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Farm Bill debate pushed into 2002

There were too many ornaments on the Farm Bill to permit Senate passage in 2001. The debate will resurface in January when Congress returns from recess.

Still, the future of dairy policy is murky. The House passed its version of the Farm Bill in October, but the Senate got bogged down in partisan opposition. This is a significant departure from past debates; traditionally the ag dialogue split up along regional divisions, not party lines.

But the party lines are clearly drawn. The GOP version doesn't raise subsidy rates but offers farmers subsidized savings accounts to help them during periods of low farm revenue. The Democrats claim the Republican's ver-

sion doesn't provide farmers with an adequate safety net or enough money for conservation programs. A stalemate occurred when Republicans didn't have enough votes to pass their version, but the Democrats didn't have the 60 votes needed to cut-off debate.

The most hotly debated dairy component of the Senate Farm Bill currently on the table is the counter-cyclical market loss payments, which would provide \$2 billion to dairy producers over the next five years. The Northeast Dairy Compact states, along with six contiguous states, would get \$500 million to share among themselves. Dairy producers would receive a payment for 45% of the difference between the Class I milk

price in Boston and the target price of \$16.94. For instance, if the Boston Class I milk price were \$15.00, a Northeastern dairy producer would receive a government subsidy of about 87¢.

The rest of the United States would share the other \$1.5 billion. Throughout those regions, producers would receive a market-loss payment for 40% of the difference between the quarterly All-Milk Price and the five-year average All-Milk Price for the quarter. For example, in 2001, the All-Milk Price averaged \$13.37 during the first quarter, 62¢ below the five-year average of \$13.99. Under this payment scheme, dairy producers

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KEN'S CORNER



*by Ken Meyers
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As I've written in this space before, USDA's mountain of skim milk powder continues to be a big issue plaguing the industry. The ag department is grappling with implementing an-

other "tilt" in the butter-powder support price, and I'd say odds are good it will happen before the end of the first quarter.

I don't think USDA needs to worry about buying too much butter under that scenario, in which the butter purchase price could be lifted above a dollar. The butter price hasn't fallen that low in nearly two years. And I don't think anyone has to worry about distorting the market, either. In

today's marketplace, price resistance on butter doesn't set in until the price gets somewhere near \$1.70.

As for the Farm Bill, I hope whatever Congress decides, they lean toward market orientation rather than reliance on market-distorting support measures. We spend too much time and energy defending cumbersome systems that distort the market, rather than focusing on growing the market for everyone. □

Steady prices forecast for 1st half 2002

Cheese is forecast to remain on the long side in the first half of 2002, keeping prices trading between \$1.20 and \$1.30.

Tight supplies of butterfat should provide strength to the butter market, particularly around the Easter/Passover holidays. □

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would receive about 25¢ on the first 8 million lbs. of milk.

Meanwhile, USDA still has a couple more policy decisions to make. The department put its butter-powder "tilt" decision on hold until 2002 (*see story at right*). CCC continues to buy excess powder in earnest and the world SMP price has dropped 25% since January.

In 2002, USDA also will have to decide on its Proposed Rule to change the Class III and Class IV formulas in the Federal Orders. The comment period has been extended until Jan. 25, though some have hinted about filing a petition to reopen the hearing. That means the rule wouldn't be enacted until the second half of 2002, if then. Under the proposed rule, the Class III price would increase about 50¢/cwt. □

Best wishes for a happy and prosperous New Year
—from MCT Dairies

MCT Forecast					
	<u>Block*</u>	<u>Barrel*</u>	<u>Class III</u>	<u>Butter*</u>	<u>Class IV</u>
DEC	1.2567	1.2500	11.81	1.2793	11.78
JAN	1.2425	1.2175	11.47	1.3375	11.81
FEB	1.2450	1.2200	11.27	1.3600	11.80
MAR	1.2725	1.2475	11.35	1.4500	11.88
APR	1.2550	1.2300	11.38	1.3800	11.55
MAY	1.2625	1.2375	11.50	1.4225	11.54

* Block, barrel and butter are monthly averages of CME prices.

Tilt-a-whirl

Last week, USDA made the calm announcement that it would not make a second adjustment in the butter-powder support prices before year-end after all. However, it left open the possibility that it would "reconsider" tilting the support prices at the beginning of calendar 2002.

Though USDA sits on 882 million lbs. of nonfat dry milk, reducing the support price for powder is a politically charged endeavor. In fact, National Milk Producers Federation is so opposed to the idea that it threatened to sue USDA on the grounds that it had already made its two allowable adjustments in 2001 – one in January when it tweaked the make allowances of cheese, butter and powder, and again in June when it dropped the powder price by a dime.

The on-hold Farm Bill debate also factors into USDA's decision. With the fear that

Congress will introduce legislation to undermine the effects of a tilt, USDA will likely hold off until after the Farm Bill is passed before announcing another support price cut.

If USDA's true goal is not to purchase any powder than it would have to lower the nonfat dry milk support price at least 10-15¢ to 75-80¢. The current world market is weak as Oceania countries are at the peak of their production cycle and the European Union will not open its skim milk powder intervention program until March 1.

A dime reduction in the nonfat dry milk powder support price would result in an offsetting increase of about 20¢ in the butter support price, from 85¢ to \$1.05.

Note that even though USDA cut the powder purchase price in June by a dime, the NASS survey powder price didn't drop the full 10¢ until six months later. □

