An alternative dairy program proposal

A month ago in our column about the US trade negotiations with Canada over its milk supply management program (https://tinyurl.com/yyzzqcew) we ended by asking: “what do we want as dairy farmers and a nation of increasingly demanding consumers?” This last week we received an answer from the dairy side. National Farmers sent us their proposal called “The Dairy Farm Structure Management Program” (https://tinyurl.com/yxabqn3g).

While our analysis looked at the fate of under 100 cow dairy farms between 2002 and 2007, they looked at those with fewer than 200 cows over the same period to reach a similar conclusion. The number of dairy farms with fewer than 200 cows declined by 34.5 percent from 50,900 farms in 2002 to 33,353 farms in 2007. At the same time the number of farms milking more than 2000 cows increased by 24.7 percent from 780 farms in 2002 to 973 farms 2007.

The National Farmers’ proposal argues that smaller dairies should be supported because they provide benefits that consumers want and that “the advantages to food security, to the environment, and to rural economies that family-sized dairies provide are too valuable to lose.”

The first advantage they list is one of food security. They quote a senior dairy economist at CoBank as saying, “The largest risk with a densely concentrated milk supply is disease or natural disaster. A disease outbreak or natural disaster could quickly impact a much larger share of dairy production when it is concentrated in fewer farms.”

The second advantage is that the connection between the manure produced by a smaller “dairies is often well balanced with crops grown for feed.” With the mega-thousand cow dairies the odds are increased “that livestock waste will become an environmental pollutant rather than a natural source of crop nutrients.”

The third advantage is that communities with family-sized dairies retain a level of economic vitality that they lose when those dairies close.

Building on the Maine Dairy Relief Program that was established in 2004, National Farmers propose a program that would be administered through the existing Federal Milk Marketing Order (FMMO) system which has four goals:

1. Ensure orderly marketing of milk,
2. Improve income of dairy farmers,
3. Equalize bargaining power, and
4. Assure an adequate supply of high-quality milk.

In seeking to use the FMMO system, National Farmers ask, “If we can recognize the different values of finished products why not recognize the different sizes of farms producing the milk?” In answering that question, they assert that their “program is a good fit with both the goals and operations of the existing FMMO system.”

National Farmers wants to give dairy farmers the choice between participating in the current Dairy Margin Coverage program and their proposed Dairy Farm Structure Management Program (DFSMP).

The DFSMP would establish four tiers of dairies: 1) those that produce fewer than 2.3 million pounds of milk a year, 2) those that produce from 2.3 up to 4.6 million pounds per year, 3) those that produce from 4.6 to 11.4 million pounds per year, and 4) those that produce over 11.4 million pounds per year. Tiers 1 and 2 closely match up to dairy farms with fewer than 200 cows. The tiers classifications would be evaluated on a monthly basis.

The proposal includes two types of payments: Stabilization Payments and Market Payments. “The Stabilization Payment is a flat rate of $2.00 per cwt. per month to farmers in

Tier 1 and Tier 2 regardless of market conditions. Farms not in one of these two tiers do not receive a Stabilization Payment." This cutoff is close to the 5 million pounds per year cutoff for the existing Dairy Margin Coverage program.

Market Payments are dependent on the monthly national farm-level milk market price for Class 3 and Class 4 milk (Market Indicator) and the USDA estimates of operating costs for dairy farms in each tier. When the Market Indicator is below the operating costs, tiers 1, 2, and 3 receive Market payments. Dairies in Tier 4 receive neither Stabilization Payments nor Market Payments.

In their DFSMP proposal, National Farmers provide the following example of how the Market payments would work for each Tier. "suppose the Market Indicator is $14.64 per cwt. in a particular month and that USDA has estimated that a farm in Tier 1 would need $16.84 to cover its operating costs. That farm would therefore receive the difference between $16.84 and $14.64, or $2.20 per cwt. of milk marketed during the month.

"If, in that same month, USDA estimated that a farm in Tier 2 had operating costs of $15.48, that farm would receive a payment of $0.84 ($15.48 minus $14.64) for every cwt. of milk sold during the month.

"The Market Payment for a farm in Tier 3, assuming an operating cost of $14.85, would be $0.21 per cwt. ($14.85 minus $14.64).

"Dairy farms in Tier 4 do not receive Market Payments through the Dairy Farm Structure Management Program under any market conditions."

The total payment for any given farm in any month would be the sum of the Stabilization Payment and the Market Payment.

While there are areas in the country not covered by the Federal Milk Marketing Order system, National Farmers proposes establishing a "single national Order in which all farmers participate."

Policy Pennings Column 985

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 231, July 19, 2019

Dr. Harwood D. Schaffer: Adjunct Research Assistant Professor, Sociology Department, University of Tennessee and Director, Agricultural Policy Analysis Center. Dr. Daryll E. Ray: Emeritus Professor, Institute of Agriculture, University of Tennessee and Retired Director, Agricultural Policy Analysis Center.
Email: hdschaffer@utk.edu and dray@utk.edu; http://www.agpolicy.org.