

## **THE 1996 FARM BILL**

**Paul Halnon**  
**Former Market Administrator for USDA**  
**Oviedo, Florida**

The 1996 Farm Bill became law on April 4, 1996 when the President signed it and the Florida dairy industry can now breathe a sigh of relief. For much of the past year your leaders have been fighting off attempts by other regional, as well as national organizations, to reshape the Federal Order program in ways that could only reduce milk prices in Florida and the rest of the Southeast. In my 40 years of association with dairy programs I have never seen such a concerted effort by so many organizations to try to get a portion of the proceeds from your milk sales. And in the process they came very close to killing a program that for over 50 years has been the primary stabilizing influence in the nation's fluid milk markets.

To say that Florida and the Southeast won the battle is an understatement. Against an essentially united dairy industry outside the Southeast, the final provisions of the farm bill are very close to the position originally outlined in our testimony before the House Subcommittee on Dairy and Poultry, both at the hearing here in Florida, as well as the hearing before the full subcommittee in Washington.

I would like to give you some of my thoughts on the implications of the activities of dairy organizations during the past year in the political and legislative process leading up to the final bill, but first let's review the provisions that are part of the new law.

Dairy farmers will be pleased to hear that the dairy assessment has been repealed, effective for milk delivered on and after the 1st of May, 1996. The legislation makes provision for the refund of assessments paid during January through April, providing production for 1996 remains at or below 1995. It is important to note that production for the whole year of 1996 must be less than 1995, not just production in the January-April period.

Probably the most significant and important change in dairy programs is in the area of price supports. The legislation provides that supports are to be phased out over the next four years. For this year the support price will remain at the present level, which is \$10.35/cwt. Then, in each of the next three years the level will drop 15 cents/cwt. with a final support price of \$9.90 for 1999.

In the year 2000, the support price program will be replaced by a recourse loan program at the 1999 support level of \$9.90. The recourse loan program will continue until the expiration of the Farm Bill in 2002.

I have seen some estimates of the probable impact of the phasing out of supports.

The Department of Agriculture provided some numbers that indicate that prices will average about 30 cents less than under the present price support program. The difficulty in making these estimates is the uncertainty of activity under the price support program. In recent months, the support program has not had an important influence on milk prices and production will have to increase for it to be a significant factor. Also, keep in mind that phasing out supports was important in getting rid of dairy assessments. Had supports remained in the new farm bill, dairy assessments would have been required to meet budget constraints.

For the Federal Milk Order program, what didn't happen is far more important than what did happen. But first, let me outline the changes that were included in the legislation:

1. The Secretary will be required to consolidate Federal Orders into no less than 10 and no more than 14. He is given three years to complete the consolidation. What is this likely to mean to Florida dairymen? The primary impact of consolidating market-wide pool orders is in the sharing of Class I revenue in the pooling process. So the impact depends on the extent of the consolidation. Consolidating the three Florida orders into a single order would have no impact on your price because your two cooperatives already re-pool the Class I sales in these orders through their own re-pooling arrangements. However, if the consolidation reaches beyond Florida, it would have a negative impact on your price. This is because the Class I use in the Florida orders is higher than any other order or combination of orders. Earlier, we had estimated that a consolidation of all orders in the Southeast would reduce your price on average about 5-10 cents/cwt.

Your cooperatives have already requested that USDA consolidate the three Florida orders into a single order. While there can be no guarantee that the request will be honored, recent meetings between your leaders and Department officials gives us reason to believe that Florida will be considered for a separate order by itself. But don't be surprised if there is a push to get Florida included in a broader merger because your high Class I utilization would mean higher prices for other producers included in the merger.

2. The new bill authorizes the use of multiple basing points for pricing Class I milk. No one is really sure what this means and it is important to note that it only authorizes the use of multiple basing points; it doesn't require it. While it is unclear what it means, I can tell you what those who originally thought up the concept had in mind. What they had hoped it would do is force the Department to reduce Class I prices in areas of the country outside of the Upper Midwest, the idea apparently being that if production is forced out of other regions, it would expand the markets for Upper Midwest milk. It is unlikely that this provision will have any impact on prices. In this connection it is important to note that the Department has always had authority to reduce prices in any market in the country.

3. The legislation authorizes the use of multiple component pricing for establishing the basic formula price. If adopted, such a component price would replace the Minnesota-Wisconsin price as a basis for Class I pricing. There has been growing disenchantment with the M-W price and a component product price is viewed as a possible replacement for the M-W. This provision is not likely to have any significant impact on prices.
4. The legislation requires the use of informal rule-making in considering order consolidation. It requires the Secretary to announce the proposed consolidation in two years and to complete the process in three years. Using informal rule-making would eliminate the requirement that the consolidation be based on evidence received at a public hearing. The idea behind the informal rule-making provision is to speed up the amendment process. There has been growing criticism of the Department for the length of time it takes to complete a proceeding and the perception is that eliminating the public hearing will speed things up. In my view, however, the delays are caused more by the need to resolve complex issues in the drafting process and in the Departmental review process. Many of us feel that the public hearing process has contributed much to developing orders that address the many complex issues that are a part of fluid milk markets. Whether doing away with the hearing process proves to be a good idea remains to be seen. It should be kept in mind that in many instances the Courts will have the final say in whether an order is enforceable or not so care must be exercised in formulating order provisions. Whether this can be accomplished without a public hearing remains to be seen.

A reflection of Congress's concern over the possibility of delay in the amendment process is seen in a provision of the legislation that would prohibit USDA from assessing the industry for the cost of administering the orders if it fails to complete the consolidation process in three years.

Other provisions of the legislation include the following:

1. Re-authorizes the Dairy Export Incentive Program at the maximum level permitted under the GATT treaty and allows unused DEIP allocations to be carried over to the following year. The DEIP program has contributed to stronger milk prices over the last few years and has broad support in the industry. Allowing the carryover of unused allocations will insure maximum use of the program.
2. The legislation requires the Secretary to provide assistance in setting up and maintaining an export trading company to assist the industry in its participation in world markets. With the implementation of the GATT treaty and the phasing out of domestic price supports, the industry will be looking to world markets in the future and this provision should prove helpful in that regard.
3. The legislation provides authority to use up to 10% of dairy promotion funds for international market development. The present law limits expenditures to

domestic programs. The use of funds for international programs is discretionary. There is no requirement that any funds be used.

4. Other changes that should have little or no effect on the Florida industry include:
  - a. The repeal of Section 102 of 1990 Farm bill. This provision of the 1990 farm bill would have required California to reduce its manufacturing make allowances, but it was never implemented. In its place the new farm bill establishes maximum make allowances a State may set.
  - b. Authorizes a Federal Order for California and allows the State to continue its own quota plan.
  - c. Re-authorizes the processor promotion program through the year 2002.
  - d. Authorizes the Northeast Interstate Dairy Compact. This provision would allow states in the Northeast to establish Class I prices higher than those set by Federal Orders only after a determination by the Secretary of an overriding public interest.

Now that the legislation is law and the dust is clearing, it would be well to look back on the process. As I indicated earlier, we came very close to losing the Federal Order program even though until last year the program had almost universal support in the industry. However, with the change in the House and Senate leadership, program reform became Washington buzz words. Regional interests perceived this to be an opportunity to reshape the program to their own benefit.

The primary reform package emerging from all of this was the so-called "Gunderson Plan" which was primarily a plan that would have increased Class I prices in the Upper Midwest, reduced Class I prices in the Southeast and taken additional funds from the Southeast milk orders to be transferred to orders with low Class I utilizations, primarily in the Upper Midwest and Far West. All of this was to be done with the seemingly noble objective of leveling the playing field. In fact, the stated objective, as presented by proponents at the subcommittee hearings, was to reduce or eliminate production in the Southeast so that markets for Upper Midwest milk could be expanded.

Because this plan would have had such a devastating effect on your industry, your cooperatives, along with other organizations in the Southeast, took the position that no Federal Orders would be better than a plan that shared Class I revenue. On the other hand, Upper Midwest groups maintained that no program would be better than maintaining the status quo.

From the outset and through the legislative process, the Florida position was that the program had worked well and should be continued without major revision. This position got very little support outside the Southeast including at the national level. The attitude at the national level appeared to be that reform was inevitable and a

compromise position must be found. Unfortunately, every one of these compromise positions, and there were a number of them, would have been detrimental to Florida. But Florida was told that they had to give up something in the interest of national unity.

To your credit, the Florida industry never did give in. Even after the so-called "Nashville Compromise" when it was claimed that the industry had reached a unified position, Florida held firm.

Now that its over and the legislation has become law, there are some important lessons to be learned, particularly in view of the fact that we almost lost a program that has been the single most important tool in stabilizing the nation's milk prices.

1. We need to recognize that the Federal Order program is not a price support program and it cannot be used to generate prices higher than would prevail otherwise. throughout the legislative process this past year, there was always an underlying attitude that reform would be OK if there was more money in it for me.
2. We need to recognize and appreciate the features of the program that provide the important stabilizing tools. Its not so much the level of prices. It is the classified use pricing of milk and marketwide pooling that provide the market stability that's so important in fluid milk markets.
3. The industry needs to stop looking to Congress when there is disagreement with particular provisions of milk orders. The Secretary of Agriculture is obligated by law to promulgate only those terms and conditions that are in the public interest. There are going to be times when the public interest is not served by proposals advanced by the industry. In fact, the program's survival for so many years can be credited in no small part to the Secretary's refusal to adopt provisions that would not have served the public interest.
4. The industry needs to restate at the national level its strong support for the Federal Order program. During the past year, there have been positions taken and statements made that could easily have been interpreted as waning support at the national level.
5. Regional interests need to be represented by regional organizations. The diversity of interests between regions and between fluid and manufacturing milk producers are such that attempts at national unity will invariably run the risk of dividing the industry and thus weaken the program as well as its national organizations.

Florida producers owe a debt of gratitude to Representative Gerald Solomon of New York, Chairman of the House Rules Committee. Throughout the deliberations, Chairman Solomon never wavered from his position that he would not support any legislation that took pool revenue from Florida and transferred it to other regions of the country. It was Chairman Solomon's substitute amendment to the House Committee bill

that became the dairy portion of the 1996 farm bill. Also, Florida House member Karen Thurman was instrumental in getting many of her fellow Democratic representatives to support the Solomon amendment.

You should recognize the work of your representative in Washington during the political process. Bill Boardman was a driving force behind the defeat of the legislation that would have hurt Florida. He spent many weeks in Washington visiting Congressional offices and working with Chairman Solomon. Throughout the negotiations, Chairman Solomon looked to Bill for advice and counsel and the results can be seen in the final bill.