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Farm Bill in Home Stretch

After two one-year extensions, news stories about a "dairy cliff," and a temporary de-coupling of agriculture and nutrition assistance program language, the Agricultural Act of 2014 was finally passed by a vote of 251 to 166 in the House of Representatives. The bill now moves to the Senate, and the White House is on record saying President Obama will sign the bill if it passes Congress.

The Congressional Budget Office (CBO) estimates the Conference Committee's version of the Farm Bill will save $1.65 billion annually. The bill ends direct payments to crop producers that totaled $4.5 billion per year and cuts 1%, or about $800 million per year, from the Supplemental Nutrition Assistance Program (SNAP). "This is a legislation we can all be proud of because it fulfills the expectations the American people have of us," said House Agriculture Committee Chairman Frank Lucas. "They expect us to work together to find ways to reduce the cost of the federal government."

The dairy title discussion started back in June 2010 with National Milk Producer Federation (NMPF)'s introduction of Foundation for the Future. Both milk producers and processors agreed a margin insurance program would be an improvement over the existing, ineffectual Dairy Product Price Support Program, the Milk Income Loss Contract (MILC), and the Dairy Export Incentive Program. Given the current economic reality of high input costs, supporting only the milk price leaves out one entire half of the profitability equation. A margin insurance program will be implemented this year and is the most significant change in the dairy title.

The dairy title roadblock was the Market Stabilization, or supply management, proposal that would penalize producers marketing milk in excess of their base during times of low margins. By paying producers $0 for excess milk, the Market Stabilization proposal would have inequitably penalized the most valuable milk, both high component milk and milk produced in milk-deficit areas. National All-Jersey Inc. members and staff worked in cooperation with other dairy associations to defeat the Market Stabilization Program. "The drafting, debate and completion of this Farm Bill has been a long process," said NAJ General Manager Erick Metzger. "National All-Jersey appreciates the involvement and engagement of its producers. Their input definitely made an impact, especially in conjunction with supporting the Goodlatte-Scott amendment in the House to remove the Dairy Market Stabilization Program."

The Margin Insurance Program will use the U.S. monthly average all milk and dairy ration feed cost as reported by USDA. Participating producers will be able to choose a level of margin protection between $4.00 and $8.00 per hundredweight in 50-cent increments. When the calculated average margin falls below the insured level for two consecutive months (defined in the bill as January-February, March-April, May-June, July-August, September-October, or November-December), the producer receives an indemnity payment for the difference between their insured margin and the actual calculated margin, multiplied by the amount of production insured. The $4.00 level of margin insurance will be available with no premium cost. Higher levels of protection are available for the premium cost in the table below.

	Premium cost/cwt.	
Margin Coverage Level	Producer's first 4 million pounds	Production over 4 million pounds
$ 4.00	none	none
$ 4.50	$ 0.010	$ 0.020
$ 5.00	$ 0.025	$ 0.040
$ 5.50	$ 0.040	$ 0.100
$ 6.00	$ 0.055	$ 0.155
$ 6.50	$ 0.090	$ 0.290
$ 7.00	$ 0.217	$ 0.830
$ 7.50	$ 0.300	$ 1.060
$ 8.00	$ 0.475	$ 1.360

Premium prices are fixed for the life of the Farm Bill. To encourage producer participation, premium prices for all but the $8.00 level of coverage for a producer's first 4 million pounds will be discounted by 25% for 2014 and 2015.

Producers can insure between 25% and 90% of their production history. Each producer's initial production base will be their highest annual milk marketings from 2011, 2012, and 2013. New entrants to the dairy industry may use any months of completed production to extrapolate a base, or estimate their annual production using their projected herd size and the U.S. rolling herd average. All production histories will increase annually by the amount of U.S. average milk production growth; any individual production growth in excess of the U.S. average percent will not be eligible for margin insurance. To participate in the margin insurance program, producers must enroll for the life of the Farm Bill, but the amount of production covered and margin level decisions can be changed each year. There is an annual administrative fee of $100. Any producers choosing to participate in Livestock Gross Margin insurance are not eligible for the Margin Protection Program.

The Milk Income Loss Contract (MILC) will be extended until margin insurance is in place, no later than September 1, 2014. The new Farm Bill also establishes a dairy donation program; if the national average dairy margin falls below $4.00 per hundredweight for two consecutive months, USDA can purchase dairy products for food banks and feeding programs. These products must be distributed, not stored like the previous price support program, and cannot be resold into the commercial market. Purchases can be made for a maximum of three consecutive months, or will cease when dairy margins return above $4.00. Purchases will also cease if the U.S. price for cheddar cheese or nonfat dry milk is 5% or more above the world price for cheddar cheese or skim milk powder. Other miscellaneous portions of the dairy title include continuing the Dairy Promotion and Research Program (commonly known as the dairy checkoff), extending the Dairy Forward Pricing Program, and ending the Federal Milk Marketing Order Review Commission.

One of the most controversial parts of the overall Farm Bill was cuts to the Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps. Funding will decrease about 1%, a compromise from the House's original cut of 5%. The savings will come from eliminating automatic SNAP enrollment for participants in the Low Income Heating Assistance Program; all SNAP participants will now be required to complete the application process. Of interest to our direct marketing members, the Farm Bill double the food stamp benefits to low-income families when shopping at farmers markets.

The Agricultural Act of 2014 also repeals existing direct crop payments, or "counter-cyclical payments," that paid producers on acres owned, not crop condition, and cost $4.5 billion per year. In lieu of direct payments, the bill expands crop insurance. Crop insurance will also now be linked to conservation requirements.

Another controversial issue was the King Amendment, attempting to limit the application of an individual state's animal welfare guidelines to products sold in that state, but produced elsewhere. For example, California's stricter laying hen regulations being applied to eggs produced in other states coming in to California. The Farm Bill language affirms each state's right to set their own production standards, defeating the King Amendment. Also at issue was Country of Origin Labeling (COOL) language, which remained part of the Farm Bill despite efforts to remove by the American Meat Institute, the National Chicken Council, and the National Pork Producers Council.

After years of work, a new Farm Bill has passed the House of Representatives and is on the way to being signed into law. The dairy title makes welcome forward progress toward a market-based safety net, focusing on margins rather than just the milk price. Thank you to the NAJ members that helped with this process, and stay tuned for more information about the new dairy programs.

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