Dairy Producers Welcome Farm Bill Subsidy’s Overhaul

M.L. JOHNSON, Associated Press

In this March 15, 2013 file photo, dairy cows stand near a barn on a farm in Billings, Mo. Farmers expressed relief this week that a long fight over federal dairy subsidies had ended with an overhaul that most thought would be fair and effective in keeping farms from going under during hard times. The House approved compromise legislation Wednesday Jan. 29, 2014, and a Senate vote is expected soon. **(AP Photo/The Springfield News-Leader, Nathan Papes, File)**

MILWAUKEE (AP) — Farmers expressed relief this week that a long fight over federal dairy subsidies had ended with an overhaul that most thought would be fair and effective in keeping farms from going under during hard times.

Along with funding for food stamps, the overhaul was a key stumbling block that prevented passage last year of a new, five-year farm bill. The House approved compromise legislation Wednesday, and a Senate vote is expected soon.

The dairy fight largely centered on a provision that sought to limit milk production when there was excess. Some dairy farmers said they needed a way to balance supply and demand so they could get a reasonable price for milk and stay in business.

But opponents — including U.S. House Speaker John Boehner — said it worked against a free market. Wisconsin cheesemakers, the Greek yogurt industry in New York and other dairy processors said the provision would hamper their ability to get the milk they need to grow their businesses.

The issue was unlikely to affect consumer prices, but some farm groups accused processors of wanting to keep milk prices low for their own gain.

Instead of limiting milk production, the compromise legislation restricts farmers' ability to buy subsidized insurance to cover their losses if they produce too much milk and cause prices to plummet.

Farmers, who had been divided over the production limits known as supply management, said the new legislation wasn't perfect, but it was reasonable. They also said its passage would help bring stability to an industry rocked by volatile prices, drought and uncertainty after the previous farm bill expired in 2012. Lawmakers unable to agree on a bill passed a short extension last year.

"Once you know the rules of engagement, once you have something . . . it allows you to do business," said Dean Strauss, a 42-year-old farmer who milks 1,900 cows in Sheboygan Falls, Wis.

Strauss and some other Wisconsin farmers had opposed supply management, worrying that limits triggered by a national milk glut would hurt their efforts to expand production to meet demand from Wisconsin cheesemakers. Dairy processors here already buy some milk from other states because they can't get enough locally, and the Wisconsin Dairy Business Association lobbied heavily against production limits.

"We wanted a free market, which is what a lot of farmers want," Strauss said. "Let us do our thing, and we'll do it. We're good at it."

Even farmers opposed to supply management agreed reform was needed after 2009, when low milk prices and high feed costs squeezed many out of business. Existing programs did little to help, while fostering what many farmers said was a misperception that they were receiving taxpayer money they didn't need.

The current dairy subsidy program pays farmers when milk prices sink beyond a certain point. But it does not consider farmers' costs, and corn feed prices have risen in recent years because of drought and demand from ethanol manufacturers. Farmers getting a good price for milk still found themselves losing money.

The new farm bill would scrap that program in favor of subsidized insurance that would pay farmers when the difference between milk and feed prices grew too small. Farmers would pay premiums based on the difference, or margin, they wanted to insure. Options range from $4 to $8 per hundred pounds of milk.

Clark Hinsdale, 58, of Charlotte, Vt., said his 300 milking cows typically produce about 6 million pounds of milk per year. With a $10 margin, he has $600,000 for staff, fuel and other expenses. A $6 margin would give him $360,000 to cover the same costs.

"At a $6 margin, am I profitable? No, I'm not profitable," Hinsdale said. "But at a $4 margin, I'm out of business."

Hinsdale said he expects most lenders will require farmers to buy margin insurance to avoid defaults.

"You'd be foolhardy not to sign up for it," added Ken Nobis, a 69-year-old dairy farmer in St. John's, Mich.

Nobis had supported the supply management provision but said he was "fairly well satisfied" with the new bill, which attempts to avoid a market glut by capping how much insurance farmers can buy.

"It was worth the fight," Nobis said. "Just because we didn't get everything I thought we should have, I still think it's an extremely significant change in dairy policy. I think it improves the safety net."

Western United Dairymen, which represents California farmers, pushed for margin insurance in the 2008 farm bill but didn't get it. CEO Michael Marsh said he was pleased by this year's bill, although disappointed that big farms would pay higher premiums than smaller ones. California dairies tend to be larger than those in the Midwest and elsewhere.

Still, Marsh said his organization was encouraging members to take advantage of the new insurance program because "calamity can occur."

Farmers in the nation's top-milk producing state are struggling in their third year of drought, with many having to import hay when they would normally be grazing.