

# DAIRY POLICY REFORM

*These dairy policy recommendations, developed by the Pennsylvania Department of Agriculture and the Center for Dairy Excellence, with input from the Pennsylvania Dairy Task Force, have been developed to provide constructive changes that allow the dairy industry a rare opportunity to fundamentally change demand for dairy products and strengthen producer prices. Having the right dairy policy in place will be critical to promoting growth, capturing international markets, and encouraging investments from the farm to the processor. The goal is to make the U.S. dairy industry stronger — both here and around the globe.*

## These dairy policy recommendations include:

### **Mandate Greater Market Transparency and Price Discovery:**

- The U.S. dairy industry would benefit from a reliable and transparent method of price discovery for dairy commodities. It is questionable whether that exists today. The CME market for cheese and butter is thinly traded and FMMO's depend on NASS surveys of dairy commodities. The problem with the latter is that the NASS survey creates a lag in pricing information (1-2 weeks). What is needed are improvements in the NASS surveys; eliminate the lag, apply it to all dairy products sold, and make reporting on a daily basis mandatory in the same way other protein commodities report.
- Improve the integrity of the marketplace by creating an alternative to the spot market or consider using a collection of price discovery tools that, collectively, would more accurately reflect current market conditions of supply and demand.

### **Strengthen the Safety Net for Producers:**

- Extend the Milk Income Loss Contract (MILC) program. This program has been an important safety net for producers and has been improved as a result of the 2008 Farm Bill to include a Feed Cost adjustor. This is the first time a "Cost of Production factor" has been included in this program.
- Provide dairy producers with additional and meaningful voluntary risk management tools like LGM for dairy insurance and a Dairy Options Program. These tools build on current programs and represent the next generation of dairy margin protection; USDA should consider providing funds to offset the costs associated with producer education for LGM and funding for a Dairy Options Pilot program.

### **Overhaul the Federal Order System:**

- Study the economic benefits to the producer of establishing two classes of milk; Fluid and manufactured classes with prices for each class being determined using fat, protein, and other dairy solids
- Explore adding input costs such as feed costs to the pricing formulas.
- Require timely decisions within 30 days of the hearing record being closed.

### **Develop New Markets and Encourage Industry Investment:**

- The U.S. is in a good position to become a significant player in the global export markets for dairy ingredients and for this opportunity to continue to grow. The DPSP is a deterrent to producing for export markets and should be thoroughly reviewed, eliminated, or adjusted to become more flexible as to not inhibit the manufacture of NFDM for export but to provide incentives for new export product development domestically.
- The U.S. should actively pursue new investment and advanced technology in dairy ingredient manufacturing and the domestic production of new products meeting new market opportunities. Milk Protein Concentrates are an example of these new opportunities.
- Make full use of DEIP Program authority.
- Revisit standards of identity for products being used for dairy manufacturing but not being considered dairy ingredients. Apply same standards to domestically produced products as well as imported products.

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**These dairy policy recommendations include (continued):**



**Strengthening oversight of trade agreements**

- Conduct a comprehensive review of all trade agreements to determine impact on domestic dairy industry.
- Ensure all products are correctly classified; and that trading partners are abiding by agreement terms and export opportunities for U.S. dairy products are maximized.



**Explore PMMB authority**

- Review existing PA Milk Marketing Board authority to fully explore opportunities to enhance profitability at the dairy farm production level.