MILK FROM FAMILY DAIRIES ACT

A policy proposal for a strong dairy sector and thriving rural communities
by National Family Farm Coalition
2021
WHY A NEW DAIRY POLICY?

For decades, dairy policy has pushed farmers to get big or get out. It has been so successful that just 5% of dairy operations now produce 56% of U.S. milk, and thousands of family dairy farmers have left the business in recent years. But these large-scale dairies – especially the growing numbers of “megadairies” with tens of thousands of cows – have large-scale consequences: polluted wells and rivers; tons of climate-heating methane released into the air; depressed rural economies; no consumer transparency; and fragile supply chains that the coronavirus pandemic has shown can break down quickly, leaving milk shortages from coast to coast.

Family dairy farmers have been selling their herds because a federal dairy pricing structure keeps farmer prices low – often below their costs for producing the milk. Dairy processors (the companies that buy milk to bottle it or make cheese and other products) get to buy this milk very cheaply, while taxpayers make up some of the difference.

There is another way. Decentralizing dairy production and fair price standards for producers would bring family-scale dairy farms back to rural communities across the country, along with regional processors and increased economic activity across many sectors. Regional dairy production is more transparent and resilient to shocks. Smaller-scale farms are more likely to graze their cows on grass rather than keeping them in large barns year round. Grazing sequesters carbon, reduces water and air pollution, and is better for overall cow health.

National Family Farm Coalition’s Milk from Family Dairies Act (MFDA) is a proposed new dairy policy to build this healthier future. The plan would pay dairy farmers a fair wage based on their costs of production – for huge taxpayer savings. It would incentivize family-scale dairy farms over megadairies and ensure a consistent supply of regional milk for processors and consumers. Curious? Read on for full details of the plan.
# Table of Contents

**Overview**
- Key Elements ........................................... 3

**Program Details & Funding** ......................... 4

**Policy Details**
- 1. Farmer Floor Price ................................ 5
- 2. Balancing Supply and Demand .................. 6
  2a. Production Base .................................. 7
- 4. Alternative Markets ................................ 9
- 5. International Trade ................................ 10
- 6. Consolidation and Market Concentration ...... 11
- 7. Rebuilding Regional Dairy Infrastructure ...... 12
Under the MFDA, each dairy producer will establish a “production base”: the amount of milk they may market. For this amount, each producer will be paid a base price based on their costs of production. Regulation of the production base, overseen by new democratically-elected farmer boards at the U.S. Department of Agriculture, will balance the national milk supply and demand, ensuring that an oversupply of milk will not drive milk prices down for farmers. MFDA will also significantly reform and simplify the Federal Milk Marketing Orders, converting them to regional farmer-run marketing boards to coordinate the program and the industry; the boards will broker milk sales between producers and processors. While adhering to existing trade agreements, MFDA will also address dairy imports and exports to the extent possible to further manage milk supply.

Current dairy policy has led to a highly consolidated sector in which it is increasingly hard for a small or mid-size farm, processor, or cooperative to start up or to survive. MFDA mandates actions by the U.S. Department of Justice and other government agencies to address market concentration, and makes additional provisions to rebuild and support dairy industry infrastructure across the country.

Participation in the National Dairy Inventory Management Program (NDIMP) will be mandatory for all dairy farmers, in order to keep large-scale agribusiness actors from skewing the national milk supply. The program will be permanent, so as to avoid the market manipulation that has occurred with similar programs that were established as temporary measures. There are carveouts for farmers who direct market their milk and special provisions for the organic market.

### OVERVIEW

The pillars of the MFDA reforms will:
- Balance national milk supply and demand
- Guarantee dairy farmers a fair price for the milk they produce
- Control dairy imports and exports
- Address the high level of consolidation in the sector
- Rebuild regional dairy production and processing infrastructure
A dairy farmer board will estimate annual U.S. milk demand to determine how much milk dairy farmers may sell. Each farmer will have a production base, based on their historical production. Production base will be adjusted annually to match total demand.

2. Balancing milk supply & demand:
National Dairy Inventory Management Program

- A dairy farmer board will estimate annual U.S. milk demand to determine how much milk dairy farmers may sell.
- Each farmer will have a production base, based on their historical production.
- Production base will be adjusted annually to match total demand.

3. Export and Import Controls

Processors wishing to export milk must pay a market access fee. Dairy import fees will be raised where possible in accordance with existing trade deals.

4. Measures to break up consolidation and decrease market consolidation

5. Rebuilding regional dairy infrastructure

1. Fair Price for Farmers

A fair floor price for farmers will be based on their costs of production, adjusted for size and region. Farmers will be paid at least the floor price for all milk in their production base.
PROGRAM DETAILS AND FUNDING

Processors
- For all milk they buy, they pay the (national) average cost-of-production milk price plus any component or other premiums
- Have a steady milk supply guaranteed all year

Milk Marketing Order Boards
- Run by farmers
- Broker all milk sales between farmer and processor; license haulers, handle logistics
- Set farmer pay price based on national scale-adjusted COP + adjustments/premiums
- Funded via small farmer administrative fee

Dairy Farmers
- Paid their scale-appropriate cost of production + premiums by processor via MMOB
- Pays small administrative fee to MMOB
- Guaranteed steady market and pay price

Federal Government
- National Dairy Farmer Board housed at USDA
- USDA supports programs available for beginning & other dairy farmers
- Program is cost efficient for taxpayers: most costs are paid by processors and farmers rather than by government insurance and bailouts
1. FARMER FLOOR PRICE

Goals
- Dairy farmers are paid a fair price for their milk based on costs of production
- Stabilization of the extreme price volatility in the dairy market
- Dairy farmers will equitably share in the profitability of marketed milk, rather than the profits going almost wholly to every other link in the supply chain

The National Dairy Inventory Management Program (NDIMP) will set a “floor price” for farmers based on the production costs of 100 pounds of milk (hundredweight, or cwt). These prices will be set by the National Dairy Farmer Board and based on USDA’s Economic Research Service calculations of the national average cost of production according to herd size, including the opportunity cost for unpaid labor of milk production.

Every farmer will be paid, at minimum, the scale-appropriate floor price for every hundred pounds in their production base. The regional Milk Marketing Order Boards may adjust farmer pay prices at higher (but not lower) rates than the national minimum based on regional costs and establish premium payments based on milk component ratios (butterfat and protein), quality, or other factors.

All information on pay price formula, qualification, and other matters will be public and transparent at all levels.
2. BALANCING SUPPLY AND DEMAND

Goals
- Stability for all parties in the dairy sector, to allow for price security and long-term planning
- A consistent supply of healthy, regionally-produced milk and dairy products for U.S. consumers
- An increase in the number of new and family-scale dairy farmers and reduction in the number of megadairies
- Elimination of milk “dumping” in other country’s dairy markets (i.e., selling U.S. milk abroad at below its cost of production, undercutting local dairy producers)

Annually, the National Dairy Farmer Board shall estimate the total quantity of milk produced and consumed in the United States. This supply and demand estimate will include:
- All domestically-produced fluid milk and its associated components (butterfat, protein, other solids)
- A small resilience reserve to protect against unexpected shortages caused by drought, floods, or other disasters. Reserve shall be allocated to emergency feeding programs when not needed for disaster recovery.
- All milk needed by processors, including for use as fluid and processed products.
- The demand estimate will initially include a percentage of US exports. Following a five-year phase-out period, exports will no longer be included in the estimate of demand.
- Imports based on current trade agreements will be accounted for but excluded from estimates of domestic supply. Import estimates will include all milk derivatives (proteins, powders, etc.) and products processed with extended shelf-life technologies.
  - See “International Trade” below for more detail on dairy imports and exports.

The National Dairy Farmer Board shall also estimate the annual national average milk production (total production by total number of dairy farms).
2A. PRODUCTION BASE

The production base system is how supply and demand will be kept in balance. A farmer's production base determines how much milk they may market. Producers will be paid, at minimum, a scale-appropriate floor price for every hundred pounds of milk in their production base. Production base may not be bought, sold, or otherwise monetized, and multiple production bases may not be combined.

Dairy operations may not market in excess of their production base without incurring a penalty. Operations may market less milk than allowed by their production base at any time.

**Establishment of Production Base**
- Each existing dairy farmer will establish a production base, equivalent to the average historical production level of the five years prior to January 1, 2020.
- In the event that a farmer's average production was dramatically different during the base establishment period as compared with their usual average, due to weather or other unforeseen factors, the farmer may appeal to their Milk Marketing Order Board for up to two years of their production history to be dropped from the calculation of their production base.
- New entry or returning farmers: see below.

**Provisions of Production Base**
- Production base is linked to the dairy producer (farm owner/operator/s), not the farm (land or business). Multiple farmers may be associated with a single production base, but an individual farmer may not be associated with multiple production bases.
- In the first year of MFDA implementation, production base will be initially established based on the farm and then transferred to the associated farmer. In the case of multi-farmer partnerships, the farm's total base will then be divided by the number of partners and the resulting base will be linked to each individual.
- Once the production base is established, it is subject to standard seasonal adjustment and quarterly decreases or increases by the National Dairy Farmer Board and the Milk Marketing Order Boards, based on estimated national milk demand and supply (see below).
- Production base cannot be monetized, leased, sold, or traded for material or financial gain.
- Farmers must be actively engaged in farming in order to retain their production base. A business or corporate entity may not itself hold a share of a production base.
- Farmers may put their production base on hold (i.e., not market milk) for up to 36 months, in the event of moving their farm or any other disruption to their farming activities. After 36 months of inactivity, the farmer loses their production base (see below for farmers returning to the sector).
- Farmers may trade production bases at any time. A retiring farmer may pass their production base to any individual and exit the sector. Each Milk Marketing Order Board will maintain an online base exchange program for farmers wishing to pass on their base without a specific recipient. To ensure opportunities for transfers to be made equitably, a farmer giving up their base can list it on the exchange, where it will be blind matched with someone seeking a base of a similar size.
SPECIFIC PRODUCTION BASE CIRCUMSTANCES

Production Base Transfer

A producer retains their production base if they move to a new property or purchase new cows. A retiring farmer may transfer their production base to a relative or an apprentice; lacking either of these, the farmer can list it on the online base exchange. No money, goods, or services may be exchanged for this transfer. Production bases may not be combined or consolidated.

Multi-Farmer Farm Partnerships

A farmer who chooses to leave a multi-farmer partnership may choose one of these options:
- The full base may remain with the partnership. In this case, the exiting farmer forfeits rights to that production base and leaves dairy production, unless and until such time as they adopt a new production base to re-enter the business.
- The production base may be divided according to the number of parties. (See footnote 7.) The exiting farmer(s) may establish a new farm operation with their production base. In this case, the exiting farmer’s share of the base may be unused for up to 36 months while they establish a new operation. The farmers remaining with the partnership have up to 36 months to scale down to their new smaller production base.

New Entry Dairy Producers

- New production base will be created on an ongoing basis for new entrants. In order to avoid new entry producers significantly raising overall national production, no new production base may exceed the national average.
- New entrants will need to demonstrate sufficient experience and expertise in dairy farming in order to qualify for new production base.
- To facilitate equitable access to experience and provide new entrants with working experience, a dairy apprenticeship program shall be established and funded under the USDA Farming Opportunities Training and Outreach (FOTO) Program. The apprenticeship program will be administered regionally by the Milk Marketing Order Boards.
- An individual who has previously commercially marketed milk may not be classified as a new entry dairy producer.
- A new entrant farmer may not “trade up” their base (see below) for a period of five years.
Production Base Growth, Penalties & Adjustments

Growth and Exchange of Production Base

Any growth (i.e., by operations at or below the national average, re-entering producers, or others) may occur via the online base exchange established by each Milk Marketing Order Board.

- Former dairy farmers who wish to re-enter dairy farming may take over a retiring farmer’s production base.
- Farmers who wish to grow their operation may do so by taking over the production base of a retiring farmer who holds a larger base, via the base exchange. In this case, the farmer who wishes to grow discards their own base and takes on the new base – in effect, “trading up.” A farmer seeking to reduce the size of their operation may do so in the same manner through a downward trade; a farmer may also reduce their production base at any time simply by notifying the Farmer Board.
- All production base provisions outlined in this section apply in these cases, including the prohibition on financial exchange and on combining multiple bases.

Penalties for Production Base Violations

- Marketing milk above the production base:
  - No producer will be paid for milk marketed in excess of their production base.
  - A producer who markets milk in excess of their production base for a period of ten days in a row will be required to pay for the hauling of the overage. Production base seasonal adjustments will ensure producers are not penalized for the spring flush.
- Milk Marketing Order Boards may impose additional penalties for marketing milk in excess of the production base.
- Any operation or entity found to have made financial gain from unlawful monetization, leasing, contracting, or other abuses of the production base will be subject to penalties, which could include loss of base or fines.
- Under limited circumstances penalties may be appealed to the regional and national boards.
- A Special Dairy Producer Account shall be established in which all penalty and market access fees will be collected. These fees are redistributed annually to all producers that did not exceed their production base in the preceding year and did not incur penalties for overproduction.
PRODUCTION BASE

Ongoing Production Base Adjustments
If estimated domestic production exceeds estimated domestic consumption, the National Dairy Farmer Board will order reductions in the production bases of all dairy producers above the national average, and these operations will be required to lower their production accordingly.
- Production base reductions will be an equal percentage for all operations with a production base above the national average. Reductions will never be more than 10% of an operation’s production base per year.

If estimated domestic production is less than estimated domestic consumption, then all dairy producers that did not a) market milk in excess of their production base over the past year and b) whose production is below the national average are eligible for equal increases in their production bases at amounts to be determined by the Dairy Board.

MFDA Implementation and Transition Period
The initial years of MFDA implementation will include a variety of strategies to decrease milk production to align with demand. Many of these will be addressed towards megadairies, as large-scale industrialized operations contribute disproportionately to the growth of milk production in recent decades.
- For a period of 24 months from the date of MFDA implementation, USDA will offer an optional one-time partial buyout to all dairy operators with a production base at or above 1000% of the national average.
- For operators that wish to remain in the industry and reduce their production to the national average, there will be an option for loan restructuring.
- Producers will be encouraged to use a variety of strategies to reduce production, including changing rations, transitioning to grass, and selling part of their herd. The National Dairy Farmer Board will provide resources for these and other options, and Milk Marketing Order Boards will maintain regional databases to facilitate sale of cows to local new entry producers.
The provisions of the Milk from Family Dairies Act will be implemented and run by and for farmers fairly, equitably, transparently, and democratically.

A guaranteed stable milk market and fair price for producers and a steady supply of milk at a transparent price for processors.

Equity and fairness among all dairy-producing regions of the U.S. and different types of dairy producers.

The National Dairy Inventory Management Program will be administered at the national and regional level by democratically-elected farmer boards.

**Nationally:**
*The National Dairy Farmer Board will be established within the U.S. Department of Agriculture.*

**Role**
The National Dairy Farmer Board will calculate estimated milk demand and supply on a quarterly basis and order necessary increases or reductions in dairy farmer production bases accordingly.

**Price-setting**
The Milk from Family Dairies Act grants authority to the National Dairy Farmer Board to set milk prices based on USDA Economic Research Service calculation of dairy farm cost of production according to herd size.

**Composition**
The National Dairy Farmer Board is composed of one representative from each of the regional Milk Marketing Orders, along with two at-large members. (See below for more on membership qualifications.)
Regionally:
The existing Federal Milk Marketing Orders will be reorganized into regional Milk Marketing Order Boards, with additional Orders created for those areas not currently represented.

Role
The Milk Marketing Order Boards will administer the program and market the milk in their region to the dairy processing industry. Farmers will sell their milk to their Marketing Order Board, which will sell it to the processor and coordinate milk handling logistics from farm to processor, including licensing milk haulers.

Price-setting
As in Section 1, the regional Milk Marketing Order Boards may increase national farmer pay prices based on additional regional costs (cost of land, labor, etc.). They may also pay farmer premiums based on components and end use of the milk.

Dairy Processor Pricing
Dairy processors will negotiate milk sales directly with the Milk Marketing Order Boards rather than with the farmer. Processors will pay a flat average base price, also adjusted for components and end use. The base price paid by processors will be an average of the scale-adjusted farmgate prices.

Composition
Regional Milk Marketing Order Boards will be composed of democratically-elected farmer representatives from the region. They will also encourage the formation of standing county and state-level dairy farmer committees to make recommendations and provide input.

- Membership at all board levels, from county committees to National Board, is limited to dairy operators actively involved in the day-to-day operations of a farm.
- A fee of no more than three cents per hundredweight will be assessed on all farmgate milk sales to cover administrative costs of the program. This fee may be reassessed every six years by the U.S. Government Accountability Office (GAO) and may be raised or lowered if program costs require it.

Accountability
- Regular program accountability will be established through county- and state-level meetings of dairy farmers, held not less than twice per year. In addition, following a two-year program implementation period, each Regional Milk Marketing Order Board will hold a public hearing annually to solicit additional input from farmers on program implementation and its efficacy in meeting its goals and milestones.
- Every six years, the GAO will review the findings from these hearings. If the goals and milestones established for the program are not being satisfactorily met, the GAO will recommend changes and will oversee their implementation.
4. ALTERNATIVE MARKETS

Goals
- Long-term price and market security for existing organic dairy farmers
- A clear path and financial security for new and transitioning organic dairy farmers
- Market flexibility and fair prices for dairy producers choosing to produce or sell their milk through alternative channels while maintaining the integrity of the NDIMP for all dairy producers

Organic Dairies and Marketing
The organic market will be managed through a parallel program, the National Organic Dairy Inventory Management Program (NODIMP), which will set organic prices and manage supply in the same way as in the conventional market. Organic producers will determine their production base in the same way as conventional producers do, outlined above.

- The Milk Marketing Order Boards will include both organic and conventional producers, with certain seats designated for organic. There shall be a minimum of one organic seat on every board, with additional seats based on the percentage of organic farmers in the region. Allocation of organic seats shall be re-evaluated every five years, based on changing percentages of organic farmers.
- The Milk Marketing Order Boards will negotiate markets with processors for organic milk in the same manner as for conventional milk.

Organic Price Discovery
The USDA Economic Research Service (ERS) will establish a transparent system for tracking and reporting the national organic cost of production, based on the ERS system for conventional dairy, but accounting for the higher costs of organic animals, feed, labor, etc.

Organic Standards Enforcement
- The MFDA will increase funds for USDA organic dairy inspections to ensure strict enforcement of existing regulations, as well as monitoring and oversight of third-party Organic certifiers. The National Organic Dairy Inventory Program will maintain clear, transparent, and well-publicized guidance for certifiers, to ensure inspections are conducted in an equivalent manner across the country.

Transition
- Milk Marketing Order Boards will conduct an annual survey of conventional dairy operators to learn how many are in the process to transition to organic dairy.
- Based on the annual organic transition survey, the National Dairy Farmer Board shall account for the predicted transition from conventional to organic in its annual estimate of dairy supply and demand. This information will also be made public for producers.
- Producers in transition will remain in NDIMP and draw the conventional floor price throughout their transition and will be eligible for financial assistance to help with the transition period. These producers will have their base enrolled in NODIMP, with all of its rights and responsibilities, no earlier than their first day of organic certification.
**Direct Market Farms**

- Dairy farms that market their milk direct to consumers, such as bottling in their own on-farm creamery or making a value-added product like cheese, will establish a production base and be subject to all rules therein. They may choose to opt out of the rules for pricing if they can draw a better price from their own market. In this case, they must submit documentation to their Regional Milk Marketing Order Board twice per year attesting to their received price.

- Producers drawing a price from their own market may at any point choose to revert or start marketing their milk through the NDIMP or NODIMP, with all rights and responsibilities therein, but will be limited to making this transition to once per year.
5. INTERNATIONAL TRADE

Goals
- Honor and maintain existing trade agreements.
- U.S. dairy farmers are neither reliant on export markets to get a fair price or undersold by a flood of imports.
- Family-scale dairy farms in the U.S. and around the world are able to thrive, without the risk of dairy dumping from abroad destroying their markets.

Rules of all existing trade agreements will be honored in the implementation of the MFDA. In negotiations of future trade agreements, goals of the MFDA must be honored.

Imports
- No less than once each quarter, the USDA Secretary shall identify the amount of raw milk in all dairy product imports.
- Where possible given existing trade agreements, all imported dairy products and derivatives will be subject to tariff rate quotas (TRQs), with the permitted lower-tariff quantity lowered to the extent possible and the bound rate applied.
- Future trade negotiations shall seek to establish lower TRQs and additional restrictions on more dairy products and from more countries.

Exports
- Export projections for all milk products will be included in the estimate of US demand for the first year. In subsequent years, the percentage of exports included in the estimate of US demand will decrease annually by 20% of year one production, such that exports are no longer included in the estimate of US demand after five years.
- Processors purchasing milk or milk products/derivatives for export or to be used in exported products must pay a market access fee into the Special Dairy Producer Account. The fee will be determined by the National Dairy Farmer Board, in compliance with existing trade agreements, and will be phased in over five years. Future trade agreements will include an export market access fee for dairy products and derivatives. Like all other milk sales, these transactions will be made by the Milk Marketing Order Boards, with transparent documentation to be filed with the National Dairy Farmer Board.

All dairy products and derivatives that are imported to the United States must conform to mandatory Country of Origin Labeling rules.
6. CONSOLIDATION AND MARKET CONCENTRATION

Goals

- To act on the clear evidence of the harmful impacts of consolidation across the dairy sector on farmers’ economic viability and increase the opportunity of success for dairy businesses.
- To diversify the dairy industry with new producers, processors, distributors, and others, including new entrants, those from socially disadvantaged populations, and those without access to capital.
- To broadly circulate the economic returns of the dairy sector rather than having the benefits accrue to just a few actors in the supply chain.

In alignment with the July 2020 Executive Order on Promoting Competition in the American Economy, to address the impacts of rampant market consolidation in the dairy sector, the Milk from Family Dairies Act will:

- Direct DOJ antitrust regulators to establish clear regulations that limit market share at a threshold that would prevent oligopolistic power by any producer, processor, or other value-chain entity (including subsidiaries) across the agriculture sector, including cooperatives. Exceeding these market share caps would automatically trigger blockage of further mergers and acquisitions, and/or require divestment actions to reduce the market share below the threshold level.

- Direct DOJ antitrust regulators to establish clear regulations to block horizontal and vertical mergers of dairy producers (including corporate entities and their subsidiaries), processors, and cooperatives that would result in any one entity controlling a regional and/or national market share threshold that could lead to oligopolistic power over that market.

- Direct USDA to conduct annual reviews, made available to the public, of the economic impacts on market prices for consumers as well as farm-gate prices for producers of both horizontal and vertical integration by cooperative and non-cooperative entities.

- Allocate resources to strengthening USDA’s cooperative development programs, with explicit objectives related to decentralizing the cooperatives in the dairy sector through investment in, and development of, new cooperative organizations.
Goals

- To multiply the environmental, economic, and social benefits of independent family farms in communities across the nation
- To ensure sufficient and geographically diverse processing and transportation capacity to support an increase in numbers of smaller-scale dairy farms
- To correct historical inequities in agriculture through particular outreach and support to communities of color, including farm and food system workers

A decentralized network of many family-scale dairy farms and processors creates jobs and economic activity throughout the region. While the MFDA focuses primarily on dairy producers, industry reform also relies heavily on processors. The tenets of the MFDA laid out thus far are good for independent family-scale processors, as the plan will allow them to rely on stable milk prices and predictable supply and construct their facilities accordingly.

In addition, the MFDA will dedicate the following resources to regional dairy infrastructure:

- As part of a comprehensive dairy training program that will also include a farm apprenticeship (Section 2), USDA will establish training for individuals and communities on sustainable farming practices, dairy processing, cooperative development, marketing, and other dairy industry topics. Targeted outreach will be directed towards communities of color, especially Black and Latinx communities, and programming will include assistance to current farmworkers transitioning to farm ownership.

- USDA will establish a fund to provide cost-share grants and low-interest loans to community groups to build, rehabilitate, or modernize dairy processing, transportation, and marketing infrastructure. To qualify, applicants must include no fewer than three local and regional stakeholders, including public sector and non-profit entities.

- The Milk from Family Dairies Act will increase funding for the Local Agriculture Market Program (LAMP) tenfold to help small and mid-size farmers provide fresh nutritious food to more Americans, through farmers markets, local and regional food enterprises, value chain coordination, and regional food-shed planning. Funding will include support for food safety training, technical assistance, and training on lower-input and grass-based farming to lower input costs.
National Family Farm Coalition is grateful to all our dairy farmer members who put food on our tables through their commitment to their family farms, the animals in their care, and the land and water they steward. Their wisdom and expertise informed and shaped this policy proposal.

Please direct any questions you may have:
Jordan Treakle
NFFC policy and program coordinator
jordan@nffc.net; (202) 543-5675