

FEDERAL DAIRY SUPPORT PROGRAMS AND WESTERN DAIRIES

High Plains Dairy Conference
March 1, 2022

MILTNER REED LLC
(866) 740-5219

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PANELISTS

- ▶ Geoff Vanden Heuvel, Director of Economic and Regulatory Affairs, Milk Producers Council (CA)
- ▶ Dr. Scott Brown, College of Agriculture, Food, and Natural Resources, The University of Missouri
- ▶ Jeremy Witte, Professional Staff, United States Senate Committee on Agriculture, Nutrition, and Forestry
- ▶ Ryan Miltner, Federal and Regulatory Affairs Counsel, Dairy Producers of New Mexico

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MY VERY FIRST CASE

“We’re going to sue the Secretary of Agriculture.”

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DIRECT PAYMENTS TO DAIRY PRODUCERS: A RELATIVELY NEW CONCEPT

- ▶ Dairy Market Loss Assistance (1998)
 - “\$200,000,000 ... to provide assistance to dairy producers in a manner determined by the Secretary.
 - “...to partially compensate the owners and producers for the loss of markets for the 1998 crop of a commodity.”
 - USDA imposed a cap of 2.6 million pounds of annual production, equivalent to a 150-cow herd.
- ▶ DMLA II (2000)
 - \$125,000,000 ... to be distributed to dairy producers in the manner determined by the Secretary.
 - Same cap. Same result.

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MILK INCOME LOSS CONTRACT PAYMENTS: CAPS GET CODIFIED

- ▶ 2002: (MILC) A statutory cap on compensated production of 2.4 million pounds per year.
- ▶ 2008: (MILCX) Cap increases to 2.985 million pounds.
- ▶ 2014: Margin Protection Program (MPP) Establishes a two-tiered coverage program. The heavily subsidized Tier I is capped at 5MM pounds of production per year.
- ▶ 2019: Dairy Margin Coverage (DMC) continues the two-tiered program and 5MM pound limitation on subsidized coverage.

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PANDEMIC ASSISTANCE: BACK TO ADMINISTRATIVE CAPS

- ▶ CFAP 1– Payments of \$6.18/cwt. capped at \$250,000 per person (potentially three caps) limiting coverage to about one-quarter of actual production for a typical NM dairy.
- ▶ CFAP 2 – Payments of \$1.20.cwt., similarly capped, limiting coverage to about 60% of actual production for a typical NM dairy.
- ▶ PMVAP – Payments limited to five million pounds of coverage for the six-month period, covering about 15% of milk produced for a typical NM dairy.

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CAPS AS POLICY

- ▶ DLMA caps were imposed by regulation, but later programs (MILC, MILCX, MPP, DMC) were capped by Congress, no doubt following on the regulatorily imposed caps.
- ▶ With statutory caps used for nearly two decades in statutory programs, the COVID programs relied on the existence of limited payments to larger producers to justify caps where none were required.
- ▶ We now operate in a world where caps are presumed to be fair and equitable, despite the fact that they are anything but.

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HOW MUCH?!?

- ▶ For the statutory support programs, New Mexico producers have been paid an estimated \$560 million less than under uncapped programs.
- ▶ CFAP and PMVAP caps increase this figure by an estimated \$150 million.
- ▶ With approximately 130 dairy farms, the average New Mexico dairy has been capped out of \$5.4 million in federal assistance.

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IMPACTS ACROSS THE WEST

	Herds	Production (MM lbs.)	Production Per Herd (MM lbs.)	Uncompensated (at 5MM lb. cap)
Arizona	85	4,818	56.7	91.2%
California	1200	41,864	34.9	85.7%
Colorado	120	5,271	43.9	88.6%
Idaho	440	16,412	37.3	86.6%
New Mexico	130	7,804	60.0	91.7%
Oregon	200	2,622	13.1	61.9%
Texas	360	15,599	43.3	88.5%
Utah	140	2,223	15.9	68.5%
Washington	330	6,504	19.7	74.6%

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BUT THAT'S NOT ALL

- ▶ In addition to its payment limitations, MPP utilizes a national feed formula and a national all-milk price to trigger payments.
 - Higher local feed prices or lower local milk checks dilute the impact of a program that already disadvantages the Western dairy farmer.
- ▶ New tools, notably Dairy Revenue Protection, apply equally to producers of all sizes. But DRP is underutilized and not well understood.

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WHERE DO WE GO FROM HERE?

Position Statement: DPNM supports federal safety net programs that do not discriminate based on volume of milk production and which recognize regional differences in both farm income and costs of production.

- ▶ The New Farm Bill provides an opportunity to review what we have done, what works, what doesn't, and where limited funds can be best deployed.

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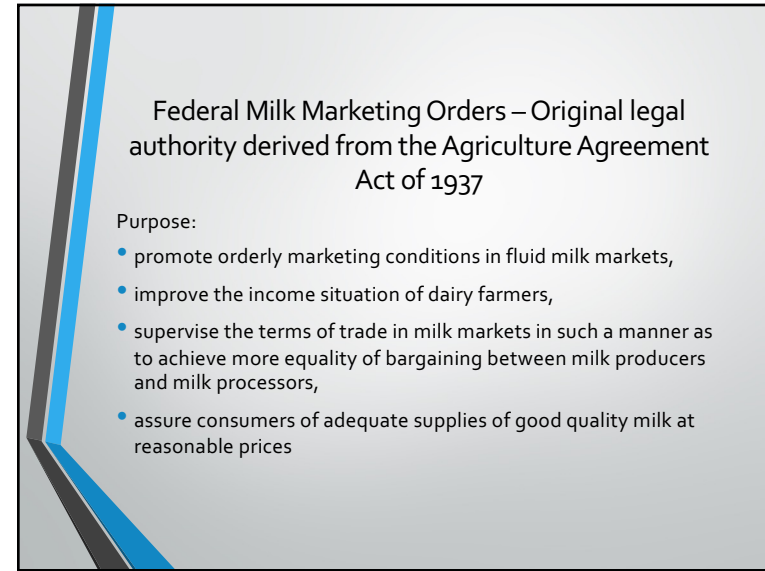
High Plains Dairy Conference

March 1, 2022
 Geoffrey Vanden Heuvel
 Director of Regulatory and Economic Affairs
 Milk Producers Council - California
 Impact of Federal Farm Policies on Western Dairies

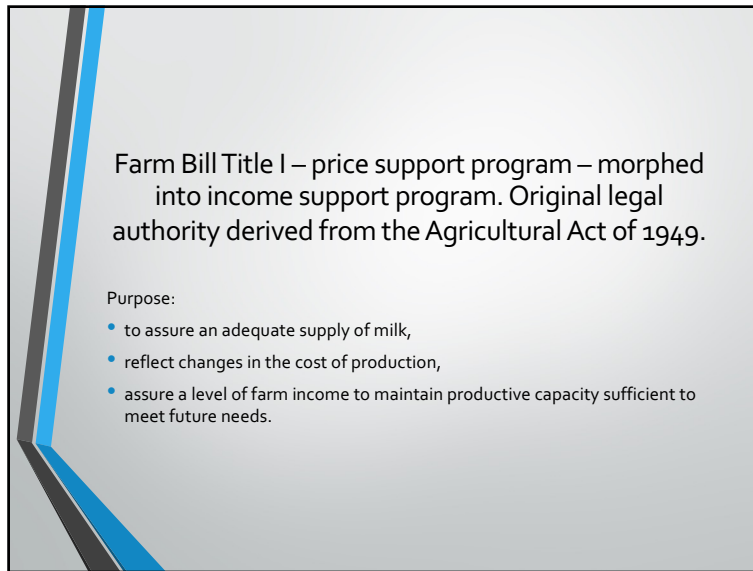
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How did we do during the pandemic? Uneven

- It was the Government who deliberately shut down the economy to curb the spread of the pandemic.
- It was the Government who then had the obligation to address the financial impacts of their decision

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Two forms of Government Pandemic Assistance

- Massive government purchases of cheese for the Food Box program
- Cash payments to dairy farmers – capped by size

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Pandemic Pandemonium – Government action interacting with existing government programs

- The immediate collapse of conventional demand for dairy products that occurred with the stay-at-home orders caused severe disruption and cratered milk prices.
- The cows did not know there was a pandemic, so they continued to produce.
- Addressing the inherent imbalance between milk supply and demand has been the challenge of dairy policy for a hundred years.
- The pandemic put unprecedented stress on the industry.
- Congress unanimously passed the CARES Act on March 27, 2020. Giving USDA billions and huge discretion and flexibility in distributing those funds.

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The situation in early March 2020

- **“There are two immediate needs for the dairy industry – milk production needs to be cutback and producers need cash.”** April 10, 2020 Milk Producers Council Newsletter
- National Milk Producers Federation and IDFA representing processors submitted a **“Milk Crisis Plan”** to USDA.

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Milk Crisis Plan Jointly Submitted by NMPF and IDFA

Major components of the plan impacting producers:

- Give producers cash in exchange for a temporary reduction in milk production.
- Large increase in government purchases of dairy products including in commodity sized packaging to be distributed through food banks
- Increase money for food/dairy purchases in the Women Infants and Children (WIC) program and the Supplemental Nutrition Assistance Program (SNAP)

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What Did USDA do initially? Not enough

Situation: Congress passed the CARES Act on March 27 giving USDA massive resources and flexibility and the next week the industry submitted a comprehensive plan to USDA. Milk was being dumped, Milk prices and futures were crashing.

- USDA announced there would be some cash coming to farmers, but it would be capped at \$125,000 per facility.
- USDA announced more money for food purchases, but the amount of additional money at \$100 million per month equaled about \$1 per capita for the families of the 26 million newly unemployed.
- Congress immediately reacted with a letter to USDA outlining their displeasure with the low cap.
- April 24 MPC Newsletter "USDA dairy COVID response misses the mark (so far)"

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What did USDA Eventually do?

- By Early May, USDA devised a whole new program called the Farmers to Families Food Box Program
- Initially this seemed like a good program. Lots of food including dairy products were going to be purchased and put in these consumer sized boxes.
- As the program rolled out, with cheese as a mandatory item, the cash market cheese price began to steadily rise raising FMMO class III prices along with it.
- The class IV products had a huge disadvantage in competing for space in the Food Box program and the Class III and Class IV prices began to diverge in amounts never seen before.
- In July of 2020 the class III price was \$24.54 and the class IV price was \$13.76 a \$10.78 difference.

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USDA Food Box impact on milk pricing

- The huge divergence between class III and class IV had two major impacts on producer milk checks
- Because the FMMO class I formula changed in 2018 now uses the AVERAGE of, instead of the HIGHER of Class III and Class IV values, **class I milk prices were significantly less** than they would have been, resulting in severely inverted class prices in the Federal orders.
- Cheese plants were massively incentivized to depool from the FMMO and not share the higher class III revenues with the other producers in the FMMOs.
- The **disparity** between what individual producers received for their milk based on where they shipped, **reached epic proportions.**
- **Producers who received cheese related payments had the best milk price in their careers**
- **Producers who missed out on the cheese money were paid milk prices substantially less than the cost of production.**

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Risk Management Strategies Undermined

- The unprecedented divergence of class III and IV prices and the resulting depooling caused by the government's Food Box program undermined a lot of producer risk management strategies.

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What USDA did to provide income support to producers

- Eventually, USDA produced a direct payment program for producers.
- There was no supply reduction requirement.
- The program was still capped, although the cap was significantly higher
- No recognition of the disparity in milk income producers experienced due to the Food Box in the payment amounts.
- The money did help all producers. But the massive disparities in milk income due to government action, created competitive stresses in the producer community. Both between regions and between neighbors.

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Why the Cap?

- The obvious reason Congress gave USDA money to support the dairy industry is that having a milk supply is in the national interest.
- Kind of like the airline industry. (Except you can park planes, you can not shut off cows)
- The US Treasury Department gave money to 351 airline passenger carriers, 39 air cargo carriers and 221 airline industry contractors ranging from \$14,076 to Shadow Aviation of Fairbanks, Alaska to \$7,747,680,806 to American Airlines.
- Yet USDA in designing a program to support the US dairy industry because it is in the national interest to have a milk supply, discriminated by size against milk producers who provide a huge percentage of US milk.

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Lessons Learned????


Winston Churchill the great British Prime Minister during the Second World War made this observation. *"You can always count on Americans to do the right thing, but not until they have exhausted all of the alternatives"*


- I think the Milk Crisis Plan outlined by NMPF and IDFA had a lot of things right. If USDA would have followed those recommendations, some of the worst damage of the government's pandemic response could have been avoided.
- When the negative impacts on certain parts of the industry from the Food Box program became apparent, USDA leadership continued to stubbornly refuse to change course.
- Having the government, deliberately or inadvertently, picking winners and losers is a path to an unhappy ending.
- Future Crisis can be expected, the industry should put some thought behind core principles that should guide government responses.

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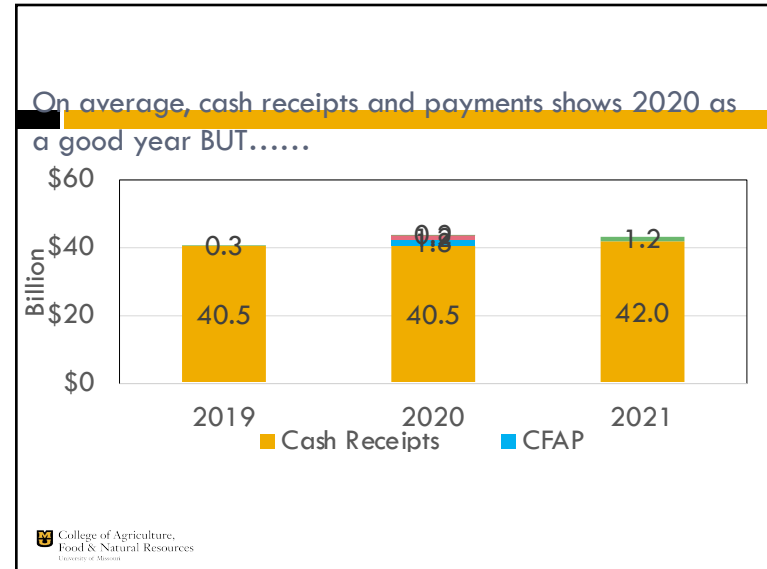
Impacts of USDA Pandemic Assistance Programs on Western Dairies

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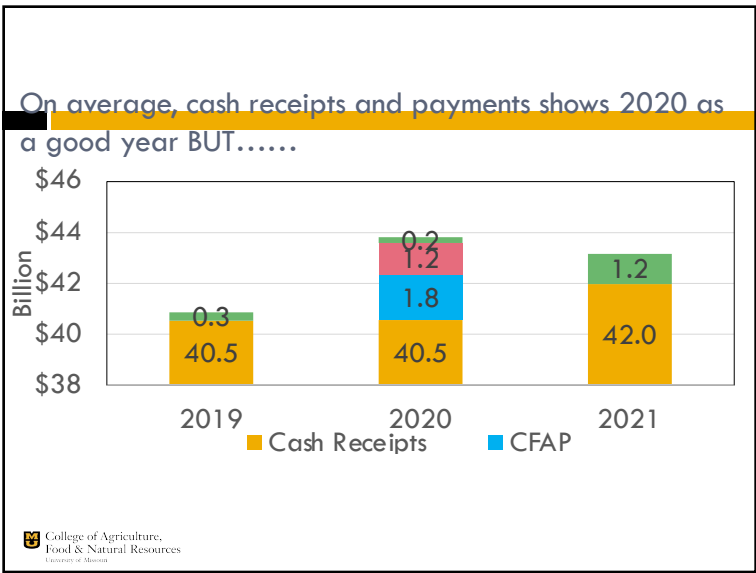



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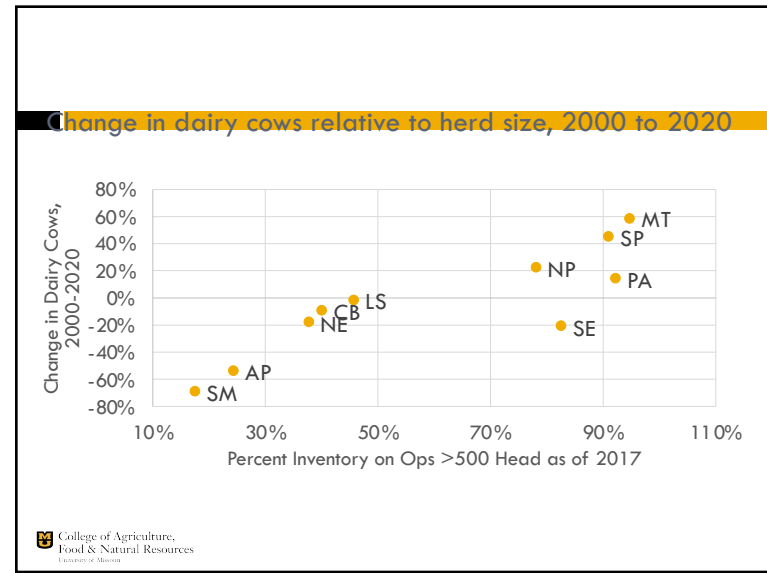
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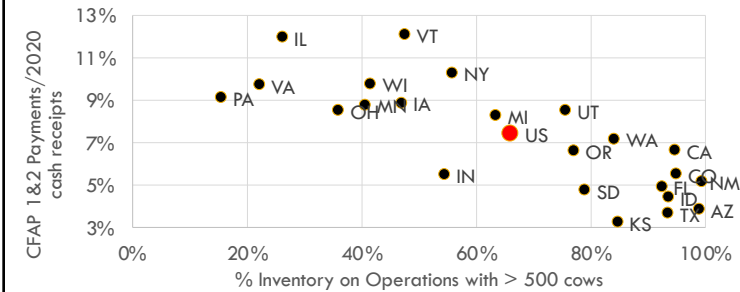


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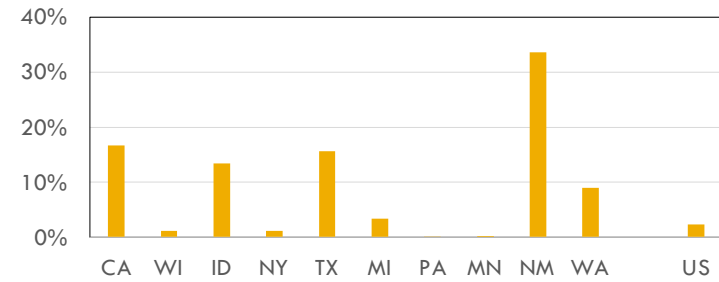


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CFAP provided needed support to U.S. dairy producers

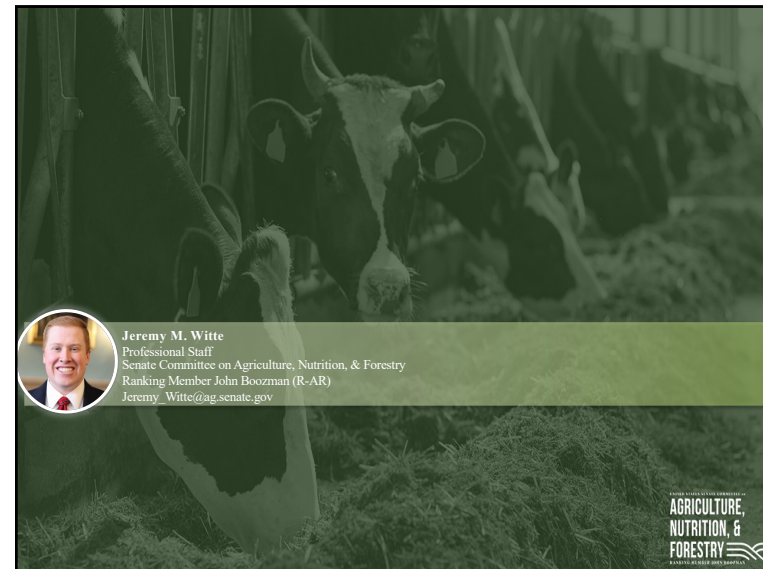


Percentage of operations receiving CFAP2 payments affected by the imposed payment limitation

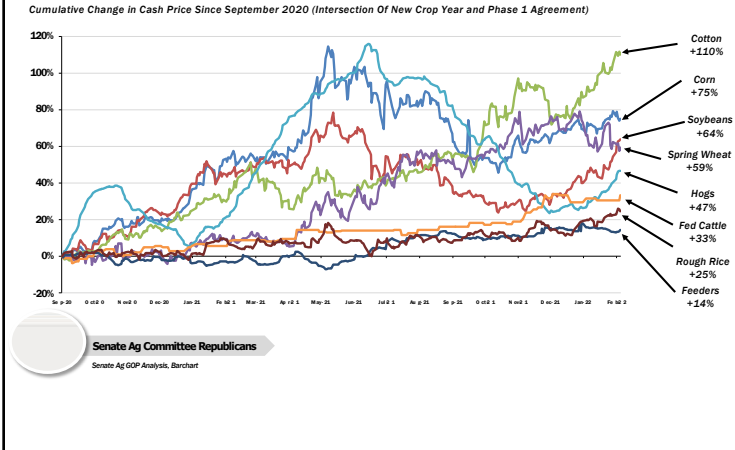


Take Home Messages

- The supply side of the dairy industry continues to change over time and dairy policy must evolve.
- It will remain politically difficult to not have some type of payment limits associated with direct payment programs.
- Federal budget pressures could limit funding available for dairy policy.
- Federal dairy policy will continue to grapple with an adequate safety net without incentivizing too much milk production.
- Unintended consequences of new policies.

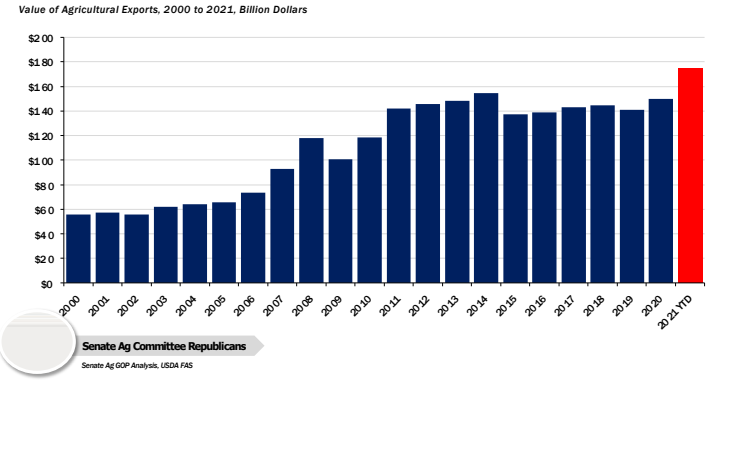


Crop and Livestock Revenue Will Be Record-High In 2022, \$462B



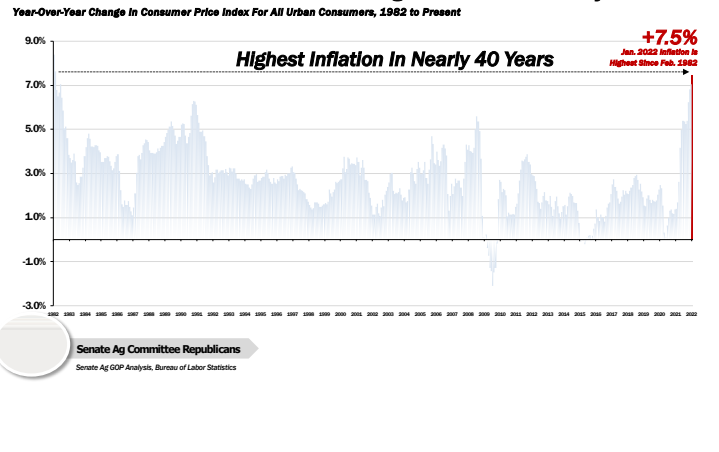
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U.S. Agricultural Exports Were Record High In 2021



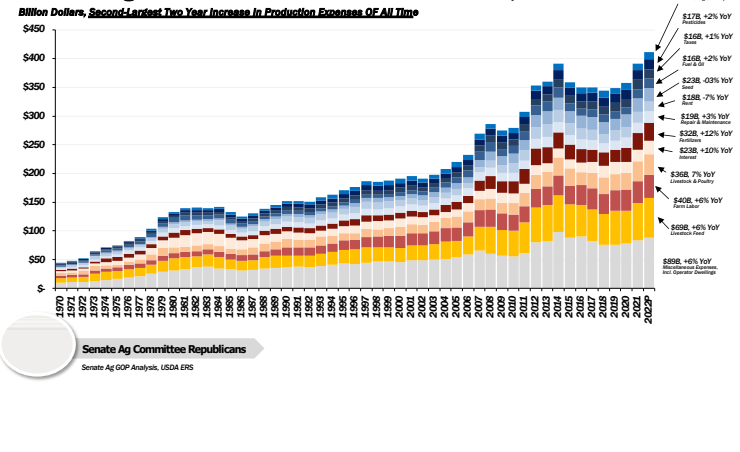
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Inflation Under President Biden Surged 7.5% In January

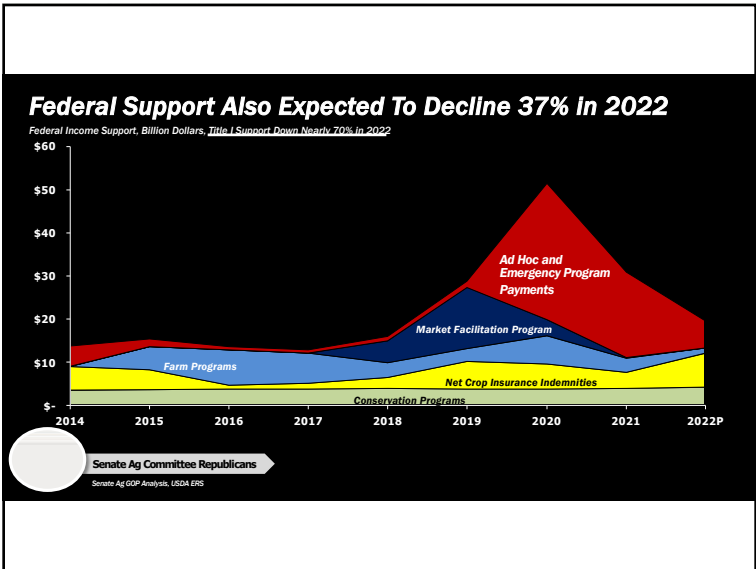


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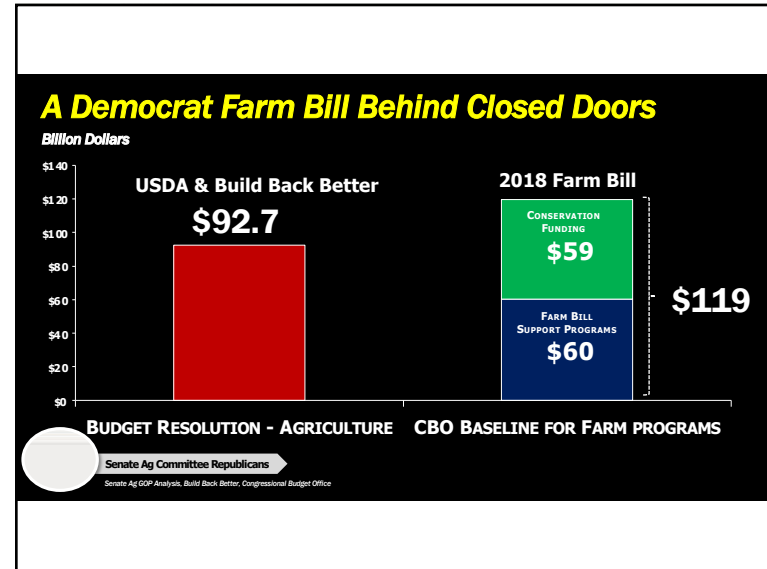
Record-High Costs Of Production On The Farm, \$412B



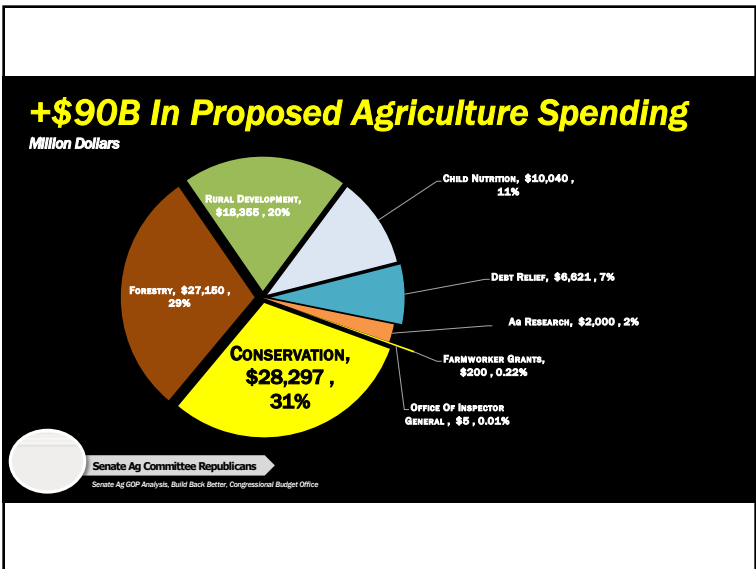
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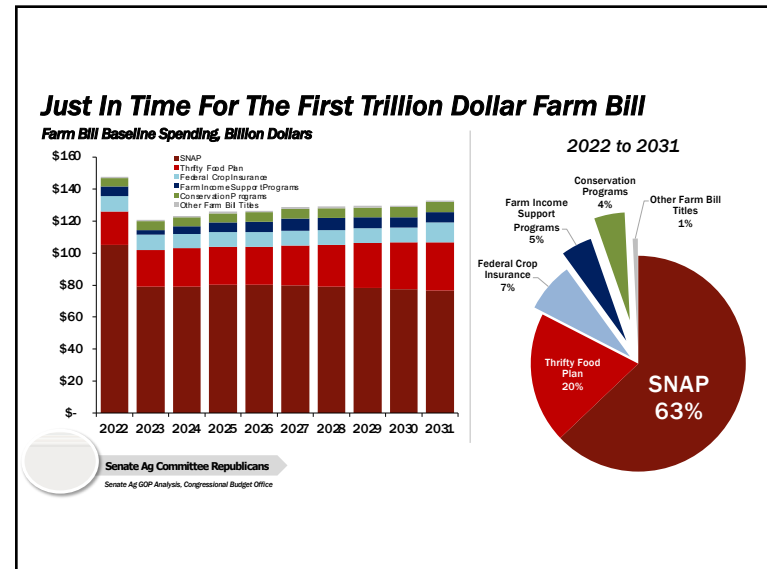
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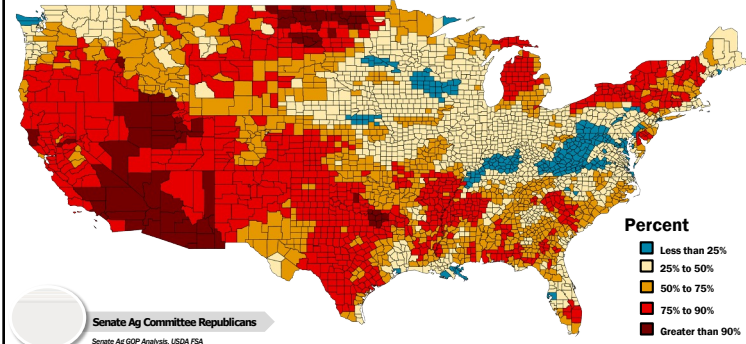
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Improved Disaster Aid A Priority

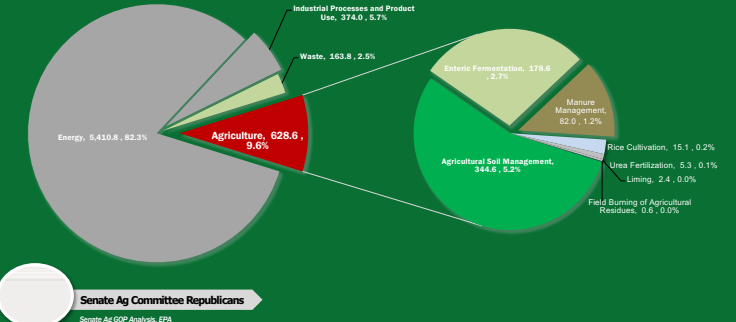
Frequency of USDA Disaster Declarations, 2012 to 2021



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Climate Change Is A Priority For This Administration

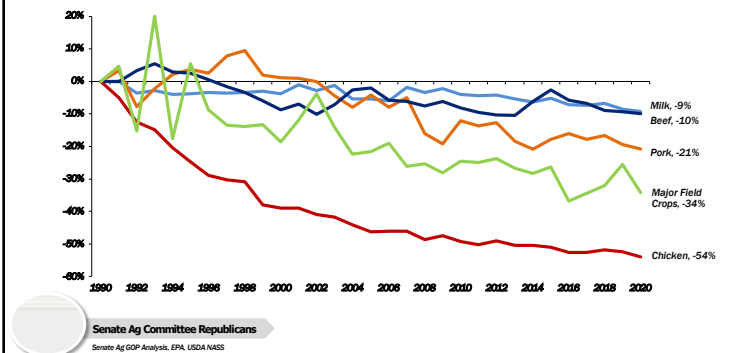
U.S. GHG Emissions By Source (MMTCO₂e), 2019



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Agriculture GHG Emissions Are Declining

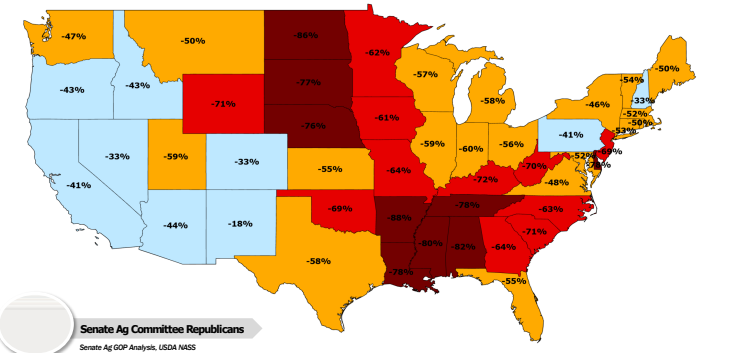
Index of Per Unit Emissions For U.S. Agricultural Production, Percent Change Since 1990



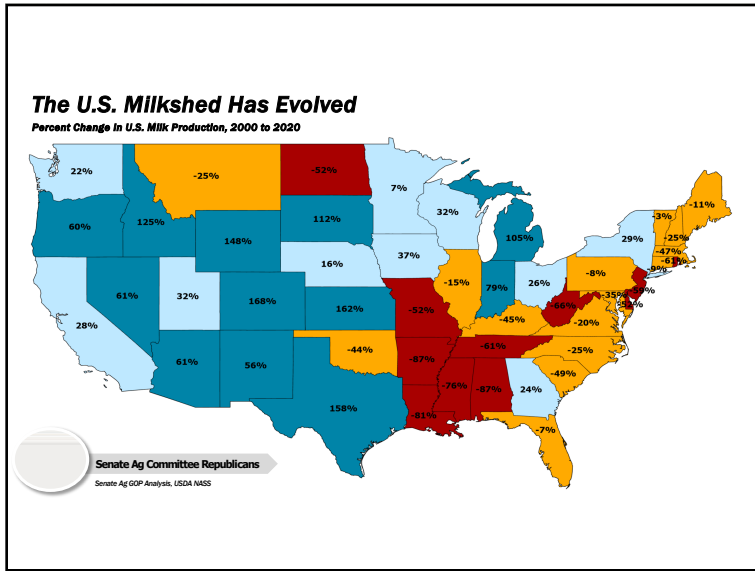
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The U.S. Loses Nearly 2,300 Dairy Farms Each Year

Percent Change in Licensed Dairy Operations, 2003 to 2020



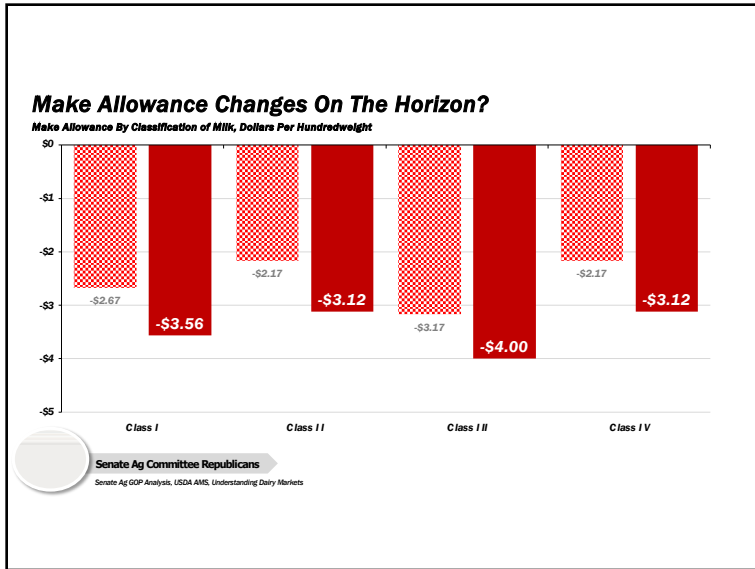
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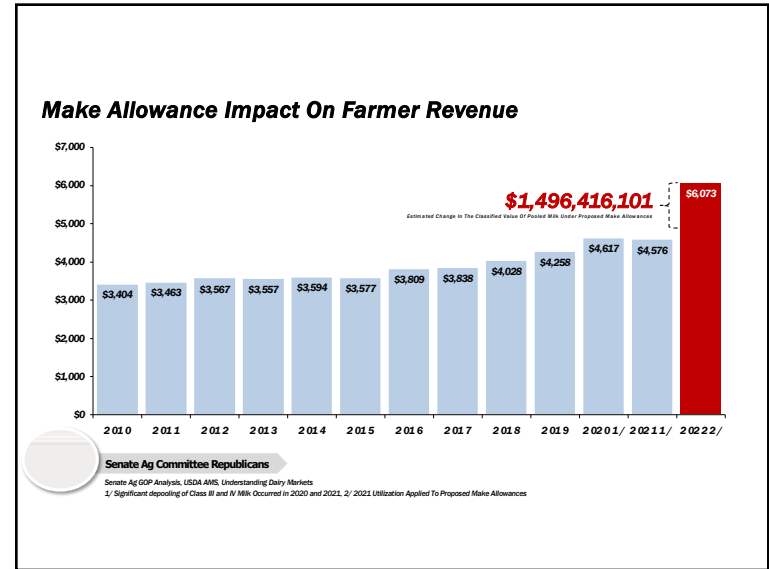
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Farm Bill Timeline

- Field Hearings
- Legislative and Oversight Hearings
- Expiration September 30, 2023

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AVERAGE TAX LIABILITY OF THE STEP ACT ON FAMILY FARMS

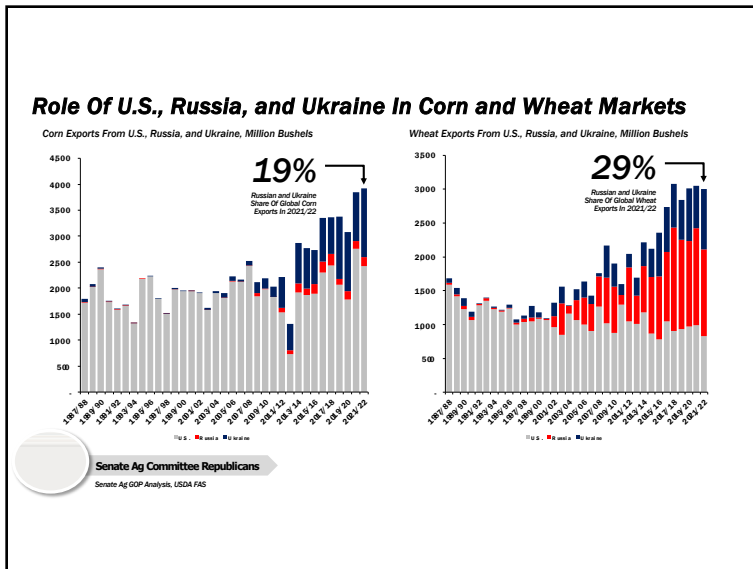
98% Of Family Farms Would Face *Higher Taxes*

Region	Average Tax Liability per Farm
West	\$734,110
Southwest	\$539,366
Southeast	\$552,377
Midwest	\$1,031,657
Northeast	\$706,369
Nationwide	\$726,104

Source: Agricultural and Food Policy Center, Texas A&M University
 * Average tax liability calculated for impacted representative farms only.

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