

DAIRY REFORMS ARE COMING – PRODUCERS HOLD KEY TO THEIR FUTURES

Most dairy producers I know do not like to get involved in industry politics.



They feel that the cooperatives or trade associations they belong to will deal with industry reforms on their behalf. With reduced profitability and sustainability over the last decade, producers must take on a bigger roll with influencing dairy industry policy

reforms.

Completely understanding the current reform proposals is critically important for your future well being as a dairy producer. Before this time next year, new dairy reforms will be in place, and you now have the opportunity to help shape your future.

There exists various proposals for dairy industry reform. The most publicized reform proposal called “Foundation for the Future,” (FFTF) sponsored by National Milk Producers Federation, another is the proposal released by National Dairy Producers Organization called “Dairy Industry Stabilization and Sustainability Act of 2011” (DISSA) and last years’ Specter/Casey Bill sponsored by Pro-Ag in Pennsylvania.

All three proposals address new price discovery, production base limits, new producer entry, etc. Two of the proposals, from my view, are very producer friendly. The proposals offered by National Dairy Producers Organization (DISSA) and Pro-Ag (S-C 1645) can be found on their respective web sites.

The FFTF proposal, from my view, continues to leave many of the issues that so negatively affected dairy producers in the past decade, unchanged. As producers, we must insist that this widely publicized proposal becomes much more producer friendly.

The FFTF proposal contains three

Producers have time to understand and get involved in the shaping of current dairy reforms to try and avoid repeats of our 2009 devastating year. I strongly encourage producer input, reconciliation and compromise to any proposed dairy reform.

major parts: 1) Margin Protection, 2) Market Stabilization (supply management) and 3) Reforming Federal Milk Market Orders.

1. FFTF Proposes: Margin Protection Program.

“The margin protection program would provide a floor for producer margins by providing a government funded “catastrophic” loss safety net for all producers. In addition, the program would establish a supplemental margin program under which producers may purchase additional coverage.”

My Objections:

1) Requires continued government funding in the millions of dollars, the other dairy proposals, mentioned above, do not.

2) The plan will only **reduce** losses at the farm level and **NOT** stop the equity burn as advertised.

a) The income over feed cost margins covered by the plan are \$4/cwt to be paid by the government and up to an

additional \$4/cwt to be paid by the dairy farmer at his cost of almost \$1/cwt or a total net margin protection of about \$7/cwt. The necessary national margin today of income over feed costs is \$8 to \$11 depending on location in the U.S. Therefore, the protection levels are up to \$4/cwt too low!

b) Aside from the inadequate protection level of this margin protection proposal, up to only 82.5% of dairy producers’ milk will be protected and will be measured by the historical base earned by all dairymen. Not all milk is insured against loss.

3) Discriminates against hundreds of dairy farmers who cannot participate in government insurance programs because of religious beliefs.

4) This program completely ignores profit potential at the farm level. As stated above, the \$7/cwt margin of protection is too low, needing at times to be \$11/cwt to break even and 100% of milk coverage, even if these two program triggers are raised to satisfactory levels, this plan does not come close to covering the major cost increases in dairy cattle feed. Why should this plan ignore feed costs? Today feed costs are at the highest level in our history and represent about 2/3 of all dairy operating costs. Therefore, reform cannot be solely concerned about only “margins.” It must consider a milk price to cover operating costs to a level that will give dairy farmers a chance for a profit.

FYI

Gary Genske, CPA, and managing partner with Genske, Mulder & Co., LLP, a certified public accounting firm in Costa Mesa, Calif., representing clients who produce 12% of the nation’s milk in 30 states. Gary can be reached at 949-650-9580 or garyg@genskemulder.com.

• Genske is a member of the National Dairy Producers Organization board, an organization that has offered its own federal dairy policy reform proposals. For more information, visit <http://nationaldairyproducers.org>.

2. FFTF Proposes: Dairy Market Stabilization Program (Supply Management).

“...By sending producers strong and timely market signals...to alert producers when additional milk production entering the market may have significant consequences on their overall margins.”

This program imposes punitive assessments on producers when the (income over feed cost) margins are very low, at a time when they can least afford an assessment and are based on each producer's historical milk base allotment. As a consequence, producers are asked to cut back milk production after a milk surplus condition exists for two months, while receiving less for their milk than what it takes to produce it!

My Objections:

1) The trigger levels are far too low at \$6/cwt or below. I feel supply management in this kind of a plan has to begin at \$10/cwt trigger level.

2) This proposal wants to continue to meet the growing world demand for dairy products, but the dairy farmer must not be the only member on the milk supply side to take the losses from export sales, as has been the case! Therefore, a tighter control on matching milk supply to “profitable” demand (domestic or export) must be an essential element of any future dairy proposal going forward.

3. FFTF Proposes: Reforming Federal Milk Market Orders.

“The proposed reforms replace end-product pricing formulas and mandated minimum prices with a competitive milk pricing system.”

My Objections:

1) This proposal as written, eliminates component pricing to farmers and requires markers of milk to seek premiums from milk buyers for high quality milk. The elimination of component pricing is a major step backwards for farmers who, over decades, have not

only developed premium payment payable to dairy farmers who produce higher quality of milk, but is also a considerable step backward to all dairy breeding programs that produce higher component milk.

2) The proposal calls for a survey of price paid by only the largest buyers of milk used for cheese production in the country and we feel, since these large buyers already pay the lowest prices for milk, that they price survey should be much larger to include smaller producers of cheese and truly make the price formula more “competitive.”

Producers have time to understand and get involved in the shaping of current dairy reforms to try to avoid repeats of our 2009 devastating year. Since many co-ops and some trade organizations are promoting the FFTF proposal, the above questions to this proposal must be resolved before producer groups can accept it. I strongly encourage producer input, reconciliation and compromise to any proposed dairy reform. □

PRO-DAIRY

Cornell Dairy Executive Program

THE BUSINESS OF DAIRY

WHAT IS THE CORNELL DAIRY EXECUTIVE PROGRAM (CDEP)?

- An educational program in leadership and management principles for progressive dairy executives
- Focuses on four different areas within the business of dairy:
 - Financial Management
 - Business Operations and Strategic Planning
 - Human Resource Management
 - Risk Management
- Takes place over one year in three, multi-day sessions which build upon each other

ORGANIZED BY:

CORNELL UNIVERSITY
PRO-DAIRY PROGRAM

WITH SUPPORT FROM:

CARGILL ANIMAL NUTRITION
DAIRYBUSINESS COMMUNICATIONS
DAIRYLEA/DFA
ELANCO ANIMAL HEALTH
FARM CREDIT EAST
GENEX COOPERATIVE, INC.
PFIZER ANIMAL HEALTH
PENNFIELD DAIRY PROFITABILITY TEAM
SHUR-GAIN

“CDEP is an excellent opportunity to get exposed to first class speakers in our industry as well as network with other farms that face the same challenges that we face. I will definitely put this information to work on our dairy.”

John Gates
Seneca Valley Farm, New York
Class VIII

CLASS IX

Exec 1: December 4-8, 2011
Exec 2: February 26-March 1, 2012
Exec 3: December 2-6, 2012
The Statler Hotel
Cornell University, Ithaca, NY

AFTER ATTENDING THIS CLASS YOU WILL HAVE DEVELOPED:

- 1- and 5-year strategic business plans
- Leadership and management skills
- A comprehensive self-evaluation of your business
- A network of dairy executives
- A plan for building business relationships

For further information or to complete the application online, visit www.ansci.cornell.edu/prodairy/dairyexec or contact Heather Howland, Conference Coordinator at (607) 255-4478 or hh96@cornell.edu