



October 21, 2013

Dear Farm Bill Conferee:

As you prepare to meet in Conference to reconcile the differences between the House and Senate versions of the Farm Bill, I am writing to provide recommendations from the Midwest Dairy Coalition.

Dairy Security Act

The Midwest Dairy Coalition strongly supports the Senate provisions to authorize a new dairy safety net program, called the Dairy Security Act (DSA). The DSA creates a voluntary margin protection program for dairy producers who want to buy coverage to protect their margins, and gives producers options for levels of coverage.

The Senate DSA provisions include a 2-tier premium structure strongly supported by the Midwest Dairy Coalition. Under this structure, the margin protection premiums for all producers' first 4 million pounds of production are lower than for production above that level. Four million pounds of production annually is roughly equivalent to an average 200-cow operation, which covers about 94 percent of dairy farms nationally. This 2-tier premium structure recognizes the unique costs of production for small-and-medium-scale operations, and helps those farms make the transition from the Milk Income Loss Contract (MILC) program, which would be replaced by the DSA provisions.

Because the federal government provides a partial subsidy for those farmers who participate in the margin protection program, producers who participate are also required to take steps to minimize the cost to taxpayers. The goal is to create a dairy safety net program that will survive long term, without the need for constant changes by Congress to address budget concerns. Therefore, the Senate DSA provisions also include market stabilization provisions that address milk price volatility, by requiring producers who sign up for the margin protection program to also agree to reduce their production slightly during times of tight margins, to prevent over supply and reduce milk price volatility. Producers who do not want to cut back on their production during these low-margin periods have the alternative option of making a payment to USDA, which would then allow the agency to purchase surplus dairy products for donation to food banks.

Milk price volatility is hard on farmers and consumers, but it is also hard on taxpayers because the cost of the dairy safety net programs increase significantly during times of low milk prices and low margins. The stabilization provisions of DSA address all three groups by minimizing milk price volatility.

It is important to note that the DSA is entirely voluntary, but those who chose to accept the federal premium subsidies must also agree to take these periodic steps to limit the cost of the program by minimizing milk price volatility.

In the Upper Midwest, the whipsaw effect of milk price volatility and low margins take a toll on our dairy farmers and undermine our region's ability to meet the milk supply needs of our expanding milk processing sector. We believe that producers will be in a much better position to meet the production needs of our region in an orderly fashion, if they can protect themselves against low margins and operate in a more stable price environment.

We are disappointed that the House voted to strip the Dairy Security Act provisions out of the House Committee-passed bill, and replace them with a stand-alone margin insurance program that does NOT address price volatility or limit future taxpayer costs. We believe this approach will lead to very large increases in production, resulting in artificially low milk prices and very high cost to taxpayers. While this approach of providing large subsidies without any limits may look attractive in the short term, it is neither sustainable nor responsible to do so.

We strongly urge conferees to support the Senate Dairy Security Act provisions.

Transition Provisions from Milk Income Loss Contract (MILC) Program to the New Margin Protection Program

Once the new Margin Protection Program is enacted as part of the 2013 Farm Bill, it will likely take USDA months to flesh out the details and get the new program up and running. Recognizing this, the Senate dairy provisions allow farms to continue their enrollment in the Milk Income Loss Contract (MILC) program until the new program is established, so that there is no gap in safety net. Producers can also opt to sign up for the Margin Protection Program during the transition period instead, and would be eligible for retroactive payments once the program is fully established by USDA.

In contrast, the House dairy provisions eliminate the MILC program immediately, and establish complicated procedures for farmers to express their formal intent to participate in the Margin Protection Program even before the details of the program are announced by USDA, in order to be eligible for retroactive margin protection payments once the program is established. We believe that the House's convoluted approach to transition is ill advised. Because the structure of the new Margin Protection Program is so different from current dairy safety net programs, a great deal of education will be required so that farmers fully understand their new options. Forcing farmers to make an early decision prior to the existence of the full details of the program will only cause confusion and frustration. Without an ongoing program, it will leave producers without any safety net during the months after Farm Bill enactment and before full USDA implementation.

Therefore, we are requesting that conferees include the Senate transition provisions in the final bill. We also urge the inclusion of language clarifying that the version of

MILC available to producers during the transition period is the same version that was in place until August 31, 2013. This version includes the updated volume, feed adjuster and payment rate parameters that are more reflective of current dairy farm structures and market conditions.

Legislating Details for Federal Milk Marketing Orders

The federal milk marketing order (FMMO) system is one of the nation's most complex regulatory systems. In response to concerns about delays in the process for considering changes to federal orders, Congress included explicit language in the 2008 Farm Bill to provide parameters and timeframes for proposals to be considered.

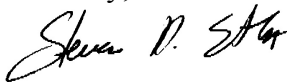
While the members of the Midwest Dairy Coalition agree that the FMMO system is in need of reform, we continue to oppose efforts to legislate the details of specific federal order changes. Instead, proposals for changes in federal orders should be made through the formal USDA hearing process established in law. The formal hearing process includes procedures and analysis requirements that give all parties an equal opportunity to debate the merits of specific federal order amendment proposals, and require USDA to fully consider all perspectives when making a final decision on such proposals.

Of particular concern is Section 1462 of the Senate bill, which requires USDA to initiate a process to consider alternative pricing mechanisms for Class III milk. We believe that this provision is unnecessary because under current federal order procedures, proponents of such proposals can petition USDA directly to hold a formal hearing on their proposal. If the goal of this section is to require USDA to initiate an informal industry dialogue with USDA about the merits of holding a federal order hearing to consider Class III pricing alternatives, without rigid *ex parte* communication limits, there are far simpler ways to craft the language to achieve that goal. But if the goal of the provision is to force USDA to hold a formal federal order hearing to consider Class III pricing alternatives, without observing the normal procedures and analysis requirements necessary to fully weigh the merits of a proposal, and its impact on all regions, we would have strong objections.

Therefore, we urge conferees to either reject Section 1462 of the Senate bill, or add language to clarify that the provision would in no way waive any procedural or analysis requirements currently in place for formal federal order hearings, nor would it give Congressional blessing to any specific federal order amendment proposal.

Thank you for your consideration of these recommendations and concerns.

Sincerely,



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Coordinator

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