual member to cast a separate ballot.

In addition to providing a means for producers to petition the Secretary to hold a referendum to determine if the program should be continued, the draft legislation directs a referendum after the program has been in effect for five years in order to determine whether or not dairy farmers favor its continuation.

6. The program would be mandatory with no provision for refund to individuals. The program is designed and intended to improve markets and income for all dairy farmers throughout the country. To the extent that this is accomplished, all will share in the returns, therefore, all should share in the commitment.

There would be a very limited requirement for staff to carry out the directions of the Dairy Board. For the most part, program activities should be carried out on a contract basis.

Testimony of

William D. Knox

before

USDA DAIRY SYMPOSIUM

Kansas City, MO

March 23, 1982

Testimony of
William D. Knox
before USDA Dairy Symposium

Mr. Secretary, my name is William D. Knox. I am editor of Hoard's Dairyman magazine, a 97-year-old publication which is subscribed to, paid for and read by dairy farmers marketing over 90 percent of the U.S. milk supply. Exhibits 1 - 5 provide biographical material and historical information. Exhibit 5 documents that our magazine has the highest credibility rating among dairy farmers of any publication in the United States. Our publication also has more foreign circulation than all other domestic farm magazines combined.

W. D. Hoard & Sons Company is owned by my wife, our children, and me -- a family company. It is composed of Hoard's Dairyman magazine, a daily newspaper, Hoard's Dairyman Farm, commercial printing, and Hoard's Dairyman books. In addition, we have seven subsidiaries in which we have a 51 to 78 percent interest, operating plants and offices in six states.

Mr. Secretary, I testify today as a dairy farmer and as president of a business which is vitally linked to the economic welfare of the dairy farmers of this country.

We will not be redundant in documenting the gravity of the current dairy situation. It does not surprise us. After spending 41 years on the national dairy scene, the present situation is not unexpected. Three years ago, on March 28, we warned the industry at the United Dairy Industry Association meeting in Houston, "I would be much more comfortable with our industry if I saw more evidence of our ablest minds working on long-range policies and programs to reach defined goals for our industry and its fine dairy farm families. I fear we are in a period of temporary euphoria or contentment because of our comparatively favorable price structure at the present time,

much of which is due to record prices for cull cattle, something over which we have no control and little influence. People much more sophisticated than I forecast that beef prices will remain quite satisfactory into 1982. I hope so. (They were wrong.) But, that's only three years from now and I remember well 1952 and 1960 when beef prices collapsed. The culling rate dropped, and our industry was economically brutalized. I state to you here this afternoon that we have no plans in place or even on the drawing board to prevent a recurrence. Our high per-farm capital investment and the continuing inflationary pressures are going to make us even more vulnerable the next time around."

Following that address, I was sharply criticized by a senior executive of the Borden Company who charged from the convention floor that we had a national dairy program that was the answer to all of our prayers ... the UDIA program of promotion of dairy product consumption. Recent history has clearly shown the naivete of his commentary. It is not inappropriate to point out, too, that neither industry nor the government has had any trouble getting its coat on over its wings. Neither has done any forward planning or preparation for contingencies. Such planning is routine to those of us in the business world.

The Agricultural Act of 1949 has served the dairy industry and the consumers of this nation reasonably well. It did, however, fail in the early 50's and 60's. But the situation in those two periods was not as critical as that which confronts us today. It is appropriate to point out that the act of '49 was not constructed to solve a surplus situation like that which we now have. As the Federal Farm Board of 1930 was a dismal failure under a period of severe stress, so was the act of '49. The latter was drafted by dairy plant managers and was a near utopian dairy program, providing guaranteed markets at known prices. Far too many of our dairy plants fired

their salesmen and their product development and market development people because they no longer had any need for them. It was a utopian situation. Unfortunately, I contend, history has proven it to be a debilitating situation insofar as marketing is concerned.

The only truly serious effort to correct the serious short-comings of the Act of 1949 took place from 1954 - 1958, in which period the original self-help dairy stabilization program was developed and subsequently received endorsement of the National Grange, the National Milk Producers Federation, the National Conference of Commodity Organizations, the National Farmers Union, and the eight north central states of the Farm Bureau. It had the endorsement of the Secretary of Agriculture, Ezra Taft Benson. Later, however, he succumbed to the pressure of Charles Shuman, president of the American Farm Bureau Federation, and reversed his position. From that day to this, dairy industry leadership has rested content on the assumption that the Act of 1949 was its security blanket. Obviously, it is not.

So what are our alternatives?

1. Drop the Price Support Level. For 30 years, I have heard this simplistic solution. Drop the price and squeeze out the inefficient producer, we are told. I would point out that when I came onto the national scene in late 1940, there were about 2,400,000 farmers selling milk or cream. We have "squeezed out" about 2,200,000 of these and we now have approximately 200,000 selling milk or cream today. We have really "squeezed them out". And yet we sit here this afternoon, hearing "More, More". Back in the early 1950's, we also heard "learned" forecasts of projected "massive food shortages" in 1975. From university halls, from the banks of the Potomac, and from voices of business and industry, 1975 was to be the time when there would be fantastic demands for food and we would be incapable of satisfying that demand. I have

some of those quotes on file, and when I retire and write the history of this 50-year period, from 1940 - 1990, they will be entered in the record.

Several years ago, Professor William Alexander of Louisiana State University, using one of the first USDA big computers, found that beef cattle prices and the level of milk produced the previous year explained 97 percent of the variation in total milk marketed year to year over a 12 year period. This is not to deny that a price drop would, over a period of years, force more dairymen out of production. I do contend, however, that the price drop would have to be far more severe than those presently contemplated.

Since Dr. Anthony Rojko's original demand elasticity studies of 30 years ago, I have been following subsequent analyses and it is my contention that given the surplus situation we have to now and the current reate of production, it would take a price drop of from 25 - 40 percent, or a price collapse of from \$3.25 to \$5.25 per cwt., to solve the surplus problem through the price support route. The impact on a dairy farmer with a 50-cow herd and marketing 600,000 pounds a year would be a drop of about \$24,000 in gross income if the price was \$4 per cwt. The impact on his net, of course, is enough to make you shudder.

Many people oppose base plans and express concern about young dairymen and their ability to enter the industry -- and we have sympathy for young dairymen, too. I particularly have sympathy for the young dairymen of today who are in debt, struggling with high interest rates and barely able to make ends meet.

I submit to you, Mr. Secretary, that a moderate or even drastic drop in the price support level is not going to solve the budget problem which justifiably concerns you greatly. I submit, instead, that these costs will continue because the squeezing out process will not only be brutal but it will

be prolonged. Meanwhile, the milk continues to go to market and the product will be there to be purchased along with its very high cost. History shows this to be true. The only way the adjustment can be hastened is to pray for a massive drought in the midwest or a miraculous increase in the price of beef. But it will be high grain prices and high beef prices that solve the problem, not the drop in the level of price supports.

May I add, too, that we must be conscious of the sociological factors which will result from a sharp drop in price. Protest and rump groups will be formed and drastic measures are very apt to follow. We have seen it before, and, I suggest very strongly, we will see it again. Desperate men and desperate families are prone to accept and engage in drastic measures. When I left Michigan to go to Wisconsin with Hoard's Dairyman, not only milk was being spilled on the streets and highways, but human blood, too. I hope never to see it again. Create a crisis, however, and the potential is there.

2. Direct Payments. This was the approach of Secretary Charles Brannan and one widely debated in 1949. It is being suggested again today. There is no justification for such an approach. We opposed it in 1949, and we oppose it still because direct payments condition the consumer to an unrealistically low value, as well as price, for dairy products. It commits the industry permanently to government largesse and political decision-making. It is a consumer subsidy approach, but the cost is charged to the producer. The nutritional value of milk and its cost per minutes of industrial labor in this country is, I am quite certain, the lowest in the world. It is ironic that direct payments was the alternative proposal of dairy plant management in 1949 and had the strong endorsement of the National Creameries Association.

3. Cull Cows and/or Heifers. Some consideration is being given to

cull cow programs. I submit that on our own farm if we were to cull 9 cows today, they would be replaced in 4 to 6 weeks by bred heifers ready to come into the milking line. Ship heifers overseas? Who wants them? The European Community is sitting with a 35 billion pound milk surplus compared to our 13 billion surplus. Australia and New Zealand are trying to ship cattle now. I see little realistic prospect of solving our surplus problem through the heifer export route. In most countries of the world which may need more dairy products, they do not have the facilities, or the talent, to house and manage them properly. It would be better to ship them beef in cartons ... and much more economical.

4. The Federation Proposal. It does help raise funds to reduce the government cost. For me, as a dairy farmer, however, there is no incentive to cut back production. Its net effect is to cut my price 70 cents per cwt. If this contribution of funds from our dairy farm operation will help save the dairy price support program, then we are in favor of it. If, however, milk production continues to go up 3 billion pounds per year, in one year's time about one half of the dairy farmers' contribution to the budget crisis will be wiped out.

We are quite convinced that the opportunity for developing export markets are overly optimistic. For six years I have served under Presidents Ford, Carter and Reagan as a dairyman on the Advisory Committee for Trade Negotiations. I have traveled extensively in Australia, New Zealand, and participated actively in the Tokyo Round in Geneva, Switzerland. I am quite willing to believe Land O'Lakes spokesman Harvey Ebert when he stated two weeks ago in Madison, Wisconsin that 90 percent of the export opportunity for dairy products is found in the eastern block countries and Russia. Once again the State Department will determine whether we can market abroad or not.

Insofar as the milk promotion proposal is concerned, we are heartily in favor of it; but it would be naive, at best, to assume that even this level of promotion is going to make a major contribution to moving the volume of surplus which we are currently producing, let alone reduce the volume we have in storage.

5. The Base-Excess Proposal. Mr. Secretary, you have heard Dr. Cropp's presentation of the proposal being developed by Congressman Gunderson. May I point out that this is not new as so many have claimed. It has been used in one form or another for fifty years in many milk markets of this nation. It has been used on a national basis for 12 years in Canada and has been spectacularly successful, with Canada's supply-demand balance being within one-half of one percent for each of the three last years.

Two weeks ago, Merritt Sprague, Deputy Administrator of ASCS, told the Midwest Milk Marketing Conference, "you can't turn milk on and off quickly". Mr. Secretary, give us a base-excess program, and I will guarantee you that I will cut back milk production at 9 o'clock Thursday morning. It took herdsman Paul Liermann just one hour last Tuesday evening to identify the cows in our herd which would go to "Ronald McDonald" at the livestock auction 12 miles north of our town. That is exactly how fast production can be turned around, your budgetary problems solved, and an equitable farm income maintained.

My numbers and analysis, arrived at independently, are slightly at variance with Dr. Cropps, but they come out at virtually the same end point.

Annual milk marketings

| | |
|---------|------------------------------|
| 1979 | 120.9 billion pounds |
| 1980 | 126.1 billion pounds |
| 1981 | <u>130.0</u> billion pounds |
| | 377.0 billion pounds |
| Average | 125.7 billion pounds of Base |

Current commercial disappearance

120.3 billion pounds

3.5 government needs

123.8

$125.7 - 123.8 = 1.9$ billion pounds cut below base or a reduction of 1.5 percent would be non-cumulative on current CCC basis.

Mr. Secretary, \$6.50 does not cover our variable cost per hundred. If we were to cut 2 percent, Darlicia and Joyful will be gone Thursday. (Exhibit 6) Joyful may not be happy but she's a poor breeder and not getting much out of life anyway. If the Board wants a cutback of 10 percent to get this \$2.2 billion surplus monkey off your back and ours, Alma, Joyanna, Adelle, Lurana, Dori and Sophie will follow. And, under the base-excess program we will be as profitable as before.

Mr. Secretary, we endorse Dr. Cropp's proposal and offer a few constructive suggestions for making it even more effective.

1. Page 2, D4. I would delete this section and add D4, 5, and 6 as follows:

4. Farmers producing less than one year prior to April 1, 1982 -- average monthly marketings times 12.

5. New producers -- 70 percent of current marketings during first year up to 500,000 pounds. 85 percent in second year. Thereafter, average of first two and three years, a rolling base. (At 70 percent, the net blend price to the new producer would be the price which would have prevailed had there been no price support program.)

6. 500,000-pound bases -- at the discretion of the Dairy Board and the State Dairy Commissions to establish a minimum producer base for

established producers at 500,000 pounds annually. (It is imperative that economic units and productive efficiency be encouraged. Forty cows per man is still a useful ratio in most areas. Were I a member of the Dairy Board, I would want this authority, especially after the first year of operation.)

Over the past four decades, I have been on dairy farms and visited with dairy farmers in every dairy county in this nation. I have spoken to almost every state, nation and regional dairy farmer organization in the land. If you give dairy farmers a choice of sharply lower price supports ... or a base excess program ... the vote will be overwhelming in favor of the base-excess program.

I know full well you have been told that dairymen will not accept bases. But they have never been given a choice ... between sharply lower price supports ... and a sound, economically proven base program. I have noted with intense interest, also, that most of the people who have offered opinions about farmers' willingness to use bases are those who operate plants, those who have a high personl and business stake in a high volume of milk through-put of those existing plants. And were I a plant manager, I would argue against bases, too, because I would not want to see the volume of milk going through my plant reduced by 5, 8, or 10 percent.

Mr. Secretary, I do not ... want a subsidy which annually runs \$200 per cow for every cow in my herd. I don't want a subsidy of any kind, now or in the future. I want responsibility. I am willing to share responsibility with other dairymen. In our own case we have not increased production over the last three years. I know it is unfair in some respects to suggest that our farm cut back five or ten percent in our own production while others have increased their production. It is as Senator Russell Long says -- "Don't blame you, don't blame me, blame the guy behind the tree". It serves no

constructive purpose to point the finger at one state, one producer, one region. We must start from where we are and take corrective action as responsible businessmen.

Several years ago the greatest dairymen and international trade authority I have known in this world, Arthur Ward of New Zealand, told me that only a base-excess program such as we were developing would successfully defend the United States dairy industry from the charge of export dumping. If there is an export market out there, then it is firmly fixed that the dairy farmers of this country are producing at the export price ... without government subsidy.

I think it is vitally important that the dairy board's authority be flexible. We don't want to shorten markets so that they become deficit markets. We don't want to create a situation where we are subsidizing the trucking industry. We want to be able to increase milk marketings quickly. We want to be able to respond in the event of a national emergency ... or for national security reasons.

The auditing required under the base-excess proposal can be simply and easily handled without a large staff build-up. I submit that the auditing forces in the Federal Order Markets, with relatively small additions of personnel, can handle the auditing of the base-excess program efficiently and promptly.

A question has been raised as to whether or not a Secretary would be willing to delegate as much responsibility and authority as is indicated to a Dairy Board. It is a good question. Were I Secretary of Agriculture, I would want a Dairy Board. There are going to be occasions when it has to make unpopular decisions. I would just as soon not have my president make unpopular decisions. I would demand the right to review the decisions of the board in

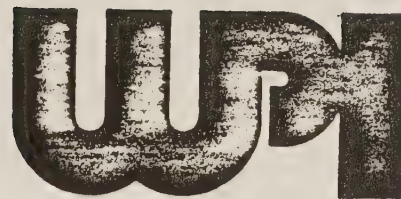
the public interest. If I found myself in strong disagreement with the Board's policies or administrative decisions, I would be very happy as Secretary to refer such differences to a joint standing committee of Congress for a resolution of that difference. I believe, however, that a well-qualified board of 12 people will make the right decisions, will not be an embarrassment to the Secretary. In fact, I believe that board will be a great asset to him.

Finally, on the matter of minimum beverage standards, we heartily endorse the California proposal. We have witnessed a steady and insidious decline in the beverage quality of fluid milk for 30 years. Minimum solid standards for beverage milk were dropped as an emergency war-time action during World War II. And we have accommodated that war-time action by letting the nutritional and beverage quality of our major fluid products steadily deteriorate for decades. Well-controlled, highly professional research, financed by the American Dairy Association, showed us years ago that our consumers prefer, from a flavor standpoint, milk of a certain fat and solids-not-fat content. Except for California and possibly two relatively small markets, we have ignored what our customers have told us and we refuse to take any constructive and remedial action. In 1970 about 73 percent of the low-fat milk was fortified, but in 1977 only 35 percent was fortified. In 1970 74 percent of the skim milk was fortified, but in 1977 only 53 percent was fortified. We have argued for better than 25 years that all of our sires in artificial insemination units should be proven for their transmitting ability for proteins or solids-not-fat, as well as for fat and total milk. Contrary to an opinion widely voiced, fat and solids-not-fat are not inherited jointly. They are inherited separately, insofar as transmitting characteristics are concerned. The germ plasm is already out there in our studs; we simply have not identified the sires which we should be selecting for breed improvement.

Realistic beverage milk standards are far more than a dairy industry issue. They are a ... national public health ... issue as well.

Finally, Mr. Secretary, it is my understanding the Department desires to submit a proposal by mid-April. I submit that such a deadline is unrealistic ... unless the only alternative being considered is a simplistic dropping of price supports ... which I have indicated would be non-productive budgetarily (at least for three to four years) and would have enormous undesirable and unnecessary traumatic consequences. I submit to you that the base-excess proposal presented by Dr. Cropp can be refined and perfected in two or three months' time. It is vitally important that it be economically sound! An extra four to six weeks for perfecting this program is precious little time, compared to the years of neglect and negligence by both industry and government. It will also provide the opportunity for a nationwide educational effort. Given the opportunity, I assure you we will communicate the provisions of that program to over 90 percent of the producers of the U.S. milk supply and we will do it twice a month.

Dairy farmers are mature, responsible, conservative businessmen and citizens. They are helpless now ... to help you solve your budgetary dilemma. Give them the tools ... and they will resolve it within a matter of weeks, not years.



STATEMENT
of

WARREN S. CLARK, JR., Executive Director

AMERICAN DRY MILK INSTITUTE
&
WHEY PRODUCTS INSTITUTE

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BEFORE THE
U.S. DEPARTMENT OF AGRICULTURE, DAIRY SYMPOSIUM
March 22-23, 1982
Kansas City, Mo.

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With respect to the
U.S. Dairy Support Program
&
Current CCC Surpluses

Statement of Bill Blakeslee

Dairy Economics Symposium

March 23, 1982

My name is Bill Blakeslee. I appear here today on behalf of Mid-America Dairymen, Inc., a cooperative representing 11,500 dairy farmer member-owners in the 12 state area of Minnesota, Wisconsin, North and South Dakota, Iowa, Nebraska, Kansas, Missouri, Illinois, Oklahoma, Arkansas and Texas.

As we continue the session on "other proposals" one wonders "other than what?" It seems that most possible solutions have been mentioned. We do not intend to burden the record by attempting to cover all the various proposals.

However, we believe that we should express ourselves on those proposals that we support to demonstrate the unity that exists in the dairy industry.

Those proposals are:

1. The Self-Help program of the NMPF Mid-Am supports the program and developed an audio-visual presentation that was utilized at district meetings throughout the membership area. The program was supported in all areas and the strongest support was in the North Dakota, Minnesota and Wisconsin areas. This program will allow dairy farmers to help solve their overproduction problems.
2. The National Dairy Products Promotion Program of the National Milk Producers Federation.

We believe in and support the advertisement and promotion of milk and milk products. This program would generate almost \$65 million and would provide for and establish long term programs that will increase the consumption of milk and milk products.

3. Increasing the minimum standards for fluid milk as presently exists in California.

We believe that the nutrition position of the consumer can be improved and stocks of NFDM reduced by increasing present minimum standards.

Much can be learned by reviewing the success of the California program. We believe that the success should be carefully examined to determine its application to all the U.S.

It is our understanding that when the California program was adopted, both processors and producers favored this. If our understanding is correct, we wonder why Mr. Tipton's group opposes higher minimum standards for fluid milk, a program that would improve the consumers nutrition level

Statement of Bill Blakeslee
Dairy Economics Symposium

March 23, 1982

and would likely result in a higher volume of sales. We think processors will support the program when they review the success of California.

Assuming that the California success would apply uniformly to all the U.S., higher minimum standards would utilize an additional 400 million pounds of S.N.F. annually. I am sure Jay Goold will have more to say about the California program.

We intend to work closely with the California people to increase minimum standards in all the U.S. to the California level.

We also believe that all of agriculture must work closer together to improve the position of all of agriculture. If dairy leaders can assist other segments of agriculture developing programs that will improve their economic position, then those dairy leaders must be willing to do so.

We think the Secretary for calling this Symposium and have enjoyed being a part of it.

My name is Warren S. Clark, Jr.; I am Executive Director of the American Dry Milk Institute and the Whey Products Institute, both located in Chicago, Illinois. These Institutes are non-profit trade associations comprised of cooperative and independent manufacturers of dry milks and whey and modified whey products. The Members of the Institutes manufacture a majority of the dry milk and whey and whey products which are produced in the United States and, therefore, frequently bear the brunt of criticisms leveled at either surpluses -- or shortages -- of commodity products (and we have experienced both within the past decade). Yet, our industries, for the most part, are functioning according to the supply-demand situation existing at any given time. And quite frankly, if it were not for the capability to operate in this manner, I truly believe the entire dairy industry -- stretching from the farmer who produces the initial raw product, to each individual who consumes dairy products in all their various processed forms -- would have experienced far more significant and immediate difficulties many years ago.

It is my understanding Mr. Secretary, that the primary purpose of this symposium is to gather as much input and as many ideas as possible so that all may be considered and evaluated as possible means (individually or in combination) toward improving the current dairy situation. Therefore, I have a number of suggestions (although not necessarily original or unique) that I would like to have "placed in the arena" for further/future consideration. I also wish to note that these ideas or concepts are presented without lengthy description, or an economic impact study, as it is my understanding such may be forthcoming at a later date as the result of the joint inputs and efforts of all symposium participants.

As we view the situation, current dairy support program considerations center essentially in two areas: (1) *a long-term Production-Utilization relationship whereby production in some manner can react more directly -- and with less burden*

and delay -- to utilization, while still returning a fair income to farmers, thus ensuring the maintenance of an adequate supply of milk; and, (2) an immediate program for utilizing the CCC-owned products of butter, cheese and nonfat dry milk so that costs of the dairy support program may be cut drastically in the shortest possible time. Various proposals to accomplish the first consideration already have received attention and will not be included in my remarks. The focus of recommendations and comments of our industries (dry milk and whey processing) will relate to the second important consideration listed -- that of reducing stocks of CCC-owned dairy commodities as quickly as possible, to lower total monetary outlays for the dairy support program.

Our comments are as follows -

1. Increase the use of CCC-purchased dairy products in PL 480 commodities.

This is neither a new request on our part nor one that we trust has not been presented to and/or considered by you earlier. Food For Peace, PL 480, Title II commodity products for consideration include: wheat soy blend, corn soy milk, instant corn soy milk, whey soy drink, soy-fortified bulgar, soy-fortified bread flour, soy-fortified cornmeal, soy-fortified sorghum grits and soy-fortified rolled oats. Only corn soy milk, instant corn soy milk and whey soy drink contain dairy products. Why not a milk-fortified bread flour? While 12% NDM likely could not be used, as is the level of soy in this product, certainly 4-6% easily could. Or, how about 15% milk or whey protein concentrate in place of the 15% soy in soy-fortified cornmeal? These are examples of various blended and processed food products that seemingly are naturals to contain dairy ingredients as part of their formulation.

2. We support Departmental actions recently taken to further exports of CCC-held dairy products. While it only represented 14.5 million pounds of nonfat dry milk, we believe that the recent barter with Jamaica was significant. Every 15 million pounds of product removed from storage is a step in the right direction -- a lowering of product inventory and storage costs; we sincerely hope the next barter

involving dairy commodities won't be another 15 years away. Your Department issues this item weekly -- Export Briefs. This is one of the most recent issues that I have seen, and in it are inquiries for dry milk shipments to Hong Kong (500 MT), Pakistan (quantity unspecified), and the Netherlands (500-1,000 MT monthly). And, this issue appears to not be significantly different from most. We encourage the Department to be more aggressive in moving surplus commodity products into export channels -- such as these, the earlier contracted for and continuing sales to Conasupo, etc.

3. Domestic distribution of CCC-held dairy products. Domestically, 100 million pounds of surplus process cheese, and a significantly smaller quantity of butter, now are being distributed by state agencies to eligible recipients (primarily to non-profit nutrition programs involving children and the elderly). As unemployment continues to rise, more people will be in need of assistance. Supplying them with wholesome and nutritious surplus dairy products certainly will be less costly than direct payment programs, while at the same time helping to resolve the current, critical dairy surplus program.

4. A second domestic program that would afford the utilization of nonfat dry milk stocks is to utilize milk bread, rolls and buns, in government supported nutrition programs. The FDA standard of identity for milk bread, an existing commercial product, specifies 8.2% nonfat dry milk on a flour basis. *This represents an excellent opportunity to furnish NDM, from CCC stocks, to bakers for incorporation into milk bread for utilization in school lunch and other similar programs.*

5. In addition to increasing the utilization of dairy products among civilian segments of the population, a united effort should be made to increase their utilization by the Department of Defense. Recent publicity noting Army and Navy -- but not Air Force -- utilization of surplus dairy products certainly does not speak well for inter-Agency and inter-Departmental communication and cooperation. Significant quantities of nonfat dry milk, cheese and butter could be incorporated into foods

prepared and served in the mess facilities of all military services, and it certainly is time to "share the responsibility". Secretary Block recently publicly emphasized the cost of the dairy support program, *calling it embarrassing, unacceptable and intolerable for taxpayers*. We submit that better cooperation between government agencies in working toward common goals would result in a lesser cost of the dairy support program and far fewer taxpayer dollars going unnecessarily into military food costs. *Mr. Secretary, let's be perfectly fair and above board on these matters.*

6. For some time now, the feasibility of increasing the solids-not-fat (and thus the total solids) content of market milk has been under discussion. By increasing the minimum solids-not-fat level from the existing 8.25% to 8.6 or 8.7% would result in a far superior product, flavorwise and nutritionally, while at the same time effecting a significant utilization of milk solids within the dairy industry itself. If my information is current, California requires 8.7% solids-not-fat (12.2% total solids) in milk at the time of delivery to consumers. Sales figures released last month by that State's Department of Food and Agriculture show encouraging gains in the December sales of all fluid milk products (whole, lowfat and nonfat milk) from 1978 to 1979 and again in 1980. I understand, Mr. Secretary, that the Department has given some recent consideration to this matter. I hope that consideration is on-going and that the State of California can be used as a model to effect a similar program nationally.

7. A suggestion which we made in our January 27 communication to President Reagan, and subsequently to Trade Representative Brock, is that serious consideration be given to re-establishing a casein industry in the US. We have offered our industry's expertise on this subject and suggested the initiation of a joint USDA-dry milk industry study to consider establishing a contract program under which a specified quantity of casein would be manufactured each year and which product would: (1) utilize a significant quantity of US-produced milk; and, (2) find immediate use in the domestic marketplace so that no laboratory fees, or inventory,

transportation and storage costs would be involved. The utilization of fluid milk for this purpose would divert that quantity of milk from cheese and/or nonfat dry milk manufacture -- and possible procurement by CCC.

Mr. Secretary, in concluding I want to leave you with one or two more thoughts. First, we appreciate having this opportunity, to publicly present some of our ideas to you and your staff. We sincerely hope that all of the comments presented to you during these two days are not merely a formal exercise, but, rather, can be evaluated and found to be of assistance in one form or another. Secondly, our respective industries, through their trade associations, actively are engaged in various marketing programs that we trust will increase the utilization of whey and dry milk products, since these particular products are within the scope of our direct activity. As but one example, I invite your attention to this 4-color, full-page, newspaper promotional, encouraging the use of the REAL dairy product, Instant Nonfat Dry Milk, in daily family meals. I also am pleased to indicate our belief that the trend in US per capita consumption of nonfat dry milk, which has been dropping regularly, now has turned around, for such has reflected an increase of from 3.1 to 3.3# this past year. *(Incidentally, this represents some 40 million pounds of product.)* If some of the programs we have suggested to you can become a reality, we anticipate a steady increase in the per capita consumption of US-produced dry dairy products.

My third and final comment is that we need assistance from the Department of Agriculture if we are to continue to make progress in this area. We are very concerned over the recent announcements by SRS Administrator, William E. Kibler, that several of the USDA crop and livestock estimating reports are to be curtailed and/or perhaps eliminated. We understand the need to review and cut back program activities which are not essential. Much of the redirection announced by Mr. Kibler we can support. *However, certain production reports are critical to the conduct of industry sales and marketing programs, and we cannot progress if there are cutbacks*

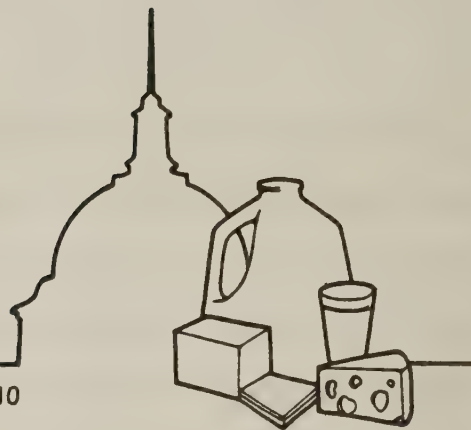
or cutouts of these critical reports. To have made decisions which have a significant negative impact on our segments of the dairy industry without consultation or input on their impact is most regrettable -- and, frankly, reflects actions of former Department officials who were not fully informed of the segment of our economy they were representing. I urge you, Mr. Secretary, to not allow a reversion to such a situation, and respectfully request your assistance in affording direct and specific input from all dairy processing segments before the cutbacks in SRS reporting programs become effective.

Thank you.

National
INDDEPENDENT
DAIRY-FOODS
Association

SINCE 1957

1625 K STREET, N.W., SUITE 1206, WASHINGTON, DC 20006, (202) 393-6010



STATEMENT OF DONALD A. RANDALL, EXECUTIVE VICE PRESIDENT
AT THE USDA MILK MARKETING POLICY SYMPOSIUM,
MARRIOTT HOTEL, KANSAS CITY, MISSOURI, MARCH 23, 1982

We appreciate the opportunity to present this statement on behalf of the independent dairy processors and distributors located throughout the United States. NIDA's members are predominately small family-owned proprietorships, partnerships and closely held corporations engaged in every aspect of the dairy business.

NIDA's principal objective in presenting this statement is to focus the attention of members of our industry, the government and the public on the critical surplus problem from the viewpoint of the independent businessmen-processors and handlers. We offer suggestions, general policy recommendations and specific proposals that we believe will assist USDA and the Congress in developing a rational and effective national dairy policy.

NIDA strongly endorses a new approach that will stimulate a return to the open and competitive marketplace.

The failures of our present dairy policies and programs have been adequately discussed by earlier speakers.

The need for more rational solutions has been demonstrated. These solutions will not be easy or painless.

One paramount issue for this conference must be to develop a policy goal that will best serve the public interest. In achieving that goal we will also well serve our nation's dairy farmers and those involved in the processing and marketing of dairy products.

Quick fixes and rhetorical suggestions offered at this meeting will probably not be the final answers. This situation in which we all find ourselves did not occur over a short period of time, the problem is immense -- the solutions are complex. It has taken a long time for the patient to become critically ill. Radical surgery will probably be unacceptable. Drastic changes cannot be imposed without unbearable and intolerable suffering. The economists call this economic dislocation, but we must change directions.

NIDA's members are ordinary businessmen collectively employing thousands of people. Our customers expect and depend upon our quality brand name products. We know that we have and can continue to sell dairy products under normal competitive market conditions. We have that essential market discipline that comes from the need to produce a competitively priced quality product at a profit! WE DO NOT RELY UPON ARTIFICIAL GOVERNMENTAL SUPPORT TO PAY OUR WAY OR ASSURE OUR SALES.

NIDA SUBSCRIBES TO THE FREE MARKET PHILOSOPHY ENCOURAGED BY THE ADMINISTRATION, AND I QUOTE A RECENT SPOKESMAN:

"The answer goes right to the heart of President Reagan's philosophy for turning this economy around -- his program of reliance on the marketplace not the federal government for economic progress."

"And make no mistake, this administration is determined that future growth in the U.S. economy will be sound growth. It will be based on productivity for the market, not on billions of government dollars thrown at economic problems in search of economic miracles." (U.S.D.A. Under Secretary, Seeley G. Lodwick, January 26, 1982)

We must shift our obsolete national dairy policy away from pouring millions of dollars into production and toward a national and international dairy product marketing objective. Policy decisions must include every segment of the industry -- the milk producers, the processors, distributors and -- milk consumers. Intensive marketing of fluid high protein milk and its products in a profitable, taxpaying, instead of tax consuming environment must become the number one priority of the entire dairy industry. Producers, processors, distributors and the public will benefit.

NIDA's members welcome and look forward to competing in a marketplace that is unfettered by artificial, subsidized and protected supply and market forces. We seek no special benefits but we ask that archaic and unjustified tax advantages and antitrust exemptions for huge producer owned agri-corporations -- engaged in processing, manufacturing and retail marketing be eliminated. There must be equity and balance with our suppliers who have now become

our competitors. We ask only that they meet the same competitive antitrust requirements imposed upon us.

It is time to initiate new programs that will dispose of our existing surpluses, efficiently market future production, and also assure an adequate supply of milk to meet the nation's requirements.

THE POLITICAL POWER OF THE DAIRY PRODUCERS THROUGH TARGETED POLITICAL CONTRIBUTIONS HAS RESULTED IN AN UNBALANCED GOVERNMENT POLICY WHICH HAS CONTRIBUTED TO THE CURRENT PROBLEM IN DAIRY SURPLUSES. SOME HAVE SUGGESTED THAT OVERPRODUCTION MAY BE THE FUEL FOR THE POLITICAL POWER OF PRODUCER ORGANIZATIONS. THE TILT OF U.S.D.A. PROGRAMS TOWARD PROMOTION OF PRODUCTION OF MILK RATHER THAN MARKETING IS NO LONGER RATIONAL OR ACCEPTABLE. UNLESS THERE IS CHANGE IN THIS POLICY, PHASED INTO OUR OVERALL DAIRY PROGRAMS, THE SURPLUSES WILL REMAIN.

THIS WILL CONTINUE TO PERPETRATE A SYSTEM THAT SUSTAINS THE INEFFICIENT PRODUCERS. IT REWARDS THE OVERPRODUCERS AND IT BURDENS THE NATIONAL TREASURY -- WITHOUT SIGNIFICANT PUBLIC BENEFITS AND WITH HUGE FINANCIAL COSTS.

NIDA SUBMITS THAT PAST PROGRAMS HAVE BEEN UNBALANCED IN FAVOR OF MILK PRODUCERS, IGNORING THE BENEFITS TO BE GAINED FROM POLICIES THAT ENHANCE AND FACILITATE PROCESSING AND MARKETING OF THE NATION'S DAIRY PRODUCTS.

NIDA's general recommendations are:

1. Congress must develop a National Dairy Policy, not simply a national milk production policy.

2. That special legislation presented by the Secretary and enacted by the Congress shall create and establish a corporation chartered by statute, and called the National Dairy Marketing Corporation. The Corporation shall be similar to other U. S. chartered corporations and it shall have the purpose of performing various functions and services to promote domestically produced milk and dairy products; to increase the number and size of domestic and foreign markets for dairy products; to increase the volume of dairy products marketed and consumed; to develop, test and identify new uses for dairy products; to franchise and license manufacturers, processors and users of dairy and milk byproducts; and to advertise and educate the public, and in particular new consumer generations, in regard to nutritional and other values of dairy products.

a. The managers or directors of the operations of the National Dairy Marketing Corporation, who shall direct, execute and carry out its policies and programs shall be appointed by the USDA Secretary, with three members who are producers or their association representatives; three members who are from noncooperative - non-producer owned - processors, handlers, manufacturers or distributors; three members from noncooperative - nonprocessor owned retailers of milk and dairy products; and one member each from the Departments of Agriculture and Commerce; and one consumer-public representative member.

b. At least one of the three members of the board, appointed from processors, handlers, manufacturers or distributors, shall be identified as an independent businessman member and not

identified as a national dairy or corporate food processing member.

c. The Corporation shall be funded by the required amounts as determined by Congress, from a charge on each hundred weight of milk produced and processed, with all producers and processors sharing equally in the cost according to their volume.

d. A principal objective of the Corporation will be to develop for licensing and production a nutritious milk or milk protein based, flavored soft drink. A major national advertising campaign shall be undertaken to promote this high protein flavored milk drink. All products will use domestically produced milk or its protein.

3. That the Agricultural Marketing Agreement Act of 1937 Section 8(c) and thereafter shall be amended to require that the minimum prices fixed for each use classification of milk and its products shall be the maximum prices that all producers and their associations shall be entitled to receive from all handlers, and the only additional charges that can be added to such prices are those for the actual and reasonable costs of services rendered by the producers or their associations for handlers.

a. All producers qualified in any federal market order shall receive from their association as payment for milk handled, sold or otherwise transferred, an amount per unit or cwt equal to the amount per unit or cwt paid by all non-association handlers in that order and any deductions by producer associations must be by separate statement clearly informing each producer-member of the reason for such deduction.

4. The Secretary in special legislation enacted by Congress shall be required to determine the total volume of fluid milk for all uses which shall meet the needs of all consumers and users of milk and dairy products at the beginning of each fiscal year including the necessary reserve. This projected volume and reserve shall be based upon past records and present and future statistical evidence. The projected volume shall be the amount that is reasonably expected to be removed for all users, both domestically and for export, and the reserve is for contingent needs, but does not exceed an amount that cannot be disposed of annually by U.S.D.A. The support of the price of milk shall be at the levels stated in the law but these prices shall not apply to nor be paid by the Secretary for the support of any volume of milk exceeding the projected volume plus reserve for the fiscal year. Any volume produced in excess of the projected volume plus reserve shall be supported at prices determined by the Secretary but such prices shall not exceed the actual value of the milk as a surplus commodity in any domestic market or at world market prices after any and all foreign government subsidies affecting such prices have been added back by the Secretary.

a. This special legislation shall take effect gradually through 1985 in order to avoid serious economic dislocations and hardships. The lower support prices for surplus volumes of milk shall be gradually made effective at six month intervals by the Secretary. The lowest levels referred to above would be reached in 1985.

5. That the Administration and the Congress determine the feasibility of income tax credits for processors who are able to dispose of surplus dairy products without disrupting their markets.

6. That a tax incentive be granted to anyone who develops commercially feasible new dairy products which are manufactured from surplus dairy materials.

7. That the Federal Trade Commission should be directed by the President and Congress to study the current economic status of all milk and dairy products markets; and the Federal Milk Marketing Orders and their multiplicity of regulations to determine if such regulations encourage overproduction and hinder marketing, and add unnecessary costs to milk; and whether mergers of orders is discouraging local production; and whether the merger trend of the regional dairy cooperatives, specifically as it relates to processing, manufacturing and distribution, is beneficial to the public. Thereafter FTC shall forward a report to the Congress.

In conclusion, NIDA respectfully recommends consideration of the general recommendations in this statement. Our members have many years of experience in milk marketing. We are hopeful that we can assist the President and the Secretary of Agriculture in this very important process.

We suggest that USDA actively seek the guidance and support of the independent dairy processors and distributors. We are a viable and essential part of the efficient marketing of our nation's dairy products.

American Farm Bureau Federation

OVER A HALF CENTURY OF SERVICE TO AMERICAN AGRICULTURE



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STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION TO THE DAIRY SYMPOSIUM FOR THE PURPOSE OF GATHERING INFORMATION FOR POSSIBLE CHANGES IN THE DAIRY PRICE SUPPORT PROGRAM

March 22-23
Kansas City, Missouri

We appreciate the opportunity to present Farm Bureau's views on the problems confronting the dairy price support program. The setting for this session is indisputable--the U.S. dairy industry is faced with the largest supply-demand imbalance in its history and serious questions are being raised about the future of the dairy program. There is general agreement within the industry on the dairy problem, but there is some disagreement on solutions to the problem. Our comments will be directed largely to finding an orderly way out of the current dilemma.

The problem that is confronting the industry today is not new--it has been creeping upward for sometime. This problem came into sharper focus with the passage of the 1977 law which mandated the dairy price support at 80 percent of parity updated every six months. Back in 1978 and 1979, as dairy replacements were building in response to higher price signals, Farm Bureau stated that the issue is not 75, 80, or 90 percent of parity, but how to save the dairy price support program. The problem has continued to worsen.

As of March 10, purchases for the current marketing year were up 341 million pounds milk equivalent from a year ago. At the current rate of herd expansion, the dairy plant will be over-expanded by 900,000-plus cows by this October. With no letup in sight, the dairy program becomes increasingly vulnerable to drastic surgery by Congress. The message is clear--if the industry wants to maintain a program, it must be more responsive to market demand.

There is substantial historical evidence that rigid price support formulas designed to offset the impact of inflation ultimately collapse under their own weight. A similar problem is at the root of the budget problems of federal entitlement programs that are adjusted annually by the full CPI to offset the impact of inflation.

Few of us want to state publicly that the dairy industry is faced with a serious problem or that the industry, in effect, is sitting on a keg of dynamite--as one dairy leader has so succinctly described the state of affairs--because any solution will mandate a difficult adjustment for some producers. Our only alternative now is to face the consequences.

We have reviewed a number of proposed solutions. Some proposals would assess producers for a portion of the surplus. Quotas, an excess price, and other measures are being advocated. The current dairy program is subject to Congressional budgetary review. A cap on program expenditures is a possibility. There have been discussions on lowering the support price to an equivalent of 50 percent of parity.

In seeking a solution to the current problem, we had two major objectives:

- 1) Maintain a viable dairy support program; one that provides a floor under milk prices but not at a level that encourages production of large quantities of milk that consumers will not buy; and
- 2) Reduce the supply-demand imbalance to a level which can be absorbed by market forces in a reasonable time period.

And each of the proposed solutions that were considered were analyzed within the following framework:

- * Will the proposal accomplish the objectives?
- * Is the proposal politically feasible?
- * Is the proposal administratively feasible?
- * Will producers accept the proposal?

Following a review of the various options, Farm Bureau concluded that the present program--with some modification--is the best of the alternatives.

One criticism of the dairy price support program is that it is open-ended; that is, an average price for manufacturing milk is set by the government and the government, in turn, purchases all of the milk for which there is no commercial market in the form of butter, cheese, and nonfat dry milk without any accompanying controls on production or producer assessments. No comparable program exists for any other commodity. Another criticism of the program is the difficulty in lowering the support level or preventing the support level from rising when conditions indicate that the existing level will, or is likely to, call forth substantially more milk than needed.

A major asset of the current program is its simplicity. Of all the farm programs, the dairy program has been, until recent years, fairly efficient from an operational basis--products are generally stored where they are produced, and no producer payments or quotas or allotments are involved. The major criticisms of the dairy program might be lessened if the support level was more directly related to CCC purchases of butter, nonfat dry milk, and cheese.

Under Farm Bureau's proposal our present price support formula, which relates the support level to the volume of CCC net purchases, would be extended from a base of 75 percent of parity downward to help bring supply in line with demand and would be offered as an alternative for resolving the dairy problem. In implementing the proposal, the Secretary of Agriculture would set the support level annually based on CCC net purchases during the immediate prior year.

| CCC Net Purchases (1) bil. lbs. | Support Level Percent of Parity |
|------------------------------------|------------------------------------|
| Up to 2 | 80-90 |
| 2.0 - 2.5 | 79 |
| 2.6 - 3.0 | 78 |
| 3.1 - 3.5 | 77 |
| 3.6 - 4.0 | 76 |
| <hr/> | |
| 4.1 - 4.5 | 75 |
| <hr/> | |
| 4.6 - 5.0 | 74 |
| 5.1 - 5.5 | 73 |
| 5.6 - 6.0 | 72 |
| 6.1 - 6.5 | 71 |
| 6.6 - 7.0 | 70 |
| 7.1 - 7.5 | 69 |
| 7.6 - 8.0 | 68 |
| 8.1 - 8.5 | 67 |
| 8.6 - 9.0 | 66 |
| 9.1 - 9.5 | 65 |
| 9.6 - 10.0 | 64 |
| 10.1 - 10.5 | 63 |
| 10.6 - 11.0 | 62 |
| 11.1 - 11.5 | 61 |
| 11.6 plus | 60 |

(1) Total purchases, milk equivalent, minus government sales for unrestricted use; annual basis.

We believe that our proposal would provide for an orderly adjustment; it permits the support price to rise once the surplus is remedied; it could be implemented quickly; and it could prevent a recurrence of the present problem because the formula does not provide for a long-term guarantee of a stipulated price without regard to CCC purchases. Also, any solution is going to have a price tag. It is simpler to take the adjustment at the front end rather than after the milk has been produced.

At this point it should be understood that we will not be introducing the proposal in the form of legislation. Our proposal is submitted for consideration as an alternative.

Looking ahead, the industry will be confronted with an over-supply problem unless more attention is directed to market forces and such factors as production efficiency.

Cow numbers, for example, declined 1.3 million during the 1970s. If cow numbers had continued to drop in 1981 at the 1970-79 rate, the increase in milk production in 1981 from 1979 would have been 43 percent less. CCC purchases would have been reduced, however, purchases would have been substantial. Why? Milk production per cow has increased an average of 904 pounds since 1978. Output per cow will continue to rise. The effect of this efficiency factor on the nation's milk supply is often overlooked--fewer cows will be needed to supply tomorrow's market.

And in closing, confronted with the largest milk surplus in the history of the U.S. dairy industry, some producers are saying that their state is not a contributor to the surplus and point to other states as the culprits. What does the record show? During the period 1978-81, milk production declined in 5 states, remained constant in 2 states, and increased in 43 states with 13 of the 43 states increasing production 10 percent or more. Eight of the 13 states with a production increase of 10 percent or more were among the top 13 states in production per cow. And 7 of these states were the top 7 in production per cow. Dairy men cannot afford to hit out at production efficiency or divide the industry by blaming other dairy men. The root of the problem is not associated with any state.

We've highlighted the various aspects of the dairy problem and offered a solution. Farm Bureau is prepared to work with USDA and dairy leaders to maintain a market-oriented dairy program.

PROPOSAL FOR PRICE SUPPORT PROGRAM

March 22, 1982

James W. Gruebele
Vice President and Economist
Dairyman's Cooperative Creamery Association
Tulare, California

The federal price support program for milk products has been in operation in some form since the 1930's. Since 1950, the dairy price support program for manufacturing grade milk has been based on the Agricultural Act of 1949 and subsequent amendments.

In observing the data, there has been considerable variation in the amount of dairy products purchased by the government. In general, in the past, as government purchases rose, price support levels were reduced and vice versa.

For most of the historic period, the secretaries of Agriculture had the discretion to raise or lower price support levels between 75% to 90% of parity. However, during the Carter Administration that discretion was limited to between 80% and 90% of parity with the additional requirement of a mid year adjustment. The production and consumption trends clearly tell us that these policies were dramatically price enhancing in nature.

It is our philosophy that since it was an enhanced price that created the difficulty for the dairy industry that price should be used again to solve the problem.

The program we recommend is as follows:

1. Secretary of Agriculture would have the descretion to set support prices between 60% to 90% of parity subject to the following requirements:
 - A. The support price for dairy products should be reduced by \$1.00 per hundredweight by October 1, 1982.
 - B. The prices would continue to be lowered in 50 cent increments every 6 months until either the support price is at 60 percent of parity or the level of CCC purchases have been reduced to 3.5 billion pounds of milk equivalent.
 - C. Prices would remain at 60 percent of parity at the beginning of each marketing year until purchases have been reduced to 3.5 billion pounds of milk equivalent.
 - D. Once purchases are down to 3.5 billion pounds of milk equivalent, the support price at the beginning of the marketing year would have to be increased by at least 50 cents per hundredweight or to 60 percent of parity whichever is higher.
 - E. The Secretary would be required to review prices only once a year. He, of course, would have the descretion to change those prices more than once a year if the supply-demand conditions warrant it.

F. If, in the future, price support purchases exceed 3.5 billion pounds in any year, the Secretary would be authorized to reduce the support prices down to a minimum of 60 percent parity.

We support a change in the milk standards for whole milk, low fat milk and skim milk similar to that used by the State of California.

A SELF HELP PROGRAM FOR THE DAIRY INDUSTRY

J.G. Walker, Sulphur Springs, TX

Almost anyone knowledgeable about the dairy situation in the United States will concede that the dairy industry must cut back in production to more nearly supply the amount of dairy products the markets can absorb. The traditional way this has been accomplished in the past is to periodically subject the production side of the industry to such economic pressures that those who were least able to survive fell by the wayside.

There is a BETTER way. Dairy farmers can be sent an economic message to cut back on production that will not be so devastating on them and their families. The basic objective of this plan is to reduce the size of the National dairy herd down to the point that consumption and production are in close balance with some built in cushion to avoid a national short fall in production in case of some unforeseen situations. It would stabilize prices for producers and consumers. It would reduce the cost to the government to almost nothing. It would not be designed or permitted to shorten the markets for milk so that producers could get an unfair price.

The program is this simple: Take a uniform deduction from every dairy farmer. The first buyer of milk would make this deduction and turn this money over to the appropriate Fed order market administrators who would in turn identify this money to each individual dairyman and in turn forward this money on to the ASC offices in the dairyman county. (In areas that don't have Fed orders a method would have to be established to do this audit work). A select group of dairy farmers in each market region, would determine the desired culling percentage to be applied to each herd in their region on a quarterly basis. When an individual farmer could offer proof of sale for slaughter he could get his money back from his local ASC office. This procedure would be repeated on a quarterly basis until a balance between production and consumption was reached. At that point a lower culling percentage would be applied.

The U.S.D.A. should be given the authority to temporarily suspend this program in a market when it appeared that market would become short of milk for fluid and traditional manufactured milk products. At other times the regional farmer committee would have control of the program.

Those areas of the country that have gotten more out of balance from their traditional production would have to continue an accelerated program longer to reach a desired level. Perhaps the fluid markets in the south could make some contributions to the markets that are more out of balance until a national herd size is reached. At that point each area would assume full responsibility for financing their program to keep supplies tailored to demand.

Some of the mechanics necessary to operate this program would be:

1. Farmer committees in each county or area to monitor the program on local basis and see that cows actually go to slaughter. To oversee auditing of herd sizes and generally police the program on a local basis.
2. Farmer committees in large market regions to set culling rates, take out rates, and to monitor production and consumption statistics and set policy and give leadership to program operations.
3. National committee of dairy farmers (majority), Secretary of Agriculture, consumer representatives and industry representatives to coordinate programs between regions, set national production goals, be responsible for implementing program and having authority over regional committees to see that they function within the guidelines and goals to accomplish the national objective---to fine tune production to demand through controlling the size of the national dairy herd.
4. Each dairyfarmer would register an accurate count of his milking herd with his local ASC office. This count would be kept current and be subject to on farm audit as in a drouth program.
5. Each farmer would have a percentage factor applied to his herd each quarter as his culling goal.
6. Each farmer would be required to offer proof of sale for slaughter each quarter of cows culled in order to receive money sent to ASC office earmarked to his account. He would be paid for each cow he culled up to the assigned percentage which if he culls the full percentage he would get all his money back.
7. Farmer who did no culling would not get their money back and this money would be transferred to the national committee to be used in areas in need of the most culling.

Some advantages of this program:

1. This program does not prevent a new man from going into the dairy business.
2. This program does not keep a man from expanding his operation.
3. This program does not give a windfall for something of intangible value as most base plans do.
4. This program sends an economic message to the dairyman to cut back when the milk is not needed. It then gives it all back if he follows the economic signals and cuts cows from his herd.

5. This program will work because the farmer committees will be given the tools to make it work.
6. This program will reduce expense to the government to fairly low levels and prevent a reoccurrence of runaway costs as the present program is now experiencing.
7. This program could help the Federation Self Help Plan work if the culling program was incorporated into it and implemented first. Then there would not be this need to ship money from one area of the country to another to buy up excess production.
8. This program would stabilize prices to producers and consumers much better than the plan proposed by the Federation working alone.
9. This program would allow prices in areas to rise when farmers were not responding to produce more after culling had been suspended because of high fluid utilization.
10. This program would allow for prices to go down when market statistics show a drop in consumption.

HOW THE PROGRAM WOULD APPLY TO AN INDIVIDUAL FARMING OPERATION

Assume this farmer is getting 3000 lbs. of milk per day. Assume a deduction of \$1.00 per CWT = \$30.00 per day or \$2700.00 per quarter. Assume he has 70 milking and dry cows on the day the percentage factor applied to his herd. Assume the farmer committee sets a 10% culling goal for the first quarter. This equals 7 cows. 7 divided into \$2700.00 equals \$385.71 per cow he can get from his local ASC office at the end of the quarter. Whatever funds he left through non-participation would be turned over to the National committee to encourage more culling.

If a farmer had a herd of extremely valuable cows that were already closely culled, how could he participate in this program? Remember this program does not prevent him from buying and selling cows (he must keep his cow current with the local ASC office). He could buy dairy cows of lower quality from a neighbor and sell them as culls. This would not be unethical because the goal is to reduce the national dairy herd. Obviously cull cows would soon get in short supply. He could leave his money in the fund to be used as an economic incentive for others to cull. In that case he would still contribute to the long term stability of the dairy industry.

At the end of the quarter the regional farmer committee in consultation with the market administrators and industry leaders would assess the progress thus far in tailoring the market and set new culling percentage to be applied equally according to herd size. If participation was not as good as desired they could increase the take out in order to increase the indemnity. They would have the tools to get the job done.

In an individual market when the fluid use approached a critical percent the market administrator would have the authority to temporarily suspend the program.

Dari-Marketing Services

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TESTIMONY OF ANDY VANDER MEULEN
BEFORE USDA DAIRY SYMPOSIUM
KANSAS CITY, MO. MARCH 23, 1982

My name is Andy Vander Meulen and I am General Manager of Dari-Marketing Services in Mt. Vernon, WA. Dari-Marketing is the marketing association for three small producer cooperatives, a Holstein cooperative, a Jersey cooperative and a Guernsey cooperative. Who said dairymen can't agree?

We market producer milk to several Class I plants and several cheese plants in the Puget Sound, Washington milk market.

In 1978 we built and began operating Washington Cheese Company and it serves as a balance facility for our bulk milk sales.

This past year, we implemented a pricing system where we collect protein payments from cheese plants and return a payment to our producers based on the protein content of their milk.

In testifying here today I believe we must Define our Problems:

1. Are we going to give the changes made in the New and Present Farm Bill a chance to work? President Reagan has asked the American Public to give his programs a chance to work. We ask that this administration give the new Farm bill a chance to work.
2. Do we have an over production problem in the milk industry and in agriculture in general?

Yes we have an abundance!

Thank Goodness!

Remember Poland!

3. Are too many Federal dollars being spent on Milk supports and Agriculture in general?

I guess that depends on our priorities. Would we rather have food or tanks?

4. To what extent should our food production be used as an economic and trade weapon in international affairs?

Food should not be used in this manner and in the past, the American Farmer paid a price by these actions.

5. If production of food is used in this manner, wouldn't it be more appropriate, that the resulting effects to agriculture - be charged our our defense budget - That way nobody will complain.

6. Has our nation overlooked - taken for granted or forgotten that 3% of our work force, produces this nation with an abundance of food stuffs - as compared to Russia's 24% and they still lack an adequate supply. (U S News and World Report March 1, 1982)

I don't believe they have, but we need to continue our P. R. work with consumers.

7. Do American consumers spend too much of their spendable income (including the costs of price supports) for their food needs? I don't believe so! They spend less of their spendable income on food than any nation in the world.

8. Would the American Farmers - ever be allowed to organize and govern Commodity Boards to accomplish the following:

- a. Establish Production Bases and Prices
- b. Establish Minimum Standards for a bottle of milk
- c. Determine Import levels and develop export markets
- d. Minimize Federal dollars spent on Agriculture Price Supports

I believe these proceedings are being conducted to explore the feasibility of this possibility.

Lets touch on Supply management systems.

We in the Puget Sound adopted the first Class I Base Plan allowed in a Federal Order in 1967. Due to an intrepretation of the law we went through a reshuffle and made some changes and adopted our second Class I Base Plan in 1972, which is still in effect today. It gave producer's the option of adjusting his production closer to the Class I price by acquiring base or reducing his production. Producers and cooperatives who want to expand, prefer Blend pricing. A cloud hangs over our heads in the Puget Sound presently due to a Hearing held in August to merge two orders in Washington. Why was the authorization deleted in the new Farm Bill for Class I base plans? Did this ever cost the taxpayer a dime? Did the leadership in the dairy industry make an effort, that this authorization be included in the new Farm Bill?

Lets stop kidding ourselves - If there is going to be different prices for different portions of producer production - there has

to be some sort of base or quota system so producers can choose if they want to produce it. I would like to suggest that increasing the spread between Class I and Class III along with authorization for Class I Base Plans in Federal Orders may be a means of reducing the over supply of Class III production and give producers the choice of producing closer to the Class I needs.

We would support a Self Help Program - provided - that producers are issued production bases individually or to their cooperatives. We support the Self Help proposal of U.S. Representative Gunderson as presented by Bob Cropp and suggest that such production bases be allocated to producers or their cooperatives. We have heard complaints that bases or quotas are difficult and sticky to administer. Allocate them to the cooperatives who choose to do so, and let us do it. Without bases or quotas we'll be like the dog chasing his tail. I commend Bill Knox in telling it the way it is, last night and support his recommendations and concerns.

We support raising the national Standards in a bottle of milk to those adopted by California.

We support a more aggressive advertising check-off - provided - matching funds are received from the end packager and a proportionate amount of brand advertising is done.

In summary - I believe we need to ask ourselves as a nation;

Are we going to pursue a cheap food policy, at the expense of the American farmer --

Or are we going to recognize one of the greatest assets this nation has - our ability and incentive to produce food in abundance, as no other nation, in the history of mankind!

Thank you Mr. Secretary.

RECOMMENDATIONS TO REDUCE DAIRY PRICE
SUPPORT PURCHASES AND COSTS

By Truman Graf
Department of Agricultural Economics
University of Wisconsin, Madison, Wisconsin

Presented at
U.S.D.A. Public Dairy Symposium
Marriott Hotel, Kansas City, Missouri

March 23, 1982

Quoting U.S. Secretary of Agriculture John Block, the purpose of this symposium is to "tackle the severe problem of dairy surplus and the increasing costs of government support payments, through recommendations for changes in the dairy price support program." I recommend revision of U.S. dairy import-export policy.

What does dairy import export policy have to do with dairy surpluses, and the dairy price support program? A great deal, because dairy imports and exports have a major impact on dairy price support costs. Consider the following facts:

(a) U.S. dairy exports were \$251 million in fiscal 1981, compared to \$619 million in dairy imports -- over a \$350 million minus gap. This \$350 million net import gap indirectly increases dairy price support costs.

(b) Dairy exports were two-fifths of dairy imports last year, and averaged one-fourth of dairy imports during the previous half decade. In three of the past ten years, net dairy imports exceeded dairy price support purchases. Thus, net dairy imports have been an important factor in dairy price support purchases in the past decade.

(c) Net dairy imports in fiscal 1981 were 2.3 billion pounds of milk equivalent -- 18% of CCC purchases of 12.6 billion pounds of milk equivalent. This 2.3 billion pounds of net dairy imports would cost dairy farmers approximately \$.41 per cwt. if the dairy price support program were eliminated or substantially altered. This conclusion is based on USDA Agricultural Economic

Report No. 278, which states that "for every 500 million pounds of product milk equivalent imported, producers' returns would be reduced about 9 cents per hundredweight."

EEC Dairy Export Subsidies -- A Deterrent to U.S. Dairy Exports

EEC export subsidies are commonplace on skim milk powder, butter, and cheese -- major products we attempt to export. Those export subsidies make it possible for EEC countries to sell dairy products at world prices, even though their internal subsidized prices are far higher. Unless we also subsidize, we cannot compete with EEC subsidized dairy products. Therefore, subsidized foreign dairy products compete head to head with our domestic dairy products in international markets. This accounts in large part for our poor dairy export situation, which in turn increases dairy price support purchases.

The magnitude of EEC dairy export subsidies resulting in world prices considerably below our price, are quantified in Tables 1 and 2. This situation makes it virtually impossible for us to compete commercially in world markets, hence increasing dairy surpluses, and price support purchases.

TABLE 1

European Economic Community Dairy Export Subsidies Per Pound in 1981

| | |
|--------------------|---------------|
| Nonfat dry milk | \$.19 |
| Cheddar cheese | \$.23 |
| Emmenthaler cheese | \$.46 |
| Butter | \$.52 |
| <u>Casein</u> | <u>\$.85</u> |

TABLE 2

Wholesale Dairy Prices Per Pound in December 1981

| | <u>U.S.</u> | <u>World</u> | <u>World Less Than U.S.</u> | |
|------------------------|---------------|---------------|---------------------------------|------------|
| Butter | \$1.47 | \$1.09 | \$.38 | 26% |
| Cheddar cheese | \$1.33 | \$.75 | \$.58 | 44% |
| <u>Nonfat dry milk</u> | <u>\$.95</u> | <u>\$.48</u> | <u>\$.47</u> | <u>49%</u> |

EEC Dairy Export Subsidies -- A Stimulant for U.S. Dairy Imports

EEC export subsidies are also used to move dairy products into the U.S. The 1979 U.S. Trade Act permits 60 day action by us in stopping domestic price undercutting by subsidized imports, but the practice can go on that long before being stopped. The Act does permit subsidized imports priced at the same level as our dairy products. Therefore, subsidized imports compete head to head with our domestic dairy products in the U.S.

For example, last year West Germany undercut our Grade A-B Swiss cheese prices by \$.07 per pound, and Denmark undercut our Grade C Swiss price by \$.17 per pound, through the use of export subsidies. Both were forced to reduce their subsidy to eliminate the price undercutting, but the practice continued for some time before being stopped. There were several other similar instances from various EEC countries last year, with subsidized cheese undercutting our domestic cheese.

At the time Germany and Denmark were forced to reduce export subsidies on Swiss cheese, EEC countries also reduced export subsidies three to eight cents per pound on other types of cheese -- Gouda, Edam, Danbo, Havarti, Danish Blue, English Stilton, Emmenthaler-Gruyere, and Esrom. This illustrates the wide variety of dairy products that have EEC export subsidies, which compete vigorously with our dairy products, thereby increasing surplus supplies in the U.S.

Export subsidies are used to move dairy products out of overseas markets to compete with our dairy products. This contributes to our dairy import-export imbalance, and increases dairy price support purchases.

Government Import Levies

EEC import levies are assessed at the difference between import prices cited in Table 3, and world prices. Thus, import levies were approximately \$.95 per pound on butter (\$2.04-\$1.09), and \$.41 per pound on skim milk powder (\$.89-\$.48).

TABLE 3

EEC Minimum Import Prices in 1980/81

| | <u>U.S. \$ Per Lb.</u> |
|-------------------|------------------------|
| Butter | \$2.04 |
| Skim milk powder | \$.89 |
| Cheese (Parmesan) | \$2.65 |
| Whey powder | \$.25 |
| Dry whole milk | \$1.37 |
| Evaporated milk | \$.22 |
| Condensed milk | \$.70 |

Minimum import prices are higher than EEC support purchase prices -- \$.19 per pound higher for butter, \$.12 per pound higher for skim milk powder, and \$.23 per pound higher for cheese in 1981. This import pricing procedure increases import levies, further deterring imports, and increasing our difficulty in moving dairy products into European markets.

Import levies by other countries increase the landed cost of our dairy products. This further contributes to our dairy export difficulties, and increases dairy price support purchases.

Casein Imports

The most quoted recent dairy industry statement is from the USDA publication on casein imports (USDA, ESS, Staff Report AGESS 810521): "If no casein had been imported in 1980, Government purchases of nonfat dry milk would have been 333 million pounds lower, saving about \$300 million in CCC outlays." Reference to the U.S.D.A.'s own publication therefore verifies a positive correlation between casein imports and dairy price support purchases. As is universally known, there are no import quotas on casein. EEC casein subsidies are indicated in Table 4.

EEC subsidies of \$.95 per pound are two-thirds of current U.S. average casein prices of approximately \$1.45 per pound. Quoting the USDA publication: "This subsidy helps explain the dramatic increase in exportable supplies of casein from the EEC.

TABLE 4

Subsidies to Casein Manufacturers

| | <u>U.S. \$ Per Lb. (1980)</u> |
|-------------|-------------------------------|
| Ireland | \$.82 |
| France | \$.83 |
| Netherlands | \$.83 |
| Germany | \$.87 |
| EEC | \$.95 (as of Jan. 1982) |

Casein imports doubled since 1965, and increased approximately one-third during the 1970's, to 152 million pounds in 1980. In 1955, 99% of the casein was used for industrial products, and only 1% for food and feed. By 1980, 87% of casein imports were used in food and feed directly competing with U.S. dairy products, thereby increasing dairy price support purchases.

The opportunity for unlimited subsidized casein imports into the U.S. hurts our dairy import-export balance, thereby contributing to the dairy price support problem.

Conclusion

The U.S. dairy industry could compete in world markets if the U.S. subsidized dairy exports as its competitors do. This would reduce dairy price support costs more than the cost of the export subsidies, since it would free up the U.S. commercial dairy industry to compete in world markets, and sell as aggressively abroad as at home. Now they cannot, and as a result, unsold dairy products end up in government warehouses as government price support purchases.

Direct dairy export subsidies would merely replace the indirect dairy export subsidies which now exist, and would therefore not reflect a change in trade policy, which the Administration says it opposes. Rather than buying dairy products, for price support, and then selling them for less than half their cost as in the U.S.-New Zealand butter sale, it would be far cheaper to directly subsidize dairy exports, and let commercial dairy firms aggressively market them internationally.

The 1981 Farm Bill gives the President authority to use dairy export subsidies, and this authority should now be used, which would reduce dairy price support costs.

Tighter restrictions on dairy imports similar to those practiced by our competitors would also narrow the dairy import gap, thereby reducing price support purchases. This is particularly true with respect to casein imports, which the USDA itself concedes substantially increases dairy price support purchases.

The Administration contends that the export market is a poor alternative in solving our dairy surplus and price support problem, because "our prices are considerably above world prices, and we are working to reduce trade barriers."

Our dairy prices are above world prices because other countries subsidize dairy exports. Why would doing exactly what our competitors do, no more, no less, antagonize them and jeopardize our grain sales? How could they object to our doing what they do? It could actually lead to speedier reduction in trade barriers because of our improved bargaining position, which would serve as a prod to getting other countries off dead center on trade negotiations.

This would also improve our dairy price support situation, because we can compete in the world dairy market if we are on equal basis with other countries with respect to trade regulations. Now we are not, which has resulted in a large excess of dairy imports over exports, resulting in increased dairy price support purchases. Dairy export subsidies and import regulations similar to our competitors could substantially improve the dairy price support situation and should be implemented.

STATEMENT BY JOSEPH WESTWATER, DAIRYMEN, INC., BEFORE USDA DAIRY SYMPOSIUM
KANSAS CITY, MISSOURI, MARCH 22, 23, 1982

As a member of our cooperative's management team, I am here today representing our Chief Executive Officer, Ben F. Morgan, Jr. and the 8,000 dairy farmer-owners of Dairymen.

Dairymen, Inc. is a regional milk marketing cooperative, owned by these 8,000 dairy farm families in 17 eastern and southeastern states.

Dairymen, Inc. believes this meeting is vital. We appreciate the opportunity to appear here today to detail changes we feel are necessary to achieve a better balance between national milk supply and demand, while maintaining dairy farmer income at a level sufficient to encourage adequate milk production capacity.

Most observers of American agriculture believe that the milk price support program has been successful. Over time, it has brought forth an adequate supply of milk at reasonable prices. In fact, Americans pay less for milk and dairy products--in terms of minutes worked--than do the people of any other industrialized nation. But, while the national milk supply has been adequate since the program began in 1949, it has also fluctuated somewhat from year to year. This fluctuation has been principally in response to variations in weather, the cost of labor and feed, prices paid for cull cows, and off-farm employment. Supply has been relatively short in some years and long in others.

However, milk production has increased dramatically during the last two years while domestic consumption has remained flat. This has resulted in large purchases of butter, nonfat milk and cheese by the Commodity Credit Corporation. This situation has not gone un-noticed by Dairymen, Inc.

As a means of softening the impact of these large purchases in the Southeast, Dairymen, Inc. developed two short-run programs to encourage our members to reduce production. Under the first Dairymen program, which was in effect last year, members received \$100 for each producing cow moved to slaughter from March 5 through March 31. The money to pay the \$100 per head came from savings made possible by reduced transportation of surplus milk to distant plants for manufacturing. Our farmers so moved 22,000 head during those few weeks. We estimate that we would have an additional 20,000,000 pounds of milk for each of the months of April, May and June if our farmers hadn't culled these 22,000 cows.

The second plan, which we call "HELP", will be effective March through June of this year. It is geared to reduce production during the flush season as was the culling program. Under the plan, each of our divisions will have a daily base equal to daily average production during February 1982. Payment for production over base in the coming flush months cannot be in excess of \$10.50 per hundredweight--about two dollars below the price currently being paid for manufacturing milk.

Since Dairymen, Inc., represents less than 5% of national milk production, these efforts on our part can have only a small effect on national milk production. And, there is no denying that Commodity Credit Corporation purchases have been heavy. But, we must keep in mind that much of the increase in purchases has been due to shockingly low prices paid for feed and low prices which farmers receive for their cull cows. Our members tell us that, if feed prices and/or cull cow prices were to increase, we would see our surplus disappear.

What should we do nationally? We cannot lower prices enough to cut back production in the short run without destroying the capacity to produce enough milk to feed our people. In fact, prices as measured by parity are considerably lower now than they have been since the price support program began.

In our judgement, the only viable means to eliminate the surplus problem is to look to increasing milk and dairy product markets--through increased consumption domestically and through increased exports.

There are several ways we can increase consumption. One of these is to revive the Special Milk Program in our schools. Millions and millions of 1/2 pints of milk have moved through this program and millions more could be in the future. The basic thrust behind the start of this program in the early sixties was that fluid milk consumed by school children would be more nutritious than alternative beverages and would also cut government-purchased surplus dairy products. USDA and the O.M.B. may want to take another look before they cut what few dollars remain in these programs.

Incidentally, Mr. Bernard Trugman with whom I sat yesterday suggested putting fluid milk on the bonus commodity list. I think this or some variation has merit.

Use of dairy products in school lunches could be expanded as another means of increasing consumption. At a recent meeting in Tennessee, a school official complained about the difficulty of obtaining surplus dairy products. We urge the Department to take another look at its regulations to see if red tape can be eliminated and distribution techniques improved. We believe the "National Inventory System" as proposed by Affiliated Food Processors, Inc., would be a giant step in the right direction.

But, to successfully eliminate current and future milk surpluses, we must look for really new ways to expand domestic consumption and exports. Indeed, the Department and the agriculture sector must go back to square one and take a look at American agriculture policy.

We do not have a dairy problem--we have an agriculture problem. American agriculture is interrelated with agriculture in the rest of the world. We cannot have a so-called free enterprise agriculture in the United States while the rest of the world practices managed agriculture. The Department should address the current milk surplus as part of the total agriculture problem.

In other words, if the most efficient agricultural production machine in the world is to survive, we must recognize the rules of the international game. Thus, we either change the international rules or adapt our American agriculture to a managed agriculture.

At a recent meeting of the National Milk Producers Federation Board of Directors, a consensus as to how to approach the current dairy problem was agreed upon. It recognizes that we must begin to manage the dairy sector of America in a manner compatible with techniques used in other countries.

But first, with respect to the efforts to enhance domestic consumption, the Board approved what we call the National Dairy Products Promotion Program. Each farmer would contribute 5 cents per hundredweight to be used by a Board composed of dairy farmers to promote the sale of milk and dairy products.

Such programs are not new. They are used for other commodities as well as for milk. but, there is no national milk program. We hope the Department will support us as we seek legislation authorizing the program.

The second Federation program is new. It goes to the heart of the agricultural problem this nation is suffering. We call it the "Dairy Stabilization-World Price Program." Pat Healy--who presented a statement earlier--described the program in some detail, so I will not elaborate.

I would, however, state that American dairy farmers are the most efficient in the world with the possible exception of Australia and New Zealand; and these two countries produce less than 20 percent of the milk we produce.

But, even though we are efficient, we are, for all practical purposes, excluded from selling in the growing export markets. We are the only significant milk-producing nation which does not encourage exports through subsidy arrangements or pooling techniques. We are also perhaps the only nation where the government discourages dairy product exports and encourages imports.

We should look at this policy. It would be in the long-run interest of a more favorable balance of trade if our government began to encourage exports. It could signal such encouragement by supporting the Federation's plan. If it believes changes necessary, I'm sure the Federation and its members would be receptive.

Dairymen, Inc., is ready to assist in solving the surplus production situation. This meeting indicates U.S.D.A. is also. Perhaps U.S.D.A.'s most important function will be to reconcile different points-of-view in the Department, in the State Department, in O.M.B., and in the Congress.

Speech by Jim Neu
President of Neu Cheese Company
Hartington, Nebraska

Delivered at the Dairy Symposium
March 23, 1982
Kansas City, Missouri

My name is Jim Neu. I am President and General Manager of Neu Cheese Company, located at Hartington, Nebraska. About 300 independent dairymen supply milk to Neu Cheese Company. This milk is made into monterey jack, cheddar, colby and ricotta cheese. Neu Cheese is one of the largest manufacturers of monterey jack in the United States. We market our cheese under the Neu Cheese label in the Midwest and in southern California. We also supply a number of major grocery chains with cheese. In addition, we purchase nearly two million lbs. of Grade A milk from independent dairy farmers each month. We normally ship 60% of this Grade A milk to bottlers and process the balance into cheese.

Our plant competes with the super cooperatives of Mid-America Dairymen, Associated Milk Producers, Land O'Lakes, Inc. and the National Farm Organization. We also compete with one independent cooperative and three independent proprietary cheese plants for our milk supply.

In my opinion, the solution to the problem of the oversupply of milk and the resulting government purchase of cheese, butter and non-fat dry milk does not require congressional action or approval to implement. The solution that I am about to suggest will have the following effects:

1. It will lower the milk price by approximately 10¢ per gallon to the 150 million American consumers who are consuming the milk that has been processed by handlers under the Federal Order program.
2. It will save taxpayers billions of dollars in government purchased cheese, butter and non-fat dry milk.
3. It should ultimately provide all milk producers in the U. S. with higher milk prices by providing competition among milk buyers for milk producers' production.
4. It can be quickly implemented within a period of months so that the results will quickly be noted in the amount of cheese, butter and non-fat dry milk the government is obligated to buy.

I would also like to point out that what I am going to suggest does not lower the price Neu Cheese Company would pay for cheese milk one cent. My suggestion deals solely with how to lower our government purchases of cheese, butter and non-fat dry milk.

Congress spent 9 months deliberating a support price for milk. They finally arrived at a figure of \$12.80 per 100 lbs. for 3.5 percent butterfat milk as the correct support price for manufactured dairy products. This

is roughly equivalent to 70% of parity. Of all milk produced in the United States, only 15% is produced specifically for manufactured dairy products such as cheese, butter and non-fat dry milk. This support price returned manufacturing grade dairy farmers an average of less than \$12.56 per 100 lbs. in December, 1981.

Unlike any other commodity supported by a government program, another program is in effect that also sets the price of milk. This program is the Federal Milk Marketing system. Eighty-five percent of the milk produced in the United States in December, 1981 was produced as Grade A milk to be used for bottling milk. Its price is set by the Federal Milk Marketing Order system. The Federal Milk Marketing Order system price returned dairy farmers an average of \$13.68 per 100 lbs. in December, 1981. This is an increase of \$1.12 per 100 lbs. over the support price set by Congress. The Federal Milk Marketing Order system price is based not on the cost of producing milk but on the distance that a milk bottling plant is located from Eau Claire, Wisconsin. Currently, the base price at Eau Claire, Wisconsin is 90¢ per 100 lbs. over the average manufacturing milk price paid in the states of Wisconsin and Minnesota for any given month. In December, 1981, therefore, the Grade A milk bottling price at Eau Claire, Wisconsin was the \$12.56 average manufacturing milk price plus the 90¢ per 100 lbs. bonus or \$13.46 per 100 lbs. As a general rule, the further one moves away in any direction from Eau Claire, Wisconsin, the 90¢ bonus is increased. It is increased by 15¢ per 100 miles. This resulted in a Grade A bottling price of \$13.78 per 100 lbs. in Chicago, Illinois, a price of \$14.26/100 lbs. in Kansas City, Missouri, a price of \$14.84 in Dallas, Texas, and \$15.04/100 lbs. at Phoenix, Arizona, in December, 1981. None of these prices has any relationship to the cost of producing milk. Were you aware, as an example, that Phoenix, Arizona has become a significant dairying area as a direct result of the high bottled milk prices charged milk bottlers, and, therefore, milk consumers in that Order? In December, 1981, the milk producers under that Order produced 96 million lbs. of Grade A milk, yet only 56 million lbs. was used in the bottle. The balance of nearly 40 million lbs., more than 1 1/3 million lbs. per day, was used for other manufactured milk products including government purchased cheese, butter and non-fat dry milk. The price is set so high that investors, not family farmers, are continuing to increase dairy production facilities because they can haul feed from the midwest to the Arizona desert and still make money converting that feed, via milk cows, into more milk so that the government will have to buy more cheese, butter and non-fat dry milk. This same situation exists around almost every city in the U. S.

As the Federal Milk Order system was conceived, the bottling price was to be set high enough so that dairy farmers are encouraged to meet current needs and further to assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs of Grade A bottling milk. An adequate supply plus a reasonable reserve is considered by many to exist when 70% to 80% of the Grade A milk produced is used as bottled milk. Anything under that would be considered to be excess production. In December, 1981, only 48% of the Grade A milk produced in the U. S. was used as bottled milk. The balance, 52%, was used for

producing other manufactured dairy products including the 'humunqus' stores of government purchased cheese, butter and non-fat dry milk. Last year the Government purchased 15% of the cheddar cheese, 21% of the butter and 67% of the non-fat dry milk produced in the U. S. All of this was purchased from the excess Grade A milk produced or excess surplus Grade A product which displaced normal sales from the 15% of the milk produced specifically as manufacturing grade milk under the \$12.80 support program.

My solution to the problem of our government buying too much surplus dairy products is for the Secretary of Agriculture to either eliminate the Federal Milk Order program or to hold Federal Milk Order hearings and lower the price that milk bottlers are to pay for Grade A bottling milk. This would have the direct effect of lowering the price Grade A producers receive for their milk until the Grade A surpluses and, therefore, government purchases of cheese, butter and non-fat dry milk decrease.

Another provision of the Federal Milk Marketing system is the granting of special "benefits" to cooperative organizations. These benefits are such that any other form of Grade A milk supply organization cannot exist for any period of time and survive economically. This, in effect, gives the cooperatives in any Federal Market Order the monopoly power over the Grade A milk produced in that Order. Since the super cooperatives have been now formed through mergers and acquisitions, and antitrust provisions of the Capper-Volstead Act exist, allowing two or more cooperatives to 'bargain' for higher prices, these cooperatives together can demand even higher prices from the milk bottlers over the Federal Order price. These "premiums", as they are called, must also be passed on to the milk consumer in the form of higher milk prices. In December, 1981, they averaged 70¢ per 100 lbs. for all bottled milk purchased under the Federal Order system. This equates to 6¢ per gallon of milk charged consumers for that month alone, in spite of all the overproduction.

Under Section 2 of the Capper-Volstead Act, the Secretary of Agriculture has the power to rescind the anti-trust exemption of the super cooperatives. He can do so by calling an investigative hearing to take away the cooperatives' antitrust monopoly provisions to provide competition in the marketplace. If this were done, I'm certain the 6¢ per gallon average premium wouldn't exist.

I would like to comment briefly on two other proposals for reducing the supply of milk that have been publicized of late. First, the lowering or elimination of price supports would create total chaos throughout the U. S. dairy industry. The 15% of the milk specifically produced for manufactured dairy products would be virtually eliminated from the marketplace. By the elimination or lowering of supports, it is suggested that the price of manufacturing grade milk would drop to approximately \$10.00 per 100 lbs.

At a \$10.00 support price, parity would be lowered much below the 70% of parity which Congress set last December. Little manufacturing grade milk could be produced for that price. Without a representative price for manufacturing grade milk in Wisconsin and Minnesota, how then

would the Federal Order price be established? It is doubtful if enough manufacturing grade milk would be produced to establish a price. With an add-on of \$1.12 over the estimated \$10.00/100 lbs. manufacturing grade price, the Grade A bottling milk price in Minneapolis would be \$11.12/100 lbs. With only 16% of the Grade A milk produced in the Order, in December, 1981, used as bottling milk, Grade A producers would receive only \$10.17 per 100 lbs. as a blend price for their milk. With this price, it is very possible Minnesota, Wisconsin and other upper midwest states would become importers of milk from the higher priced milk areas to the south. With the \$2.32 add-on over the manufacturing grade price of \$10.00/100 lbs., milk would probably still be produced in the Dallas, Texas Order. The same would apply to most southern, eastern and far western states which are furthest from Eau Claire, Wisconsin. The natural cost-efficient states of the midwest virtually would be eliminated as milk producing areas. With this loss, the storehouse of milk for other areas of the country in times of drought and lower production, would be gone. The economic disruption to the natural cost-efficient milk producer as well as to the economies of those areas now dependent on dairying. I cannot visualize a Secretary of Agriculture lowering or eliminating price supports on milk when there is a more viable alternative -- lowering Grade A bottling prices.

The second suggestion we hear much about recently, if the formation of a Dairy Board by the National Milk Producers' Federation to pay for excess production and to charge that cost to all milk producers everywhere. This estimated \$1.00 to \$2.00/100 lb. charge against present prices would also have the same effect on present low priced milk states such as in the upper midwest as lowering support prices. In addition, it could essentially create an OPEC of milk. The super cooperatives make up the major members of the National Milk Producers' Federation. These super cooperatives are the same organizations that demanded ever increasing prices for bottling milk from former Secretaries of Agriculture, just as OPEC did from its customers. The super cooperatives now have the prices so high that the overproduction of Grade A milk is creating the surpluses of government purchased cheese, butter and non-fat dry milk. These same cooperatives, through the National Milk Producers' Federation, now beseech the Secretary of Agriculture to let them dispose of a part of that surplus and yet tax all milk producers everywhere for their overproduction. How OPEC wishes they had an Uncle Sam to sop up their overproduction, maintain their high oil prices and yet let them continue to overproduce oil. I fail to see how the super cooperatives in the name of the Dairy Board will be able to sell enough products overseas at any price to take our government out of this mess.

It is hard to think of any group less qualified to market surplus dairy products than the dairy cooperatives. Everyone knows that their main objective is to produce as much milk as possible and then expect American taxpayers to subsidize this production. The logical course is to pursue those sales overseas through commercial channels with those companies who specialize in selling dairy products on the international market.

Secretary Block, I hope you will choose to lower the price of Grade A milk by lowering the Grade A bottling price, rather than create the political chaos that the elimination or lowering of price supports would create. I also hope you let private enterprise prevail rather than create another federal bureaucracy with more federal regulation in the form of a super cooperative Dairy Board.

In summary:

The solution to the problem of oversupply in the nation's milk industry is to:

First, reduce the incentive for inefficient production by eliminating or lowering the prices established under Federal Milk Market Orders. The Secretary can accomplish this, without resort to Congress, through his department's own administrative procedures.

Second, the Secretary should also rescind the special anti-trust exemptions to cooperatives, granted in the Capper-Volstead Act. This would restore a measure of competition to milk marketing and eliminate part of a 6¢ a gallon average "premium" the cooperatives are currently extracting from bottlers.

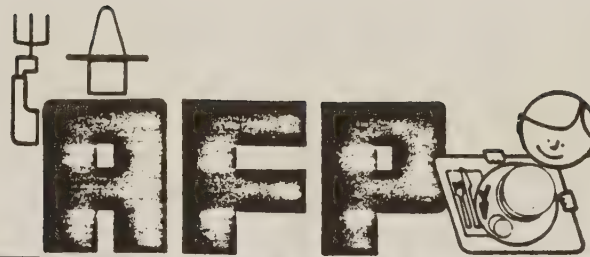
Lowering the Federal support price established by Congress will not solve the problem. It will create chaos in the industry.. The 15% of milk that is now specifically produced for manufactured products would be eliminated, thereby disrupting the price structure upon which Federal Orders are based.

Creating of a Dairy Board dominated by the super cooperatives would amount to creating an OPEC of milk. These are the same cooperatives who have demanded ever-increasing prices for bottling milk through Federal Marketing Orders, thereby creating the surplus. I can think of no one less qualified to bring this problem under control than they.

Thank you for your attention.

SUMMARY OF ADDRESS BY ERWIN BRUDER, BRUDER DAIRY PRODUCTS

1. Addressing effects of C.C.C. inventories and 3 possible answers.
2. Even after supply and demand are brought into line, Government inventory will still distort the market.
3. Source of figures is "Cold Storage Holdings" from D.M.N., Vol. No. 49, issue No. 8, February 26, 1982.
4. C.C.C. inventory of Natural American Cheese has increased from 1.6% in 1980, to 16% in 1981 and is 40% in 1982.
5. If the inventory enters the commercial market improperly, there will be few commercial survivors, and only one or two companies will then control the market.
6. When supply and demand were in balance, increases in prices offset increased production costs. This is not happening today, so production increases are used to increase farm income.
7. This increased production is not clearing through the commercial market, but is going into C.C.C. inventories. These inventories have the effect of placing a cap on prices.
8. Review of reduction techniques.
9. The 30 million pound give-away is self-defeating, because as commercial disappearance of process cheese declines, the sales to C.C.C. of barrel will increase.
10. The 110% sell back program, which should help to stabilize product availability and prices, is not working because C.C.C. is selling into a glutted market. The present formula encourages commercial sector sales to C.C.C., because of the bargain storage and finance charges, when buying back long hold cheese. This program also does not reduce C.C.C. inventories, but merely recycles aged product for new.
Should change plan to one that would sell back current cheese at the old 105% level, and also add on storage and interest on a monthly basis. Results would be less movement to C.C.C., and the private sector would determine its own inventory needs.
11. Foreign Disposition should be the prime area for inventory reduction. Trade (even at bargain prices) or aid should be used, and the dollars received are unimportant. We can help ourselves by reducing inventory and help feed the world's starving.
12. Excess inventory is a destabilizing effect on the free market. The inventory can be reduced by Foreign Disposition. Our first goal is to stabilize the market and reduce excess inventories.



AFFILIATED FOOD PROCESSORS INC.

CHIP GOODMAN
PRESIDENT *

DARREL E. GRAY
VICE PRESIDENT **

PRESS RELEASE

March 23, 1982

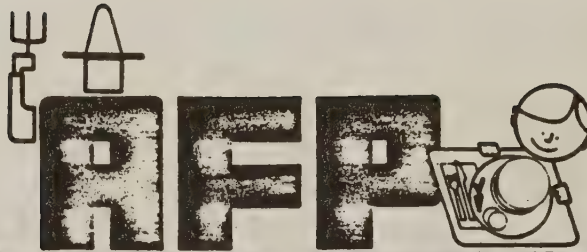
Contact: Chip Goodman
(800) 423-2113

USDA COULD TRIPLE CHEESE CONSUMPTION
IN SCHOOLS WITH NEW DISTRIBUTION PLAN

Chip Goodman, President of A.F.P., presented to the USDA symposium on dairy surpluses a new commodity distribution system that he claimed "could triple the amount of surplus cheese used by federal nutrition programs. The key is more pizza, burritos, ravioli, and other further processed dairy products for school children...and USDA could be doing more to encourage the private sector to develop and market these products to schools through a National Inventory System."

"The current USDA commodity distribution system is so complex that many of the nation's major food processors are not participating in the program. A streamlined National Inventory System would encourage processors to manufacture food products using the surplus donated cheese. At the same time the nation's 50 million school children would benefit through less expensive school lunches."

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AFFILIATED FOOD PROCESSORS INC.

CHIP GOODMAN
PRESIDENT *

DARREL E. GRAY
VICE PRESIDENT **

A NATIONAL INVENTORY SYSTEM FOR USDA COMMODITIES

1. THE CHILD NUTRITION "MARKET"

The Child Nutrition Programs, authorized by the National School Lunch Act and the Child Nutrition Act of 1966, have the objective of safeguarding the health and well-being of the Nation's children "and to encourage the domestic consumption of nutritious agricultural commodities."

The oldest and largest of the child nutrition programs is the National School Lunch Program. On an average school day in Fiscal Year 1981, 26.2 million children participated in the School Lunch Program.

Even with the federal budget cuts enacted last year (no additional budget cuts are proposed by the President for FY 1983) USDA estimates that 3.7 billion school lunches will be

served next year. This does not count the a la carte purchases made by students not participating in the "National" program. In addition, some 700 million breakfasts are served each year through the School Breakfast Program.

Under current law, USDA provides cash reimbursements to schools for each meal served plus a significant amount of donated foods. In FY 1982 cash support will be approximately \$2 billion plus approximately \$700 million worth of donated foods. Coupled with state and local assistance and payments made by the students themselves, the Child Nutrition Programs represent a \$10 billion market for producers and processors of meat, grains, fruits and vegetables.

2. THE USDA DONATED FOOD PROGRAM

The \$700 million USDA donated food program -- intended as an agricultural program to help stabilize farm income -- acquires basic commodities through various appropriations.

After USDA acquires the surplus foods it ships them to state distributing agencies. Each state distributing agency then allocates and delivers these foods to eligible outlets (primarily schools). The largest single domestic outlet for USDA commodities is the National School Lunch Program.

Under current law there are two different categories of commodities:

A. Entitlement Commodities

Entitlement commodities are distributed based on a "cents per meal" rate established by Congress. They are allocated to states and local school districts based on average daily participation in the National School Lunch Program. The entitlement level for FY 82 is 11¢ per student per meal. Examples of currently-available entitlement commodities include frozen ground beef, frozen ground pork, flour, cut-up chicken and turkeys.

B. Bonus Commodities

Over and above the entitlement commodities, the Secretary of Agriculture may designate a commodity as a

"bonus commodity." This means that schools have unlimited access to them on an "as can use" basis without charge. Widespread use of bonus commodities can significantly reduce net food costs to schools. Bonus Commodity status could also provide the incentive to move large quantities quickly and to increase consumption in the school food service market if fully utilized by USDA. Examples of currently available bonus commodities include processed cheese, cheddar cheese, nonfat dry milk and butter.

3. GROWTH OF THE COMMODITY PROCESSING CONCEPT

While the USDA donated food program, including the Bonus Program, has the strong support of the agricultural community (see attached letter to President Reagan), there have been problems in adapting it to the changing needs of schools.

Many school food service directors have difficulty getting maximum utility from USDA donated commodities. As their operations become more centralized, on-site preparation of

products has diminished. For example, fewer and fewer schools can use nonfat dry milk. Most rely on the convenience and efficiency of food processing companies to deliver cost-effective products which meet the schools' needs.

In cooperation with private industry, USDA has developed a program to deal effectively with the changing school market. Under the "Commodity Processing Program" companies can contract with school districts and state commodity distribution agencies to further process USDA donated commodities into a form which best suits the schools' needs (i.e. chesse into pizza or burritos). The processor contractually agrees to pass along to the school district the savings derived by using the free donated USDA food ingredients.

4. WHAT'S WRONG WITH THE CURRENT SYSTEM?

Under current regulations a processor wishing to participate in the commodity processing program must have a myriad of contractual agreements with either the school district, the appropriate state distributing agency, or both. Each agreement must then be reviewed by the USDA regional office.

This process usually takes several months. Depending on how receptive the state agencies are, the process can take even longer. Some states operate effective commodity processing programs. Other states, however, severely limit access to commodity processing agreements. Some states do not permit any commodity processing at all.

Once a contract is in place, the processor must order and maintain separate inventories for each state agency for which he holds an agreement. All orders must be placed through the state distributing agency who, in turn, relays the orders back to the USDA regional office. Shipment of products often takes 90 days, 120 days or more.

The net result has been widespread frustration on the part of many food processing companies who have tried to work with the program. Many companies have tried to get involved in the commodity processing program and have given up. Others have simply stayed away. This phenomenon is especially true for the larger companies doing business regionally or nationally. The irony is that the participation of these companies would make the system work better for agriculture, the private sector and, most importantly, the schools.

5. A NATIONAL INVENTORY SYSTEM FOR USDA COMMODITIES

One of the ideas currently being discussed within USDA to facilitate and increase the movement of bonus commodities is a National Inventory System (see attached USDA memo, pg. 2). A National Inventory System would allow food manufacturers doing business in the child nutrition market to contract directly with USDA to process commodities into foods for eligible outlets. As part of the contract, a processor could order a donated food inventory directly from USDA stocks. These stocks would, of course, ultimately have to be used in foods produced for eligible outlets, i.e., schools, hospitals, child care centers, etc.

Such an approach would produce the immediate benefit of reduced storage costs to the Federal Government and give USDA the ability to move stocks faster. The benefit to the private sector is the vast reduction in the number of government entities they must deal with in order to enter the child nutrition commodity processing market. The National Inventory approach would permit commercial food processors to contract with one entity (USDA), order from one entity and report to one entity.

Under this contractual arrangement, USDA would not purchase any products from the food processors, but would provide them inventories in return for their agreement to produce and sell end products to eligible outlets. The sales price to the customer would have to be reduced, representing the value of the items supplied to the food processors by USDA. The processor could replenish his inventory by providing USDA with proof of delivery of the products to eligible recipients.

6. SUMMARY

USDA could move significant additional quantities of surplus dairy stocks if it moved to a National Inventory System. Under such a system the private sector would have much greater incentive to develop and market food products to schools that use USDA bonus commodities. The schools would also benefit since the more lunches they serve using bonus commodities the more they can keep down the cost of a lunch.

In short, streamlined private sector access to the commodity processing market through a National Inventory System would result in a chain reaction: (1) Many more commercial food companies would become involved in the commodity processing

market; (2) USDA would have the ability to move commodities to eligible outlets more swiftly and in greater quantities than ever before; (3) the schools would benefit by increased availability of products containing donated commodities at a reduced price; (4) consumption of surplus commodities would increase substantially; and (5) the USDA commodity program would be a more efficient program.

national grange

1616 H STREET, N.W.

WASHINGTON, D. C. 20006

(202) 628-3507



Edward Andersen, Master

February 17, 1982

The President
The White House
Washington, D.C. 20500

Dear President Reagan:

The undersigned farm and commodity organizations represent the broad and diverse United States agricultural sector. As agricultural producers, we share a common perspective on the commodity distribution and child nutrition programs, and are disturbed by recent attacks on these successful programs.

The sound rationale for commodity purchases and distribution cannot be stated often enough. The commodity distribution program is an effective mechanism for administering and promoting a stable U.S. agricultural economy. The purchases of a single commodity by the U.S. Department of Agriculture may account for only a small proportion of the total size of that particular crop, but these purchases often are able to absorb excessive supplies and strengthen market prices.

At this time of slumping farm prices and declining net farm income, the program's benefit to agriculture is especially significant.

The commodity program is an integral component of our national food and agricultural policy. Commodity purchases help farmers in hard times, and distributing commodities through the school feeding programs and other federal nutrition programs contributes to the nutritional health of our nation's school children and hungry poor. Commodity distribution should be expanded, not cut back.

The commodity program has been an extremely important part of the school lunch program for over 40 years. Commodities assistance to school children has significantly helped to eliminate the nutritional deficiencies so widespread in our nation at the time of World War II. Without commodities, many schools could not continue to operate their lunch and breakfast programs. In particular, the bonus commodity program offers schools an incentive to continue serving a nutritious noon meal in the face of current stringent budgetary pressures.

The value and popularity of commodities assistance must not be overlooked. Congress now provides 11 cents per meal in commodities assistance and 10.5 cents per meal in cash assistance. Donated bonus commodities, acquired through USDA price support programs, now contribute an additional 6 to 8 cents per meal.

School feeding programs are a significant market for agricultural commodities, and are an opportunity to encourage sound nutritional practices. The commodity distribution program is a successful federal program. Every dollar spent does the work of two in helping to stabilize the farm economy and in providing nutritious foodstuffs to American school children. As representatives of agricultural producers, we oppose the elimination of the commodity distribution program or its modification to a letter of credit system.

Sincerely,



Edward Andersen, Master
NATIONAL GRANGE

Fred W. Burrows, Executive Vice President
INTERNATIONAL APPLE INSTITUTE

Carl Schwensen, Executive Vice President
NATIONAL ASSOCIATION OF WHEAT GROWERS

Bill Webster, Chairman, Beef Promotion &
Consumer Relations Committee
NATIONAL CATTLEMEN'S ASSOCIATION

Gary Kelley, President
NATIONAL DRY BEAN COUNCIL

Charles L. Frazier, Director, Washington Staff
NATIONAL FARMERS ORGANIZATION

Robert Mullins, Director, Legislative Services
NATIONAL FARMERS UNION

Patrick B. Healy, Secretary
NATIONAL MILK PRODUCERS FEDERATION

Emmett Reynolds, Chairman
NATIONAL PEANUT GROWERS GROUP

C.D. Van Houweling, Director of Govt. Affairs
NATIONAL PORK PRODUCERS COUNCIL

Lew Walts, Executive Vice President
NATIONAL TURKEY FEDERATION

Lee Campbell, President
POULTRY & EGG INSTITUTE OF AMERICA

Albert E. Pope, President
UNITED EGG PRODUCERS

Bernard J. Imming, President
UNITED FRESH FRUIT & VEGETABLE ASSOCIATION

CC: Secretary John R. Block
Assistant Secretary
Mary Jarratt
All Members of Congress

December 21, 1981

SUBJECT: Proposal for the Immediate Removal of Excess
Commodity Credit Corporation Dairy Stocks

TO: Mary Jarratt
Assistant Secretary for Food
and Consumer Services

Attached for your information is a copy of a proposal to aid USDA in the removal of the surplus dairy products. These ideas were developed by our Food Distribution Division with some input from regional office staff. Feel free to propose suggestions to the appropriate authorities at the Departmental level, if you think these ideas are worth pursuing. We are proceeding to implement those procedures that we have authority to go ahead with. We will await word from you on the proposals that require higher clearance.

ANDREW P. HORNSEY, JR.

for DAVID ALSPACH
Acting Administrator

Attachment *AMK*

FNS:CA:ANDREWPHORNSBY,JR:jao:12/21/81

Proposal For the Immediate Removal of Excess Commodity Credit Corporation Dairy Stocks

The Commodity Credit Corporation currently has in storage about 100 million lbs of block cheddar cheese, 230 million lbs of barrel cheddar cheese and 220 million lbs of process cheese. Based on current FNS levels of donations to eligible outlets, this amount of cheese represents in excess of a two years' supply. Some of the product on hand is beginning to deteriorate and immediate measures must be taken to increase the distribution and consumption of these commodity food items.

In removing these foods, our plans are designed to meet the following criteria:

- Distribution of these items must, to the maximum extent possible, not interfere with the normal purchase of these items by eligible recipients -- not displace normal commercial purchases.
- Method of distribution or reprocessing of these items should be an accountable system without being overly restrictive.
- Method must in the long run reduce Federal costs. It may initially involve increased costs to implement, but will result in significant savings.
- Method must be capable of removing significant quantities of these excess foods in a short time frame.
- The foods must be removed from storage and made available to the recipient in a cost effective way. Administration of the project must be kept as simple and inexpensive as possible.

Effectively immediately we will implement the following:

1. Have Regional Offices contact the State distributing agencies to encourage them to maximize their utilization of these products. It is essential that we be able to offer the cheese in several different forms, e.g. sliced, cubed, shredded and canned sauce. Distributing agencies can then place orders for the additional quantities requested.
2. Permit charitable institutions to request these food items for their entire caseload instead of only their needy population in quantities they can use without waste. Again the State distributing agencies can obtain additional requests and place orders for requested amounts.
3. Allow outlets formerly ineligible to receive these items the opportunity to request them as a bonus item on a short term basis. Some groups would include: 1/
 - a. Title III projects receiving cash
 - b. Day Care centers receiving cash

c. All correctional institutions regardless of their rehabilitative activities; this category could include juvenile detention centers, county and state prison centers, halfway houses, work and pre-work release programs, etc.

d. Permit the Meals on Wheels Programs throughout the country to receive the cheese and utilize it in the preparation of the home delivered meals.

1/ To permit these various outlets the opportunity to receive and distribute the cheese, a simple agreement can be executed that will include the number of clients or eligibles serviced, the amount of cheese requested, and a provision that the foods will be distributed equitably to those serviced and that records will be maintained to substantiate the receipt and distribution of the food. This simple agreement will be on file at the appropriate distributing agency's office.

The following proposals will require the concurrence of the Secretary's office and ASCS:

1. We propose that the current inventories of process cheese be converted into forms more desirable than are currently provided. For product with some mold damage, the mold could be trimmed and the blocks shredded or cubed for more convenient use in salad bars, cooking, snack items, etc. Another form that would be more acceptable to recipient agencies would be ribbon sliced which could be used for cheeseburgers, toasted cheese sandwiches, etc.
2. The Department can enter into a National purchase agreement with industry to produce a processed end product that utilizes a large amount of the cheese, extends the shelf life of the commodity and can be made available for National distribution to all eligible recipient agencies. An example of such a product would be cheese sauce packed in 6/#10 cans per case. Such an item has multiple uses, a greatly extended shelf life, and has enjoyed popularly in the commercial food service industry.
3. FNS can contact processors currently using process cheese in the manufacture of their commercial product. We could establish a National Processing Agreement similar to those entered into by State Agencies and establish a National inventory level. We would provide the companies with a list of eligible outlets across the nation and work with them to establish a discount or refund system that would return the value of the donated foods contained in the end products to all eligible agencies. Since the donated food is substitutable, it could be utilized immediately by the company and we would simply monitor reports of documented sales to eligible recipient agencies.

RECOMMENDATIONS:

The following options are within FNS's authority and capability to implement immediately and will move the greatest amount of the excess cheese in the least amount of time at the lowest cost to the Department.

GOAL: 150 million lbs distributed by March 1, 1982.

This amounts to 4,285 - 35,000 lbs truckloads of cheese that must be moved within 2 months.

- We have calculated some potential increases in usage rates for existing programs and have arrived at the following figures for process cheese: (These figures could represent cheese in the current block form, sliced, cubed or shredded if authorized).

| | | | | |
|------------|------------|-------|--------------------|-------------|
| NSLP | 26,000,000 | ADP | 1 lb ea. for 3 mo. | 78,000,000# |
| NSBP | 3,500,000 | ADP | Minimal | 500,000# |
| Child Care | 750,000 | ADP | ½ lb ea. for 3 mo. | 1,125,000# |
| Inst. | 1,300,000 | Needy | 3 lb/mo. for 3 mo. | 11,700,000# |
| CSFP | 110,000 | Part. | 3 lb/mo. (up 1 lb) | 990,000# |
| Elderly | 3,000,000 | Part. | 1 lb ea for 3 mo. | 9,000,000# |

| | |
|-----------------|--------------|
| Total Potential | 101,315,000# |
|-----------------|--------------|

While these figures may be beyond the agencies' ability to use in addition to existing supplies, it could be received by the State agencies for dissemination in the future. This option would prove to be an effective means of removing large volume of excess cheese while maintaining accountability and integrity of the donated food. In order to accomplish this, we must reduce the State's liability vis-a-vis the responsibility for products going out of condition as well as relax constraints on acceptable inventory levels. This would apply solely to this emergency situation.

- The second option that could potentially move large amounts of the commodities would be to open the program to the State Divisions of Correction or any correctional institutions which are servicing the needs of large numbers of people. Simple agreements should be executed with persons of responsibility for these various institutions. Contact people could be designated who would be responsible for the maintenance of minimum receipt and distribution records.
- The third option would be for FNS to identify companies manufacturing products utilizing process cheese and enter into simple processing agreements to furnish their product nationally to all eligible recipient agencies. FNS would furnish the companies with a supply of process cheese and would monitor the reports of sales to eligible agencies. We could move product quickly and the companies could use it immediately and maintain book perpetual inventory records of usage until full credit is returned to the agencies.

The following options will require authorization for implementation at the Department level but would not require additional legislative authority. Should the Secretary's Office concur, these options could be implemented immediately.

- The fourth option for the removal of large amounts of process cheese would be a direct purchase of cheese sauce manufactured from process cheese. This would require ASCS to be authorized to pay a processing fee for converting CCC stocks similar to that done with butter. We could establish a given distribution rate based on participation for all outlets eligible to receive the donated foods. This would remove a large volume of the commodity for the initial processing of the product and would result in a product available and suitable for use while extending its shelf life. It would have an additional attribute of increasing the acceptability of vegetables that otherwise have low appeal. This could help out in emergency situations of the future also. In so doing we should be aware of any experiences Natick Laboratories of the Department of Army, Natick, Mass., has had in developing specifications and storage and handling requirements as well as usage of the product.
- The fifth option would be to provide process cheese to eligible recipient agencies in alternate forms that are easier to handle. The product could be provided in a ribbon sliced, cubed or shredded form. (Also product with some mold damage could be salvaged and made totally acceptable for use by recipient agencies). This would require the same authorization as indicated for cheese sauce.

Cheese that is deemed sufficiently out of condition for human consumption should be segregated by the AMS Dairy Acceptance Service for use as either animal or pet food and be diverted from all outlets for human consumption.

Remarks by Clint Warby, Administrator of the Utah Dairy Commission given before the USDA Dairy Symposium March 22-23, at the Marriott Hotel in Kansas City, Mo.

Mr. Chairman, my name is Clint Warby, Administrator of the Utah Dairy Commission. The Utah Dairy Commission is a quasi-state agency established by the Utah Legislature in 1971 to "promote, protect, and stabilize the state's dairy industry." The Commission receives its funding from the Dairy Promotion Assessment, a check-off type program which is currently at 1% of the gross dollar amount of commercial sale of milk and cream in the state. State law does provide an ask-out provision. The funds are used for the promotion and advertising of dairy products, dairy research, and nutrition education. We also belong to the United Dairy Industry Association which carries out these responsibilities on a national level.

Our purpose in giving this testimony is to cite the importance of advertising and promotion of dairy products, along with research and nutrition education. In reviewing what options are available to the dairy industry to help improve the current situation of over supply; certainly increased advertising and promotion is a viable choice. There has been increased talk about such a program to the point that National Milk Producers Federation has endorsed a National Check-off of five cents per hundred weight from all dairy farmers in the country to help promote hard products such as cheese, butter and powdered milk. The literature promoting such a program indicates that this national program is not intended to supplant existing state, regional, or national promotion programs. Since this national program was developed, there has been much discussion in our Commission meetings as to how this national program might help or hinder our already existing program. It is to those concerns which we would like to voice and give input into your symposium today.

A review of our records in Utah and the West is important. According to figures obtained from the Great Basin Federal Milk Marketing Order which covers most of Utah and portions of Southeastern Idaho, per capita milk consumption has increased 14% from 1970 to 1980. This is the primary coverage area of milk promotion which started in 1971 and has been very effective since then. For many years during this period we "localized" our generic advertising particularly with the usage of a native Utahn, Merlin Olsen, formerly of the Los Angeles Rams and now star of the new series "Father Murphy" as the spokesperson for milk. Because most of our cheese is sold in California, we invested thousands of dollars in generic cheese promotion along with the state of Idaho and California into the California market. Today, the California Milk Advisory Board claims that per capita cheese consumption in California stands at 29 pounds per capita. Compare this with 18 pounds per capita nationwide and compare Utah's 1980 per capita consumption figure of 141 quarts per capita with the USDA's figure of 109 quarts per capita nationwide.

Our point is that we in Utah and the West are doing what we believe is an excellent job in milk and cheese promotion. One of the primary reasons is that with the exception of Nevada and Montana who do not have any generic milk promotion, all western states have milk promotion assessments at 1%. Oregon stands at 1.1%. Compare

this with the rest of the country where dairy farmers are more reluctant to invest their dollars into such promotion activity. A recent report out of Wisconsin states there was consideration of going from one third of one percent all the way up to one half or one percent. A recent GAO report indicated that only 25% of Wisconsin dairy farmers were even participating in the voluntary program.

The effect of a national check-off program as currently developed would in effect cripple our program in Utah. Because we have an ask-out clause in our state law, a mandatory five cents per hundred weight would force farmers to be more inclined to ask-out for a refund, since the national program is already taking what they would then consider "their fair share" because that's all that most farmers in the rest of the country would be paying.

Therefore, at the last Commission meeting held on February 26, 1982 the Utah Dairy Commission passed the following resolution.

That the Utah Dairy Commission supports the National Check-off if...

1. There is a provision that would exempt dairy farmers from the national check-off if they are already investing five cents per hundred weight into already established promotion programs such as ours in Utah. Utah dairy farmers are already investing almost seven cents per hundred weight into hard product promotion. An example is almost one million dollars invested in a Spring cheese promotion in California with the United Dairymen of Idaho. We aren't talking about doing something. We are already doing something.
2. Or, there is a provision that would allow already existing organizations to collect the five cents per hundred weight as mandated by Federal law and referendum and then collectively use such funds in national promotions for hard products.
3. That such a program be mandatory that would include all milk producers from all parts of the country. That each farmer would pay five cents per hundred weight for hard products.
4. That not only a referendum be held to approve the program, but that periodic referendum be held to continue such a program with a simple majority for approval.

Because of the diversification of the various promotion programs and because of expected opposition that may come from many parts and organizations of the country, it is important that such a national promotion be acceptable to a majority that will assure passage in both Congress and among dairy farmers. We believe that the suggestions we have given will help in that direction. We believe in promotion. We know that it works. We need to do something to help solve our problem of over supply. Why not increase consumption in a fair and equitable manner for all dairy farmers?

In looking at a long range solution, it would be of benefit to examine the possibility of having the National Check-off be expanded to include all dairy products with a national level of funding to be paid by all farmers. We would suggest 1%.

REDUCING DAIRY STOCKS THROUGH FOOD AID PROGRAMS
AN OPPORTUNITY FOR POLITICAL ACTION

Statement by:

Daniel E. Shaughnessy

President

Western Great Lakes Maritime Association, Inc.

Dairy Economics Symposium

Kansas City, Missouri

March 23, 1982

My name is Daniel Shaughnessy and I am President of the Western Great Lakes Maritime Association. Our membership, which includes port, terminal and shipping interests, has a particular concern about the movement of U.S. government dairy cargoes from the Western Great Lakes area.

At this time, we are very concerned about the possible loss of an immediate opportunity to export sizable quantities of milk from the Western Great Lakes area through P.L. 480, at no additional cost to our dairy farmers or the U.S. government. Further, we are equally distressed by reports that the legislative authority which provides this opportunity will be used, not to export additional dairy products, as was the intent, but instead, to purchase another commodity, whose supporters seem to have a greater voice in these matters than do dairy interests.

A few brief words of background are in order.

Late last year, Senator Kasten and Congressman Gunderson of Wisconsin sponsored an amendment to Public Law 480 (Sec. 403b), as part of the farm bill, which was intended to give the Secretary of Agriculture discretion in setting the price on dairy products that are taken from CCC inventories and used in P.L. 480 programs. Prior to the Kasten/Gunderson Amendment, the P.L. 480 budget had to be charged what was called an "export market price" for any product taken out of inventory and used in that program. In the case of milk, this "export market price" amounted to nearly 20¢ a pound. Under the terms of the Amendment, the Secretary was given

authority to set the cost at any level below the export market price that he deemed reasonable. Current thinking in the Department is that a 5¢ per pound level for transfer from one account to the other, would be a reasonable price. The implications of this change are very important from the standpoint of reducing inventory levels, storage fees, and the use of dairy products in international programs. Simply stated, this would be an opportunity to move substantially increased supplies of milk within this year's P.L. 480 program without increasing budget levels.

The problem at hand is that despite growing inventory levels of milk and other dairy products, this revised budget authority has not been used. Currently all shipments of milk under P.L. 480 are provided through Title II and are used for various nutritional programs throughout the world. Since sudden changes in commodities in Title II are often disruptive and harmful to overall program objectives, it is necessary to carefully examine Title II for programs and projects that lend themselves to increases in the supply of milk. Even within these constraints, a very real opportunity exists for substantially increasing the supply of U.S. Title II milk to the United Nation's World Food Program at no additional cost to the U.S. taxpayer! Under this program, the United States makes a dollar pledge to WFP every two years, for a variety of Title II commodities and freight expenses. Within the budget, the WFP uses approximately 40 million pounds of U.S. milk each year and "charges" the U.S. pledge 19¢ for every pound. If WFP were told that they would only have to value U.S. milk at 5¢ per pound, this could result in a major increase in the quantity of milk shipped to WFP in U.S. Fiscal Year 1982.

As a result, and with the provisions of the Kasten/Gundersom Amendment now in place, it would be possible to considerably increase the amount of milk provided to the program without increasing budget levels.

Currently, the World Food Program has many projects throughout the world utilizing milk, with some of the largest in the Indian subcontinent. But many of these projects do not receive U.S. milk, and the United States has allowed other donors, particularly the European Community, to dispose of their dairy surpluses through WFP, despite the fact that the United States is the leading donor to the Program and has been since its inception 18 years ago.

Therefore, we have at hand a chance to double, triple or even quadruple, the 40 million pounds of milk the United States ships to the World Food Program each year. But as I noted earlier in this statement, that opportunity might be lost or deliberately set aside.

There are two problems:

First, the Department of Agriculture has not yet made use of the Kasten/Gunderson amendment. Moreover, it appears that the amendment may now be used to achieve "savings" in the P.L. 480 program by reducing the budgeted cost of milk and using those "savings" to purchase other commodities. Specifically, there is concern that between \$15 - \$20 million may be reallocated within the program from the reduced cost of milk to purchase increased supplies of rice! If this is the case, then it hardly seems consistent with the theme and import of this

gathering to use legislative authority, intended to assist in the solution of our dairy problem, for the temporary relief of another commodity sector.

Second, if the Kasten/Gunderson Amendment is used for increased shipments of milk to the World Food Program, then WFP will, in all likelihood, have to understand that the interests of its largest donor, in this situation, may have to take precedence over those of other donors, who for years, have used the Program as an adjunct to their own national dairy policies. There is a need for large quantities of milk in the World Food Program; it is simply a question of whose milk and how much is used.

These two problems are soluable and their immediate resolution carries with it a number of advantages:

- No additional outlay of budget resources is necessary;
- Rapid movement of stocks is possible. Major supplies of CCC milk are already in the upper midwest. Milwaukee, Green Bay and Duluth alone have large quantities in port storage. These, combined with other stocks in the Great Lakes area constitute an immediate supply, ready for movement. With over 800 million pounds of milk in CCC inventories and being held at considerable cost to the U.S. taxpayer each day, movement of stocks through the Great Lakes to programs in Asia, Latin America and Africa would be prompt and beneficial.
- U.S.-owned Indian rupees can be used to pay for shipments to India, thus further decreasing dollar freight expenses. Indian vessels regularly serve the Great Lakes and take payment in rupees.

-- U.S. commodities already programmed for WFP and the Title II program generally, would not be displaced. Unlike the possible effort to use the Kasten/Gunderson Amendment to pay for rice at the expense of other commodities and additional milk shipments, providing more milk to WFP will not jeopardize other commodity sectors.

The suggestion I have presented today is one of several possibilities for additional shipments of dairy products through government programs. For example, other Title II programs, if assured of no program disruptions or commodity displacements, may be able to use more milk; Title I concessional sales, with the possible application of the Kasten/Gunderson Amendment, could occur, as well as further direct sales of CCC stocks. However, the real solutions to our dairy concerns go far beyond government sales or donation programs, and we all know that. The policy and political considerations that have been expressed at this symposium have demonstrated that fact. What I have suggested is an interim, but we believe, helpful suggestion -- shipping increased quantities of milk through the World Food Program is an immediate and attainable action; what is essential is simply the decision to do so.

USDA PRICE AND DAIRY SUPPORT SYMPOSIUM
MARCH 22-23, 1952 - KANSAS CITY, MISSOURI
LEAGUE OF CALIFORNIA MILK PRODUCERS TESTIMONY

Mr. Hearing Officer:

My name is Jay Goold. I am the Executive Vice President of the League of California Milk Producers in Sacramento, California. The League is a trade association representing the following organizations: Associated Dairymen, Cal-Dari, Inc., California Cooperative Creamery, California Producer/Handler Association, Consolidated Milk Producers of California, Dairy Employers Association of California, Glenn Milk Producers Association, Humboldt Fluid Milk Producers, Milk Producers Council, and Producers Market Milk Association; which represent approximately 15,000,000 pounds of milk production daily.

We do not wish to be repetitious here today of many of the statements already made. However, it is important that we express ourselves on several issues as pointedly and briefly as possible.

We believe the issue here today has great significance to the entire economy of this country and that the Administration bears a great responsibility in its analysis and final determination of what must be done. We trust you fully recognize the responsibility to the economic well being of a major portion of the agricultural industry. If a sizable change is made in the income of the dairy industry in order to save the government money it would have significant impact upon not only the dairymen, but all of those service people that provide support for the dairy industry. A resulting drop in milk production would also cause a significant decrease in the consumption of grain which could very easily rebound throughout the grain industry and have additional detrimental effects on an already weak and financially overburdened industry. Therefore, we trust

that all of the suggestions made here today will be very carefully analyzed as to their correlated impact upon the various parts of agriculture.

We also believe that whatever is suggested here today in the way of curtailing production must also be very closely coordinated with a complete economic recovery system. We believe this recovery system to be vital with any action taken by the government or others as a result of this meeting today and should be implemented simultaneously. It is our analysis of dairy history that certain time lags are involved and it is important that while we are trying to reduce the milk flow, we keep in mind the necessity to keep a constant flow of around 90% of the current supply. Therefore, economic recovery systems must be implemented concurrently in order to make sure we have that 90% milk flow coming on.

We recognize that some of the suggestions made here today have more direct impact than others. The industry certainly must employ several coordinated self-help methods in order to achieve the goal of reduced production. We do not believe that any one suggestion will totally eliminate the problem and therefore, we will probably end up in support of many individual suggestions that must be put together to make a workable program. The self-help programs, the promotion programs in effect around the country, higher standards, and possibly some market restructuring will all be a part of the total package that must come out of the Secretary's decision.

Because the contribution to the CCC purchases from California have been individually pointed out, we believe it is important to discuss

what is happening in California. The price mechanism as late as the early 1970's was primarily structured for fluid milk products. The pricing policies of the various governmental administrations were such that they discouraged production beyond the Class 1 needs. However, as the industry continued to point out to the administrators the opportunity that existed in California because total milk consumption was greater than that being produced, this pricing policy gradually changed to allow dairymen to compete for that market. Today, there is acceptance of the fact that the California producer through comparable pricing structures should have the opportunity to compete for the total servicing of the market. It is our strong belief that the current supply of milk products coming to the CCC from California is part of a transition period as the industry moves to develop the products into consumer packaged goods that can compete in the market. It is not our contention that the California market belongs to the California producer. We believe markets should be serviced by those who are prepared to service that market most economically and efficiently. We are now seeing the producers gearing up to compete in that arena. The fact that there is not a correlation between production and immediate direct access to the market is a result of several things -- pricing policies, industry disorganization, difficulty of entry into the market, the necessity of building the proper packaging facilities, and historical guarantee of a supply. Therefore, some products will continue to flow to government purchase even during production constriction until the facilities and programs are properly organized.

We also believe it is extremely important in terms of what has been or

will be said today relative to bases and the possibility of including a base program in a self-help program, that an explanation of the California base system be included. The California system was implemented after a long and often bitter battle between producers and processors. This battle took place 15 years ago. Therefore, we wish to refresh the memories of those people in the current administration who were involved with the establishment of that system at that time.

It is important to recognize that this producer/processor fight became a tough political fight. Some of today's top administration officials were involved somewhat against their wills in that battle. The producers prevailed and quota and bases were established. It is interesting to note that one of the large processing corporations that encouraged Governor Reagan to strongly oppose the establishment of that base and quota system is now, through one of its subsidiaries, one of the largest single holders of quota in the state.

Everyone should understand the base plan was not a production control plan. In fact, it was specifically prohibited by law from becoming a production control system. That law is still in effect. There has never been any attempt on the part of the administration or producers to use that system as a production control mechanism. It was designed to be a long term project to allocate market income. Because of the system's goals, it was recognized that these bases would develop economic value. Currently, a system of co-op bases and individual contracts are being used in an attempt to turn production around.

For anyone, including the Administration, to compare the California

base and quota system to proposals presented here today would be like comparing apples and oranges because the programs talked about here today would be specifically designed to curtail production, whereas the California system was specifically designed and prohibited from any production controls. While our dairymen have not taken a position on a specific self-help program, they have concluded that a self-help program without a base plan to help cut production would be hard to implement in California. Therefore, they urge planners and the Administration to look closely at including a short-term base plan in the self-help proposal. They feel producers must have compliance flexibility before they can properly evaluate its potential. The Administration should keep an open mind concerning short term base proposals.

While others have talked about several programs, we wish to emphasize the great potential we believe exists at the current time to use more dairy products through a modification of the minimum standards as they currently stand nationally. We believe everyone can support improved standards, and we see a producer groundswell for their adoption.

Several years ago, the California dairymen and processors concluded that it would be in the best interest of everyone connected with milk to modify the standards. They modified their standards in the late 1960's and they now compare to national standards as reflected below:

TABLE I

| | | <u>Butterfat</u> | <u>Solids-not-fat</u> |
|-------------|------------|------------------|-----------------------|
| National: | Whole milk | 3.25 | 8.25 |
| | Lowfat | .5-2.0 | 8.25 |
| | Nonfat | 0-.5 | 8.25 |
| California: | Whole milk | 3.5 | 8.7 |
| | Lowfat | 2.0 | 10.0 |
| | Nonfat | .25 | 9.0 |

As can easily be seen, there are only three fluid products being sold in California: whole milk, lowfat milk, and nonfat milk. These three products are required to meet high minimum component standards. During certain times of the year, the whole milk has to be fortified in order to meet these minimums. The 2% lowfat milk is fortified to the level of 10% solids-not-fat to compensate for the removal of the fat solids. As a third viable alternative, consumers are offered a skim milk product with a total of 9.25% solids.

The history of our sales in California are presented to you in Table II. This table shows there has been a 110% increase in the lowfat category during the eleven-year period. It is easy to identify from this chart the shining, bright star of the fluid product line as "lowfat". Consumers have made our star shine brighter than other areas' lowfat products in spite of not having the price advantages lesser quality products would have.

As producers, processors, and administrators we should have the policy of making the future of this life and health sustaining industry as stable as possible. Regulation modification should be a part of that program. This Administration can do a great deal toward that goal.

We call your attention to Table III, which indicates by month the amount of solids-not-fat used in order to fortify our products. As you can see, in 1971, it took 22.6 million pounds to fortify the product. With the growth of consumer preference for the product, the increases in utilization of solids-not-fat has grown proportionately. In the year of 1981, we see there were in excess of 48 million pounds of solids-not-fat used to fortify the fluid products preferred by the

consumers of California. The figures show in that eleven-year period there was in excess of 390 million pounds of solids-not-fat sold directly to consumers in the fluid form. Comparable data from Federal Order statistics shows that during that same time period, the processing of lowfat fortified products has gone from 11.7% of the market to 4.9% of the market. This fortification trend is directly opposite the total lowfat trend line. Lowfat sales have increased 102% in the same period and now represent 36% of fluid sales in comparable FMO statistics.

A very valuable medium of dairy product sales has not been effectively used because the current system is wrong. It is inherent within the range system that market share price competition will force products toward the lowest level of components regardless of food value benefits to the consumer. The California consumer obviously agrees with the standards decision as indicated by the individual and total sales figures. California represented 11.37% of the total U.S. market in 1980. By extending the solids-not-fat used for fortification to the remainder of the United States, a reasonable estimate of total usage can be made:

11.37% = 46,040,000 lbs. SNF = .5 billion lbs. milk equivalent

86.63% = 358,885,242 lbs. SNF = 4.2 billion lbs. milk equivalent

100.00% = 404,925,242 lbs. SNF = 4.7 billion lbs. milk equivalent

While some milk in addition to California's is currently fortified above the natural flow, we are confident a change to the higher standards would require at least an additional 350 million pounds of solids-not-fat per year.

We believe this to be a significantly better way to sell both fluid

milk and total dairy products and strongly recommend complete endorsement of these standards by the Administration. The Administration should make a strong effort to have them implemented as a part of the resolution of our current problem today. Administrative policy makers should take direct action for their implementation. We are in an emergency situation and emergency measures should be used to see to it they are adopted as soon as possible.

We believe this is a farsighted program. It would continue to supply the consumers of this nation with a more healthful product and would be a significant factor in slowing the decreasing sales trends of fluid products.

While there are those that would argue that our estimates are too high for total solids usage throughout the United States, we are unable to find any reasons for our suggested usage to be any lower inasmuch as the incoming milk figures are given and the percentage differences are insignificant. There are those who would suggest that because of seasonal and regional fluctuations in the solids-not-fat reported in our chart, our estimates are, in fact, on the low side.

We believe these sales figures show conclusively that the California dairy industry has made significant attempts to market their milk products in the normal consumer channels at the highest quality levels and the consumers have responded by the maintenance of steady consumption. I wish I had a nickel for every time some dairy farmer from outside the State of California has remarked to us, "What do you do with your milk in order to have it taste so good?" We believe it is the component standards that give it that something extra.

Therefore, every market in the country could have the same level of component quality.

We understand our suggestion may require changes in the pricing structure within the Federal Orders. However, Mr. Gary Hanman, Chairman of the Federal Order Committee of the National Milk Producers Federation, assures us and others that written proposals are prepared for Federal Order hearings to accommodate this change.

We acknowledge the sound reasoning of the self-help programs in their attempts to maintain price levels while curtailing production. However, if other plans and proposals cannot be satisfactorily developed, coordinated, and implemented, our Board would condone some price adjustments in conjunction with minimum standards modifications and economic recovery program implementation.

In summary, we have concluded the current dairy support program will not bankrupt the federal government, but the federal government could surely

TABLE II
ANNUAL PER CAPITA SALES OF FLUID WHOLE, LOWFAT, AND SKIM MILK PRODUCTS
FEDERAL MILK ORDER MARKETS AND CALIFORNIA (pounds)

| | Whole | | Lowfat | | Skim | | Total | |
|---------------------|-------|--------|--------|--------|------|--------|-------|--------|
| | F.O. | Calif. | F.O. | Calif. | F.O. | Calif. | F.O. | Calif. |
| 1971 | 173.9 | 201.2 | 36.8 | 39.7 | 10.0 | 15.3 | 220.7 | 256.2 |
| 1972 | 173.8 | 202.8 | 40.8 | 46.2 | 11.4 | 16.7 | 226.0 | 265.7 |
| 1973 | 167.7 | 198.3 | 44.3 | 50.7 | 13.0 | 17.2 | 225.0 | 266.2 |
| 1974 | 157.1 | 190.2 | 48.0 | 57.5 | 13.0 | 18.0 | 218.1 | 265.7 |
| 1975 | 154.4 | 184.6 | 56.4 | 63.6 | 10.1 | 18.8 | 220.8 | 267.0 |
| 1976 | 145.1 | 184.0 | 58.4 | 69.5 | 10.0 | 18.6 | 213.5 | 272.1 |
| 1977 | 147.3 | 178.4 | 70.0 | 75.3 | 10.7 | 18.6 | 228.0 | 272.3 |
| 1978 | 143.5 | 174.3 | 74.1 | 78.3 | 10.5 | 17.8 | 228.0 | 270.3 |
| 1979 | 139.7 | 169.3 | 77.9 | 81.9 | 11.0 | 17.1 | 228.7 | 268.2 |
| 1980 | 122.1 | 155.2 | 74.6 | 83.4 | 10.2 | 16.3 | 206.9 | 254.9 |
| 1971-80 % Change | -29.8 | -22.9 | +102.7 | +110.1 | +2.0 | +6.5 | -6.3 | -5.5 |
| % of Total Sales | | | | | | | | |
| 1971 | 78.8 | 78.5 | 16.7 | 15.5 | 4.5 | 6.0 | | |
| 1980 | 59.0 | 60.9 | 36.1 | 32.7 | 4.9 | 6.4 | | |

Population figures source: Federal Milk Order Market Statistics, 1980 Annual Summary, Table 2, USDA Agricultural Marketing Service and California Dairy Industry Statistics, 1980, Table 62, California Dept. of Food & Agriculture

SNF USED FOR CLASS 1 FORTIFICATION
per C2400 (Milk Pooling Report)
California Department of Food & Agriculture
Bureau of Milk Pooling

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|------|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Millions of lbs. | | | | | | | | | | |
| Jan | 1.68 | 2.01 | 2.39 | 2.35 | 2.68 | 2.67 | 2.93 | 3.16 | 3.33 | 3.70 | 3.96 |
| Feb | 1.55 | 2.00 | 2.19 | 2.14 | 2.36 | 2.71 | 2.75 | 2.97 | 2.96 | 3.62 | 3.55 |
| Mar | 1.79 | 2.28 | 2.38 | 2.35 | 2.47 | 2.91 | 3.25 | 3.32 | 3.40 | 3.64 | 4.02 |
| Apr | 1.86 | 2.16 | 2.33 | 2.29 | 2.43 | 2.85 | 3.14 | 3.18 | 3.31 | 3.70 | 3.87 |
| May | 1.87 | 2.35 | 2.41 | 2.34 | 2.58 | 2.87 | 3.34 | 3.50 | 3.65 | 3.93 | 3.90 |
| Jun | 1.86 | 2.23 | 2.43 | 2.29 | 2.57 | 2.87 | 3.31 | 3.56 | 3.49 | 3.58 | 4.20 |
| Jul | 1.85 | 2.22 | 2.55 | 2.39 | 2.78 | 2.90 | 3.25 | 3.54 | 3.62 | 3.80 | 4.32 |
| Aug | 1.98 | 2.38 | 2.61 | 2.64 | 2.65 | 3.04 | 3.53 | 3.62 | 3.90 | 3.90 | 4.15 |
| Sep | 2.00 | 2.32 | 2.44 | 2.64 | 2.82 | 3.27 | 3.60 | 3.62 | 3.70 | 4.39 | 4.39 |
| Oct | 2.10 | 2.48 | 2.62 | 2.70 | 2.83 | 3.20 | 3.53 | 3.77 | 4.14 | 4.31 | 4.18 |
| Nov | 2.04 | 2.47 | 2.39 | 2.47 | 2.58 | 3.12 | 3.26 | 3.45 | 3.62 | 3.71 | 3.99 |
| Dec | 2.07 | 2.35 | 2.17 | 2.33 | 2.64 | 2.97 | 3.15 | 3.12 | 3.46 | 3.76 | 3.85 |
| Year | 22.65 | 27.25 | 28.91 | 28.93 | 31.39 | 35.38 | 39.04 | 40.81 | 42.58 | 46.04 | 48.38 |

391,360,000 lbs.

‡ Change 1971-1981 +113.60

CONSOLIDATED *Milk* PRODUCERS

FOR SAN FRANCISCO
763-2264



245 Kentucky Street, Suite "F"
Petaluma, California 94952

March 19, 1982

I am Ray Gambonini and I appear in behalf of the dairy producer members of Consolidated Milk Producers of California. Our organization is one of the units that make up the League of California Milk Producers.

Our purpose in appearing before this National Dairy Symposium is to urge adoption of increased national minimum standards for fat and non-fat solids. The adoption of increased minimum standards offers a quick opportunity to increase utilization in milk fat and solids-not-fat and an opportunity for a sharp decrease in CCC purchases.

Our objective is to up-grade minimum standards from 3.25% fat and 8.25% snf to 3.5% fat and 8.7% snf for whole milk. The objective for low fat is a single 2% fat 10% snf category to replace current fat ranges of 1% through 2% and non-fat ranges of 8.25% through 10%. The skim milk substitute would raise the non-fat component from 8.25% to 9% with fat remaining at .25%.

We seek a combination package that includes the 5 billion pound milk equivalent excess supply correction that will come about through increasing national standards and we want to combine this with a 75¢ per cwt. reduction in support price that will make the higher minimum solids available at no extra cost to either consumers or handlers.

One could reduce the support price with no assurance as to what level, if any, of correction in excess supply that might come about, but the combination program we propose will fund the higher utilization that will follow from raising the minimum standards. I know of no more cost effective, faster, or more positive way to reduce a good part of our excessive supply than through raising standards.

This simple straight-forward addition of extra solids to the nations fluid milk supply has a lot of merit in terms of tested market research. Market tests done by the university of Arizona in the early '60's' showed a significant preference and consumer acceptance for fluid milk in each of whole milk, low fat, and non-fat categories with an added 1% snf when compared with non-fortified products. The Arizona tests were given consideration when the California program was inaugurated and there is no better measure of consumer acceptance than California's twenty years of experience with higher solids minimums and the consistently higher per capita utilization in the whole, low fat, and skim categories.

The program is a good bargain for consumers. The extra solids will cost about 3 cents per half gallon or a 3% increase in cost for a

6% increase in total solids or nutrients. This is because the increase is in the raw product cost alone, all costs of distribution and resale remain the same.

California's overbase supplies will suffer the effect of the support price decrease without participating in the higher standards utilization of the Federal Orders. Our major concern is that the Support Program is in trouble. We know it has served us well for 37 years, we know that support price reductions in the past have brought supplies into balance and that is our current goal. Ultimately we expect that CCC expenditures will be below the \$1 billion amount in expenditures that has significance and as the CCC removals come down to the 4 billion pound level for 1983, 3.5 billion pounds for 1984, and 2.69 billion pounds in 1985, support prices will be restored to 75% of parity.

I confess that I have no expertise in the mechanics of changing standards under a Federal Order system, but I assume that through some form of urgency legislation the Congress could both raise the standards and lower the support price.

This program also solves a continuing problem that has been of concern to me. I am bothered by the fact that dried non-fat solids are not very saleable. The uncommitted inventories in non-fat powder are always at a higher level than the ratio of fat to solids in an average test milk supply. A reduction in volume to an acceptable level could still result in an unacceptable accumulation of non-fat powder if the average snf utilization in total fluid categories was less than the average snf test of the producer supply. The most acceptable and best way to sell non-fat solids is to sell it in a fluid milk form. Butter and cheese are the very acceptable dairy items that can be stored in times of excess production with no loss in acceptability.

California's current experience in average snf utilization in all fluid categories is 2.78% for fat and 9.44% for snf, a ratio that results in more non-fat solids being sold in a fluid form than the ratio of the average producer supply of 3.5% fat and almost 8.7% snf. The total volume needed to meet snf sales is greater than the total volume needed to meet fat sales and for January 1982, 79% of quota solids sold as Class I, while only 56% of quota fat sold as Class I.

OTHER PAPERS

NOT PRESENTED

IN PERSON

Mrs. John (Alice) Oosterhof
1759 Skyridge Drive
Mount Vernon, WA 98273

(206) 428-0469

March 23, 1982

REMARKS PREPARED FOR DELIVERY BY MRS. ALICE OOSTERHOF OF MOUNT VERNON,
WASHINGTON, AT THE U.S.D.A. PUBLIC DAIRY SYMPOSIUM MARCH 23 IN
KANSAS CITY, MISSOURI.

Milk is like rain and snow this winter. Production continues to rise and distribution channels are bank full. More cows per farm, higher production per cow, declining domestic sales, curtailed access to world markets, and a threatened Federal Order system are parts of our problem as dairy farmers. The challenges are how we check production, increase sales, and take the pressure off the federal price support system during a period when the economies of most of the nations of the world are faltering.

United States Department of Agriculture officials and other dairy leaders have asked us for our input. Right now, the surplus situation bothers farmers, consumers, administration officials and the U.S. Congress. Milton Friedman gave his opinions on the dairy price support program in NEWSWEEK, March 8, 1982. We had better say what we think as dairy producers.

(more)

We dairymen do not like the thought that taxpayers keep us in business. It is impossible to explain to consumers why the retail price of butter and cheese is so high when there are such unmanagable quantities in storage. Many of us explain that it is all politics. The president will ultimately decide what is to be done. Will we do better if the complex problem is dropped in our lap? To build a surplus that distresses milk prices and disrupts our domestic marketing system is destructive. It is also going to be expensive to try to develop world markets under current conditions when there are large surpluses of manufactured products in many other nations.

The National Milk Producers Federation has proposed a plan which will deal with 90% of the milk produced at a normal price, and with the 10% surplus production at the world market price. The surplus amounts to about 13 billion pounds. Dairy farmers would take a cut in the price they receive to pay for the cost of handling the surplus. We would have the right to sell the surplus wherever we can, or even give it away to hungry people. I believe we are wrong if we do not think about our fellow man; many of us believe it is unconscionable to waste food while there are hungry and needy people in this country and the world. In the continuing struggle between our economic and political beliefs and those who challenge our way of life, I believe food will be stronger than weapons. A reserve of food is a powerful deterrent to aggression.

(more)

We must either sell our product or produce less; those are the two choices we have. Many of my neighbors believe we would be better off if we could control that 10% surplus. The Secretary of Agriculture has stated he will not accept production quotas in any management plan. So what can be done — drop the farm gate price? I question whether any such price sacrifice would significantly lower the retail price of milk, nor would a retail price cut guarantee increased milk sales. Milk is a bargain at present retail prices; the challenge is to convince consumers that milk belongs in their diet instead of beverages that are less nutritious or may actually be harmful to human health.

I believe most dairymen, when asked to choose between the alternatives, will accept the world market price on the 10% of our production that adds to the surplus. We believe it is wiser to maintain domestic prices and absorb losses on the world market. And, we recognize that this solution is not fair to all dairy farmers because those who have maintained a steady production history would be penalized. The costs will not be easy for an average dairy farmer to absorb — a 70-cow producer in our market would receive \$5,000 less in income a year.

The American farmer has provided consumers with an abundance of cheap, nutritious food and we have not told that story very well! It is high noon and time we started promoting our products realistically. All dairymen in this nation must participate in financing an effective sales effort because that is the only way we will maintain a reasonable price for our milk.

(more)

An effective national sales effort may well mean the survival of our dairy industry in America as we know it today. The five cent nationwide proposal really comes a year or two too late, but we all must start now to sell that surplus, no matter from what state it originates, since the surplus affects the milk price throughout this nation. I am convinced that if all dairy farmers had promoted milk as aggressively as dairymen in the West the price support system would not be under attack and we would not lose a 70-cent adjustment this year. In our state consumers drink 22 pounds more milk per year than the national average — almost 10% above the national average.

The five cent sales promotion proposal is much less expensive than a \$5.00 or \$6.00 a cwt charge against the 10% surplus. I feel strongly that an effective national sales promotion effort is the most promising part of the proposed package. What does five cents a cwt mean? It means we can sell at least three billion pounds of milk, and perhaps as much as five billion pounds, out of that surplus and that would help save our future. I would like to believe that we have dairy leaders who are able to put a workable program together.

Spring is here. That means more milk. We do face hard choices. We have faced them before. But, dairy farmers are committed to our special way of life and we will meet this challenge.

#



WISCONSIN FEDERATION OF COOPERATIVES

122 West Washington Avenue, Madison, Wisconsin 53703-2760

Telephone: Area Code 608, 256-1846

A WISCONSIN POSITION ON THE DAIRY SITUATION*

The Wisconsin Federation of Cooperatives Dairy Division represents the major dairy cooperatives in Wisconsin (see attached member list). These dairy cooperatives have a membership of about 30,000 of the state's dairy farmers, thus the Dairy Division represents about 68% of Wisconsin dairy farmers. As director of the Dairy Division I will present Wisconsin's position relative to the subject at hand -- the purchase of excess dairy products by USDA under the price support program for manufactured grade milk for the fiscal year ending September 1, 1982. Comment will be offered relative to the curtailment of excess milk production on U.S. farms.

We believe farm milk production for this fiscal year will approach 136 billion pounds - sales will be about 120 billion pounds (sales are projected to remain static). These figures indicate support purchases will approach 16 billion pounds of milk. The gross cost will be near \$2.5 billion.

Wisconsin cooperatives and dairy farmers are aware that these figures represent an untenable situation for the long run. They realize corrective action must be forthcoming or the prices they receive on milk deliveries will not advance or could be reduced from present levels.

* Presented at Dairy Symposium, March 22-23, 1982, Marriot Hotel, Kansas City, Missouri by Charles L. Farr, Director, Dairy Division of Wisconsin Federation of Cooperatives.

University of Wisconsin Extension staff conducted a series of dairy farm meetings during the first part of February 1982 to bring these facts to farmers (I was a program participant). There were over 500 persons in attendance at the sessions. Dairy farmers were appraised of the supply and demand situation. The level and cost of CCC purchases were revealed. They were told of the need to increase sales. The potential for marketing dairy products overseas was evaluated. Lastly, the potential programs which could be employed to control production were aired. Special emphasis was given to the National Milk Producers Association Dairy Stabilization - World Price Program (Self-Help).

Farm Production

Milk production on farms in Wisconsin for 1981 was reported at 22,705 million pounds up 855 million pounds or 3.9% from 1979. The nation's milk production was reported at 132,634 million pounds up 9,223 million or 7.5% from 1979. Wisconsin's advance in milk production of 855 million pounds from 1979 to 1981 represents 9% of the nation's growth in milk production. Thus, Wisconsin farmers have increased production at a slower rate than farmers from other parts of the country.

Dairy cows in the U.S. herds for January 1982 were reported at 11,889,000, compared to 10,743,000 for January 1979. This represents a gain of 1,146,000 cows, or 10.7%. During the same period Wisconsin's milk cow numbers advance to 1,830,000 from 1,813,000, a gain of 27,000 or 1.5%.

The Minnesota-Wisconsin Series Price (the average price paid for manufactured grade milk in Minnesota and Wisconsin) has dropped from \$12.66 per cwt in February 1981 to \$12.46 in February 1982 - a drop of \$.20 per cwt. The Chicago Federal Order Uniform Price has dropped from \$13.13 to \$12.98 for the same period. The support price has remained at \$12.80 per cwt for 3.5% butterfat milk during the same period. Milk prices have moderated in the past year. It appears that prices could be effecting an adjustment in milk production in Wisconsin as January 1982 production was 1% under the previous year and for February 1982 production was reported at 2.2% under February 1981. The above analysis would indicate that Wisconsin dairy farmers have, and are reacting differently to the level of milk prices than farmers in other states. The general level of the state's Grade A milk prices are relatively close to manufactured milk price level as only 22% of Wisconsin milk is utilized as fluid milk.

Transportation Costs

In previous years when supplies exceeded demand and support purchases became a concern to the industry and USDA, milk from Wisconsin had a stabilizing effect on markets outside the state. The threat of, and the actual movement of Grade A milk into other markets tended to level prices in those markets which are principally Class I (fluid milk). As a general observation, Class I order differential (hauling allowance) was established at Chicago plus transportation costs. Another position was the alter-

native supply at Eau Claire, Wisconsin, plus freight. The hauling cost being established at 1.5 cents for each 10 miles per hundred pounds. This rate applied to a 47,000 pound tanker of milk made the cost of operating the transport tanker \$.70 per loaded mile. Today the cost of hauling milk in a 47,000 pound tanker is 3.8 cents per cwt for each 10 miles. This results in the cost of operating an overtheroad tanker at \$1.80 per loaded mile, reflecting advances in equipment, fuel and labor costs. Using order differential to move milk 1,000 miles a credit of \$1.50 is allowed to move milk, however the actual cost today is \$3.80 per cwt. The difference being \$2.30 per cwt which makes the threat of milk from Wisconsin nonexistent. The advance in milk hauling costs provide a cushion whereby markets beyond Wisconsin's boundaries may maintain the level of milk prices without pressures from outside milk.

Wisconsin Markets

We must point out that the markets for Wisconsin milk and dairy products are outside the state. The state's dairy farmers produced 22,705 million pounds of milk, however the needs for the state's population take only 15% of the supply. The accompanying table projects the demand for milk and dairy products for the five leading milk-producing states and compared demand with actual farm milk production.

SUPPLY AND DEMAND FOR SELECTED STATES

| State | Population | *Per Capita Use Pounds | Milk Eq Consumption ----- | **Milk Production Million Pounds----- | Over or Under |
|-------------|------------|------------------------------|---------------------------------|---|------------------|
| Wisconsin | 4,705,335 | X 700 | 3,294 | 22,705 | + 19,410 |
| California | 23,668,562 | X 650 | 15,385 | 14,244 | - 1,141 |
| New York | 17,557,298 | X 650 | 11,412 | 11,093 | - 319 |
| Minneapolis | 4,077,148 | X 650 | 2,650 | 10,061 | + 7,411 |
| Penna | 11,866,727 | X 650 | 7,713 | 8,965 | + 1,252 |

* Estimate (554# average for 1980)

** For 1981

It may be noted that Wisconsin farmers produced 19.4 billion pounds more milk than was needed to fill consumer demand in the state, and in Minnesota 7.4 billion pounds. This points to a serious problem which means that marketing programs which stimulate milk supplies in other areas have a detrimental affect on the economic position on the dairy farmers in these two states. It is essential that dairy programs be structured in a manner which provides for proper allocation of resources. Programs must be viewed in the light of social and economic structures and the alternatives available to the persons engaged in the dairying.

Milk production in Minnesota and Wisconsin totaled 32,766 million pounds or 25% of the nation's milk supply. Consumer demand in these states accounted for only 5% of the nation's demand. The production in excess of demand in the two states amounted to 26,821 million pounds or 20% of the U.S. milk

supply. The numbers in the table indicate that Minnesota and Wisconsin are major dairy processing states.

Value

The milk produced on Wisconsin farms in 1981 had a gross value to dairy farmers of \$3.0 billion, representing 60% of farm income in Wisconsin. The addition of processing, packaging and distribution costs to this milk makes its retail value \$6.0 billion. These dollars provide 44,000 dairy farmers with moneys to purchase goods and services, pay taxes, make mortgage payments and hopefully return a profit. Over 500 dairy plants in the state employ about 14,900 persons, which depend on a strong dairy economy to provide incomes to meet the necessities of life. The above number does not include milk haulers and support industries which are a part of the dairy economy.

Dairy cooperative plants receive and handle 56% of the milk in Wisconsin. Dairy farmers have invested millions of dollars in cooperative plants and facilities to handle and process member's milk. These cooperative plants have been burdened with processing large volumes of excess milk produced in other states.

The reduction of the farm milk price by \$1.00 per cwt would have an adverse effect on the Wisconsin rural economy. The dollar cut would take \$227 million from farm milk checks. For the average Wisconsin dairy farmer this would mean \$5,100. Such a reduction would cause financial difficulties as cash flow would

not be adequate escalating expenses. Any reduction in dairy income in Wisconsin has far-reaching social and economic impacts. A reduction in dairy prices would result in fewer dollars to meet taxes. A reduction in tax dollars would force cuts in education programs and poorer road maintenance. Medical services would deteriorate from current standards and employment in rural communities would suffer if dairy farmer's income were reduced. Businesses servicing dairy farmers would feel the economic squeeze.

Interest rates are a factor which dairy farmers must meet. Assuming an interest rate of 15%, the cost of money on a \$100,000 loan would be \$15,000. This would amount to 22% of the gross annual milk check for the average Wisconsin farmer.

Position

WFC's Dairy Division supports the "Self-Help" program being advanced by the National Milk Producers Federation. We understand the need to bring supply and demand into better alignment. There is a definite need to develop markets at home and overseas for dairy products. We do have reservation with the concept being applied uniformly to all farmers in the nation. We outlined how the Wisconsin industry differs from the rest of the country. If we are to have a farmer incentive program, price levels by areas must be considered. The level of economic protection afforded to any market is a factor which should be considered, lack of competition between fluid areas and the fluid areas

and the manufactured areas due to transportation costs were noted.

The current production patterns and future responses to prices by areas must be evaluated. It was noted that Wisconsin farmers have responded, which is not true of farmers in other areas.

We would suggest that any program which is developed and supported should involve the individual farmer to a greater degree than is currently being suggested.

In conclusion, we are all aware of the three parties which have an interest in the dairy industry and its programs - they are the farmers, the Congress and the Administration. Farmers understand that a dairy program must be workable, equitable and in the public interest. The Congress, through legislation, provides program guidelines which will serve the dairy industry and be in the public interest. The Administration will be charged with carrying out of the mandate of the Congress. Since 1949 the dairy price support program for manufactured grade milk has served the industry well and achieved the desired ends. However, there have been rough times, but through the efforts of dairy cooperatives, trade associations, the Congress and the Administration the problems were resolved. Dairy farmers understand that adjustments must be made in the supply situation, however, such adjustments must be achieved with a minimum of adverse economic impact on the dairy farmer and the industry. A program which would inflict economic disaster onto

the dairy industry would in the long run result in dairy products being priced out of reach for many consumers.

Therefore, WFC's Dairy Division urges that adjustments be made which will cause the minimum economic impact on the dairy farmers. We believe the current price support program should be maintain, however, short-term adjustments must be made to bring supply into better alignment with demand. The dairy industry cannot operate and prosper without the assistance of a sound dairy program. The nature of the product and marketing practices are not compatible with a completely unregulated system. An unregulated market would place the dairy farmer at the bottom of the economic ladder.

DAIRY DIVISION MEMBERS

A-G Cooperative Creamery

Alto Cooperative Creamery

Associated Milk Producers, Inc.

Consolidated Badger Cooperative

East Central Breeders Association

Ellsworth Cooperative Creamery

Greenwood Milk Products Cooperative

Lake to Lake Dairy Division of Land O'Lakes, Inc.

Land O'Lakes, Inc.

Mid-America Dairymen, Inc.

Midwest Breeders Cooperative

Outagamie Producers Cooperative

Swiss Valley Farms, Inc.

Tri-State Breeders Cooperative

Wisconsin Dairies Cooperative

Milwaukee Cooperative Milk Producers

Mid-West Dairymen, Inc.

Manitowoc Milk Producers

Mindoro Cooperative Creamery

DR. ROBERT C. DREISBACH

VETERINARIAN

LONGMEADOWS FARM

BOX 626, R. D. No. 3

HAMBURG, PA. 19526

(215) 562-3242

March 12, 1982

Mr. Alden Manchester
ER-NED-USDA
Room 246
Washington, D. C. 20250

Dear Mr. Manchester:

As per phone conversation this letter is in response to your invitation to write in lieu of addressing the symposium at Kansas City for input concerning the severe problem of dairy surplus and the increasing cost to the government of support payments.

One of the most important solutions is to increase the Federal Drug Administration (FDA) minimum standards from 8.25% solid not fat (SNF) to 8.75% SNF and 3.25% butterfat (BF) to 3.5% BF and to increase skim 1% and 2% BF milk to 10% SNF. Care must be taken so that the solids not fat are powdered milk and not artificial products such as seaweed and manufactured lactose. This procedure could use an estimated 358 million pounds of dry powdered milk in all of the United States excluding California which already has high standards.

Secondly, a vigorous advertising and consumer education campaign paid for by five to six (5-6¢) per hundred weight of milk with no ask out, should be conducted. If the national demand for fluid milk can be raised from forty-two percent (42%) to forty-six percent (46%) or better, this procedure could use about one half our present national surplus. Procedure two will not work well if applied without raising the milk standards (Procedure one). This failure has been shown by our present ADA and Federal order voluntary check offs and our continued per capita loss of fluid milk sales.


Third, the Federal orders for milk marketing throughout the

United States must be changed so that dairy farmers are paid for their Class II manufacturing milk on yield of manufactured products. If all Class II milk were paid by yield there would be some milk that would not be profitable to the farmer and he would have to leave dairying just as any other unprofitable business would have to be terminated. If this procedure does nothing more than dry up the added water in producer's milk it would be a tremendous savings.

Our present pricing plan is to pay on volume and encourages all out production without regard to taste, yield, or cost.

Fourth, milk dealers and processors should be severely reprimanded for not adhering to minimum standards. In March 1979 eleven samples of milk from the shelves of Reading, Pennsylvania grocery stores were tested for butterfat, protein, and SNF. Three of the eleven samples representing eleven different milk companies did not test enough butterfat. Seven of the eleven samples did not have enough protein content to meet the labeling requirements. All met the SNF for Pennsylvania of 8.25%. One very large dairy cooperative was tested several times and could not record a milk fat test over 3.1% while Pennsylvania's legal milk must contain 3.25% butterfat. This procedure adds butterfat to the market that was already sold as fluid milk, thus increasing the surplus, deceiving the public, and perhaps losing a fluid milk consumer forever due to lower taste appeal.

Sincerely,

A handwritten signature in dark ink, appearing to read "Robert C. Dreisbach" followed by a stylized flourish or initials.

Robert C. Dreisbach VMD

Enclosures (3)

Pennsylvania milk test 1979 and 1980

California correlation



DAIRY MONITORING OF AMERICA

DAIRY MANAGERIAL CONSULTANTS

ROY BROG
GENERAL MANAGER

1800 NORTH MAIN STREET, LOGAN, UTAH 84321 PHONE (801) 753-1782

Dr. Robert Dreisbach, Veterinarian
Longmeadows Farm
Box 626 R.D. No. 3
Hamburg, Pa. 19526

Dear Dr. Dreisbach:

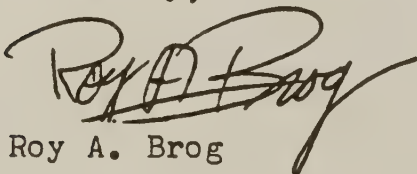
Following are the official results on the samples received
in our laboratory on March 13. (1979)

| <u>Sample #</u> | <u>Fat %</u> | <u>Protein %</u> | <u>SNF % (Calculated)</u> |
|-----------------|--------------|------------------|---------------------------|
| 4084 | 3.6 | 3.15 | 8.37 |
| 37-183 | 3.5 | 3.30 | 8.52 |
| C-42-099 | 3.1 | 3.25 | 8.47 |
| 27819P | 3.4 | 3.20 | 8.42 |
| 27261P | 3.0 | 3.35 | 8.57 |
| WH Jug | 3.6 | 3.35 | 8.57 |

Following are the official results on the samples received
in our laboratory on March 15.

| <u>Sample #</u> | <u>Fat %</u> | <u>Protein %</u> | <u>SNF % (Calculated)</u> |
|-----------------|--------------|------------------|---------------------------|
| 1-19-C | 3.25 | 3.20 | 8.42 |
| 60-1477-2135P | 3.30 | 3.25 | 8.47 |
| 431-3-1-2-60522 | 3.3 | 3.20 | 8.42 |
| 30915 P | 3.15 | 3.25 | 8.47 |
| 255-6-3 1 B | 3.35 | 3.20 | 8.42 |

Sincerely,


Roy A. Brog

MILK PRICING
PLANT ACCOUNTING
COMPUTER PROGRAMMING



PRODUCER SELECTION
PRODUCT STANDARDIZATION
STATISTICAL CONTROL

DAIRY MONITORING OF AMERICA

DAIRY MANAGERIAL CONSULTANTS

1600 NORTH MAIN STREET, LOGAN, UTAH 84321 PHONE (801) 753-1782

ROY BROG
GENERAL MANAGER

3 April 1980

Mr. Robert C. Dreisbach, V.M.D.
RD 3 Box 626
Hamburg, PA 19526

Dear Mr. Dreibach:

The results on your samples were as follows:

| | <u>% Fat</u> | <u>% Protein</u> |
|----------------------------------|--------------|------------------|
| Store # 5687 Acme (Clark Sumitt) | 3.1 | 3.20 |
| Store # 830 Dairylea | 3.4 | 3.20 |
| Store # 830 A & P | 3.35 | 3.15 |

Thank You


Roy A. Brog

1

The National Milk Producers Federation is currently suggesting that a national referendum be held to assess all milk marketed at 5¢ per hundredweight. The proceeds from this assessment, some \$65 million annually, would be used for national programs to promote butter, cheese and non-fat dry milk - those products usually purchased by the Commodity Credit Corporation. California's share of the \$65 million would be approximately \$6.7 million.

The ultimate objective of the proposed program is to decrease C.C.C. purchases which, in turn, is intended to benefit all dairy farmers through the milk pricing structure.

C.C.C. purchased a total of 8.8 billion pounds of milk equivalent in 1980.

The approximately 13¢ per hundredweight California dairy farmers have assessed themselves in their own self-help program to market dairy products has provided dramatic benefits to the farmers, to the industry and to consumers interested in natural and real products.

The California self-help program, started in 1969, has been of great help to dairy farmers outside California, too. California provides a market for some 400 million pounds of cheese shipped in from other milk-producing states. California has long cooperated with other dairy organizations and groups, sharing information and promotional materials. The "REAL" Seal program, initiated and developed in California, was given to the dairy industry to use as it saw fit. For California to be asked to consider an additional assessment of 5¢ per hundredweight, when others have not matched the initial 13¢, does not seem equitable.

Achieving the highest per capita consumption of dairy products in the United States has not been easy, and the dairy farmers of California have paid dearly for the achievement. We will consider a national program, if still needed, when all other states proportionately match California's promotional efforts.

The question that might be fairly asked is this: Is the 5¢ per hundredweight designed to really solve the long-range problem of consumer demand, or is it another temporary measure to protect parity for a short period of time? Temporary measures to legislate margarine away did not work in the 1940's, and they should not be expected to solve the problem today.

The need to promote manufactured products is evident. But, unfortunately, this alone will not solve the problem. As long as the per capita consumption of fluid milk declines throughout our nation, the supply of manufactured products will continue to increase proportionately. Therefore, it follows that a national decline in fluid milk sales is the root of the problem. Butter, cheese and non-fat dry milk are merely some of the extensions of the problem.

The following page will illustrate and document the fact that if all states would achieve the same per capita level of fluid milk consumption and conform to the same standards of butterfat and solids contents for fluid milk as the state of California, C.C.C. would not have purchased one pound of surplus in 1980.

Excluding California, the nation in 1980 produced 114.9 billion pounds of milk with a fluid milk utilization of 42.2 percent, or 48.5 billion pounds. If the rest of the United States had matched California's 1980 fluid milk utilization factor of 46.2 percent, 4.6 billion pounds equivalent would have been eliminated from C.C.C. purchases. And, if that fluid milk sold at 46.2 percent utilization would have conformed to California's butterfat and solids standards, another 4.2 billion pounds equivalent would have been eliminated from C.C.C. purchases. Net result? 8.8 billion pounds of milk equivalent, the same amount as purchased by C.C.C. in 1980.

128.4 Total 1980 U.S. production of milk in billions of pounds

13.5 Total 1980 California production of milk in billions of pounds

114.9 Total 1980 U.S. production of milk in billions of pounds - excluding California

46.2% California Fluid Milk utilization factor in 1980

42.2% U.S. - less California - fluid milk utilization factor in 1980.

107.9% Increased utilization of butterfats and solids as per California standards.

$$128.4 - 13.5 = 114.9$$

$$114.9 \times 46.2 = 53.1$$

$$114.9 \times 42.2 = \underline{48.5}$$

4.6 billion pounds

$$53.1 \times 107.9 = 57.3$$

$$57.3 - 53.1 = 4.2 \text{ billion pounds}$$

$$4.6 + 4.2 = 8.8 \text{ billion pounds}$$

Subject: National Fluid Milk Standards

Problem:

- Too much accumulation of nonfat dry milk by the government
- Limited commercial market for nonfat dry milk
- Minimum product standards demoralize sales
- Potential of standardizing solids-not-fat with permeate from the ultrafiltration process

Goal:

- To reduce government expenditures for milk product purchases
- To improve the quality of choices available to the consumer
- To provide the consumer with standard alternatives
- To prevent further deteriorations of consumption based on poor quality, competition and confusion
- To conserve millions of dollars in energy use!

Objective: With the support of the producer industry, and others, establish minimum national standards for:

| | | |
|------------|-----|------|
| Whole milk | 3.5 | 8.7 |
| Lowfat | 2.0 | 10.0 |
| Nonfat | .25 | 9.0 |

| Data: | California | National |
|-------|---------------|------------------|
| | 3.5 8.7 | 3.25 8.25 |
| | 2.0 10.0 | .5-2.5 8.25 |
| | .25 9.0 | 0-.5 8.25 |

California has successfully marketed milk with these standards for the past 20 years.

Request:

1. Work with us to obtain a joint meeting with Block and Meese. Obtain administrative position of support.
- or
2. Co-author legislation, possibly in conjunction with spending authorization.
3. Combination of 1. and 2.

ANNUAL PER CAPITA SALES OF WHOLE, LOWFAT, AND SKIM MILK PRODUCTS
FEDERAL MILK ORDER MARKETS AND CALIFORNIA (pounds)

| | Whole | | Lowfat | | Skim | | Total | |
|---------------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|
| | <u>F.O.</u> | <u>Calif.</u> | <u>F.O.</u> | <u>Calif.</u> | <u>F.O.</u> | <u>Calif.</u> | <u>F.O.</u> | <u>Calif.</u> |
| 1971 | 173.9 | 201.2 | 36.8 | 39.7 | 10.0 | 15.5 | 220.7 | 256.2 |
| 1972 | 173.8 | 202.8 | 40.8 | 46.2 | 11.4 | 16.7 | 226.0 | 265.7 |
| 1973 | 167.7 | 198.3 | 44.3 | 50.7 | 13.0 | 17.2 | 225.0 | 266.2 |
| 1974 | 157.1 | 190.2 | 48.0 | 57.5 | 13.0 | 18.0 | 218.1 | 265.7 |
| 1975 | 154.4 | 184.6 | 56.4 | 63.6 | 10.1 | 18.8 | 220.8 | 267.0 |
| 1976 | 145.1 | 184.0 | 58.4 | 69.5 | 10.0 | 18.6 | 213.5 | 272.1 |
| 1977 | 147.3 | 178.4 | 70.0 | 75.3 | 10.7 | 18.6 | 228.0 | 272.5 |
| 1978 | 143.5 | 174.3 | 74.1 | 78.3 | 10.5 | 17.8 | 228.0 | 270.5 |
| 1979 | 139.7 | 169.5 | 77.9 | 81.9 | 11.0 | 17.1 | 228.7 | 268.2 |
| 1980 | 122.1 | 155.2 | 74.6 | 83.4 | 10.2 | 16.5 | 206.9 | 254.9 |
| 1971-80 % Change | -29.8 | -22.9 | +102.7 | +110.1 | +2.0 | +6.5 | -6.5 | -.5 |

Population figures source: Federal Milk Order Market Statistics, 1980 Annual Summary, Table 2,
 USDA Agricultural Marketing Service and California Dairy Industry
 Statistics, 1980, Table 62, California Dept. of Food & Agriculture

USED FOR CLASS 1 FORTIFICATION
per C2400 (Milk Pooling Report)
California Department of Food & Agriculture
Bureau of Milk Pooling

| | <u>1971</u> | <u>1972</u> | <u>1973</u> | <u>1974</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> |
|------|-------------|-------------|-------------|-------------|------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - |
| | | | | | Millions of lbs. | | | | | | |
| Jan | 1.68 | 2.02 | 2.39 | 2.35 | 2.68 | 2.67 | 2.93 | 3.16 | 3.33 | 3.70 | 3.96 |
| Feb | 1.55 | 2.00 | 2.19 | 2.14 | 2.56 | 2.71 | 2.75 | 2.97 | 2.96 | 3.62 | 3.55 |
| Mar | 1.79 | 2.25 | 2.38 | 2.35 | 2.47 | 2.91 | 3.25 | 3.32 | 3.40 | 3.64 | 4.02 |
| Apr | 1.86 | 2.16 | 2.33 | 2.29 | 2.43 | 2.85 | 3.14 | 3.18 | 3.31 | 3.70 | 3.87 |
| May | 1.87 | 2.33 | 2.41 | 2.34 | 2.58 | 2.87 | 3.34 | 3.50 | 3.65 | 3.93 | 3.90 |
| Jun | 1.86 | 2.23 | 2.43 | 2.29 | 2.57 | 2.87 | 3.31 | 3.56 | 3.49 | 3.58 | 4.20 |
| Jul | 1.85 | 2.22 | 2.55 | 2.39 | 2.78 | 2.90 | 3.25 | 3.54 | 3.62 | 3.80 | 4.32 |
| Aug | 1.98 | 2.38 | 2.61 | 2.64 | 2.65 | 3.04 | 3.53 | 3.62 | 3.90 | 3.90 | 4.15 |
| Sep | 2.00 | 2.32 | 2.44 | 2.64 | 2.82 | 3.27 | 3.60 | 3.62 | 3.70 | 4.39 | 4.39 |
| Oct | 2.10 | 2.48 | 2.62 | 2.70 | 2.83 | 3.20 | 3.53 | 3.77 | 4.14 | 4.31 | 4.18 |
| Nov | 2.04 | 2.47 | 2.39 | 2.47 | 2.58 | 3.12 | 3.26 | 3.45 | 3.62 | 3.71 | 3.99 |
| Dec | 2.07 | 2.55 | 2.17 | 2.33 | 2.64 | 2.97 | 3.15 | 3.12 | 3.46 | 3.76 | |
| Year | 22.65 | 27.25 | 28.91 | 28.93 | 31.39 | 35.38 | 39.04 | 40.81 | 42.58 | 46.04 | (44.53) |

Change 1971-1980 +103.27

A CONCLUSION

4

In order to logically extrapolate meaningful suppositions from the California data and to build useful projections, it is necessary to compare the component composition of milk received in California and milk received in the rest of the United States.

Percent of Butterfat & Solids-not-fat Produced in California & the United States

| | <u>California</u> | | <u>United States</u> | |
|------|-------------------|------------|----------------------|------------|
| | <u>BF</u> | <u>SNF</u> | <u>BF</u> | <u>SNF</u> |
| 1971 | 3.59 | 8.75 | 3.66 | 8.60 |
| 1972 | 3.58 | 8.74 | 3.68 | 8.62 |
| 1973 | 3.60 | 8.74 | 3.66 | 8.61 |
| 1974 | 3.60 | 8.70 | 3.67 | 8.61 |
| 1975 | 3.63 | 8.70 | 3.67 | 8.61 |
| 1976 | 3.59 | 8.69 | 3.66 | 8.59 |
| 1977 | 3.57 | 8.67 | 3.65 | 8.60 |
| 1978 | 3.61 | 8.67 | 3.67 | 8.60 |
| 1979 | 3.54 | 8.67 | 3.66 | 8.60 |
| 1980 | 3.60 | 8.71 | 3.65 | 8.59 |
| Avg. | 3.59 | 8.70 | 3.66 | 8.60 |

California's influence on the U.S. figure is -.01 for fat and +.01 for SNF.

It is also necessary to determine California's share of the U.S. Class 1 market.

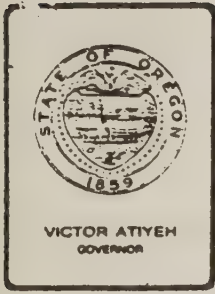
Sales of Whole, Lowfat, Skim & Flavored Milk (1,000 lbs.)

| | <u>U.S.</u> | <u>California</u> | <u>%</u> |
|------|-------------|-------------------|----------|
| 1971 | 52,099,020 | 5,203,206 | 9.99 |
| 1972 | 53,140,167 | 5,451,119 | 10.26 |
| 1973 | 53,031,747 | 5,519,170 | 10.41 |
| 1974 | 51,739,672 | 5,547,748 | 10.72 |
| 1975 | 53,278,461 | 5,638,074 | 10.58 |
| 1976 | 53,209,928 | 5,855,155 | 11.00 |
| 1977 | 53,036,752 | 5,962,999 | 11.24 |
| 1978 | 53,153,021 | 6,027,577 | 11.34 |
| 1979 | 53,033,356 | 6,087,140 | 11.48 |

These figures show from a direct extrapolation that for 1980 California represented 11.37% of the U.S. market and used 46,040,000 lbs. of SNF to meet the proposed national standards.

Therefore, with the differences between incoming milk being relatively insignificant and there being no recognizable different incentives regarding milk usage, it can easily be projected that national usage of SNF to meet the standards.

46,040,000 = 11.37% Therefore, 100% would be 404,925,200 lbs. of SNF less 46,040,000 already used by California would net 358,885,200 lbs. which would take 4.1 billion lbs. of milk to produce.

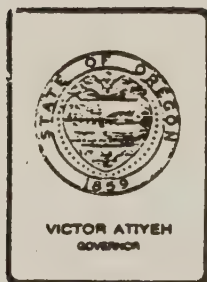


Department of Agriculture

AGRICULTURE BUILDING, 635 CAPITOL STREET N.E., SALEM, OREGON 97310

SUMMARY OF PROPOSAL

1. PROVIDES FOR MORE FEDERAL-STATE COOPERATION.
2. SETS UP A SURPLUS QUOTA SYSTEM WITHIN THE SUPPORT PROGRAM.
3. RELIEVES PRODUCTION IN EXCESS OF SUPPORTED QUOTA OF ANY REGULATION.
4. PUTS AN END TO OPEN END SUPPORT PURCHASES.
5. ESTABLISHES THE FOURTH CLASSIFICATION OF MILK PRODUCT.
6. MAKES SURPLUS PRODUCTION A PRODUCER DECISION ON THE FARM.
7. MAKES USE OF THE REAL MARKET PRICE FOR MANUFACTURED PRODUCT.
8. GETS FEDERAL ORDERS OUT OF CLASS 1 PRICING WHERE MINIMUM CLASS 1 PRICING PLANS ALREADY EXIST.
9. SUGGESTS A PROCEDURE FOR IMPLEMENTATION.



Department of Agriculture

AGRICULTURE BUILDING, 635 CAPITOL STREET N.E., SALEM, OREGON 97310

March 11, 1982

Mr. Ray Lett
Assistant to the Secretary of Agriculture
U. S. Department of Agriculture
Washington, D.C.

This analysis is in reference to the current national surplus production problem in the dairy industry.

We have heard at length that the support program of the federal marketing service cannot continue to buy excess butter, powder and hard cheese at the current support level of price or quantity.

However, the provisions of federal milk marketing programs do not accommodate any limitation but, in fact, accelerate the building of these inventories using the Commodity Credit Corporation as a major customer. We are submitting, in as clear terms as possible, two proposals that we believe will bring about the needed stability in the marketplace and result in the positioning of decision making where it belongs--with the individual milk producer. They will also make the remaining surplus competitive in the world market without subsidy.

Federal orders with uniform blend producer return are designed to accommodate the abundant food policy, and will either develop these abundant reserves at the expense of producers or the taxpayer.

The first proposal I want to discuss would be to let the states function in their own markets with whatever state systems best suit their needs, while providing federal authority to set fluid milk prices across the state lines as needed, with that being the only function of federal authority within these state fluid milk pools. The State of Oregon's system, known as the Milk Stabilization Act, could be a model because of its ability to let each farmer make his own surplus decision based on his management ability and the return available to him from the price in the marketplace for butter, powder and hard cheese, while at the same time he can base his operations on an identified fluid milk market that has been priced at a level compatible with the economy in his retail market area. Class 1 prices for milk to drink should not be tied to an unrealistic Class 3 price, which seems to be the case at the present differential under federal order pricing mechanisms.

The second proposal is to apply this same principle at the federal marketing level, whether by identifying fluid and/or manufacturing markets and allocating quotas individually or collectively. These quotas would not restrict total production, but merely classify and price the outlets available at the real market value. This real market value for the excess beyond a quota would be established by the

dollars available to buy it at the support level, and by the willingness of the consumer to buy the product from the market. The federal function would be to identify how much reserve is necessary for federal commitments and needs. If the excess above that quota is produced and processed, it will only find a home at the real market value, even if it is \$3 or \$4 per hundredweight less than the support level. This proposed system would not damage Class 1 Base Plans that presently exist in some states and in some federal orders, but would establish three or possibly four price ranges: (1) for fluid milk, whether federally priced or state priced; (2) for short-life storable process products, i.e., cottage cheese and ice cream; (3) for supported Class 3 product; and (4) for the nonsupported Class 3 product i.e., butter, powder and hard cheese, outside of the support quota. This last price (4) would be the one that producers would receive for milk that they produce as a result of their own decision to provide beyond the identified areas of support Class 3 and Class 1 use.

Admittedly, these proposals may conflict with some long-standing regulatory or statutory language that might need changing, but surely if this nation's dairy industry is to have stability, it will only be accomplished under some different system than we are now using.

Some people might view this class 3 quota as allowing a given amount of surplus production. However, this proposal merely divides the surplus production into different outlets that exist, and allows producers to decide their own production level based on their own average return compared with their own individual costs. In other words, the proposal would:

- (1) use supports the way they were intended and no more;
- (2) leave the competition for market between producers and challenge their efficiency in the costs of production;
- (3) stabilize the supply for consumers with more level product pricing;
- (4) provide a way for the family-size farm to stay in business rather than having to "race," as now is the case, with larger operators to the detriment of their efficiency. This does not mean he needs more money, he just needs to have a herd size that is compatible with his feed; labor and facilities. He will then be allowed to stabilize at that level and become a competitive stable source of supply. Producers are going broke trying to increase their herd size with borrowed capital at 18%—this doesn't work;

- (5) get the government out of open end spending for product that has questionable market;
- (6) insure that consumers will have dairy foods without the roller coaster prices that are of no advantage to either the producer or the consumer;
- (7) producers will end up with less bankruptcies and more security.

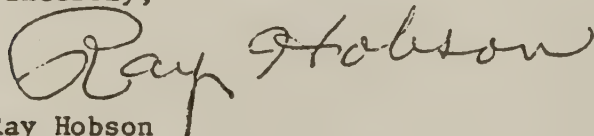
My experience, both as a member of the dairy industry and as a state administrator, shows that Oregon's system of milk market stabilization is viable and can work. However, it is in danger of being smothered by the "base rate" concept that is a plant manager's dream and a producer's nightmare.

It seems to me that the federal/state agreement between the United States Department of Agriculture and the Oregon State Department of Agriculture needs to be reviewed and updated so as to maintain the integrity and the cooperative intent of the federal Milk Market Order No. 124 and of our state Milk Stabilization Act, ORS Chapter 583, which appear to have been lost in the interpretation of the local/federal order and this Memorandum of Agreement. Under separate cover, we are forwarding a copy of our most recent Memorandum of Agreement between USDA and OSDA, a copy of ORS Chapter 583, a copy of the regulations promulgated thereunder, and a copy of federal Market Order No. 124 with some paragraphs highlighted.

I realize that we have covered a broad spectrum of problem areas, but we sincerely believe that it is time to go back to the basics of supply and demand, with a minimum of statutory language, a minimum of protective devices, and maximum of proper incentives, not only to produce the right amount of milk, but to produce it at a profit and for an identifiable market. In the long run, this process fulfills an obligation to the consumers of a continuing supply of high quality dairy foods.

Intentionally, these proposals are without detailed procedures for implementation, which can be adopted once the concept is accepted. I would welcome an opportunity to discuss the various areas of this proposal in depth at any time.

Sincerely,



Ray Hobson
Assistant Director
(503) 378-4665

ewL5/7F

cc: Leonard Kunzman
✓ Alden Manchester

STATEMENT OF

CLYDE RUTHERFORD, PRESIDENT
DAIRYLEA COOPERATIVE INC.
PEARL RIVER, NEW YORK

PREPARED FOR SUBMISSION
TO
SECRETARY OF AGRICULTURE
JOHN BLOCK

FOR INCLUSION IN THE RECORD OF THE
PUBLIC MEETING ON DAIRY INDUSTRY
PROBLEMS, KANSAS CITY, MISSOURI
MARCH 22-23, 1982

The Administration has made it very clear that the present level of milk production in the United States is unacceptable and that the level of support price purchases of surplus dairy products is creating excessive costs to American taxpayers.

No thoughtful person...including those of us who produce the milk...will deny the seriousness of the problem. The dairy industry, particularly as represented by the National Milk Producers Federation, has proposed a plan that will provide major relief to the federal budget and at the same time, involve dairymen directly in financial responsibility for excess milk production. The plan was approved by Federation directors, representing most of the dairy cooperatives in this country, and has been recommended to the Congress and the USDA for their consideration.

Dairylea is a member of the Federation and we commend and support its efforts to find a solution to the dairy surplus problem. Our Board has not yet taken a position on the Federation's

Continued.....

"Dairy Stabilization-World Price Program" and we will not do so until it has been discussed more fully with our members.

The concept is good and the objective...financial participation by dairymen in the consequences of overproduction... may well be at least part of the short-term solution. What concerns me and other Dairy Lea members is the very real possibility that present aggressive government dairy policy may push toward a quick answer that will result in "overkill" within the dairy industry. The inevitable result will be to destroy for all time dairy farming as an American family enterprise. In order to reduce the projected \$2 billion federal expenditure for dairy price supports in 1982-83, proposals have been made which would reduce farm milk prices below the level of survival for thousands of farmers; young, old, large, and small. Such a heavy-handed approach will reverberate throughout the Nation, already hard hit by a worsening recession.

In New York State, the dairy industry may be the single-most important source of jobs and commerce in the State. It represents almost \$2 billion in farm income (milk and cattle), generates a retail value of products equal to another \$3 billion, and employs more than 60,000 persons with an annual payroll of over a billion dollars.

Already, with farm milk prices down and production costs up compared to last year, farm sellouts are accelerating at a time

Continued.....

when prices for land, equipment, and animals are lower than they have been in a long time. I have been told that the State FmHA has one person working full time assembling dossiers on defaulted loans which could lead to foreclosures. The same is true in Pennsylvania, and I have little doubt that it holds true for most of the rest of the country.

We are publicly assured by National FmHA leaders that steps are being taken to extend payments, revise credit arrangements, etc. to prevent any substantial increase in farm foreclosures. The trouble with that assurance is that it is strictly short range. It doesn't deal with the most basic problem: declining prices and increasing costs make for cash flow problems which more credit or extended payments do not really solve.

It is my belief...and I know many others who agree...that the need to apply MORE pressure on dairymen than already exists is unnecessary...Even worse, more pressure in the form of drastic price cuts as proposed by the Congressional Budget Office (a 50 cents per hundredweight drop every six months in the support price) will tremendously aggravate an already critical situation on our dairy farms. It could trigger a forced exodus from dairy farms that would not be easily stopped. It could...and very likely would...leave our industry virtually without a new generation of young farmers because they are the ones most likely to be carrying the highest current debt load...they are the most vulnerable.

Continued.....

With farm milk prices presently locked in "neutral" and beginning to slip backwards, a substantial drop in production will occur but it will take at least two years. The question that this Administration must ask itself is: Is a potential savings of perhaps one billion dollars in the current fiscal year worth the dismantling and virtual destruction of a multi-billion dollar dairy industry? Is not the conversion of milk production from family farms to major corporate enterprises going to cost the consumers more for their dairy products? Is the unemployment of thousands of productive people not going to cost the public more than a billion dollars in various welfare benefits...to say nothing of the cost in human misery?

I urge you to counsel President Reagan to weigh the real costs of applying more price pressure on already stretched-to-the-limit dairymen.

Finally, I would like to comment on the proposed "Dairy Stabilization-World Price" plan, or any similar plan that might be considered.

This type of plan envisions a system under which government and farmers jointly share responsibility for price stabilization. Under the Federation plan, stocks of surplus dairy products purchased and not used for domestic programs would be made available for sale on the "world" market at world prices. It is well known that these

Continued.....

so-called world market prices are determined largely by the degree to which other countries (principally the European economic community) and willing to subsidize their exports. In other words, the amount of tax money the EEC is willing to use in order to "dump" their excess dairy products in the world markets is the factor that sets the level of world dairy prices. It is all part of their Common Agricultural Policy (CAP) which has great political status in the EEC because of the larger percentage of their population engaged in agriculture than in the U.S.

In spite of the fact that our trading partners in the EEC dump subsidized products on the world market, they frown upon any such action by the U.S. Hard as it is to understand, our State Department and Foreign Trade officials appear to agree with them. It makes for a very one-sided arrangement in which American dairy farmers, assuming they DID help buy up their own surplus, would be doubly penalized: first, by the cost of the purchase, and second, by being closed out of the world market because of short-sighted and punitive trade restrictions imposed by our government for diplomatic reasons.

Should dairy farmers become involved in the type of program now under discussion, there must be a clear legislative direction that will make the sale of our surplus dairy products in world markets freely available as a way of recouping at least part of the cost.

Continued.....

A second concern we have with the program as proposed by the Federation is the absence of any clear incentive to individual producers to reduce milk production. As the program is now structured, the cost of surplus acquisition is to be borne across-the-board by all dairymen through a uniform assessment against the income from all milk. Certainly, this sledge hammer approach can reduce national milk production but, as already noted, its longer range negative impact on future production, adequacy of supplies, and reasonable consumer prices is, in our opinion, to be avoided.

It would be far better to set up a type of base-excess plan which would enable each individual dairyman to make a business judgment. If his base was the previous year's production, and if the national surplus was judged to be ten percent, then he should be allowed to make one of the following decisions:

1. I will cut my production by ten percent and therefore I will NOT have to be assessed any part of the cost of surplus removal.
2. I will NOT cut my production and I will therefore pay my pro rata share of the cost of national surplus removal.

This is certainly administratively feasible. Base-excess plans now exist. Extending the principle to a national program is possible and, we believe, necessary if a national production control program is to be acceptable to dairy farmers.

Continued.....

A final suggestion: One rather simple method of reducing government costs for price supports is through a change in the minimum nonfat solids standards for fluid milk products. In other words, increase the minimum requirement so that more nonfat solids (mostly high-quality protein) will have to be included in the products the consumers buy. The additional cost to the consumer will be tiny per unit of purchase and the national diet will be greatly improved. It is estimated that 500 million pounds of nonfat solids could be moved into the commercial domestic market each year by this method. The major benefit, of course, is that the product would go into the stomachs of the consuming public...a nutritional plus...rather than into government warehouses.

#

16 March 1982

Proposal to be submitted to the Dairy Symposium in Kansas City, Mo. on March 22 & 23.

Proposal: A check-off on the milk produced. The money obtained to be used to pay back to the farmer for every cow sold for slaughter.

Using 1980 figures:

- 125 Billion, 425 Million pounds of milk produced
- 10 Million, 815 thousand dairy cows
- 20 percent cull rate for slaughter

A 17 cent per 100# of milk produced check-off would establish a fund of \$100 per cow slaughtered. With the increase in milk production taken into account. A check-off of 24 cents per 100# of milk produced would establish a fund of \$100 per cow culled for slaughter for an additional 1,000,000 cows. The amount projected by Secretary Block to set production in line with consumption.

A survey of dairy farmers taken to establish amount of check-off and payments needed to entice culling of herd to set a balance of production and consumption.

Future production controlled by having it be an ongoing program. The amount of check-off and payments reviewed annually to coincide with production and consumption projections.

This program fits in the guidelines of President Reagan's plan to reduce federal expenditures and getting the Federal Government out of peoples lives, as it would be a program financed and controlled by the Dairy Farmers themselves.

Kornaus Farms
RR#3, Box 33
Pulaski, WI 54162

STATEMENT OF LEONARD VAN DOORN

My name is Leonard Van Doorn. I have been a market milk producer in Bakersfield, Calif., for the past 25 years. My family and I have taken a great deal of pride in producing a quality product for the Class I Market in Calif., and have had no quality or quantity problems with the distributor that I have supplied for the last 25 years.

I had a contract for 3200 gallons of milk a day and have been producing only 3000 gallons daily.

We built a new dairy facility in 1969 and incorporated all the features that were required by the Health Dept. to make it a modern and up-to-date milk producing facility.

The milk production business has been very good to me and I was able to pay for these facilities in a few years.

I feel I am a knowledgeable and efficient milk producer and would be willing to produce milk for somewhat less than I have been receiving.

On December 5, 1981, two other producers with the same type of good producing record and myself were notified by the distributor that, due to the huge surplus of milk, their producer agreement with us had to be terminated, after having shipped milk to them for the past 25 to 40 years.

Now chaos has been created in the Dairy Industry.

It is the result of too high a support price paid by the C.C.C. (Commodity Credit Corp.) for dairy products.

The price for quota milk is regulated by the Calif. Milk pooling law.

By this system, cost of production and fair return on investments are carefully considered.

Production cost came down and also the price paid for quota milk.

Yet the price paid for overbase milk is guaranteed by the support price at a level far above cost of production.

The support price should only function in times of emergency.

It should never be an incentive to produce a product for which there is no market.

This has created a tremendous surplus of milk powder, cheese and butter, a surplus which is increasing at an incredible speed.

This price support does not benefit an honest dairyman that sticks to the Calif. Quota System, a system that once took care of each dairyman's share in a fair and honest way.

Dairymen's cooperatives are monopolizing the market through opportunities created by this price support system.

Members of those Coops. are increasing their herds and producing milk without limit and are pushing independent producers out of business.

This all costs the Taxpayer \$250,00 an hour and is still increasing, because production will be on the increase as long as the Government is willing to buy this product for which there is absolutely no market at a profitable price.

Never should price support become an incentive to overproduction because there is so much profit in it.

This is abusing its purpose, misusing the taxpayers' money, inflationary, hurting the National Budget, and, in this case, putting out of business well-meaning dairy farmers.

These dairies have not been able to find another buyer for their milk and are forced to sell out.

Employees of these dairies have to go on unemployment. This all means a greater burden for the Government and taxpayers.

It is ridiculous to create an artificial market for a product for which there is no market at the expense of the National Budget.

Speaking for Calif. Dairy farmers, we don't need a support price and we'd like to see these billions of dollars saved to help balance the Budget.

We know that when there is no money in producing surplus milk, dairyman will quickly get rid of these cows.

I appreciate the opportunity given me to testify in behalf of my fellow dairymen

Henk Rodenburg

Bruno Sandrini

and myself, Leonard Van Doorn.

I trust that by giving heed to this testimony, an orderly market-oriented supply will be reestablished, based on supply and demand.

STATEMENT
OF
SCHREIBER FOODS, INC.

IN PREPARATION FOR
DAIRY SYMPOSIUM

MARRIOTT HOTEL
KANSAS CITY, MISSOURI
MARCH 22-23, 1982

THE PRICE SUPPORT SITUATION

The current situation of surplus inventory of butter, cheese, and nonfat dry milk has been brought about by an imbalance of supply and demand. The dilemma was triggered when Congress increased support prices for milk from 75 percent to 80 percent in 1977, which guaranteed an artificially high price level for milk.

On the one hand, the farmer was encouraged to produce all the milk he could since he knew he always had a market for his product and he knew the lowest possible price he would have to accept. Back-to-back bumper crops of grain kept grain prices ^{1/} low (since it is not supported to the same degree as milk) and made milk-feed price ratios high. ^{2/} This stimulated production in total, when at the same time milk production per cow was increasing. ^{3/} All these factors contributed to our current oversupply.

On the other hand, dairy products became relatively higher priced at the super-^{4/}market and became less competitive--demand remained flat, or actually lost ground to competitive foods. ^{5/} Fluid milk, which utilizes about one-half of the Grade A milk produced in the U.S., became less competitive as a beverage. Per capita consumption of fluid milk in the U.S. has actually decreased in recent years, from 253 pounds per person in 1977 to 245 pounds per person in 1980. ^{6/} Milk not used for fluid consumption goes for manufacturing cheese, butter and powder. With an artificial floor under these products, the normal mechanism for increasing consumption, which is lowering prices, could not operate. The consumption of butter, which competes with margarine ^{7/} on price, has leveled at 4.5 pounds since 1979. Nonfat dry milk consumption has ^{8/} decreased. Even cheese, one of the fastest growing categories of consumption in the early 70's, has not shown the same rate of increase in the late 70's and early 80's. Between 1975 and 1978, per capita cheese consumption increased 0.9 pounds

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per year. However, between 1978 and 1980, per capita cheese consumption increased
10/
only 0.3 pounds per year. One of the primary reasons is that the price of cheese
at the store became less competitive with other sources of protein, such as poultry
11/
and fish.

The dairy industry cannot weather the current situation of high production and high prices as we have today. Obviously, we need to get supply and demand back in balance. Either we must lower prices to match the high production, or we must lower production to match the high prices.

How can we do this? Under present conditions, there is no alternative but to continue with the support price concept, but it must undergo some modifications. If the American people want to be certain of having an adequate food supply in good and in bad years, then they must be willing to pay some price for this benefit. We do believe, however, that determining the support level should not be in the hands of Congress where special interest groups can be more influential, but should instead be left to the discretion of the Secretary of Agriculture to be increased when production must be stimulated and lowered when production must be curtailed.

For the farmer, this means the decision to produce milk will not be made as easily, since the price he will receive can fluctuate depending on the current supply situation. In the short run, it may be more advantageous for him to cull his herd; and in the long run it may be more advantageous to switch to another commodity altogether.

For the consumer, changing milk support means changing prices at the super-market. The demand for milk, butter, and especially cheese is price sensitive. That is, by lowering the price to the consumer, the consumption of these products would increase. Raising the price, on the other hand, would decrease demand.

A study done at Purdue University several years ago shows this fact to be true.

This study indicated that as the price of cheese increased by 10 percent, cheese
13/
consumption decreased 8 percent. Whether or not the precise numbers apply today,
this is a strong indication of trouble for the cheese industry if prices remain
high.

Already, price increases brought about by the ever-increasing milk support
prices have forced consumers to trade down to cheese food or spread (with higher
14/
moisture levels) as a lower cost alternative, thereby using less cheese in total.
Food service operators have reduced the amount of cheese on the products they
15/
serve, which also decreases cheese use in total.

In addition to lowering the price to solve the current situation of over
supply, and to encourage demand in the future, we believe dairy products should be
strongly promoted. The consumer trends that we see taking place--a desire for
healthful and nutritious foods and convenience in preparation--give dairy products,
and especially cheese, the edge over many other products the consumer can choose to
buy today. By increasing the consumer awareness of these factors and encouraging
new and exciting uses of cheese, we can increase demand above its current level of
16/
17.6 pounds per person per year. In fact, we know that in many European countries,
the per capita consumption level is much higher, especially in Germany and
17/
France.

The U.S. should also be active in the export market. While domestic give-away
programs can dissipate inventories of modest levels, they have been proven ineffective
when inventories reach the massive levels we experience today. Therefore, we must
19/
export the surplus. It does not make sense that we import 1.6 million Japanese cars
each year while our own industry is in the doldrums, and the Japanese in turn use
the dollars we pay them for cars to purchase cheese from New Zealand. We need the

machinery to effectively barter our product for theirs.

What we are proposing here is not new. All of these ideas have been discussed on previous occasions. However, we do want to make our position clear.

We propose that:

1. The dairy supports be left in the hands of the Secretary of Agriculture and that he lower and raise as necessary to balance supply and demand.
2. The dairy industry expand its promotional efforts to increase domestic dairy product consumption.
3. The U.S. develop a program to increase its dairy product exports to other nations.

The dairy farmer is in danger of losing his "market" for his products if consumers get out of the habit of buying dairy products, and taxpayers will revolt and refuse to pay for huge give-away programs. Therefore, it is important that action be taken to avoid these problems if we, as an industry, are to survive.

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MR. CHAIRMAN:

THOUGH UNABLE TO ATTEND THE DAIRY SYMPOSIUM IN KANSAS CITY ON MARCH 22 AND 23 BECAUSE OF LONGSTANDING MAJOR COMMITMENTS CONNECTED WITH AN UPCOMING MICHIGAN MILK PRODUCERS ASSOCIATION ANNUAL DELEGATE MEETING, I TAKE THIS OPPORTUNITY TO CONVEY MMPA'S POSITION ON CERTAIN ISSUES OF VITAL INTEREST TO THE NATION'S DAIRY FARMERS AS WELL AS OTHER CONSUMERS. I RESPECTFULLY REQUEST THAT THIS CORRESPONDENCE BE ENTERED AS PART OF OFFICIAL SYMPOSIUM PROCEEDINGS AND BE GIVEN DUE CONSIDERATION.

MMPA ACKNOWLEDGES THE GENERALLY UNFAVORABLE IMPACT UPON THE DAIRY PRODUCT MARKET OF CURRENT HIGH MILK PRODUCTION AND HEAVY DAIRY PRODUCT SURPLUSES. FURTHER, WE RECOGNIZE THE BURDEN THAT SUCH SURPLUSES PLACE ON THE DAIRY PRICE SUPPORT PROGRAM ESTABLISHED BY CONGRESS IN 1949 TO ASSURE CONSUMERS AN ADEQUATE SUPPLY OF DAIRY PRODUCTS AT REASONABLE PRICES BY PROVIDING DAIRY FARMERS NECESSARY PRICE ASSURANCE.

MMPA, A MILK MARKETING COOPERATIVE OWNED AND CONTROLLED BY APPROXIMATELY 6,200 DAIRY FARMERS, TOTALLY ENDORSES TESTIMONY ENTERED AT THIS SYMPOSIUM BY NATIONAL MILK PRODUCERS FEDERATION. FURTHER, MMPA, A MEMBER OF NATIONAL MILK PRODUCERS FEDERATION, WHOLEHEARTED SUPPORTS THE TWO PROPOSALS CONTAINED IN NMPF'S TESTIMONY AND WILL COMMIT THE FULL RANGE OF MMPA'S RESOURCES TO THEIR IMPLEMENTATION. WE VIEW THE NMPF PROPOSALS - SPECIFICALLY, A PRODUCER-FINANCED NATIONAL DAIRY PRODUCT PROMOTION PROGRAM AND A PRODUCER-AND-GOVERNMENT-FINANCED DAIRY STABILIZATION-WORLD PRICE PROGRAM - AS REASONABLE AND WORKABLE METHODS OF RESOLVING PROBLEMS CONNECTED WITH THE CURRENT DAIRY PRODUCT SURPLUS AND OF PRESERVING THE INTEGRITY OF THE NATION'S DAIRY FARMING INDUSTRY.

ON BEHALF OF MMPA, I STRONGLY URGE THE U.S. DEPARTMENT OF AGRICULTURE TO ACCORD STRONG FAVORABLE CONSIDERATION TO THOSE NATIONAL MILK

PRODUCERS FEDERATION PROPOSALS AS WAYS TO MAINTAIN THE INTENT OF CONGRESS WHEN IT ESTABLISHED THE DAIRY PRICE SUPPORT PROGRAM.

ELWOOD KIRKPATRICK, PRESIDENT MICHIGAN MILK PRODUCERS ASSOCIATION
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MR CHAIRMAN:

THOUGH LONGSTANDING MAJOR COMMITMENTS PREVENT ME FROM ATTENDING THE DAIRY SYMPOSIUM IN KANSAS CITY ON MARCH 22 AND 23, I TAKE THIS OPPORTUNITY TO CONVEY THE POSITION OF GREAT LAKES-SOUTHERN MILK, INC. ON CERTAIN ISSUES OF VITAL INTEREST TO THE NATION'S DAIRY FARMERS AS WELL AS OTHER CONSUMERS. I RESPECTFULLY REQUEST THAT THIS CORRESPONDENCE BE ENTERED AS PART OF OFFICIAL SYMPOSIUM PROCEEDINGS AND BE GIVEN DUE CONSIDERATION.

GREAT LAKES-SOUTHERN MILK, INC. IS A MILK MARKETING FEDERATION MADE UP OF APPROXIMATELY 22,400 DAIRY FARMERS IN COOPERATIVES IN 15 STATES. GLSM DAIRY FARMER COOPERATIVES ARE MEMBERS OF NATIONAL MILK PRODUCERS FEDERATION.

GLSM ACKNOWLEDGES THE GENERALLY UNFAVORABLE IMPACT UPON THE DAIRY PRODUCT MARKET OF CURRENT HIGH MILK PRODUCTION AND HEAVY DAIRY PRODUCT SURPLUSES. THE ORGANIZATION FURTHER RECOGNIZES THE BURDEN THAT SUCH SURPLUSES PLACE ON THE DAIRY PRICE SUPPORT PROGRAM ESTABLISHED BY CONGRESS IN 1949 TO ASSURE CONSUMERS AN ADEQUATE SUPPLY OF DAIRY PRODUCTS AT REASONABLE PRICES BY PROVIDING DAIRY FARMERS NECESSARY PRICE ASSURANCE.

AT A MARCH 18, 1982 MEETING, THE BOARD OF DIRECTORS OF GLSM VOTED UNANIMOUSLY TO TOTALLY ENDORSE TESTIMONY ENTERED AT THIS SYMPOSIUM BY NATIONAL MILK PRODUCERS FEDERATION AND TO WHOLEHEARTEDLY SUPPORT THE TWO PROPOSALS CONTAINED IN THE NMPF TESTIMONY. GLSM VIEWS THE NMPF PROPOSALS - SPECIFICALLY A PRODUCER-FINANCED NATIONAL DAIRY PRODUCT PROMOTION PROGRAM AND A PRODUCER-AND-GOVERNMENT-FINANCED DAIRY STABILIZATION-WORLD PRICE PROGRAM - AS REASONABLE AND WORKABLE WAYS TO RESOLVE PROBLEMS CONNECTED WITH THE CURRENT DAIRY PRODUCT SURPLUS AND TO PRESERVE THE INTEGRITY OF THE NATION'S VITAL DAIRY INDUSTRY. GLSM WILL COMMIT ITS FULL RANGE OF RESOURCES TO IMPLEMENTATION OF THE NMPF PROPOSALS.

ON BEHALF OF GLSM, I STRONGLY URGE THE U.S. DEPARTMENT OF AGRICULTURE TO ACCORD STRONG FAVORABLE CONSIDERATION TO THOSE NATIONAL MILK PRODUCERS FEDERATION PROPOSALS AS METHODS OF MAINTAINING THE INTENT OF CONGRESS WHEN IT ESTABLISHED THE DAIRY PRICE SUPPORT PROGRAM.

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