



Ensuring a Healthy US Dairy Industry:

BLUEPRINT FOR THE 2007 FARM BILL
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Commission Needed to Reach Consensus and Solve Federal Milk Marketing Order Crisis

Most of the nation's milk is sold under pricing regulations dictated by the 70 year-old U.S. Department of Agriculture (USDA) Federal Milk Marketing Order (FMMO) system. Congress created this system to ensure an adequate milk supply during the Great Depression era. Today, this system is out of date and creating regional inequity for dairy producers and processors. A slow-paced USDA bureaucracy and antiquated pricing scheme is causing intense conflicts among producers and forcing some dairy processors out of business. In the 2007 Farm Bill, Congress should create a commission of producers, processors and experts to build consensus on updating the FMMO system.

Federal Milk Marketing Orders create winners and losers in the dairy marketplace. USDA operates a discriminatory pricing system of ten regulatory regions that assigns prices to milk based on the products it's used to make -- Class I for fluid milk; Class II for cream, yogurt and other cultured products; Class III for cheese; and Class IV for butter and nonfat dry milk. This system still requires fluid milk processors to pay more for milk based on a system that originally priced milk according to the distance of a plant from Eau Claire, Wisconsin. It makes no sense.

In fact, California, the nation's largest dairy state, is not even a part of the FMMO system. Producers in Idaho, a growing dairy state, have voted out their Order. While, producers in traditional dairy states, like Minnesota and Wisconsin, are being penalized with lower prices because of recent politically-charged FMMO decisions made by USDA. No other commodity in the U.S. is regulated in this regionally divisive way. There is no reason milk should be.

The system is bureaucratically slow, and standing in the way of dairy businesses adequately serving their consumers. Federal Orders have become a complicated bureaucratic system where the needs of consumers and the realities of the market are often ignored. The FMMO rules can take years for USDA to change. In fact, on average it takes nearly two years for a rule change and nearly a year for "emergency" issues to be resolved.

The House Agriculture Dairy Subcommittee Chairman's Mark for the 2007 Farm Bill contains a provision to streamline the decision making time and process of the Federal Order system. This is a good first step toward reform; however, a Commission is needed to take the politics and regional divisiveness out of the FMMOs. Committed members of the dairy industry -- producers, processors, experts, USDA and consumers -- need to find solutions for the future.

Changing the FMMO system requires a thorough analysis and industry consensus. Some believe that the only way to fix the problems with FMMOs is to eliminate federal pricing of milk and allow milk to be priced in the marketplace. Some think Federal Order regions and pricing classes should be collapsed and areas outside the federal system should be brought in. Many others disagree and want to maintain the current system, or improve responsiveness. The industry needs to come together to find common sense solutions.

ACTION REQUIRED: To help solve the serious crisis of Federal Milk Marketing Orders, Congress should establish a commission in the 2007 Farm Bill so the industry can develop consensus solutions on how to modernize the FMMO system.