

**DIAC Farm Profitability
Committee Report September 23,
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Members of the committee:

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Process

- The meeting of the Dairy Farm Profitability Sub-Committee on August 3rd & 4th and subsequent conference calls generated a number of suggested areas for further consideration / discussion by the full committee.
- Our process was to examine as many different areas of influencing farm profitability before narrowing down to recommendations – we covered the wall with complicated charts!
- We recognized that there is no one silver bullet in an industry as diverse in production methods, regional variance and farm family goals
- We examined many different proposals ideas and suggestions and followed a process of investigation and discussion that will lead to our own recommendations.

Growth management

- Establish a base plan that imposes sanctions on production that is over a previously agreed base when the price drops below a certain level.
- The program would be administered by the Secretary
- Only under 'extraordinary' conditions would the program be enacted
- Establish current production base with rolling three-month average
- Further evaluation of the economic models now being fine tuned, scoring by the CBO and funding in a tough economic climate would decide:
 - level of sanction, cease payments on milk produced over base level
 - levels of trigger
 - equitable distribution of program dollars

Trigger points

- Trigger points tied to the all milk price and commodity price for a standard ration based on alfalfa, corn and soy
- Is it possible to use the MILC model, perhaps with different criteria for determining the trigger points, to provide direct payments to farmers in time of extraordinary or prolonged troughs in the pay price.
 - Dependant on CBO scoring and funding
 - How to factor in net income and maintain equity

Goals of Growth Management

- Steady growth of Dairy Industry
- Decrease volatility
- Stabilize dairy farm income
- Stabilize dairy ingredient and product costs
- Stabilize consumer product prices
- Establish base line economic triggers for USDA to manage growth plan,
- Program will be implemented only when production is extremely out of balance

Action steps and Implementation Questions

- Policy and infrastructure would have to be in place with a mechanism prompting the Secretary to implement the policy
- Determining and creating numbers that generate the parameters for triggers are “high priorities”
- Challenge to setting levels of production – producer sub-committee needed?
- What measures do we implement under a shortfall of projected production?
- Encourage increased production in seasonally or permanently regional deficit areas?
- Exemptions for value-added milk whose market is not tied to wholesale market –organic, local, producer handlers, raw milk, farmstead cheese etc.?

Farm Savings Account

- Will this be a financial benefit?
- Capital gains break for selling to beginning producers?
- State tax break to sell to a producer?
- Must manage for use in a difficult year only?
- Need to provide education for a complete understanding?

SCC standard

- Expanding demand
- Usability / profitability
- Meeting global demand
- Gradual approach
- Recommend under 400 thousand somatic cell
- Any incentives or penalties for higher cell counts?

Change in FMMA

- Change pricing structure
- Market order consideration
- Competitive pay price
- Pooling for pricing in the market
- Needs to be reviewed for cost effectiveness

Antitrust

- Lack of competition in some areas restrict consumer and producer choice
- Consolidation and possible collusion in processing, bottling, retail side, marketing
- Concern farmers will receive less funds while consumers pay more
- Producer share of the retail dollar
- Competition for school and institutional milk accounts

FDA, NRCS, EPA and State initiatives

- Support infrastructure for value-added marketing by producers who need to diversify to maintain family income
- Maintenance of existing support dairy infrastructure
- Size appropriate regulations and fees
- Food safety – fairness and recognition of actual threats and risk from different size operations
- Training for State and Federal inspectors and regulators
- Examine fee structure set by Agencies for equity and fairness
- EQIP standards and funding for conservation and environmental requirements
- EPA – consistent and reasonable implementation of regulation
- National policy does not exempt States from taking initiatives to support their rural economy by financial assistance for dairy farm families

Other program considerations

- Standards of identity should be subject for additional discussion by the full committee
- Do we have a better use for the check off dollars; what are the other options?
- Should we replace MILC with feed cost vs. milk income with or without a cap?
- Counter cyclical payments or (margin insurance) cost is an issue or a deterrent, to be considered by budget or CBO scoring
- Risk management to stabilize farm gross income
- Additional choices such as revenue based insurance programs to stabilize farm net income

California Standards

- Reblending of milk / reducing fat from school lunch
- USDA goals are more closely met by this program
- Healthy products to low income families reduce obesity
- Program may increase dairy farm revenue up to \$510 million in the first year
- Questions:
 - California standards a desired level of quality
 - Cost of the program (administrative)
 - Plant investment
 - How to address increase processor cost?