

What the milk Commission Recommendations surrounding supply management

The Vermont Milk Commission has reviewed the recommendations from the Supply Management Working group and endorses the equalization of supply and demand of milk to stabilize milk prices at the national level.

The Vermont Milk Commission continues to be very concerned with the status of the dairy industry in the state. While the Vermont Milk Commission endorses the equalization of supply and demand of milk to stabilize prices, there are other avenues that the commission will explore. The objectives of the Vermont Milk Commission are to revitalize Vermont's rural economy. The loss of population and economic opportunity in Vermont's rural communities is of great concern to the Milk Commission and stabilizing the price paid to farmers is a step toward this revitalization. The Milk Commission understands the continued challenges on all farmers in Vermont to meet the requirements to protect water quality. The investments of time and money by farmers to meet these requirements must be supported and communicated with Vermonters.

The Vermont Milk Commission endorses a program to the equalization of supply and demand of milk to stabilize milk prices at the national level and supports the parameters of the supply management working group surrounding a Dairy Price Stabilization Program. The Vermont Milk Commission makes the following recommendations to the Federal Congressional Delegation surrounding a Dairy Price Stabilization Plan.

A Dairy Price Stabilization Program must be implemented at a national level.

A Dairy Price Stabilization Program must be-

1. Voluntary for producers to take part in or not.
 - a. Example – Market Access Program – all farms provided a base and allowable milk volume increase for year. Only pay if above allowable milk volume for the year. Voluntary to choose to go above allowable milk marketing or not.
2. Mandatory for all dairy producers to take part
 - a. Example – Canadian Model – all farms assigned a quota for milk volume per year, all farms paid one price for quota milk and a substantially lower price for over quota milk. No choice - all farmers take part.
 - b. Example – Holstein Association Plan – all farms take part and pay an administration fee. Allowable milk marketings, if over pay more, if remain within allowable milk marketing's receive money. All dairy farms pay administrative fee and take part in the program.

A Dairy Price Stabilization Program must have farmer representation in development and implementation. Representation should include –

3. Holstein plan – 6 regions of the country with two farmers per region, one consumer, 1 fluid milk processor, 1 dairy product manufacturer and one dairy economist at the national level
4. Northeast Interstate Dairy Compact – delegate to Compact area commission – one dairy farmer and one consumer representative selected at the state level.
5. Regional Farmer boards based on Federal Milk Marketing Areas – farmers and a limited number of processors
6. National Farmer Organizations – NMPF, Farm Bureau, National Farmers Union provide delegates at the national level
7. Wellington, Direct Base Program – dairy farmer representation similar to National Dairy Board representation – appointed by the USDA Secretary of Agriculture representing 12 regions of the country with number of representatives based on milk volume.

A Dairy Price Stabilization Program should not have barriers for new and beginning dairy farmers to begin operations. New and beginning dairy farmers should be encouraged to begin operations by –

8. New and Beginning Farmers(USDA definition) would not be required to take part in the Dairy Price Stabilization Program for a period of 12 months after beginning milk production. Begin taking part fully in the program in the 2nd 12 months of production.
9. No fees for New and Beginning Farmers to take part in the program for 12 months or until base production level is established if included in the program.
10. Assign base – Wellington plan – new farms assigned a base of 1 million pounds for first year. If new farm is above 1 million pounds 95% of excess volume in the program,
11. Administration of the plan distributes milk volume base after farm attrition. First to new and beginning farmers and then to farms that wish to expand production. If base is assigned in a program.
12. Within Dairy Stabilization Act – market access fee. New and Beginning Farmers pay a very low market access fee on all milk for the first 12 months. If still growing after first year, then pay larger fee on new milk beyond first year established base.

The Dairy Price Stabilization Program should be a two-tier system of price and volume. The components of a two-tier system include administration of the program through farmer representation, an established base volume of milk, pricing levels for each tier of milk, determination of the triggers for the program, new farmer access to the program and a determination of program rules for farm sales, family member involvement and changes to ownership structure such as partnership, corporations etc.

A two-tier system as part of the Dairy Stabilization Program would need to establish a base milk volume. There are several ways to establish a base and the Vermont Milk Commission supports the following method:

1. Wellington Direct Base plan – Calculate the production per day per farm on a monthly basis for a three-year period. Each farmer’s daily base would be the highest of those monthly averages. Future monthly bases would be the daily base times the number of days in the month.
2. Holstein Plan – 3 years of milk production volume. Each producer’s base will be divided into their quarterly historical milk marketings. Bases are a moving base whereby at the beginning of the next 12-month period, a producer’s base will be the recent past 12 months. The base is assigned to the producer owning the producer license for the dairy operation.
3. Wisconsin Farmers Union (Dairy Price Stabilization Act) – No base, current year is compared to previous year. Volume allowed over previous year determined using Milk Feed Ratio for prior year.
4. NFO Proposal – All farms allocated 1 million pounds a tier one production. All milk over 1 million pounds is tier two.

A two-tier system as a part of the Dairy Stabilization Program would need to establish rates for tier 1 and tier 2 pricing. The Milk Commission supports the following tier pricing triggers.

1. Wellington Direct Base Program. These penalties only occur when market prices are below \$20 per cwt. and increase in both penalty value and adjusted penalty volume as farm milk prices fall. The goal of this program is to give dairy farmers an economic incentive to reduce milk production during times of low prices so market prices rise. All Milk Price calculated nationally by USDA.

All Milk Price	Penalty per CWT.- over base milk only	Temporary Base Reduction
Greater than \$20.00	\$0	0%
\$18.00 to \$19.99	\$2	1%
\$17.00 to \$17.99	\$3	2%
\$16.00 to \$16.99	\$4	3%
\$15.00 to \$15.99	\$5	4%
Below \$15.00	\$6	5%

2. Holstein Association Plan. The U.S. Secretary of Agriculture in consultation with the Board will forecast the **market for fluid milk and manufactured dairy products (total commercial disappearance)** that includes both the domestic market, any foreseen government purchases, and exports for each quarter of the next 12 months. Taking into consideration the current level of milk production, a determination will be made as to the needed change in U.S. milk production to fulfill the market needs for each quarter of the next 12 months allowing for a producer raw milk price that is positive over operating costs as determined by the Board. The Board will meet quarterly with the U.S. Secretary of Agriculture to revise forecasts and to forecast out by quarter for the next 12 month period. The market needs by quarter is referred to as “allowable milk marketings”. Payments between \$6 to \$9 for over allowable marketings.
3. Wisconsin Farmers Union Dairy Stabilization Act - This is a chart of what the legislation creates in terms of the “triggers” for setting the market access fees and allowable year-over-year growth. As you can see, the program relies on the “milk/feed ratio,” a measurement of the profitability of the dairy industry. Two fees – one for expansion – only pay on “new milk” and all milk market access fee for new entrants to the dairy business. Stronger profitability at the farm (lower milk to feed ratio) higher market access fees.

Milk Feed Ratio	Allowable Growth Rate	“new milk” access fee	All milk market access fee
> 3.00	3%	\$0.15/cwt.	\$0.03/cwt.
2.50 - 2.99	3%	\$0.65/cwt.	\$0.13/cwt.
2.00 - 2.49	3%	\$1.25/cwt.	\$0.25/cwt.
1.75-1.99	0%	\$2.50/cwt.	\$0.50/cwt.
< 1.75	-3%	\$2.50/cwt.	\$0.50/cwt.

4. NFO Proposal Tier 1 price on 1 million pounds of milk is at Cost of Production for a farm of the size to make 1 million pounds of milk per year. Milk is marketed using Federal Order Prices and Tier-two rate is determined after paying all farms for first million pounds of milk at tier 1 rate and then dividing remaining pounds in remaining dollars to determine amount per hundredweight. Continue to make more milk over 1 million pounds, then tier -two rate continues to decline.

Administration of a two tier system as a part of the Dairy Stabilization Program would need to occur at the national level. The Milk Commission supports the following for administration of this program.

1. The federal Government must be involved in the administration of this program.
 - a. USDA Farm Services Agency has managed several programs for dairy including the Milk Margin Protection Program and the Milk Income Loss Contract program. USDA Farm Services Agency has worked with dairy cooperatives to collect needed information on milk pounds for these two programs. Many farmers have loans with Farm Services Agency and are familiar with county offices and staff.
 - b. USDA Ag Marketing Services Federal Milk Order Administrators have managed the Federal Orders for decades and are familiar with dairy cooperatives and processors in specific regions of the country. Federal Milk Market Administrators are skilled at audit functions, bulk tank calibration verification and testing for milk to verify butter, protein and other solids levels in milk. Federal Milk Market Administrators do not have a connection to dairy farmers.

2. Dairy Cooperatives and independent processors who purchase milk directly from farmers, need to interact with federal government leadership on this program.
 - a. Provide milk volume information as needed
 - b. If applicable, deduct market access fees, penalties for over base milk production and or administrative fee from dairy farmer milk checks and providing those funds to the appropriate federal organization in charge of the program.

A Dairy Stabilization Program will need to determine how changes in farm ownership will be managed. The Vermont Milk Commission supports the following:

1. Farm Sales – established base volume of milk
 - a. Holstein Association - Base volume of milk ceases to exist when farm ceases production
 - b. Base volume is redistributed by Administrating body to new farmers and farms that wish to expand
 - c. Holstein Association - Base volume can be combined with other base volumes within the program as long as at least one of the initial farmers continues in the combined operation
 - d. Wellington – Direct Base Program – base is not transferable between farms
2. Addition of a family member
 - a. Holstein Association – with other base volumes within the program as long as at least one of the initial farmers continues in the combined operation. If family member does not bring base to the operation, then may need to pay fee for greater milk marketing.
 - b. Wisconsin Farmer Union Dairy Stabilization Act – Adding family member and expanding production, choose to pay low rate on all milk volume or higher market access rate on just increased volume.
3. Dispute Resolution
 - a. Needs to be determined in rules of the program
 - b. Dairy farmer representation must be aware of dispute and part of the resolution based on rules of program
 - c. Dairy farmer representation must be aware of the dispute but not part of the resolution – administrative body decides dispute resolution based on rules of program

The Vermont Milk Commission requests a meeting with the Vermont Congressional Delegation to review the dairy situation in Vermont and to discuss the parameters of a Dairy Price Stabilization Program. The overburden of dairy stocks in storage and the imbalance of supply and demand continues to cause downward pressure on milk prices paid to farmers. The current solution of continued dairy farm attrition until milk volumes are lowered is a tortuous process that is adversely impacting Vermont's rural communities and a different paradigm is critical to the economic vitality of our state. The Vermont Milk Commission is committed to continue work on this issue with the Vermont Congressional Delegation.