



Support Dairy Forward Contracting in the 2007 Farm Bill

All dairy buyers and sellers should have the right to enter voluntary, long-term contracts for their milk supplies. Known as forward contracting, this practice is widely used by other commodities and dairy cooperatives. It provides a way for buyers and sellers to achieve stable, fair and reliable prices without government subsidies. But current USDA regulations called the Federal Milk Marketing Orders (FMMOs) prevent some dairy farmers and processors from using this option. A successful pilot program allowing all milk buyers and sellers of manufacturing milk to forward contract expired in 2004. The House Agriculture Dairy Subcommittee agreed that this successful pilot program should be made permanent. Congress should level the playing field by endorsing this proposal to make dairy forward contracting available to all dairy producers and processors.

Dairy forward contracting is used widely and provides price stability. Milk prices fluctuate seasonally and monthly – much more than many other commodities. Through forward contracts, dairy producers can lock in prices to stabilize revenue, service debt more easily, obtain more favorable financing, expand their operations and guarantee a profit. Manufacturers benefit from forward contracting, which allows them to manage input costs. Currently, only dairy cooperatives that manage and process milk can forward contract freely with their farmers. All dairy farmers should have the right to lock in a profit on every pound of milk they sell.

The United States Department of Agriculture (USDA) analyzed the 2000-2004 pilot program and found that forward contracts were effective in achieving stable prices. USDA supports making the program permanent.

The dairy forward contracting program protects producers. The dairy forward contracting program in the Subcommittee Chairman's mark continues the proven producer and contract protections of the pilot program, including:

- Mandatory disclosure forms that producers must sign stating that the contract is entered into voluntarily.
- Contract restrictions holding first-time contracts to a one-year time limit to make sure producers gain experience before entering into longer-term contracts.
- USDA contract review to ensure contracts are in compliance with the program and payments are made within a specified monitored time period.
- Authority by the Secretary to terminate the program or to seek remedial action to ensure the program is not abused.

Additional red tape and regulations are unfair and unnecessary. Some dairy cooperatives, who already enjoy the freedom to forward contract, are calling for more constraints on contracts between non-coop farmers and processors. These coops are pushing for new regulations to limit risk management options and force farmers to come to a cooperative or manage volatile price swings on their own. The additional regulatory hurdles are unfair and would not apply to forward contracts offered by coops.

ACTION REQUIRED: Congress should make the Dairy Forward Contracting Program permanent without additional regulatory hurdles and bureaucratic red tape. The program has proven effective in stabilizing prices for dairy producers. It was reviewed and supported by the USDA, and should be extended unchanged in the 2007 Farm Bill.