EDITORIAL COMMENT

DICK GROVES

Publisher / Editor
Cheese Reporter
dgroves@cheesereporter.com

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National Dairy Equity Act Is A Flawed Proposal

Amid considerable hoopla, especially for dairy legislation, the National Dairy Equity Act was introduced in both the House and Senate last week. Congress should reject this flawed legislation.

As we reported last week, the NDEA would establish Regional Dairy Marketing Areas in five regions of the US; in each of those areas, a regional dairy board would be responsible for setting the minimum price for Class I milk sold in that region.

Before getting to the many flaws of this legislation, let's at least give a bit of credit to some of its sponsors for at least knowing they have a major problem on their hands. That is, they recognize that milk production in the Northeast is declining, and will likely continue to decline, or at the least remain relatively flat. The NDEA is viewed as a potential solution to that problem.

But it's the wrong solution, in our opinion, for several reasons. First, this legislation includes the word "National" in its title, but everything about it says "Northeast."

Sponsors include members of Congress from Vermont, New York, Pennsylvania, Massachusetts, North Carolina, Maine, and Rhode Island, along with one senator from Louisiana. Press releases hailing the introduction of the measure were issued by, among others, Sen. Arlen Specter of Pennsylvania, US Rep. John McHugh of New York, and the entire Vermont congressional delegation (which, granted, is pretty small, consisting of two senators and one representative).

In addition to basically being Northeast legislation masquerading as a "National" bill, this legislation is overly complex. The "pdf" version of this legislation runs some 30 pages, and includes several pages just of definitions of terms such as "pool plant", "regulated area" and "over-order price."

Frankly, reading through this complicated piece of legislation reminded us of the federal order program, it was so complex. Given that federal orders will remain with us if this new program is implemented, well, that's two too many overly complex programs regulating the dairy business.

This legislation also strikes us as overly "bureaucratic." As noted earlier, the NDEA would establish five Regional Dairy Marketing Areas, each of which would be governed by a board composed of three members from each participating state in that region. At least one board member from each state would have to be a producer, and one would have to be a consumer.

These boards are given a fairly wide range of responsibilities, ranging from encouraging "harmonious relationships" between the various elements of the dairy industry in the region for the solution of material problems, to taking actions to manage any overproduction of milk in the regulated area of the region, including the authority to develop and implement an incentive-based supply management program

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Even if these boards meet only via teleconferencing, or some other high-tech means, there will be some costs associated with them. Granted, the NDEA encourages these boards to work with existing agencies as much as possible to reduce the regulatory burden and administrative costs, but just having these boards, and having these boards carry out their functions, will come at some price.

And someone will have to bear that cost burden. In this case, that "someone" will be Class I "covered processors," which under this legislation would include pool plants, partially regulated plants, and all other covered processors receiving milk from eligible producers located in a regulated area.

Yet another problem we have with the proposed NDEA is that it only applies to Class I milk. If this is an effort simply to prop up milk prices, then flooring Class I milk prices only really works in the proposed Southeast region, where Class I use runs from around 55 to 90 percent, depending on the federal order.

But the "national" aspect of the NDEA is exposed as a fraud in other regions, especially the Upper Midwest, where Class I utilization is generally below 20 percent. California's Class 1 use is also below 20 percent. Again, if the concern is raising the floor price of milk, why not floor the entire price, instead of just Class I?

Frankly, a major problem with this legislation is that it's just so similar to the old Northeast Dairy Compact, which fortunately has been relegated to the scrap heap of dairy policy history. From governing boards comprised of both producers and consumers to the option of using supply management, the NDEA contains many provisions similar to if not identical to the old Dairy Compact.

As noted earlier, one positive aspect of this legislation is that at least some members of Congress recognize that the Northeast has a dairy problem. Both New York and Pennsylvania are losing dairy cows at a rapid pace; cow numbers in the two states in May were down a combined 50,000 head from a year earlier.

And at least one of those states is seeing some contraction in its manufacturing infrastructure. Two New York cheese plants, the Sorrento plant in Goshen and the Kraft plant in Canton, have closed this year. No doubt additional plants will close if milk supplies continue to decline.

All of this has occurred within the context of federal orders, and at least in the case of Pennsylvania, within the context of a statewide over-order premium on Class I milk. What this tells us is that propping up Class I milk prices isn't the region's long-term answer.

Perhaps what would work more effectively is deregulation. Getting away from a system that bases Class III and IV prices on Western costs might be the best way to turn the Northeast dairy industry around. •