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Farm Bill Conferees Meet; NMPF, IDFA Tout Different Dairy Titles

Senators Want MILC Program Extended Until Margin Insurance Program Starts; Dairy, Farm Groups Want Permanent Law Kept

Washington—Members of the House-Senate farm bill conference committee began their long-awaited negotiations on a new, five-year farm bill Wednesday afternoon.

"When we are successful, when we have reached consensus, we will have a final product that provides major savings to the Treasury, significant reforms to policy, and yet still provides a safety net for not only the production of food and fiber, but also to ensure our fellow citizens have enough food to eat," US Rep. Frank Lucas, conference committee chairman, said in his opening statement.

"I've said this many times before, but it is worth saying again: a safety net must be written with bad times in mind. A farm bill should not guarantee that the good times are the best, but rather that the bad times are manageable," Lucas added.

"I think I speak for all of us in saying that it is long past time to finish the farm bill," remarked US Rep. Collin C. Peterson, the top Democrat on the House Agriculture Committee.

"We've been working on this bill for so long I think we're actually at a point where most of the staff work is done," Peterson continued. "It is time for members to start making the compromises necessary to put together a bill that can be defended and clearly explained to both our colleagues and the general public."

The dairy title of the farm bill is expected to be one area of disagreement among farm bill conferees.

The Senate's version of the farm bill includes the two key provisions of the Dairy Security Act, which was developed by the National Milk Producers Federation (NMPF): a voluntary Dairy Production Margin Protection Program and a Dairy Market Stabilization Program, also referred to as supply management, that's mandatory for dairy producers who sign up for the margin protection program.

The House version of the farm bill includes a margin insurance program but not the Dairy Market Stabilization Program.

Both NMPF and the International Dairy Foods Association (IDFA) made their views known to farm bill conferees this week.

"The Senate's bipartisan Dairy Security Act is the only option that will provide help to farmers when they need it most, while also limiting taxpayers' exposure through its market stabilization mechanism," said Jim Mulhern, NMPF's chief operating officer. "It's an important safety net to farmers when they need it, and not an underfunded liability to the government when the program is in operation."

By contrast, the House dairy title "would be fiscally irresponsible and ineffective. Lacking the Senate's market stabilization program, the House approach would cause farmers to suffer prolonged periods of poor margins, while taxpayers subsidize dairy processors through artificially low milk prices," Mulhern continued. "We strongly encourage the farm bill

• See **Farm Bill Talks,** p. 24

Costs Of Farm Bill Dairy Proposals Could Be Up To Three Times As High As Costs Of Current Programs; Large Farms Benefit More

St. Paul, MN—Expected costs of 2013 farm bill dairy policy proposals could be up to three times as high as the expected costs of continuing the 2008 farm bill dairy programs, according to an "Issue Brief" released this week by the University of Minnesota's Food Policy Research Center.

Authors of the Issue Brief are Marin Bozic of the University of Minnesota's department of applied economics; and John Newton and Cameron S. Thraen of Ohio State University's department of agricultural, environmental and development economics.

The House and Senate farm bills provide "major reforms" to federal dairy policy, reorienting dairy safety net programs from supporting milk revenue to protecting dairy income over feed cost (IOFC) margins, the brief explained.

Proposed 2013 House and Senate farm bills "are likely to be very effective in providing catastrophic dairy margin insurance," the brief continued.

If effective, the Senate farm bill's Dairy Market Stabilization Program "would reduce the duration of low-margin periods," the brief stated. "However, if the stability of net farm incomes is substantially increased, then milk supply response may result in

• See **Dairy Policy Costs,** p. 14

EU Gains Limited GI Rights To Some Cheese Names Under EU-Canada Trade Agreement; Will Affect Future, Not Current, Users

Ottawa, Ontario—A technical summary of the recently finalized trade agreement between Canada and the European Union (EU) details the varying ways in which Canada will address EU requests regarding 179 geographical indications (GI) covering food and beer.

The Canada-EU trade agreement summary was released Tuesday by Canadian Prime Minister Stephen Harper.

Under the agreement, some EU GIs were protected but with the caveat that they not impact the ability of producers to use specified English- and French-language terms that are commonly employed in Canada.

• See **EU GIs In Canada,** p. 26

Milk Processors Capitalize On Buy-Local Trend With State-Specific Branding

Madison—Buying local is bigger than ever, and as a result, more fluid milk processors are teaming up to create brands celebrating and promoting state origins.

Many of these brands – Rhody Fresh, Kentucky Proud, PA Preferred – started out with a handful of small, independent dairy farmers and a start-up loan from a state department of agriculture.

One of the pioneer states to use this marketing strategy is Rhode Island. Established in 2004 by a group of five Rhode Island dairy farmers, Rhody Fresh is produced by the Rhode Island Dairy Farms Cooperative.

Rhody Fresh was created with a $125,000 loan to cover start-up costs, along with additional funding from the state of Rhode Island. Guida's Dairy in New Britain, CT, was tapped as the processing facility. Guida processes close to 160,000 gallons of raw milk a day. Since Rhody's milk comes from local farms, their product is stored separately in its own silo.

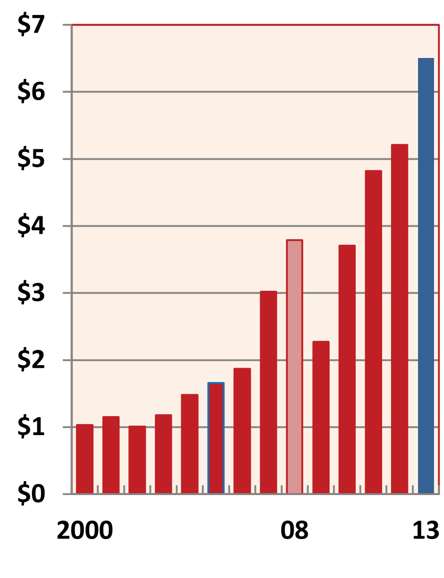
The Rhode Island Co-op launched a marketing campaign when it kicked off in 2004, with marketing materials across the state reminding consumers that Rhody Fresh is locally owned and operated. Co-op member Jessie Dutra said Rhode Island residents have given Rhody Fresh tremendous support.

The effort to support area farms is being seen all across the country as consumers place greater emphasis on buying local, Dutra said.

"It's added value to the state as a whole by opening people's eyes

• See **State Milk Branding**, p. 12

Value of US Dairy Exports 2000 – 2012,
*2013 projected by USDEC
In billions of dollars



Dairy Policy Costs

(Continued from p. 1)

reduced average IOFC margins."

The proposed Senate market stabilization program "may reduce costs" of 2013 farm bill programs between 5 percent and 30 percent relative to standalone margin insurance, with results "highly sensitive" to modeling assumptions regarding the program participation rate and elasticity of demand for dairy products, the brief noted.

Fixed Premiums Are A Problem

An "actuarially fair" insurance premium is the premium that equals expected payouts. When forecasted IOFC margins are below average, expected payouts are high, so a fair premium would be higher, the brief explained.

However, both Senate and House farm bills provide dairy IOFC margin insurance with fixed premiums. It follows that in some years, when forecasted margins are very low, expected payouts may be much higher than the pre-specified premiums. In other words, in those years, implied insurance subsidies will be very high.

In other years, when forecasted margins are high, these fixed premiums may be too expensive relative to fair insurance premiums.

Under the House and Senate programs, dairy producers can choose a different coverage level each calendar year.

Assuming participating producers must decide by January 15 which coverage level to insure for the current calendar year, "substantial incentives exist for strategic participation choices which will result in under-insuring when forecasted margins are high, and maximal coverage when margins are expected to be substantially below average," the brief explained.

"Fixed premiums in conjunction with no time gap between the date when the insurance decision must be made and the start date of the coverage period is likely to result in financially secure dairy producers choosing a coverage level not based on their risk management needs, but with the goal of maximizing indemnities from the government," the brief said.

Several options exist to reduce this problem. For example, if producers had to choose a single coverage level for the duration of the farm bill, the average expected subsidy would be "very similar" to subsidies in crop insurance programs, the brief noted.

Alternatively, the coverage period could be changed to correspond to fiscal years (Oct. 1 – Sept. 30 of each year) with the insurance decision date being the previous March 15.

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A six-month gap spanning the crop growing season would substantially reduce "gaming" the program to maximize indemnities while minimizing premiums paid, the brief said.

As a result, the maximum expected subsidy for $8.00 coverage level is estimated to be reduced from 54 percent to 28 percent.

Based on the authors' research, it is estimated that the six-month gap provision could reduce overall dairy policy costs by 20 percent while preserving low premiums and generous subsidies for those producers who will use this insurance for risk management purposes as it is intended.

Benefits Accrue To Large Farms

Contrary to current commodity programs, the dairy reforms in the House and Senate farm bills impose no eligibility constraints with respect to farm size or adjusted gross income.

As such, the new dairy policy is expected to increase the share of total program benefits accruing to large farm operations, according to the brief.

Under the current Milk Income Loss Contract (MILC) program, farms with less than 100 cows (76 percent of farms, 18 percent of milk production) account for 42 percent of net payments, and farms over 1,000 cows (2 percent of farms, 42 percent of milk production) account for 6 percent of net payments.

Under the new policy regime, farms with fewer than 100 cows will get 17 to 21 percent of net program benefits, and farms over 1,000 cows will get 36 to 43 percent of benefits, the brief noted.