MIDWEST DAIRY COALITION

Member Organizations:

Associated Milk Producers, Inc.

Bongards' Creameries

Ellsworth Cooperative Creamery

FarmFirst Dairy Cooperative

First District Association

Midwest Dairymen's Company

Scenic Central Milk Producers

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Price Support Division
Farm Service Agency, USDA, STOP 0512
1400 Independence Ave. SW.
Washington, DC, 20250-0512

RE: Docket ID # CCC-2014-0009
RE: MPP-Dairy, Production History Rules and Intergenerational Transfers

Attached are the comments of the Midwest Dairy Coalition in response to the questions posed by the Farm Service Agency regarding the Margin Protection Program- Dairy and the impact of the MPP production history rules on intergenerational transfers.

Thank you,

Steven D. Etka
Coordinator

I am writing on behalf of the member dairy cooperatives of the Midwest Dairy Coalition, to provide comments regarding the impact of Margin Protection Program (MPP-Dairy) production history rules on family farm operations seeking to transfer farms to the next generation, or to expand in order to accommodate adult children returning to the farm.

The Midwest Dairy Coalition is an alliance of dairy cooperatives representing dairy producers in eight Upper Midwest states on federal dairy policy issues. The Coalition collectively represents nearly 9100 dairy farmers, or about 20 percent of the dairy farmers in the nation. On a regional basis, the Coalition's membership represents a majority of dairy farmers in the Upper Midwest, and provides an effective and useful forum for dairy organizations to discuss, debate and propose common action dealing with the ever-changing federal dairy issues of the day.

The family farm has long been the dominant farm structure of the U.S. dairy sector.
That is particularly true for dairy farms in the Upper Midwest, where family dairy farms have always been a mainstay of the rural economies of our region.

USDA’s Farm Service Agency (FSA) has asked several important questions about the impact of the MPP-Dairy production history rules on intergenerational transfers of dairy operations, or families that wish to expand production on their farm in order to accommodate a son or daughter’s return to the farm. We provide our comments in response to those questions below:

1. Does the provision in the rule regarding transfers of production history hinder intergenerational transfers of dairy operations? If so, how?

Midwest Dairy Coalition Response:

Without a doubt, the production history rules under the new MPP-Dairy program make it difficult for a family dairy operation trying to expand their production in order to make it economically viable to bring a son or daughter to return to the farm. The typical circumstance would be one in which a dairy is owned by a couple, whose children leave the farm temporarily to attend college. As the son or daughter approaches graduation, they want to return to the farm. However, in order to generate the income needed to accommodate the original dairy couple as well as another adult, they decide to modernize and expand the dairy operation. The cost of the modernization and expansion usually involves a significant increase in production, versus a small incremental increase. For example, a 70-cow operation will usually expand to an operation capable of milking 250 cows or more, as opposed to simply adding 20 cows to an existing facility. While there is nothing in the MPP-Dairy program that would prevent such an expansion, the production history rules as currently structured would prevent that family from buying MPP coverage for the expanded production, since the operation’s production history would be based the original production from the 70-cow operation, plus a small annual increase equivalent to the national average increase in production.

Therefore, if the returning son or daughter wanted to be able to fully participate in the MPP program, the current production history rules would be a disincentive for them to return to their existing family operation. Instead, there would be an incentive for them to establish a new operation, and establish a new production history under the new dairy operation provisions of the law and the implement regulations.

From a policy standpoint, it is not in the best interest of the federal government to discourage adult children from returning to their family farms, to discourage families from modernizing their dairy operations to remain economically viable, or to penalize family operations that decide to do so by denying them the ability to buy MPP coverage on their increased production.

2. How would you suggest the rule be amended to accommodate intergenerational transfers or adult children who want to join their parent's dairy operation and obtain additional production history for the dairy operation?

(See related response below to question number 3)

3. If additions to production history based on intergenerational transfers or adult children joining family dairies are allowed, should there be a cap on the overall amount of production history that cannot be exceeded or a percentage or quantity limitation on the amount by which the production history could be increased per participating dairy operation under this provision? If so, what amount?"

During the Farm Bill process, the debate about how to structure a new dairy safety net program was very contentious and convoluted. One of the central issues was the question of how to reduce milk price volatility and reduce incentive for over production.

In establishing the new Margin Protection Program, Congress was very deliberate in structuring the "production history" provisions to minimize the potential for the program itself to encourage over production of milk. Specifically, Congress wrote the program to clarify that the production history for a dairy operation participating in the MPP was limited to the highest production of that operation for calendar years 2011, 2012 or 2013, with an annual allowance for growth based on the national average annual production growth. While special provisions were also included to allow for new producers to establish a production history in order to participate in the program, the general rule is that an operation's production history is set based on past production levels.

When USDA wrote the implementing regulations for the new Margin Protection Program, the rules reflected the Congressional direction with regard to production history. Because Congress did not address some of the more detailed questions about treatment of production history in the case of farm sales, transfers, and operations that are divided, USDA included some specific rules to address those circumstances.

The overarching tradeoff that we must keep in mind is that any change in the MPP rules to allow farmers to increase their production history eligible for coverage under the program will likely increase the cost of the overall program, and be an incentive for increased production.

If the taxpayer cost of the MPP becomes excessive, it could jeopardize the sustainability of the MPP program itself when the Farm Bill is up for reauthorization in 2018. In addition, anything that creates an incentive for over production can result in reduced market prices, increased price volatility, and a related increase in taxpayer costs for the MPP. In other words, it would be short sighted to change the production history rules to provide maximum flexibility on the production history rules in the short term, because doing so could undermine the long-term sustainability of the MPP program itself, which would be counterproductive.

Therefore, if FSA decides to change the production history rules to address intergenerational transfers of family operations, there must be some limits on this change so that the sustainability of the program itself is not undermined because of taxpayer cost and/or over production.

The decision of how to set those limits is a very difficult one. Should the new production history flexibility be limited based on scale of operation, or should the new rules apply to all family farm operations of any size?

Congress itself struggled with this issue in debating whether or not to establish different premiums for the MPP program based on the scale of the dairy operation. Ultimately, Congress decided to establish a lower tier of MPP premiums for the first 4 million pounds of production, in order to encourage participation in the program by smaller dairy operations. At the time the structure of the MPP program was being debated by Congress, 4 million pounds was roughly equivalent to the production of an average-size dairy operation in the country.

Congress clearly intended to provide some targeting of the MPP program benefits toward farms of average scale or smaller, by reducing the cost of participation for this scale of operation. Therefore, we would argue that the same targeting logic should apply in crafting new production history rules to assist family dairy operations with intergenerational transfers and/or growth needed to accommodate the return of a son or daughter to the family operation.

There are a couple of options that FSA should consider regarding way to apply the 4 million pound threshold to the production history rules:

1) Either there could be a hard limit to say that farms are allowed to add production history up to 4 million pounds in order to accommodate intergenerational transfers or adult children joining family dairies, and beyond that volume of production there would be no such accommodation; or

2) Alternatively, the new production rules could be structured to allow for full production history recognition of production growth up to the 4 million pound limit, but then allow some pro-rated accommodation for growth beyond that limit.

Thank you for this opportunity to provide comments on this important topic.