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The Dairy Farm Structure Management Program

We at National Farmers recently commissioned a study of consumer preferences by the Minneapolis-based marketing group Eurofins. Ninety-three percent of consumers surveyed said it was important to support family farms. The advantages to food security, to the environment, and to rural economies that family-sized dairies provide are too valuable to lose. We need to give consumers a dairy industry that provides what they want, that is, a system that preserves and enhances the options for family dairies for generations to come.

Unfortunately, we are heading in the opposite direction. The numbers are shocking. USDA did a Census of Agriculture in 2012 and another in 2017. During that brief five-year period, we lost 35 percent of our dairies milking fewer than 200 cows. The actual numbers are every bit as concerning; 17,547 of these family-sized dairy farms were lost in the short span of five years. Meanwhile, the number of dairies with more than 2,000 cows went up, not down, in spite of poor market conditions that forced out family-sized dairies at such an alarming rate.

Smaller Farms Devastated While Larger Farms Continue to Grow

Farm Size Cows	Farm Numbers 2012	Farm Numbers 2017	Change in Farm Numbers 2012-2017	Percent Change 2012-2017
under 200	50,900	33,353	(17,547)	**-34.5%**
200-499	3,800	3,485	(315)	**-8.3%**
499- 999	1,570	1,551	(19)	**-1.2%**
1000-1999	950	1,034	84	**8.8%**
2000+	780	973	193	**24.7%**
Totals	**58,000**	**40,396**	**(17,604)**	**-30.4%**

This dramatic move away from family-sized dairies and toward mega dairies is often called a "structure problem." Dairy farmers naturally think of farm buildings when they hear the word "structure." In the world of policy and farm economics, however, the word has a different meaning--"structure" refers to how many farms produce our milk and how big each of those farms are. Looked at this way, we see that America's dairy industry has a serious structure problem that gets worse by the day.

Smaller Dairy Farms Provide Special Benefits

There is a way to address the structure problem eating away at our dairy farming system. Before we describe that program, however, we need to address the basic question: Why should we care? The obvious concern that we will run out of milk as we run out of dairy farmers turns out to be groundless. As family-sized farms leave in droves, much larger farms step in to take their place. Cow numbers are only part of the story, however. We must not forget the personal toll structural collapse takes on America's farmers. And, as a society, we must not forget that when we lose smaller dairy farms, we all lose the special advantages family-sized farms provide for rural economies, the environment, and food security.

One of the reasons smaller dairies have special social benefits requires little explanation or research; dispersing animals over many farms in a broad area is safer than concentrating them all in one area. A senior dairy economist with CoBank put it this way: "The largest risk with a densely concentrated milk supply is disease or natural disaster. A disease outbreak or natural disaster could quickly impact a much larger share of dairy production when it is concentrated in fewer farms."

A second, and related, benefit of smaller farms concerns the environmental impact of dairy farming. Concentrating the manure produced by, say, 100 80-cow dairies on the site of a single 8,000-cow dairy magnifies the environmental consequences of natural disasters and technical failures many times over. Furthermore, the manure from 100 80-cow dairies is often well balanced with crops grown for feed. The 8,000-cow dairy must transport manure from more distant crop farms or treat manure as a disposal problem, thereby increasing the odds that livestock waste will become an environmental pollutant rather than a natural source of crop nutrients.

Community economics also favor smaller dairy farms. Academic studies show that communities experience reduced economic vitality when they lose family-sized dairies. We must also be careful not to forget what one of those studies said: "lower numbers of cows in the area—and not simply increases in farm size—may actually represent the biggest threat to small-town agribusiness." As dairy farming becomes dominated by very few, very large, operations, the number of communities with virtually no dairies at all increases. On the other hand, the more milk produced on family-sized farms, the more likely it is that rural communities will be supported by dairy farming. The alternative is a rural landscape in which more communities have no dairy farmers or cows at all.

Call the Fire Department!

What policies will best serve to preserve and enhance a dairy economy with opportunities for farms of all sizes? How can we avoid losing the many special advantages that family-sized dairies provide for rural economies, the environment, and food security? We have been participating in a series of meetings around the country so we can talk with dairy farmers about those very questions. Many of the dairy farmers coming to our meetings are like so many others throughout rural America—they don't have time to wait for a perfect long-term solution. They need relief now. Simply put, when your house is on fire, you don't study better building materials. You call in the fire department!

A program that effectively addresses dairy farming's structure problem must quickly deliver carefully targeted payments to those dairy farmers that are most in danger of going out of business. The Maine Dairy Relief Program, established in 2004, provides a good example of how that can be done. The Maine Department of Agriculture said the program "has provided a safety net for many farmers on the verge of shutting their doors and has provided a window of opportunity for interested, younger farmers to begin dairy farming." A 2018 academic study supported that claim when it found the program helped Maine's dairy industry by "reducing the number of farms that exit, keeping farms in business longer and increasing farm profits."

The Maine Dairy Relief Program provides targeted payments to dairy farmers. Those payments are higher for smaller farms and gradually decline as farm size increases. The basic concept of the Dairy Farm Structure Management Program is both simple and straightforward. We take proven methods from the Maine program, modify them to better fit a national market, and administer the program through the Federal Milk Marketing Order system.

The Federal Milk Marketing Order System

Maine had a natural system for administering their program—its own state government. Where will we find the system to administer a national program that stabilizes dairy farm structure? Won't it involve still more costly bureaucracy? There is some good news here—we already have such a system. It has been in operation for decades and has all the machinery and personnel needed to operate a structure management program. That system is the Federal Milk Marketing Orders.

The Federal Milk Marketing Order system provides an established, battle-tested way to stabilize the structure of dairy farming in the United States. Let's take a minute and review the four goals set for the market order system:

1. Insure orderly marketing of milk
2. Improve income of dairy farmers
3. Equalize bargaining power
4. Assure an adequate supply of high quality milk

These goals make every bit as much sense today as they did when the Federal Milk Marketing Order system was put in place 90 years ago.

The Federal Milk Marketing system uses "classified pricing" to set the price for milk. Classified pricing is a way to recognize the different values of finished dairy products made from the same milk. For example, fluid milk is priced higher than is milk going to a cheese plant. As a second example, milk used to make yogurt and ice cream is priced higher than that going for butter or powder. Here is the big question: If we can recognize the different values of finished products, why not recognize the different sizes of farms producing the milk? This is exactly what the Dairy Farm Structure Management Program does. As we will soon see, our program is a good fit with both the goals and operations of the existing Federal Milk Marketing Order system.

Giving Farmers a Choice

Congress has worked hard to provide dairy farmers with the Dairy Margin Coverage program. We are grateful for that work and think it should continue. At the same time, we recognize that the Dairy Margin Coverage program may not be enough for some farmers. We therefore propose the Dairy Farm Structure Management Program as an alternative to, but not a substitute for, the Dairy Margin Coverage program. Eligible farmers may elect to participate in one or the other, but not both.

Which program an individual farmer chooses will depend on such factors as the need for immediate cash, reliance on purchased feed rather than feed grown on the farm, or production at levels above that covered in the Dairy Farm Structure Management Program. The important thing is that family-sized dairy farms will have realistic options for keeping them in business.

The Dairy Farm Structure Management Program in Action

While based on the Maine program, the Dairy Farm Structure Management Program requires adjustments to better fit the national milk market. In short, the structure of dairy farming in Maine, dominated by smaller farms, is different from the national market in which the number of very large dairies continues to grow.

The Dairy Farm Structure Management Program classifies all dairies into four production tiers, each mirroring farm sizes used by USDA to calculate dairy farm production costs:

1. Below 2.3 million pounds per year
2. Between 2.3 and 4.6 million pounds per year
3. Between 4.6 and 11.4 million pounds per year
4. Over 11.4 million pounds per year

The critical group of family-sized dairies, that is, those with fewer than 200 cows, are all included in the first two of these tiers.

Tier classifications are evaluated on a monthly basis. If, for example, a farm had milk production in a given month that was within the Tier 2 limits, that farm would receive the Tier 2 payment for all milk produced in that month. If that same farm had production within the Tier 3 limits in some other month, however, the farm would receive the Tier 3 payment on all milk produced in that other month.

All program payments are made by the Federal Milk Marketing Order system. Payments flow from the Federal Government through the Federal Milk Marketing Order system to cooperatives or other business entities through which farmers sell milk under a Federal Milk Marketing Order. Payments to individual farmers are made by the cooperatives or other business entities. Our program works this way to remain consistent with current payment methods now used throughout the Federal Milk Marketing Order system.

Calculating Program Payments

Farmers participating in the Dairy Farm Structure Management Program receive a monthly Total Payment that is composed of two parts. One part is a Stabilization Payment; the other is a Market Payment.

The Stabilization Payment is a flat rate of $2.00 per cwt. to farmers in Tier 1 and Tier 2 regardless of market conditions. Farms not in one of these two tiers do not receive a Stabilization Payment. There are two reasons for this policy. For one, farm number losses in Tier 1 and Tier 2 are overwhelmingly larger than for Tier 3 and Tier 4. We therefore reserve Stabilization Payments for farms needing them the most. A second reason for this policy concerns maintaining consistency with the Dairy Margin Coverage program. That program has a cutoff of five million pounds per year, a close match with the combined Tier 1 and Tier 2 of the Dairy Farm Structure Management Program.

In general, Market Payments depend on two critical factors that determine a dairy farm's ability to maintain a positive cash flow. One is the milk price received and the other is the operating cost to produce milk on a farm in each tier. As an indicator of national farm-level milk market prices, we use the average of USDA-determined monthly prices for Class 3 and Class 4 milk. We call this average price the Market Indicator. The Dairy Farm Structure Management Program uses USDA estimates of operating costs for dairy farms in each Tier. During months when operating costs are higher than the Market Indicator, farms in certain Tiers receive a Market Payment.

As an example, suppose the Market Indicator is $14.64 per cwt. in a particular month and that USDA has estimated that a farm in Tier 1 would need $16.84 to cover its operating costs. That farm would therefore receive the difference between $16.84 and $14.64, or $2.20 per cwt. of milk marketed during the month. If, in that same month, USDA estimated that a farm in Tier 2 had operating costs of $15.48, that farm would receive a payment of $0.84 ($15.48 minus $14.64) for every cwt. of milk sold during the month.

The Market Payment for a farm in Tier 3, assuming an operating cost of $14.85, would be $0.21 per cwt. ($14.85 minus $14.64). Dairy farms in Tier 4 do not receive Market Payments through the Dairy Farm Structure Management Program under any market conditions.

The Total Payment made to a participating farmer is the sum of that farm's Stabilization Payment and Market Payment. In the examples just given, a farmer in Tier 1 would receive at Total Payment of $4.20 per cwt., that is, $2.00 as a Stabilization Payment and $2.20 as a Market Payment. A farmer in Tier 2 would receive a Total Payment of $2.84 per cwt., the sum of a $2.00 Stabilization Payment and a $0.84 Market Payment. A farmer in Tier 3 is never eligible for a Stabilization Payment; in this example, the Total Payment would be the $0.21 Market Payment. A farmer in Tier 4 receives no payments, either Stabilization or Market, with the Dairy Farm Structure Management Program.

A Truly National Program

The Dairy Farm Structure Management Program does not have true national coverage for an important reason: some areas of the country are not presently covered by the Federal Milk Marketing Order system. A dairy farmer outside of a covered area may be close enough to participate in a nearby Order, but others will be too far away to make program participation practical. For those farmers, the Dairy Margin Coverage program remains an attractive option.

One way to fix this problem is to leave existing Orders alone and establish new ones for areas that are not presently covered. Another way is to establish a single national Order in which all farmers participate. Either one will do the job, but the milk market has evolved into one in which milk is routinely transported across state and Federal Order boundaries. We at National Farmers therefore prefer a single National Federal Order that covers all milk produced in the lower 48 states.

We hope that as the Dairy Farm Structure Management Program evolves, more farmers will support Federal Marketing Orders in areas not now covered. As this happens, we can explore options that depend less on government payments and more on market forces.

We Must Act Now

USDA projects fewer than 18,000 dairy farms by 2036. We at National Farmers find this to be completely unacceptable. Consumers prefer a dairy structure with opportunities for family-sized farms, and studies confirm the social benefits for rural economies, the environment, and food security that family-sized dairies best provide. We have sought the advice of dairy farmers, of farm organizations, and of Federal Milk Market Order administrators in developing the Dairy Farm Structure Management Program. We appeal to you for support. The future of one of our national treasures, the family-sized dairy farm, is at stake.