



Understanding Dairy Agriculture and Food Policy

Every five years since 1930, Congress reviews and passes the “Farm Bill” – a wide-ranging piece of legislation that generates, orchestrates and extends policies covering US agricultural and food programs. Critical commodities such as corn, soybeans, wheat, dairy, sugar, rice and cotton all fall under its umbrella. So do feeding programs, hunger relief efforts and nutrition guidelines. Plus... crop insurance and other risk mitigation programs. And... international food aid and trade programs.

The federal government’s stated dairy policy and agribusiness goals lean toward assisting dairy producers by creating programs that stabilize and maintain prices. The Federal Milk Marketing Order program is a centerpiece (covered elsewhere). Outside of the FMMOs, primary dairy farm bill cover risk management, producer margin protection, research programs and international marketing.

Dairy Forward Contract Pricing Program

Forward contracts are risk management mechanisms enabling buyers and sellers to contract milk for a future period. Forward contracting reduces milk pricing volatility and associated risk by allowing market participants to contract a certain quantity at an agreed price for a defined future time-period.

- USDA provisions allow farmers to voluntarily enter into forward price contracts with handlers for pooled milk
- Permits regulated handlers to pay farmers in accordance with the terms of a forward contract instead of FMMO minimum prices for pooled milk
- Applies to milk purchased to manufacture Class II, Class III, Class IV products (excludes Class I)

Dairy Indemnity Program

Provides protection when milk and dairy product prices are forced to remove milk or dairy product prices from commercial markets through no fault of their own. Dairy farmers and manufacturers can be indemnified and receive fair market value in instances of contamination from pesticides, chemicals or toxic substances, nuclear radiation or fallout.

- Authorizes fair market value payments to dairy farmers when public regulatory agency directs removal of their raw milk from the market

Dairy Promotion and Research Program

Known as the Dairy Checkoff Program, education mandate, is subsidized by U.S. dairy farmers and U.S.

dairy importers. It promoting dairy products, research, nutrition and education.

- Funded by U.S. dairy farmers at \$0.15/cwt and importers at \$0.075/cwt on imported dairy products

Dairy Margin Protection Program

The Margin Protection Program (MPP) offers payments to dairy producers when national dairy margins fall below selected coverage levels. MPP is a insurance-type mechanism designed to help producers cope with low milk prices and/or high feed costs.

- In determining margin under the MPP, USDA calculates two factors: the “All Milk Price” and feed costs
- Offers dairy producers catastrophic coverage and provides payments when the national dairy production margin is less than \$4.00/cwt
- Various levels of buy-up coverage. Providing payments when margins are between \$4.00 and \$8.00 per cwt

Dairy Product Protection Program

Requires the Secretary of Agriculture to purchase dairy products at prevailing market prices for donation to low-income groups through food banks and other feeding programs.

- Triggered when actual dairy production margin is \$4.00/cwt or less for each of the immediately preceding two months for dairy producers
- Requires USDA to purchase dairy products for three consecutive (unless margins rebound)

Federal Feeding and Nutrition Programs

SNAP is by far the largest nutrition program in the Farm Bill offering nutrition assistance to eligible, low income individuals and families.

- Provides participants in the Supplemental Nutrition Assistance Program (SNAP) with additional incentives to choose milk and dairy products

Trade Programs

Focused on international food aid and agricultural exports.

- Elevates exports of dairy products

Other Reference: <http://www.thefarmbill.com>

Contributor:

Phil Plourd

Blimling and Associates, Inc.

Phone: 608-249-5030

Email: pplourd@blimling.com

“ADPI Dairy Ingredients Intelligence” are contributions by the authors and do not necessarily represent the opinions of ADPI.