

One Page Outline: Gillibrand Proposal for Dairy Reform

Section 1: Federal Milk Marketing Order Reform (FMMO)

Traditionally, Congress has recommended basic changes in FMMO structure to USDA, but has never set these changes in law. We believe the best approach is to make recommendations to the Secretary of Agriculture, and allow the Secretary to make these revisions through the federal hearing process.

We are working with industry stakeholders to fully develop these recommendations :

- The Secretary shall explore transitioning from end-product pricing to a competitive pay pricing system
- Market Administrators should conduct a thorough analysis of the FMMO reforms proposed by the Maine Dairy Industry Advisory Council as well as the Peterson Discussion Draft
- Explore transitioning from a four-class to a two-class system
- Improve signals for price discovery, both short-term, and long-term to allow producers to better utilize risk management tools
- Assess whether a two-class competitive pay pricing system would be more transparent or less transparent than the existing system
- Analyze the impacts of moving away from regulated component pricing
- Explore the impact of eliminating a minimum regulated price on price volatility

Section 2: Safety Net

While the MILC program has worked well for some producers, high fuel and feed costs and increased average herd sizes highlight that revisions to this program are necessary.

The Dairy Producer Margin Protection Program (DPMPP) in the Peterson bill is a good starting point; however we do not believe that this type of catastrophic coverage provides an adequate safety net for small and medium sized producers.

We propose a tiered approach that incorporates elements of both the MILC program and Peterson's margin protection program:

- Protect a \$6 margin over feed costs up to a production level of 2.985 million pounds for up to 90% of production
- Protect \$4 margin over feed costs for any production thereafter for up to 70% of production.

Section 3: Dairy Market Stabilization (informally, supply management)

Market Stabilization remains one of the most divisive aspects of dairy policy reform

New York is a milk deficit state, and the processing sector is adamantly opposed to tightening supply given strong demand for milk produced in NY

We believe that any efforts to control supply should be triggered to reflect the realities of supply and demand for a given region, and propose that the DMSP be triggered based on the growth in dairy production in each federal order compared with the change in demand for milk. We propose that the DMSP kick in any federal order in which the overall percentage production growth is greater than the combined percentage growth for production that is used in Class I, II, and III. This would allow for increased production to meet increases in demand.

Section 4: Score

We do not have a score reflecting the change to the DMSP, but the score for this program with the regular DMSP is \$2.25 billion/10.