



Ensuring a Healthy US Dairy Industry:

BLUEPRINT FOR THE 2007 FARM BILL
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Dairy Policies Must be Updated in the 2007 Farm Bill

Most of our current federal dairy policies and subsidy programs date back to the 1930s and 40s and are outdated, too complicated and out of sync with the needs and commercial realities of today's dairy industry. The time is now to address these costly, trade distorting and counter productive programs. In the 2007 Farm Bill, Congress should transition today's conflicting federal dairy policies to a single, national dairy safety net that is fair to producers and processors across all regions, fiscally responsible and designed to help the industry grow at home and abroad.

Current Federal Dairy Policies Are Hurting Producers and Processors. Currently, the US has two major dairy subsidy programs on top of a classified pricing system that dates back to the Great Depression. The Milk Income Loss Contract program (MILC), a multi-billion dollar direct payment program, encourages overproduction of milk. The Dairy Price Support Program (DPSP) buys the resulting surplus. The upshot of this unsustainable situation is that the government pays twice for the same milk. These two programs have created expensive government outlays and have actually lowered the price of milk, but they have not really saved dairy farmers. Nationally, 4-5% of dairy farms go out of business every year regardless of these programs. And, dairy processors are suffering because of government price intrusion and arcane product purchase programs that interfere with markets.

Current Federal Dairy Policies Pit Dairy Farmers and Processors Against Each Other. The MILC program favors some areas of the country over others. The Dairy Price Support Program no longer provides effective support for farmers and has outlived its usefulness. Changes made to the Dairy Price Support Program by the House Dairy Subcommittee do not make the program any better. These programs are not only unfair, but counterproductive. A transition to a single, national safety net will help heal these dangerous regional divisions.

Current Federal Dairy Policies Are Inconsistent With Trade Obligations. Currently dairy programs -- most notably the Dairy Price Support Program -- are responsible for 32% of all U.S. "amber box" payments for unfair trade practices reported to the World Trade Organization (WTO). The US has not even informed the WTO of the MILC program's trade-distorting nature. To ensure a soft landing for the US dairy industry, we need to start the transition to a more trade compliant safety net now.

Funding for Federal Dairy Programs Can Be Better Spent. The MILC and Dairy Price Support programs are conflicting, counterproductive, and trade distorting. They are also expensive, and between 2000 and 2005 the government spent more than \$5 billion on dairy subsidies. This money is better spent on a safety net that provides critical support for dairy farmers without interfering with free enterprise. Congress should phase out the Dairy Price Support Program and begin the transition to a program that provides farmers with reliable income enhancements, while remaining fiscally responsible.

ACTION REQUIRED: Congress should transition from the two ineffective dairy subsidy programs we have today to a single, national dairy safety net that is fair to producers and processors across all regions, fiscally responsible and designed to help the industry grow at home and abroad.