

July 22, 2011

The Honorable Collin Peterson
Ranking Member
Committee on Agriculture
United States House of Representatives
2211 Rayburn House Office Building
Washington, DC 20515

Dear Ranking Member Peterson:

The American Farm Bureau Federation appreciates the opportunity to provide input regarding the discussion draft you released last week on proposed dairy reforms. We know you have worked with the National Milk Producers Federation (NMPF) for well over a year on its concepts. Our dairy farmers are especially appreciative of your time and efforts to improve a program that no longer provides an adequate safety net.

Farm Bureau has also been engaged with NMPF on this issue for over a year. Improving the safety net for producers and ensuring the new program encourages growth in the export market are extremely important principles to our producers. Last January, at our annual meeting, our voting delegates adopted the following policy:

We support:

- (1) A market-oriented national dairy program that allows U.S. producers to compete in a world market based on fair and open trade policies;
- (2) A risk management program which offers protection based on gross margins (milk price minus feed costs);
- (3) Using all funding previously allocated to the Milk Income Loss Contract (MILC) and dairy price support programs for a margin insurance program;
- (4) An expanded role for markets and private enterprise in establishing prices for all classes of milk; and
- (5) A competitive pay price to include consideration of two classes of milk, fluid and manufacturing.

We oppose:

- (1) A mandatory quota system but are willing to consider a temporary supply management system.

Passage of this language allowed our American Farm Bureau Federation Board to continue to work with NMPF on their proposal as it supported many of the concepts being discussed and refined. Last week, the Farm Bureau Board voted to support the following concepts in your discussion draft: (1) elimination of the dairy price support program; (2) elimination of the Milk Income Loss Contract (MILC) program; (3) a transfer of the savings realized from the termination of those programs to a new gross margin insurance program; and (4) alterations to the Federal Milk Marketing Orders.

However, our board is opposed to the supply management provisions contained in your discussion draft. As you know, our organization has long opposed supply management for any commodity. We understand that any piece of legislation must be at least “budget-neutral” and that it is not possible to make such a program work without a new funding source.

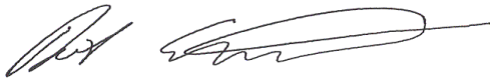
We respectfully request that you ask the Congressional Budget Office (CBO) to score four options to replace the supply management provisions in the bill:

- (1) Our voting delegates were willing to consider supporting a temporary supply management provision. While we know your proposal is intended to be a quick shock to the system to discourage overproduction, our producers would prefer a limited time frame for which such a program could remain in place. We request CBO score the budget savings that would be available if the supply management provisions were limited to no more than 60 or 90 days in an 18 month period.
- (2) We request that CBO determine a basic administrative fee to be assessed for the catastrophic protection level instead of the supply management provisions. We are fully aware that dairy producers currently receive a price support and MILC payment without being charged a fee. However, there is precedent for such a fee as crop insurance catastrophic coverage charged to crop producers carries a \$300 per crop per county fee. In addition, significant reductions in overall spending will likely be required of all farmers and ranchers in order to do our fair share of cutting spending in order to reduce the federal budget deficit.
- (3) A third option is to consider allowing producers to choose not to participate in the program. The support program and MILC program would still be eliminated. If producers wanted to participate in the gross margin insurance program, they would be subject to the supply management provisions outlined in your discussion draft. If, however, they chose to forego coverage under the insurance program, they would produce without any government safety net, but would also be exempt from any requirements to participate in the supply management program. We would ask that two options be considered along these lines. One would be a one-time sign-up option at the start of the program. The other would be an annual opt-out option whereby producers could withdraw at the start of the year from the supply management provisions, but then be ineligible for marginal protection.

(4) A final option would be to take all of the funds garnered if supply management provisions are activated and to use those funds to offset costs of the program rather than for donation to food banks and other sources. We fully support efforts to expand consumption and build demand for dairy products without duplicating activities conducted by the dairy check-off. If there was adequate funding, our producers would be very supportive of this concept. However, given current fiscal constraints, we believe a strong check-off program and use of Section 32 funds without these additional funds will still be helpful to the industry.

Again, we sincerely appreciate your leadership on this issue and your willingness to consider other options before the draft is introduced. We look forward to continuing our work with you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bob Stallman', with a long horizontal flourish extending to the right.

Bob Stallman
President