

PENNSYLVANIA DAIRY POLICY REFORM RECOMMENDATIONS

These dairy policy recommendations have been developed by the Pennsylvania Department of Agriculture and the Center for Dairy Excellence to provide constructive changes that allow the US dairy industry an opportunity to grow, effectively manage risk, improve product innovation and reduce price volatility. These dairy policy recommendations are intended to provide a structure that:

- *Provides incentives for producer participation*
- *Mitigates extreme price & margin volatility*
- *Provides vehicle for individual accountability through management & protection of risks*
- *Encourages export market development*
- *Improves price discovery*
- *Represents dairy industry positively to consumers*
- *Promotes US and global competition*
- *Encourages new product development & innovation*
- *Drives increased consumption of dairy*
- *Provides business management tools & education for dairy farm families and young entrepreneurs*
- *Is World Trade Compliant*

These dairy policy recommendations include:



Mandate Greater Price Discovery:

- The U.S. dairy industry would benefit from an improved method of price discovery for dairy commodities. Congress approved mandatory weekly electronic pricing of dairy products in 2010. However, what is needed is daily reporting with auditing at or above selected volumes applied to a greater representation of dairy products sold.



Reduce Volatility and Improve the Safety Net for Producers:

- Eliminate the Dairy Product Price Support Program. This program has outlived its usefulness and deters innovation and open markets on a consistent basis.
- Encourage risk protection for dairy producers with new and enhanced risk management tools like Livestock Gross Margin (LGM) for dairy. This program represents the next generation of dairy margin protection; USDA should provide funds to offer base levels of risk protection and provide funding associated with producer education for LGM and related risk protection tools.
- Establish systems for dairy education, information, and programming to be used voluntarily by dairy producers to enhance productivity and profitability. Systems should encourage business planning, risk management, educational forums, entrepreneurship, and tools for effective decision making.



Overhaul the Federal Order System:

- Study the economic benefits to the producer of establishing fewer classes of milk.
- Replace the basic formula price with a competitive pay price by deregulating minimum payments to producers where there is a sufficient level of competition. There exists a high level of competition for milk within the Federal Order system, demonstrated by premiums being paid above the Federal Order minimum. We believe this approach would more closely reflect the open market value of milk.
- Incorporate a rolling multi (three to four) month system of Class 1 pricing to smooth out monthly fluctuations for fluid drinking milk; thus decreasing volatility for producers & consumers.
- Remove the “make allowance” which depresses new product innovation and milk being directed to its highest and best use.

DAIRY POLICY REFORM

These dairy policy recommendations include (continued):

 **Develop New Markets and Encourage Industry Investment:**

- The U.S. is in a good position to become a significant player in the global export markets for dairy ingredients and for this opportunity to continue to grow. The U.S. should actively pursue new investment and advanced technology in dairy ingredient manufacturing and the domestic production of new products meeting new market opportunities. Milk Protein Concentrates are an example of these new opportunities.
- Make full use of DEIP Program authority.
- Revisit standards of identity for products being used for dairy manufacturing but not being considered dairy ingredients. Encourage changes which result in product innovation and demand enhancement. Apply same standards to domestically produced products as well as imported products

 **Explore PMMB authority**

- Review existing PA Milk Marketing Board authority and Milk Marketing Laws to fully explore opportunities to enhance profitability at the dairy farm production level.

For more information about these policy recommendations, please contact the Center for Dairy Excellence at 717-346-0849 or info@centerfordairyexcellence.org. Visit www.centerfordairyexcellence.org.