Order Code IB97011

CRS Issue Brief for Congress
Received through the CRS Web

Dairy Policy Issues

Updated April 8, 2005

Ralph M. Chite
Resources, Science, and Industry Division

CONTENTS

Dairy Policy Issues

SUMMARY

Several dairy issues that were unresolved in the 108th Congress are continuing as issues of interest in the 109th Congress. Separate bills were introduced in the 108th Congress to extend authority for both the Milk Income Loss Contract (MILC) Program and the dairy forward pricing pilot program, and to address dairy producer concerns about the importation of milk protein concentrates. Moreover, federal dairy programs might be impacted this year if the pending final FY2006 budget resolution requires spending cuts to mandatory agricultural programs.

Under the 2002 farm bill-authorized MILC program, eligible dairy farmers can receive a direct government payment when the farm price of milk used for fluid consumption falls below a target price. For the first two years of the program, farm milk prices were sufficiently low that payments were triggered in each of the first 21 months. Market prices improved to the point that no direct payments have been made since May 2004. Bills have been introduced in the 109th Congress (S. 273, S. 307, H.R. 859, and H.R. 1260) to authorize this extension. The MILC program is supported by small to mid-sized dairy farms. Some groups would like to see the payment limit raised to benefit larger dairy operations (as in S. 273 and H.R. 1260).

The Administration's FY2006 budget requests a two-year extension of the MILC program, but with a proposed 5% reduction in all farm commodity support payments. To help offset some of the $1.3 billion estimated cost of extending the program, the Administration also has proposed that USDA be given enhanced authority to adjust the government purchase prices of surplus butter and nonfat dry milk. According to the Administration, this would minimize federal costs for the dairy price support program (DPSP), and save an estimated $600 million over 10 years. The DPSP indirectly supports the farm price of milk through government purchases of surplus dairy products when market prices are low. Legislation would be required to make any changes to the DPSP. Changes to farm commodity policy could be addressed this year in the context of budget reconciliation. The House- and Senate-passed versions of the FY2006 budget resolution (H.Con.Res. 95, S.Con.Res. 18) require cuts of $5.3 billion and $2.8 billion, respectively, over five years to mandatory agriculture and nutrition programs. Conference on the resolution is pending.

Many dairy farmer groups are also concerned that imports of milk protein concentrates (MPCs) are displacing domestic dairy ingredients and thus depressing farm milk prices. A bill has been reintroduced in the 109th Congress (H.R. 521) to impose tariff rate quotas on certain MPCs. Dairy processor groups are opposed to this bill.

A temporary pilot program that allows processors to enter into forward price contracts with individual dairy farmers or their cooperatives for certain uses of milk expired December 31, 2004. A forward price contract allows buyers and sellers of a commodity to negotiate a price for the commodity on a future delivery date and insulates both parties from price volatility. Bills were introduced in the 108th Congress to convert the pilot program to a permanent one, but no action was taken on program extension. To date, no bills have been introduced in the 109th Congress. The program is supported by dairy processors, but opposed by the largest organization of dairy cooperatives, which is concerned that the program might undermine federal minimum pricing requirements.

MOST RECENT DEVELOPMENTS

On March 17, 2005, the House and Senate completed action on differing versions of the FY2006 budget resolution (H.Con.Res. 95, S.Con.Res. 18). Both measures contain reconciliation instructions to their respective agriculture committees that would require them to report legislation to reduce spending on mandatory programs under their jurisdiction. The five-year reductions were $5.3 billion in the House resolution and $2.8 billion in the Senate resolution. No cuts are required unless and until the differences are resolved in conference, which is pending. Of interest to dairy producers is how possible reconciliation action might affect two federal dairy programs — the dairy price support program and the Milk Income Loss Contract (MILC) program.

BACKGROUND AND ANALYSIS

Milk Income Loss Contract (MILC) Payments

Background

In FY1999-FY2001, Congress provided just over $32.5 billion in emergency spending for USDA programs, primarily to help farmers recover from low farm commodity prices and natural disasters. The majority of these funds were for supplemental direct farm payments made to producers of certain commodities, primarily grains and cotton, but also including soybeans, peanuts, tobacco and milk. Of this amount, dairy farmers received supplemental "market loss" payments of $200 million in FY1999 under the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277), $125 million under the FY2000 agriculture appropriations act (P.L. 106-78), and $675 million under the emergency provisions in the FY2001 agriculture appropriations act (P.L. 106-387).

Some dairy farmer groups sought a permanent direct payment program for dairy farmers to be included in the 2002 farm bill as a means of supplementing dairy farm income when farm milk prices are low. Prior to the emergency payments made each year on an ad-hoc basis in FY1999 through FY2001, dairy farmers generally were not recipients of direct government payments. However, some groups contended that farm milk prices had been volatile in recent years and that dairy farmers needed more income stability.

Separately, the Northeast Dairy Compact, which provided price premiums to New England dairy farmers when market prices fell below a certain level, expired on September 30, 2001. These premiums were funded by assessments on fluid milk processors, whenever fluid farm milk prices in the region fell below $16.94 per hundredweight (cwt.). Supporters of the Northeast Compact had sought for an extension of the compact; the southeastern states were seeking new authority to create a separate compact. However, dairy processors and Upper Midwest producers are strongly opposed to regional compacts.

MILC Program Mechanics

Section 1502 of the Farm Security and Rural Investment Act of 2002 (P.L. 107-171, the 2002 farm bill) authorized a new counter-cyclical national dairy market loss payment program. (Upon implementation, USDA dubbed the program the Milk Income Loss Contract (MILC) program.) This program did not replace the dairy price support program or federal milk marketing orders, other current federal milk pricing policy tools. Instead, it serves as an alternative to regional dairy compacts and ad-hoc emergency payments to farmers, by authorizing additional federal payments when farm milk prices fall below an established target price.

Under the MILC program, dairy farmers nationwide are eligible for a federal payment whenever the minimum monthly market price for farm milk used for fluid consumption in Boston falls below $16.94 per hundredweight (cwt.). In order to receive a payment, a dairy farmer must enter into a contract with the Secretary of Agriculture. While under contract, a producer potentially can receive a payment equal to 45% of the difference between the $16.94 per cwt. target price and the market price, in any month that the Boston market price falls below $16.94. A producer can receive a payment on all milk production during that month, but no payments will be made on any annual production in excess of 2.4 million pounds per dairy operation. All contracts expire on September 30, 2005, and payments were made retroactively to December 1, 2001.

The MILC program is akin to the Northeast Dairy Compact, which was in effect in the six New England states from 1997 until its expiration on September 30, 2001. However, under the expired dairy compact, dairy processors were required to pay the full difference between the $16.94 per cwt. fluid milk target price and any market price shortfall for fluid use milk in the compact region. The MILC program shifts the responsibility of the payment from the processor (and ultimately the consumer) to the federal government.

During the farm bill debate, the dairy payment program was generally supported by milk producer groups in the Northeast and the Upper Midwest. Producer groups in the Northeast region viewed it as an alternative to the Northeast dairy compact. Upper Midwest producers preferred the new program to state compacts since the new program shares the price premiums nationally. Large dairy farmers expressed concern that the new program will cause excess milk production that will in turn decrease farm milk market prices. They contend that this negatively affects their income, since their annual production is well in excess of the 2.4 million lb. payment limit, and any production in excess of 2.4 million pounds receives the market price and no federal payments. (Annual production of 2.4 million pounds is roughly equal to the annual production of a herd of approximately 120 to 130 dairy cows.) The International Dairy Foods Association, a trade association representing dairy processors, was opposed to the program in its earlier version, when processors would have been required to continue paying the price premiums. However, its opposition was lifted, when the funding responsibility was shifted to the federal government as in the final version of the program.

MILC Payment History

USDA began accepting applications for the "Milk Income Loss Contract (MILC) Program" on August 15, 2002 and will continue to do so until the program expires on September 30, 2005. Monthly market prices were sufficiently low between December 2001 and August 2003 that MILC payments were made in every month during this period. Beginning in the late summer months, market farm milk prices greatly improved, rebounding from a 25-year low that prevailed throughout most of the earlier months of 2003. Hence, no

MILC payments were required in September through December 2003. However, farm milk prices began to decline again in the latter part of 2003. Consequently, MILC payments resumed in January and February 2004. Market farm milk prices reversed their course in the late winter months and early spring of 2004, increasing to record high levels in the spring of 2004. Market prices have remained sufficiently high for the past 12 months (May 2004 through April 2005) so that no MILC payments have been required over that time period. (See **Table 1**, below.)

Federal Cost of MILC

For the first two years of the MILC program, its cumulative cost was just over $2 billion — $1.8 billion in FY2003 and $221 million in FY2004. (The FY2004 outlays were significantly lower than CBO's earlier estimate of $935 million at the beginning of the fiscal year.) FY2004 outlays were lower than expected because market farm milk prices were much stronger than originally forecasted, reaching a record high in the summer of 2004. To date in FY2005, no MILC program outlays have been made because market prices have remained above the $16.94 target price.

Table 1. Monthly Milk Income Loss Contract (MILC) Payment Rates

Month	Payment Rate (per hundredweight)	Month	Payment Rate (per hundredweight)
December 2001	$0.77	February 2003	$1.56
January 2002	$0.78	March 2003	$1.75
February 2002	$0.78	April 2003	$1.82
March 2002	$0.93	May 2003	$1.79
April 2002	$1.00	June 2003	$1.78
May 2002	$1.09	July 2003	$1.76
June 2002	$1.20	August 2003	$1.22
July 2002	$1.38	Sept .- Dec. 2003	$0.00
August 2002	$1.45	January 2004	$0.83
September 2002	$1.45	February 2004	$0.945
October 2002	$1.59	March 2004	$0.79
November 2002	$1.39	April 2004	$0.02
December 2002	$1.43	May 2004-Apr. 2005	$0.00
January 2003	$1.41		

MILC Program Reauthorization

The MILC program expires on September 30, 2005, while all other major farm commodity support programs authorized by the 2002 farm bill expire at the end of the 2006 crop year. Proponents of the MILC program would like to see the program extended to at least coincide with the expiration of all other commodity support programs. Four bills in the 109th Congress, H.R. 859 (C. Peterson), H.R. 1260 (Reynolds), S. 273 (Coleman), and S. 307 (Santorum), all would extend the life of the MILC program for two additional years, through September 30, 2007. In addition, a provision in H.R. 1260 and S. 273 would double the limit on eligible production for a MILC payment from the current 2.4 million lbs. to 4.8 million lbs. No action has been taken on these measures.

In its FY2006 budget request, the Administration expressed its support of a two-year extension of the MILC program in its current format. However, the Administration also supports a 5% across-the-board reduction in all farm commodity support payments, including MILC payments. The extension of the MILC program might be considered in the context of an FY2006 budget reconciliation bill, if the pending final FY2006 budget resolution requires reductions in mandatory agricultural spending programs. Both the House-passed (H.Con.Res. 95) and the Senate-passed (S.Con.Res. 18) versions of the FY2006 budget resolution contain instructions to their respective agriculture committees to reduce spending on programs under their jurisdiction over a five-year period — $5.3 billion in the House and $2.8 billion in the Senate. (See CRS Report RS22086, *Agriculture and FY2006 Budget Reconciliation*, for more information.)

Extending the MILC program has raised some budgetary concerns. The MILC program is a mandatory program and has a fixed expiration date. Therefore, any spending beyond that date would be considered new spending above what was authorized by the 2002 farm bill. Also, an increase in either the target price or the maximum eligible production would add further to the cost of the program. The Congressional Budget Office estimates that an extension of the MILC Program would cost a total of $1.3 billion over the two-year period. Hence, an extension of the MILC program would have to be offset with comparable reductions in other mandatory programs.

Attempts were made to extend the MILC program in the 108th Congress. On September 21, 2004, a provision was attached to the FY2005 VA/HUD appropriations bill (S. 2825) in the full Senate Appropriations Committee markup that would have extended the MILC program through September 30, 2007, and raised the fluid milk target price from the current level of $16.94 per cwt. to $17.10 per cwt. The provision was deleted in conference when the FY2005 VA/HUD funding bill was folded into the final FY2005 omnibus appropriations act (P.L. 108-447).

Some groups would like to see the MILC program terminated and replaced with regional compacts or a similar pricing mechanism. In the 108th Congress, H.R. 324 (Vitter) would have restored the consent of Congress for the Northeast Dairy Compact and granted consent to three new compacts, in the South, the Pacific Northwest, and the Intermountain states (Colorado, Utah and Nevada). No action was taken on this measure. Also in the 108th Congress, a proposed National Dairy Equity Act (H.R. 4597 (Reynolds) and S. 2525 (Specter)) would have created five regional marketing areas that would have been allowed to establish a minimum fluid farm milk price for the region. No action was taken on this measure. Under the proposal, if the market price of farm milk were to fall below the established price, processors would be required to pay the difference between the two prices into a national fund, which would be distributed back to dairy farmers in the participating regions by a formula. The payment formula would be funded in part by a government contribution to the fund. States choosing not to participate in the program would be allowed to continue participating in the MILC program, which would be extended through FY2007, while participating states would be prohibited from receiving MILC payments. Supporters contend that this proposed program would help dairy farmers weather the effects of volatile farm milk prices. Opponents say that it distorts dairy markets and could lead to overproduction.

Dairy Price Support Program

Background and Spending

The Agricultural Act of 1949 first established the dairy price support program by permanently requiring USDA to support the farm price of milk. Since 1949, Congress has regularly amended the program, usually in the context of multi-year omnibus farm acts and budget reconciliation acts. (See **Table 2**, below, for a recent history of spending on the dairy price support program and related activities.) Most recently, Section 1501 of the Farm Security and Rural Investment Act of 2002 (P.L. 107-171, the omnibus 2002 farm bill) authorized a 5½-year extension of the program through December 31, 2007, at the then-current support price of $9.90 per hundredweight (cwt.) of farm milk.

Historically, the supported farm price for milk is intended to protect farmers from price declines that might force them out of business and to protect consumers from seasonal imbalances of supply and demand. USDA's Commodity Credit Corporation (CCC) supports milk prices by its standing offer to purchase surplus nonfat dry milk, cheese, and butter from dairy processors. Government purchases of these storable dairy products indirectly support the market price of milk for all dairy farmers. Prices paid to the processors are set administratively by USDA at a level that should permit them to pay dairy farmers at least the federal support price for their milk.

In order to achieve the support price of $9.90 per cwt. of milk, USDA has a standing offer to processors to purchase surplus manufactured dairy products at the following prices: $1.05 per lb. for butter, $0.80 for nonfat dry milk, $1.1314 per lb. for block cheddar, and $1.1014 per lb. for barrel cheese. Whenever market prices fall to the support level, processors generally make the business decision of selling surplus product to the government rather than to the marketplace. Consequently, the government purchase prices usually serve as a floor for the market price, which in turn indirectly support the farm price of milk at $9.90 per cwt.

The dairy price support program is separate from the Milk Income Loss Contract (MILC) payments that also were authorized by the 2002 farm bill. (See the section above in this brief for more on the MILC payment program.) However, the MILC payments are considered a related activity to the price support program. Hence, MILC outlays are included in **Table 2**.)

Table 2. Commodity Credit Corporation Dairy Price and Income Support Operations, 1980/81-2002/03

Marketing Year[a]	Net Removals Milk Equivalent (billion lbs.)[b]	Net Outlays (million $)	CCC Support Price ($ per cwt.)	CCC Purchases as Percentage of Production
1980-81	12.7	1,975	13.10	9.6
1981-82	13.8	2,239	13.49-13.10	10.2
1982-83	16.6	2,600	13.10	12.0
1983-84	10.4	1,597	13.10-12.60	7.6
1984-85	11.5	2,181	12.60-11.60	8.2
1985-86	12.3	2,420	11.60	8.5
1986-87	5.4	1,238	11.60-11.35	3.8
1987-88	9.7	1,346	11.10-10.60	6.7
1988-89	9.6	712	10.60-11.10	6.7
1989-90	8.4	505	10.60-10.10	5.7
1990-91	10.4	839	10.10	7.0
1991-92	10.1	232	10.10	6.7
1992-93	7.6	253	10.10	5.0
1993-94	4.2	158	10.10	2.8
1994-95	2.9	4	10.10	1.8
1995-96	0.1	-98	10.10-10.35	0.1
1996-97	0.7	67	10.20	0.4
1997-98	0.7	291	10.20-10.05	0.4
1998-99	0.3	480 (c)	10.05-9.90	0.2
1999-2000	0.8	684 (d)	9.90	0.5
2000-01	0.3	1,140 (e)	9.90	0.2
2001-02	0.2	614	9.90	0.1
2002-03	0.5	2,494 (f)	9.90	0.3
2003-04 (estimate)	NA	350 (g)	9.90	NA

Source: U.S. Department of Agriculture, Farm Service Agency, selected publications.
a. The marketing year is October 1-September 30.
b. The milk equivalent is the pounds of fluid milk used to manufacture cheese and butter, on a milkfat basis.
c. Includes $200 million in emergency "market loss" payments authorized by P.L. 105-277.
d. Includes $125 million in net outlays for market loss payments authorized by P.L. 106-78.
e. Includes $675 million in market loss payments authorized by P.L. 106-387.
f. Includes $1.8 billion in Milk Income Loss Contract payments.
g. Includes an estimated $220 million in Milk income Loss Contract payments.

The Administration's FY2006 Budget Proposal

In its FY2006 budget request, released on February 7, 2005, the Administration made several proposals for reducing the cost of all federal farm commodity price and income support programs over a multi-year period. As part of dairy's contribution to deficit reduction, the Administration has proposed that USDA be required to adjust the government purchase prices of surplus butter and nonfat dry milk (powder) so that government purchases and federal costs can be minimized. Under current law, USDA has the authority to adjust the butter and powder prices twice annually, which it has exercised infrequently. Whenever USDA reduces the purchase price of one product, it must increase the purchase price of the other in order to continue supporting the overall farm price of milk at the mandated level of $9.90 per cwt. Although the Administration has not issued details on its proposal, it would likely eliminate the twice a year limit on price adjustments and instead require USDA to adjust purchase prices when surplus dairy product purchases are excessive, in order to minimize federal costs. Legislation would have to be enacted to cause this change. Proponents say that in the long run this will reduce government costs and make domestic milk products more competitive in world markets. Most dairy farmer groups oppose reductions in government purchase prices, and contend that the income of all dairy farmers would be adversely affected. Changes to farm commodity programs might be addressed in the context of a budget reconciliation bill this year, if the final pending FY2006 budget resolution requires the agriculture committees to reduce spending on mandatory agricultural programs. (For more on the budget resolution, see CRS Report RS22086, *Agriculture and the FY2006 Budget Reconciliation*.)

Milk Protein Concentrate Trade Issues

Milk protein concentrate is a product in which certain milk proteins necessary for the production of cheese and other food products are selectively included and all or most of the water is removed from the milk, thus making it efficient to ship long distances. Dairy farmer groups are concerned that imports of MPC and casein (the main protein found in milk) are displacing domestic milk used for cheesemaking and depressing farm milk prices. Certain concentrations are not covered by tariffs or quotas under the existing World Trade Organization agreement. The importation of these products was not an issue when the agreement was formulated in the 1990s.

On March 5, 2001, the General Accounting Office released a study on the production, imports, and regulation of milk protein concentrates. The study found that MPC imports grew rapidly from 1990 to 1999 — from 805 to 44,878 metric tons, including a near doubling in 1999 over 1998 alone. According to the study, six countries (New Zealand, Ireland, Germany, Australia, the Netherlands and Canada) accounted for 95% of the 1999 imports. For the full text of the GAO study, see [http://www.gao.gov/new.items/d01326.pdf]. According to International Trade Commission data, MPC imports peaked in 2000 at 52,677 metric tons, before falling back to 28,469 metric tons in 2001, and rising again to 33,626 metric tons in 2002 and 29,111 metric tons in the first 10 months of 2003 (7.8% higher than the first 10 months of 2002). Imports of casein have also risen over the years, peaking at 74,230 metric tons in 2000, before declining in 2001 and 2002, but rising again in 2003 on a pace with the peak in 2000.

Currently, MPC is not allowed as an ingredient in any U.S. cheese which has a standard of identity defined by the Food and Drug Administration, which includes most cheese. Cheese processors petitioned FDA for a change in standards to allow MPC in cheese production. FDA currently is considering this request.

Identical bills were introduced in the 108th Congress that would have affected the importation and use of MPCs, but no action was taken. A similar measure has been reintroduced in the 109th Congress (H.R. 521) that would impose tariff rate quotas (TRQs) on certain MPCs. Under the proposed TRQ, any imports of MPC above the quota level would be subject to a high tariff that would economically prohibit MPC imports above that level.

Supporters of TRQs on MPC, including most milk producer groups, contend that foreign MPC and casein are being dumped in the United States. Opponents of the legislation include dairy processor groups, the largest of which is the International Dairy Foods Association (IDFA), who contend that MPC imports are not displacing U.S. production of nonfat dry milk. IDFA and other MPC-user groups contend that MPCs have certain properties that are important in the manufacturing of certain food products (e.g. high-protein sport drinks and food bars) and that nonfat dry milk is not a substitute for the use of MPCs. These groups also maintain that the domestic support price for nonfat dry milk should be reduced instead, as a way to stimulate the market for domestic powder. (For more information on the dairy price support program, see the section on the program in this brief.)

The National Milk Producers Federation (NMPF), the largest trade association representing milk producer cooperatives, has urged the federal government to examine several trade policy options for addressing the milk protein concentrate import issue. These include provisions in the Trade Act of 1974 that allow the President (following an International Trade Commission investigation) to provide relief to a U.S. industry adversely affected by imports; a 1974 Trade Act provision that allows the U.S. Trade Representative to retaliate against certain foreign trade policies; and the use of antidumping laws and countervailing measures.

On April 17, 2002, the NMPF filed a formal challenge concerning the U.S. Customs Service classification of various dairy product imports, including MPC. Under Section 516 of the Tariff Act of 1930, interested parties are permitted to challenge the tariff classification of imported items. The NMPF claims that imported MPC is not a true concentrated milk protein, but is instead a blend of other dairy products (such as nonfat dry milk, whey powder and casein). These blends, they say, "take unfair advantage of U.S. trade policies that allow the unrestricted entry of MPC, but not the individual components found in the blended products." On April 1, 2003, the Customs Service ruled that milk protein concentrates are classified correctly. It stated that the current definition of milk protein concentrate only requires that MPC's consist of at least 40% milk proteins, but does not specify whether the product is manufactured through the filtration of skim milk or the blending with nonfat dry milk or other components. The NMPF has announced an appeal of the Customs ruling, a process which could take more than one year.

As requested by the Senate Finance Committee, the International Trade Commission completed a year-long investigation of U.S. market conditions for milk proteins, and filed a written report on May 18, 2004. (See [ftp://ftp.usitc.gov/pub/reports/studies/

PUB3692.PDF] for the full report.) The ITC was asked to provide an overview of the global market of milk proteins, information on how government support and intervention affects the protein market, and assess how imported milk proteins affect U.S. farm milk prices. The ITC determined that imports of milk proteins may have displaced 318 million lbs. of U.S.-produced milk protein products over the 1998-2002 period, or an average of 63 million lbs. per year. The ITC states that during this period, domestic milk proteins were in surplus by a greater amount than what was likely displaced by protein imports. Therefore, they concluded that most of the impact of milk protein product imports was absorbed by the taxpayer through additional purchases of surplus nonfat dry milk, and that farm-level prices were not significantly affected. The ITC study also determined that the dairy price support program creates a disincentive to manufacture MPCs in the United States. They found that under most conditions, U.S. dairy processors could receive a higher return on the production of nonfat dry milk compared with the production of MPCs.

Legislation was introduced in the 108th Congress (H.R. 4223) that would have authorized a federal program to subsidize the domestic production of MPCs, with payment levels set at the discretion of the Secretary of Agriculture. No action was taken on the measure, and a similar bill has not been reintroduced in the 109th Congress. Supporters contend that the cost of these payments would be offset by reduced purchases of surplus nonfat dry milk. They say that manufacturers will divert production from surplus nonfat dry milk to MPCs, thus improving farm milk prices. Opponents are concerned that the proposed subsidy program might be subject to a challenge in the World Trade Organization. They also contend that even with a subsidy program, it will be difficult for domestic producers to profit in the market because foreign competitors have a greater price advantage.

Dairy Forward Pricing Pilot Program

A provision in the FY2000 Consolidated Appropriations Act (P.L. 106-113) authorized a temporary pilot program to allow individual dairy farmers or their cooperatives to enter into forward price contracts with processors for certain uses of milk. Identical bills in the 108th Congress (H.R. 3308 and S. 2565) would have converted the pilot program to a permanent program. However, no action was taken, and the program expired on December 31, 2004, as specified by the authorizing statute. Bills to reauthorize the program might be offered in the 109th Congress.

A forward contract allows buyers and sellers of a commodity to negotiate a price for the commodity for future delivery and insulate both parties from price volatility. The current pilot program allows dairy producers and cooperatives to enter into forward contracts for milk used in all manufactured products, but not for milk used for fluid consumption. Under the federal milk marketing order system, which regulates the farm price of much of the milk produced, a dairy processor must pay a minimum price for purchased milk depending on market conditions. However, under the pilot program, the contracted price becomes the relevant price that the processor has to pay, regardless of what the market price is at the time of delivery. Some groups view forward pricing as a desirable risk management tool, which they say can lend some stability to volatile wholesale milk prices. Other farm groups have expressed concern that forward pricing might undermine the federal milk marketing order system.

An ongoing USDA study of the effect of the pilot program on dairy farmer prices determined that for the period September 2000 through June 2003, forward contracted milk prices on average were $0.72 per hundredweight higher than non-contract prices. The difference varied significantly over the period, with contract prices being significantly higher than non-contract prices when market prices were low, particularly from June 2002 through June 2003. Contract prices were significantly lower than farm milk prices not under contract through much of 2001, when market prices were relatively high.

LEGISLATION

H.Con.Res. 95 (Nussle), S.Con.Res. 18 (Gregg)
The FY2006 budget resolution. Both measures contain reconciliation instructions to their respective chambers' authorizing committees (including the agriculture committees), requiring them to report legislation that would reduce spending on mandatory programs under their jurisdiction. H.Con.Res. 95 would require the House Agriculture Committee to reduce spending by $5.3 billion over a five-year period; S.Con.Res. 18 would require five-year reductions of $2.8 billion of the Senate Agriculture Committee. H.Con.Res. 95 was introduced and reported on March 11, 2005 (House Rept. 109-17); passed the House on March 17 by a vote of 218-214. S.Con.Res. 18 was introduced and reported (without a written report) on March 11, 2005; passed the Senate with amendments on March 17.

H.R. 521 (Sherwood)
Imposes tariff-rate quotas on certain casein and milk protein concentrates. Introduced February 2, 2005; referred to House Ways and Means Committee.

H.R. 859 (C. Peterson), S. 307 (Santorum)
Amends the Farm Security and Rural Investment Act of 2002 to extend contracts for national dairy market loss (MILC) payments through FY2007. H.R. 859 was introduced February 16, 2005, and referred to House Agriculture Committee. S. 307 was introduced February 7, 2005, and referred to Senate Agriculture Committee

H.R. 1260 (Reynolds) S. 273 (Coleman)
Amends the Farm Security and Rural Investment Act of 2002 to (1) extend contracts for national dairy market loss payments through FY2007; (2) increase the eligible portion of a producer's milk production from the current 2.4 million lbs. to 4.8 million lbs.; and (3) raise the payment target price from the current $16.94 per hundredweight (cwt.) to $17.10 per cwt. H.R. 1260 was introduced March 10, 2005, and referred to House Agriculture Committee; S. 273 was introduced February 3, 2005, and referred to Senate Agriculture Committee.