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Dairy Farm Support: Legislative Proposals in the 112th Congress

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Summary

The question of how federal policies deal with financial stress encountered by dairy farmers has led many in Congress to reconsider federal policy for supporting them. In the 112th Congress, several Members have introduced legislation for alternatives to current federal programs, which expire in 2012. Proposed dairy legislation has the potential to eliminate some dairy programs, modify others, or replace them with a new approach to dairy farm support.

The Dairy Security Act of 2011 (H.R. 3062, Peterson et al.) would replace the current dairy product price supports and the income support program (Milk Income Loss Contract or MILC) with a new program that delivers farm payments triggered by low margins (milk price minus feed costs). To discourage excess milk production during times of low margins, producers participating in the margin program would be subject to the Dairy Market Stabilization Program. When the stabilization program is activated (only during times of low margins), producers would not receive the market revenue for milk produced in excess of a portion of the farm's base production amount. Instead, that revenue would be sent to the federal government to be used for purchasing dairy products to increase demand. A variation of the plan, the Dairy Pricing Reform and Farmer Protection Act of 2011 (S. 1715, Gillibrand) would make margin payments available, but the penalty for overproduction would not apply in areas where dairy product production is expanding faster than milk output. For both bills, farmers who elect not to participate in the margin program could manage their own income and price risk with strategies of their choosing.

Reauthorizing and enhancing the MILC program is also under consideration. MILC payments are made to producers when the farm milk price drops below a target price of $16.94 per hundredweight. The Dairy Producer Income Protection Act of 2011 (S. 1714, Gillibrand) would boost the target price using the Consumer Price Index. The MILC program has been criticized for offering only limited protection against low milk prices for large farms because payments are limited up to a certain level of production.

The Dairy Advancement Act of 2011 (S. 1682, Casey) would also maintain the MILC program but offer a subsidy for the purchase of an existing dairy margin insurance policy (Livestock Gross Margin for Dairy) as an alternative for producers. The bill would also increase product price reporting and provide loan guarantees for processors to acquire new equipment and technologies.

Proposed legislation would also affect federal milk marketing orders (FMMOs), which regulate minimum farm prices of milk in many regions. The Federal Milk Marketing Improvement Act of 2011 (S. 1640, Casey) would require use of milk costs of production to determine minimum milk prices under the FMMOs in order to increase milk prices and dairy farm returns. The remaining bills take a different approach, focusing instead on changing how order minimum prices are determined, moving from the current end-product pricing method to one that uses competitive pay prices (actual market transaction data for farm milk).

Many in the industry, including both producers and processors, have concluded that some change is needed in FMMOs, although the degree of desired change varies substantially. Several proposals would require USDA to carefully study any proposed change before implementation due to the complexity of the system and potential impacts. The industry is not unified on how to address income support policy. Cost considerations, familiarity with existing and proposed programs, and expectations on how producers might benefit by size of farm are likely factors in how dairy policy is developed in the 112th Congress.

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Introduction

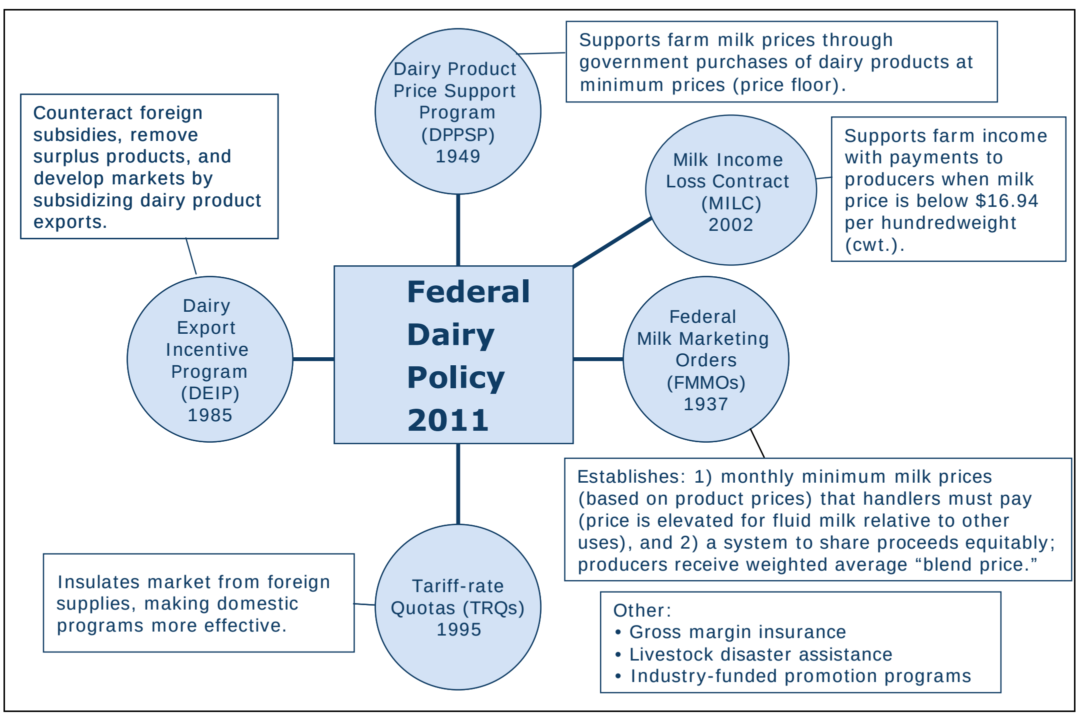
Financial stress encountered by dairy farmers in recent years has led Congress and the industry to reconsider how to deal with volatile farm milk prices and the financial prospects for dairy farmers. In the 112th Congress, several Members have introduced legislation for alternatives to current federal programs, which expire in 2012. Alternative policies could either be incorporated into the next omnibus farm bill, enacted separately before current program expiration through the regular order of business, or incorporated into the work of the Joint Select Committee on Deficit Reduction. This report provides a brief overview of federal dairy policy and reviews legislation that has been introduced in the 112th Congress to support dairy farmers.

Federal Dairy Policy

Current dairy policy has evolved over the last 75 years to support dairy farmers and stabilize markets. This section briefly describes the five main components of current dairy policy shown in **Figure 1**.[1] The federal cost of dairy programs depends on market conditions, with costs ranging from zero in FY2008, when farm milk prices were high, to $1 billion in FY2009, when prices fell sharply.

Figure 1. Current Federal Dairy Policy

Program and year of establishment



Source: Congressional Research Service

[1] Additional program details and a review of policy options as of spring 2011 are in CRS Report R41141, *Previewing Dairy Policy Options for the Next Farm Bill*.

Dairy Product Price Support Program (DPPSP)

Under the Dairy Product Price Support Program (DPPSP), the federal government stands ready to purchase butter, American cheese, and nonfat dry milk from dairy manufacturers at specified minimum prices. Purchases under the DPPSP at specified prices, which last occurred during FY2009, indirectly support the farm price of milk when the market is weak. The 2008 farm bill (P.L. 110-246) extended the program through December 2012. The Farm Service Agency (FSA) of the United States Department of Agriculture (USDA) administers the program.

Some producers view the program favorably as a low-cost stabilizing influence on farm milk prices, while others note the declining effectiveness as a price floor because market prices typically run above support levels. Other critics, including processors, contend that price supports constrain dairy product innovation by guaranteeing the purchase of certain products, not necessarily ones in demand by the global market.

Milk Income Loss Contract (MILC) Program

Under the Milk Income Loss Contract (MILC) Program, participating dairy farmers nationwide are eligible for a federal payment whenever the Boston Class I price (determined under federal milk marketing orders) falls below the target price of $16.94 per hundredweight (cwt) or 100 pounds. Eligible farmers then receive a payment equal to 45% of the difference between $16.94 and the lower monthly price. (The target price is adjusted upward when feed price is above $7.35 per cwt.) The MILC payment is limited to 2.985 million pounds of annual milk production (equivalent to about a 160-cow operation). Under the 2008 farm bill (P.L. 110-246), in the final month of program authority (September 2012), the payment percentage rate declines to 34% and the eligible production limit declines to 2.4 million pounds. FSA administers the MILC program. Since the inception of MILC, large dairy farm operators have expressed concern that the payment limit has negatively affected their income. For larger farm operations, their annual production is well above the limit, and any in excess of that receives no payment. Smaller operations tend to favor MILC because more of their production is covered, at least in percentage terms.

Federal Milk Marketing Orders (FMMOs)

Administered by USDA's Agricultural Marketing Service (AMS), Federal Milk Marketing Orders (FMMOs) are permanently authorized under the Agricultural Marketing Agreement Act of 1937 to balance market power between farmers and milk handlers while reducing "destructive competition" between milk producers that can drive down prices, to their mutual detriment. Federal orders are designed to (1) stabilize fluid milk markets and enhance returns for producers, and (2) support local milk production and share benefits of the system equitably among producers (**Figure 2**). Importantly, orders mandate that dairy processors or handlers pay a premium for milk used for fluid consumption, which raises average prices to farmers and can increase overall producer revenue. This is done through a set of mandated monthly minimum prices that processors in 10 geographic marketing areas (**Figure 3**) must pay producers or their agents (e.g., dairy cooperatives) for delivered milk depending on its end use.[2]

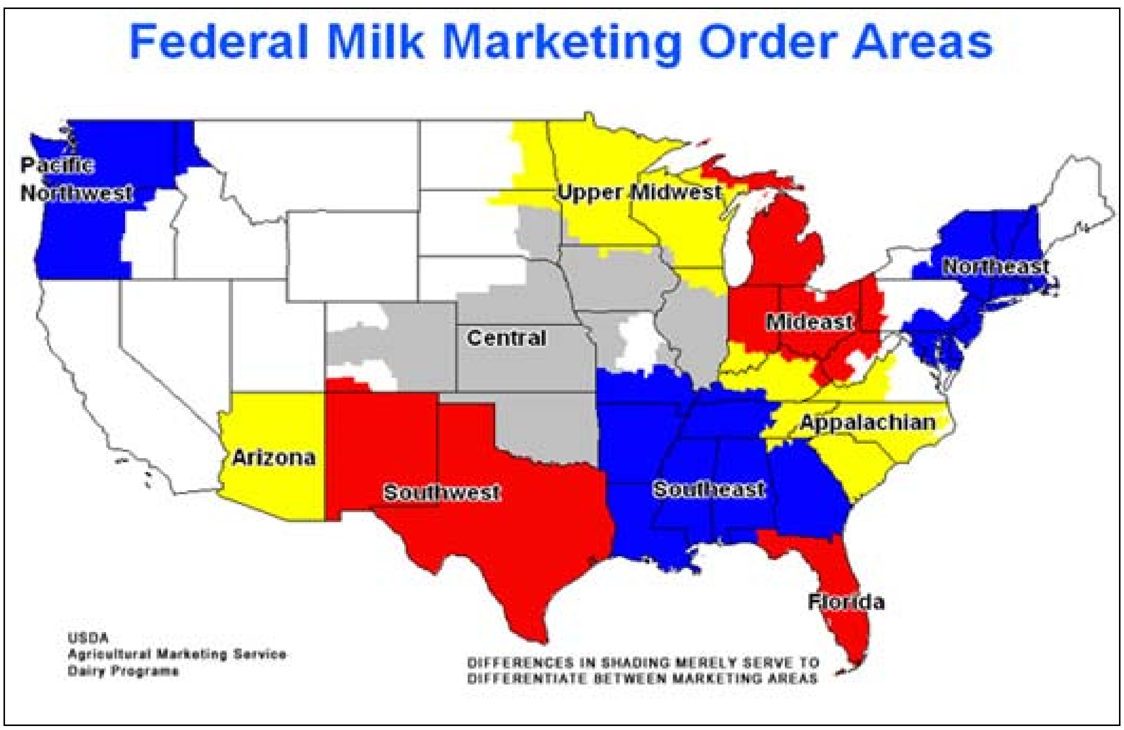
[2] Additional information on marketing orders is available in Ed Jesse and Bob Cropp, *Basic Milk Pricing Concepts for Dairy Farmers*, University of Wisconsin, Cooperative Extension, A3379, January 2004, http://future.aae.wisc.edu/publications/basic_milk_pricing.pdf.

Figure 2. Federal Milk Marketing Orders

Objective	Mechanism
Stabilize fluid milk markets	Regulated handlers pay minimum prices for farm milk. Class I – fluid use; Class II – soft products; Class III – cheese; Class IV – butter/nonfat dry milk powder.
Enhance returns for producers	Class I minimum is higher than other class minimums.
Share benefits of the system equitably among producers	Total class revenue is pooled, with a “blend price” (weighted average) providing an equal minimum return to all producers selling into an order.
Maintain milk production in the order area (and stabilize fluid milk markets)	Pooling/shipping requirements can affect milk flow from outside a given order, thus protecting producer returns.

Source: CRS.

Figure 3. Federal Milk Marketing Order Areas



Source: Agricultural Marketing Service, USDA.

Notes: Orders are approved regionally by producers. Orders may be changed through the regulatory process, but changes must be approved by producers. For other areas, farm milk prices are unregulated or covered by a state order (e.g., California).

Producers are generally in favor of orders, but a major concern of both producers and processors is how minimum prices are calculated and whether they accurately reflect the market for milk. Critics, including both producers and processors, say that the system does not encourage the production of products that the market wants and may actually increase price volatility.

Tariff-Rate Quotas (TRQs)

Tariff-rate quotas (TRQs) limit annual dairy product imports by imposing a prohibitive tariff on imports above certain quantities. TRQs insulate domestic markets and make domestic policies more effective. In 1995, TRQs replaced absolute quotas (Section 22) established in the 1930s.

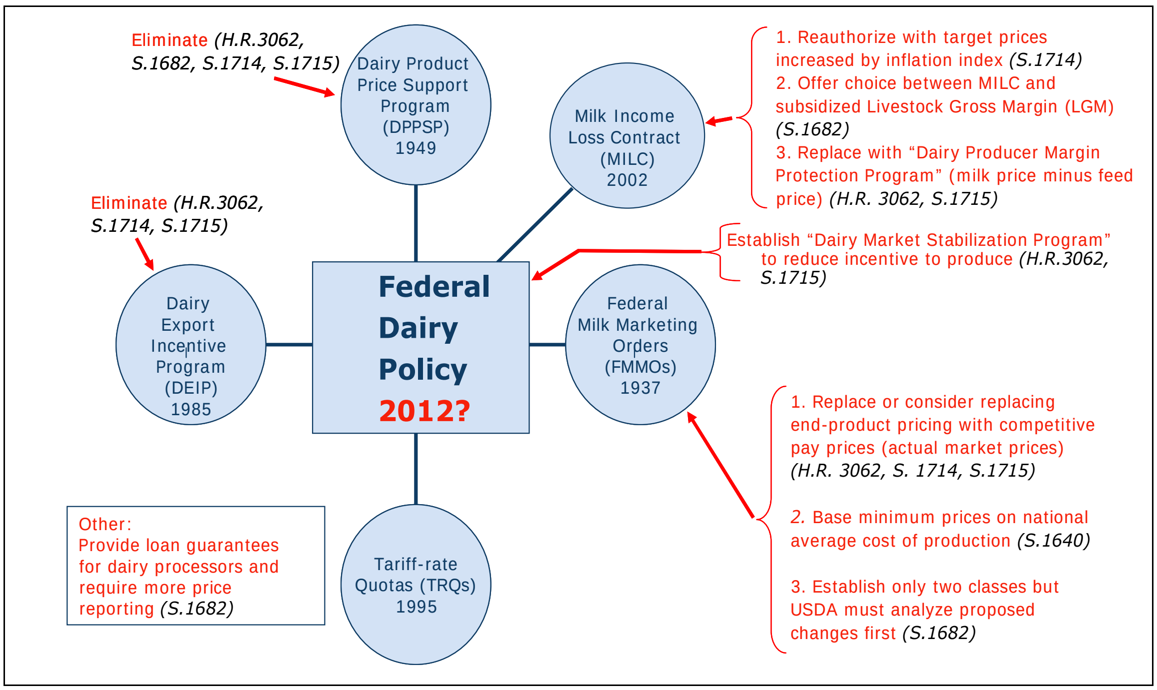
Dairy Export Incentive Program (DEIP)

First authorized in 1985, the Dairy Export Incentive Program (DEIP) provides cash bonus payments to U.S. dairy exporters, subject to limits on both quantity and value. The program was initially intended to counter foreign—mostly European Union—dairy subsidies while removing surplus dairy products from the market. The program has been lightly used in recent years, and some believe that federal funds might be better spent on other aspects of dairy farm support.

Dairy Policy Bills in the 112th Congress

Following sharply lower farm milk prices and continuing movements toward high feed costs in 2009, the dairy industry and some Members of Congress have been developing and offering legislation designed to better support dairy farmers and improve dairy pricing under marketing orders. This section briefly reviews dairy farm support bills introduced to date in the 112th Congress (see **Figure 4** and **Table 1**). Several bills would eliminate elements of current dairy programs and replace them with programs that supporters say would better protect producers in market downturns. As a separate part of dairy policy reform, many are interested in creating a more dynamic and transparent pricing system under marketing orders to improve price discovery and reduce volatility.

Figure 4. Current Dairy Policy and Bills in the 112th Congress



Source: CRS

Table 1. Dairy Policy Bills in the 112th Congress

Bill	Programs Eliminated	Additions/Changes	Federal Milk Marketing Orders
H.R. 3062, Dairy Security Act of 2011 by Rep. Peterson and others; also contained in **H.R. 3111** and **S. 1658** (REFRESH Act) by Sen. Lugar and Rep. Stutzman	1. Dairy Product Price Support Program (DPPSP), 2. Milk Income Loss Contract (MILC) Program. 3. Dairy Export Incentive Program (DEIP)	Establishes voluntary Dairy Producer Margin Protection Program to provide payment when national margin (farm price of milk minus feed cost) is below $4 per hundredweight for two months. Producer may purchase additional coverage up to an $8 margin. If electing margin protection, producer must also participate in Dairy Market Stabilization Program. Under market stabilization, to reduce output when margin is below $6 for two months, producer receives market revenue for only 98% of the farm's base production (97% when margin < $5; 96% when margin < $4 for only one month). Individual farm revenue for excess production is withheld and remitted to the Commodity Credit Corporation for purchases of dairy products.	Directs Secretary of Agriculture to propose regulation to replace the use of end-product price formulas for setting prices for Class III milk with a method using competitive price (prices of raw/producer milk paid in actual market transactions). Requires producer referendum of this proposed change (with 50% of producers voting in favor, not two-thirds as used in current orders) and failure would result in no change to current order system.
S. 1640, Federal Milk Marketing Improvement Act of 2011 by Sen. Casey	none	Revises federal milk marketing order system.	Replaces current 4-class system with two classes (fluid milk and manufacturing milk) and bases minimum prices on the national average cost of production.
S. 1682, Dairy Advancement Act of 2011 by Sen. Casey	1. DPPSP	Producers may participate in MILC or purchase a subsidized margin insurance policy (Livestock Gross Margin for Dairy) on up to 3 million pounds of production. Provides loan guarantees for dairy processors and cooperatives to acquire new equipment and technologies. Requires more price reporting (product range and frequency) by processors.	Directs Secretary of Agriculture to replace current 4-class system with two classes (fluid milk and manufacturing milk). Requires USDA to first analyze economic impacts of any proposed changes in pricing formulas to minimize potential adverse consequences.
S. 1714, Dairy Producer Income Protection Act of 2011 by Sen. Gillibrand	1. DPPSP, 2. DEIP	Extends MILC with parameters in effect as of August 2012. Target price adjusted monthly based on the Consumer Price Index.	Directs Secretary of Agriculture to conduct hearings to assess the implications of replacing end-product pricing with a competitive pay pricing system.
S. 1715, Dairy Pricing Reform and Farmer Protection Act of 2011 by Sen. Gillibrand	1. DPPSP, 2. MILC, 3. DEIP	Establishes voluntary Dairy Producer Margin Protection Program to provide payment on first 2.985 mil. lbs of production when national margin is below $6 per cwt for two months. Payment is made on additional amounts when margin is below $4 per cwt. Producer may purchase coverage at higher margin levels. Establishes mandatory Dairy Market Stabilization Program, as in H.R. 3062, but would reduce individual farm revenue only when milk production growth in a marketing order exceeds growth in milk products on a month-to-month basis during the preceding two-month period.	Same as S. 1714.

Source: CRS summary of bill language.

Dairy Security Act of 2011 (H.R. 3062) by Representative Peterson and Others

H.R. 3062 would replace dairy price supports (DPPSP), MILC, and DEIP with two new programs designed to support farm income and mitigate adverse effects of severe dairy price cycles. The bill was introduced by Representative Peterson and others, and reflects views expressed by the National Milk Producers Federation (NMPF), representing milk producer cooperatives.[3] The bill provides (1) payments to producers when margins (milk price minus feed cost) decline, (2) penalties for producers who elect to participate in the payment program if they produce above certain levels, and (3) changes to federal milk marketing orders to be made through the regulatory (hearing) process.

The first component is the Dairy Producer Margin Protection Program, which would make payments to participating producers when the national margin—farm milk price minus feed costs—drops below $4 per cwt. To participate, producers pay an administrative fee between $100 and $1,000 depending on milk production levels. This "basic margin protection" payment is the difference between a two-month average margin and a floor of $4 per cwt times 80% of the producer's annual production history.[4] For margins below $8 per cwt, producers could purchase supplemental coverage, and the payment would be made on 25%-90% of production history (or the highest production amount during a previous year). Farmers who chose not to participate could manage their own income and price risk.

The second feature is the Dairy Market Stabilization Program, which is required for producers who elect to participate in the margin program. To discourage milk production during times of low margins, thereby possibly shortening the period of low margins, producers would not receive the market revenue for milk produced in excess of a portion of the farm's program base.[5] Instead, that revenue would be sent to the federal government to be used for purchasing dairy products (to increase demand) as well as to pay for the cost of the overall program. In general, in times of low margins, farmers in the margin and stabilization programs would not receive market revenue on anywhere from 2% to 4% of their base production, depending on how far the margin drops. Specifically, when the national margin is below $6 for two months, a producer would receive market revenue for only 98% of the farm's program base; if the margin drops below $5 for two months, the factor is 97%. If the margin drops below $4 for one month, the factor is 96%.[6] The program would be suspended when the U.S. price for either cheddar cheese or skim milk powder is more than 20% above world prices for two consecutive months.

Proponents argue that the bill would better protect participating producers of all sizes from low returns compared with current programs and at the same time reduce total dairy program costs.[7] The Congressional Budget Office (CBO) has scored net savings of $131 million over 10 years

[3] The Dairy Security Act of 2011 is also included in the Rural Economic Farm and Ranch Sustainability and Hunger (REFRESH) Act of 2011 (S. 1658 and H.R. 3111) by Senator Lugar and Representative Stutzman.

[4] A producer's history is the highest annual amount during previous three calendar years. For the payment calculation, the annual production history is divided by six months. Actual farm output is used instead if it is less than the history.

[5] The program base is the average monthly marketings in the previous three months or in the same month a year earlier.

[6] Maximum reductions apply for paid-on quantity: only 6% of current milk marketings for the 98% factor, 7% for the 97% factor, and 8% for the 96% factor.

[7] Background information on the bill is available at the website for House Committee on Agriculture—Democrats http://democrats.agriculture.house.gov/press/PRArticle.aspx?NewsID=1126.

compared with current law. Supporters say that current dairy programs were inadequate during the 2009 crisis when milk prices dropped precipitously and they will not protect producers against similar events in the future. More specifically, supporters contend inherent incentives in the dairy industry to overproduce need to be offset by a program to promote more measured adjustments to milk production, not just wait for the market to rebound on its own.

Critics of the bill, including dairy processors and some producers, contend that provisions to reduce milk production adversely affect the competitiveness of the U.S. dairy industry, limit incentives to innovate, raise consumer prices, and decrease demand for dairy products. (An earlier draft of the bill required all producers to participate, causing concern that mandatory provisions would penalize farms with potential for growth.) Other concerns include the potential for increased market volatility (instead of the intended lessening) because of time lags between program activation, producer response, and market effects.

Analysis by university researchers indicates that H.R. 3062 could reduce volatility in dairy farm income and reduce the frequency of negative income.[8] However, the results also indicate that reduced volatility corresponds with a lower average income level for all four sizes of representative U.S. dairy farms analyzed in the report. Separately, analysis by the Food and Agricultural Policy Research Institute (FAPRI) indicates that the margin program could provide producers with more price protection in times of low margins than current dairy programs because the program would cover a greater share of production. Also, it might provide larger payments relative to current programs when margins are exceptionally low and as the margin situation deteriorates.[9]

The third component of the bill addresses federal milk marketing orders. Minimum order prices for farm milk are currently determined using lengthy formulas and current wholesale dairy product prices collected by USDA's National Agricultural Statistics Service (NASS) in a weekly survey of manufacturers. The bill directs the Secretary of Agriculture to propose regulations replacing the use of such "end-product price" formulas used to set minimum prices for Class III milk (used in cheese production). The preferred replacement is to use a "competitive price" (prices of raw/producer milk paid in actual market transactions). USDA's final rule would be subject to a producer referendum, with a required 50% approval (not the usual two-thirds majority for changes to milk marketing orders). Also, if producers do no approve it, the current order system would remain unchanged.

Supporters say the elimination of end-product pricing for Class III would help simplify the federal milk marketing orders. Many producers and processors alike have complained that the current product pricing mechanism and revenue pooling system of FMMOs compensate handlers for lower-valued products and encourage overproduction. Also, according to the NMPF and others, the pricing formulas set fixed margins ("make allowances") for dairy manufacturers, which unfairly creates winners and losers within the dairy industry. Dairy processors, represented

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[8] Charles Nicholson, Cal Poly San Luis Obispo, and Mark Stephenson, University of Wisconsin, "Farm-Level Financial Impacts of the Dairy Security Act of 2011 (H.R. 3062) and the Dairy Provisions of the Rural Economic Farm and Ranch Sustainability and Hunger Act of 2011 (S. 1658)," October 2011, http://dairy.wisc.edu/PubPod/Pubs/DSA%20Farm.pdf.

[9] Scott Brown, *Analysis of NMPF's Foundation for the Future Program*, Food and Agricultural Policy Research Institute, FAPRI-MU Report #05-10, Columbia, MO, June 2010, http://www.fapri.missouri.edu/outreach/publications/2010/FAPRI_MU_Report_05_10.pdf.

by the International Dairy Foods Association (IDFA), contend that minimum pricing in federal orders should be eliminated, saying it stifles innovation and increases price volatility.[10]

S. 1640 and S. 1682 by Senator Casey

Senator Casey has introduced two bills, each taking a different approach to support dairy farmers. S. 1640 would require use of milk cost of production to determine minimum milk prices under the FMMOs in order to increase milk prices and dairy farm returns. In contrast, S. 1682 would encourage the use of risk management tools by establishing a subsidy for producer purchase of a gross margin insurance product, among several other provisions.

Federal Milk Marketing Improvement Act of 2011 (S. 1640)

The Federal Milk Marketing Improvement Act of 2011 (S. 1640) would replace the current 4-class marketing order system with two classes (fluid milk and manufacturing milk) and base minimum prices on the national average cost of production for milk. In short, the bill would move current FMMO pricing from a market-based (demand) system to a production-cost-based system. The bill also contains provisions for USDA to administratively reduce prices received by farmers in an effort to limit milk production if the Secretary of Agriculture determines that an excess amount is being produced for the national domestic market.

A change in the FMMO system to a production cost basis for pricing implies higher prices received by dairy farmers, at least initially, which is the aim of proponents. Critics, however, are concerned that the long-run competitiveness and stability of the U.S. dairy industry could be at risk because of the unknown effectiveness of provisions to discourage overproduction, given limitations on USDA to make adjustments, and potentially rewarding inefficiency of high-cost producers.

Dairy Advancement Act of 2011 (S. 1682)

The Dairy Advancement Act of 2011 (S. 1682) would eliminate the Dairy Product Price Support Program and offer to producers a subsidy for the purchase of existing dairy margin insurance policies (Livestock Gross Margin–Dairy) as an alternative to the MILC program. The subsidy amount is not specified, but it would be available at the $1.50-per-cwt level on up to 3 million pounds of production to control program costs. The amount of production to be covered could be increased by lowering the deductible amount.

In an effort to help the industry upgrade its capital base and adjust to changes resulting from eliminating price support, S. 1682 would provide loan guarantees for dairy processors and cooperatives to acquire new equipment and technologies. The intention is to encourage production of products demanded in the marketplace rather than ones protected by price support (nonfat dry milk, butter, and American cheese).[11] The bill would also expand mandatory price

[10] International Dairy Foods Association, *IDFA Dairy Policy Recommendations: Providing a Path to Growth and Opportunity*, Washington, DC, 2011, http://www.idfa.org/files/documents/147_IDFA_Dairy_Policy_Recommendations_0422.pdf.

[11] Office of Senator Robert P. Casey, "Casey Introduces the Dairy Advancement Act," press release, October 12, 2011, http://casey.senate.gov/newsroom/press/release/?id=204c088b-41de-4835-9115-38025ed66ecc.

reporting to include more products being reported more often—daily rather than weekly. The Dairy Policy Action Coalition (DPAC), a producer organization based in Pennsylvania, has led the efforts advocating improved price discovery and market transparency through additional price reporting.[12] The bill also directs the Secretary of Agriculture to replace the current 4-class system in federal milk marketing orders with two classes (fluid milk and manufacturing milk), and requires USDA to first analyze economic impacts of proposed changes in pricing formulas to minimize any potential negative consequences.

IDFA, representing dairy processors, supports S. 1682 because it contains no provisions that directly affect incentives to produce milk and focuses instead on risk management for dairy farmers. However, IDFA says the bill does not sufficiently reform the milk marketing order system.[13] In contrast, NMPF has supported a different approach (H.R. 3062), in part because it argues that MILC does not sufficiently help dairy farmers whose production is above the level that is ineligible for payment.

S. 1714 and S. 1715 by Senator Gillibrand

In October 2011, Senator Gillibrand introduced two dairy policy bills, each taking a different approach to support dairy farmers. The first would extend and enhance the MILC program. The second is similar to the Dairy Security Act of 2011 (H.R. 3062) discussed above, except that the stabilization program (i.e., a penalty for overproduction) would not apply to producers in certain circumstances.

Dairy Producer Income Protection Act of 2011 (S. 1714)

The Dairy Producer Income Protection Act of 2011 (S. 1714) extends MILC for five years with parameters in effect as of August 2012. This would avoid a scheduled drop in payment parameters (i.e., provide smaller producer payments if activated) prior to program expiration on September 30, 2012. Another key feature is a monthly adjustment to the target price based on the Consumer Price Index (CPI). This provision would provide an increasing level of producer protection from declines in farm milk prices as long as the CPI increases, which commonly occurs. Finally, the bill directs the Secretary of Agriculture to conduct hearings to assess the implications of replacing end-product pricing in federal milk marketing orders with a competitive pay pricing system. To fund the changes to MILC, the bill would repeal the Dairy Product Price Support Program and the Dairy Export Incentive Program. A preliminary score by the Congressional Budget Office indicates the bill would save $21 million over five years compared with current law and cost $10 million over 10 years. Overall, the bill might appeal to producers who prefer the MILC program to the margin-based program as in H.R. 3062. Because payments are made only on a limited amount of production, MILC is more popular with smaller farms than those affected by the limit (farms with about 160 cows or more).

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[12] Rob Barley and Dennis C Wolff, Presentation to the Dairy Industry Advisory Committee, Washington, DC, June 3-4, 2010, http://www.fsa.usda.gov/Internet/FSA_File/4_barley_wolff_dpac_diac_jun.pdf.

[13] International Dairy Foods Association, "Statement of Connie Tipton, IDFA President and CEO, on the Dairy Advancement Act of 2011," press release, October 12, 2011, http://www.idfa.org/news—views/statements—speeches/details/6496/.

Dairy Pricing Reform and Farmer Protection Act of 2011 (S. 1715)

Similar to H.R. 3062, the Dairy Pricing Reform and Farmer Protection Act of 2011 (S. 1715) establishes a voluntary margin program, but it differs from H.R. 3062 in that payments would be provided only on the first 2.985 million pounds of actual production when the national margin is below $6 per cwt for two months. For production amounts above the limit, payment on 70% of a producer's historical production is made when the margin is below $4 per cwt. Producers may purchase additional coverage up to $8 per cwt or the projected margin, whichever is less. Compared with H.R. 3062, S. 1715 would provide greater protection for smaller producers.

A second key difference from H.R. 3062 is the administration of the Dairy Market Stabilization Program, which applies to all producers who participate in the margin program in the House bill. Under S. 1715, the market stabilization program would reduce individual farm revenue only when milk production growth in a marketing order exceeds growth in milk products on a month-to-month basis during the preceding two-month period. Individual farm revenue in other areas would be unaffected. The provision is designed to "require larger farms in regions without a large population to curtail production if there is no market for milk."[14]

Conclusion

Proposed dairy legislation has the potential to eliminate some dairy programs and modify others, or replace them altogether with a new approach to dairy farm support. Many in the industry, including both producers and processors, have concluded that at least some change is needed in the federal marketing order system, although the degree of desired change varies substantially. The industry is not unified on the general approach to dairy farm price and income support. Cost considerations and familiarity with existing programs or comfort level with new ones are likely factors in how dairy policy is developed in the 112th Congress.

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[14] Office of Senator Kirsten Gillibrand, "Gillibrand Announces Priorities For Next Farm Bill," press release, September 20, 2011, http://gillibrand.senate.gov/newsroom/press/release/?id=a6e83db3-963f-42cb-89bc-a887e6c6771e.