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**(Base) Agency:** DATCP - Federal Dairy Policy Reform

**Recommendations:**

*Decker-1*

**Paper No. 214:** Alternative 2

**Comments:** No need to be seen as opposed to efforts to get dairy farmers fair prices. But, Alternative 2, which only provide one-year's worth of funding, seems reasonable since 1999 is really the year when things are going to happen. Plus, DATCP can always come back under 13.10, or allocate money from their general marketing funds in the next year if necessary.

I oppose taking any money from the ag development and diversification (ADD) grant program, since this would leave lots of unique, smaller projects without any funding.

prepared by: Barry



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #214

### Federal Dairy Policy Reform (DATCP)

[LFB 1999-01 Budget Summary: Page 97, #11]

#### CURRENT LAW

The 1997-99 budget act provided \$50,000 each year of the biennium on a one-time basis to provide assistance for organizations to seek federal dairy price reform.

#### GOVERNOR

Provide \$50,000 each year in a biennial appropriation to provide assistance for organizations to seek federal dairy price reform. Repeal the appropriation on July 1, 2001.

#### DISCUSSION POINTS

##### Federal Dairy Pricing Concerns

1. Wisconsin's Dairy industry contributes an estimated \$17 billion annually to the state's economy and accounts for an estimated 200,000 full and part-time jobs in the state. According to DATCP, dairy producers received \$3.2 billion for the milk they produced in 1997.
2. It is believed that Wisconsin's dairy farmers, along with dairy farmers throughout the Midwest, are at a competitive disadvantage to other regions under the current federal milk marketing order system. The milk marketing order system sets forth milk marketing practices including the minimum prices that must be paid to producers. Milk prices vary by each order and generally rise depending on how far the milk production is from Eau Claire, Wisconsin. The current pricing order system is largely based on conditions that existed in the milk market in the 1960s.
3. The 1996 Farm Bill required the U.S. Department of Agriculture (USDA) to

consolidate the 30 federal milk marketing orders into 10 to 14 new orders and to establish milk pricing rules. USDA announced a proposed final rule on March 31, 1999 that would consolidate the current federal milk marketing orders into 11 orders and lower the price difference between regions. However, dairy producers in each milk marketing order need a two-thirds vote in their order to adopt the rule. The vote is expected in August, 1999. If the voters in a region reject USDA's proposed rule, that area would not be included in the federal marketing order.

4. The USDA rule would also eliminate dairy compacts by October, 1999. For example, the Northeast Interstate Dairy Compact, whereby six northeast states currently are allowed to set minimum prices paid to producers for milk, would become defunct. DATCP officials indicate some national legislators are crafting a bill to allow dairy compacts and to undo the milk pricing rule. Some believe that regions may opt out of the federal marketing order and instead form dairy compacts if allowed by legislation. It is contended that the existence of multiple compacts could lead to higher prices received by dairy farmers in other regions of the country compared to the prices received by Wisconsin farmers. Higher prices could lead to surplus production in that region which will likely lower milk prices in other regions including the Midwest. In addition, surplus production could increase federal taxpayer funded purchases of excess production.

5. Other Wisconsin industries involved in interstate commerce that are concerned that federal rules or orders may put them at a disadvantage to their competitors in other states could also argue to use state tax dollars to advance their interests in Washington. On the other hand, due to the significance of the dairy industry in the state and the proposed federal rule, the potential for improving the Wisconsin dairy industry's competitive position does exist.

#### **Aid For Dairy Reform**

6. DATCP officials indicate that since many states oppose the proposed marketing order reform and are lobbying to allow for the creation of compacts as an alternative, Wisconsin needs to continue its efforts to promote pricing reform. For example, Louisiana, Maine, New York, North Carolina and Vermont have pledged a total of \$260,000 in 1999 to counter marketing reform. The Department believes the next two years will be marked with litigation and congressional efforts to overturn the USDA proposed final rule.

7. In 1997-98, DATCP used the allotted \$50,000 for federal dairy pricing reform as follows: (a) \$25,700 to support the Minnesota dairy producers' lawsuit against the USDA; (b) \$10,000 for the Upper Midwest Dairy Coalition; (c) \$8,000 for DATCP officials to support reform activities (including USDA and Congressional testimony); and \$6,300 for an informational letter mailed to Wisconsin dairy producers on the issue.

8. DATCP indicates most of the \$50,000 provided each year under the bill would be the state's contribution to the Upper Midwest Dairy Coalition to assist their efforts to reform federal dairy policy by supporting the USDA proposed rule and opposing legislation that may put Upper Midwest farmers at a further competitive disadvantage. The Coalition was established in 1995 and has members that include dairy cooperatives, farm organizations, trade associations and state

agencies. The Coalition estimates that approximately 90% of its revenues come from the dairy industry. A Coalition official indicates that the state funding would be used to assist with the cost of economic and legal analyses, which could be used to educate federal officials about the inequities in the federal pricing system. The University of Wisconsin is currently conducting economic analyses for the Coalition.

9. The Upper Midwest Coalition generally consists of Wisconsin, Illinois, Iowa, Minnesota and North and South Dakota. DATCP and the Minnesota Department of Agriculture have provided the Coalition with funding in the past. Minnesota is providing approximately \$50,000 each year for federal dairy policy reform, including contributions similar to Wisconsin to the Upper Midwest Dairy Coalition. A Coalition official indicates that the remaining states do not financially contribute beyond providing in-kind work such as absorbing attorney fees and contributing time because the dairy industry is not as prevalent in those states and thus, the overall economic impact of the federal pricing system is less.

10. In 1995-96, DATCP provided \$10,000 from its marketing general operations appropriation for the Coalition's efforts. Arguably, since DATCP used marketing funds in the past, DATCP could give federal dairy price reform priority use of these funds and fund the state's annual contribution to the Coalition from existing marketing funding.

11. Further, DATCP administers an agriculture development and diversification (ADD) grant program that provides grants to fund demonstration projects, feasibility analyses, and applied research toward new or alternative technologies and practices to stimulate agricultural development and economic activity. The program is currently provided \$400,000 GPR annually for grants.

12. DATCP's rule related to the ADD program (ATCP 161) states that DATCP can award ADD grants for the purpose of improving the competitive position of the state's agriculture industry. The state's contribution to the Coalition would be an allowable purpose in that the Coalition's goal is to remove the inequities of the current federal dairy pricing system, which would improve the industry's competitive position. Therefore, DATCP could provide the \$50,000 for dairy price reform activities in each year of the biennium either from the ADD program, the marketing appropriation or a combination of the two. The Department chose not to provide funding for dairy price reform from either of these sources in the 1997-99 biennium.

13. Since USDA has already announced its proposed final rule and states will only have until August, 1999 to vote in or out of the marketing order, by July 1, 2000, most crucial decisions may be made. Thus, the \$50,000 may not be necessary in 2000-01, unless litigation or opposing legislation continue into the second year of the biennium. One alternative would be to provide funding for the first year of the biennium only.

## **ALTERNATIVES TO BASE**

1. Approve the Governor's recommendation to provide one-time funding of \$50,000 in 1999-2000 and in 2000-01 in a biennial appropriation to provide assistance to organizations to seek

federal dairy price reform.

<u>Alternative 1</u>	<u>GPR</u>
1999-01 REVENUE (Change to Base) [Change to Bill]	\$100,000 \$0]

2. Modify the Governor's recommendation to provide \$50,000 in 1999-2000 only.

<u>Alternative 2</u>	<u>GPR</u>
1999-01 REVENUE (Change to Base) [Change to Bill]	\$50,000 - \$50,000]

3. Maintain current law. (DATCP could choose to allocate resources for this purpose from existing program funds.)

<u>Alternative 3</u>	<u>GPR</u>
1999-01 REVENUE (Change to Base) [Change to Bill]	\$0 - \$100,000]

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BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

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