ESO 1066

DAIRY STABILIZATION ACT OF 1983

Procedure for Determing Cash Incentives for Participation in Program

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This summary of the Dairy Stabilization Act of 1983 and the suggested procedure for determining the cash incentive to participate are in no way official interpretations nor are they legal opinions. Official interpretations, rules and regulations will come from the U.S. Department of Agriculture.

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SUMMARY OF PROVISIONS*

MILK STABILIZATION ACT OF 1983

H.R. 3385

1) Price Support level
   a. On the first of the month following enactment (signing into law) the support level is reduced 50 cents to $12.60 per hundredweight.
   b. On April 1, 1985 the support level may be reduced an additional 50 cents if the Secretary estimates that CCC purchased over the next 12 months will exceed six billion pounds milk equivalent.
   c. On July 1, 1985:
      A. The support level may be reduced an additional 50 cents, to $11.60, if the Secretary estimates that CCC removals over the next 12 months will exceed five billion pounds milk equivalent.
      B. The support level may be increased by 50 cents if the Secretary estimates that CCC removals will be less than five billion pounds milk equivalent over the next 12 months and an increase is necessary to assure an adequate supply of milk.

2) Assessments
   a. The present $1.00 per hundredweight assessment on all milk marketed will be terminated on the first of the month following enactment.
   b. This will be replaced at that time with a 50 cent per hundredweight assessment. Funds from this assessment will be used to partially fund diversion payments to producers contracting to reduce milk marketings.

3) Diversion Program
   a. The Secretary shall announce a milk diversion program not later than January 1, 1984. The program shall be effective from January 1, 1984 through March 31, 1985. Producers will have up to February 1, 1984 to sign up to participate in the program. Participation for producers signing up after January 1 will be retroactive to January 1.
   b. The payment rate will be $10.00 per hundredweight for reductions from the marketings made during the history period. The history period is:
      A. Calendar year 1982 or, at the option of the producer,
      B. The average of marketings during calendar years 1981 and 1982.
   c. Producers may contract to reduce marketings by a minimum of five percent or a maximum of 30 percent. An allowance of plus or minus three percent of the contracted-for amount is allowed, however no payment will be made if the reduction is less than five percent or if the amount of the reduction is less than the contracted-for amount by more than three percent of the marketing history. Payment will be made for reductions in excess of the contracted-for amount up to three percent of the marketing history. No payment will be made for any reduction in excess of 30 percent.

*Source: National Milk Producers Federation.

d. Payment will be made quarterly with the payment at the end of the fifth quarter being a final settlement for the entire contract.

4) Restrictions on sale of cattle

a. Cattle that would have been used by the farmer for the production of milk if he had not entered into a contract to reduce production shall not have been sold, leased or otherwise transferred to another person after November 8, 1983 but shall have been sold for slaughter or to another producer participating in the program. The Secretary may make some exception to this if it is determined such transfer does not interfere with the effective operation of the program.

b. The Secretary has authority to permit sales of registered purebred cattle for breeding purposes by contract holders based on a history of such sales by the producer.

5) No payment will be made for a reduction in marketings by a producer who was not actively engaged in the production of milk as of the date of enactment of the legislation.

6) Modification of contracts

a. The Secretary may uniformly modify all contracts signed if he determines that an excessive reduction in milk supply would result if such adjustment is not made. This adjustment cannot be made on a regional basis.

b. If the Secretary determines there has been substantial hardship to producers of beef, pork or poultry for slaughter as the result of increased marketings of dairy cattle for slaughter, he may adjust contracts to spread out the marketings of cull dairy cows. Such an adjustment could not reduce the total amount of the reduction contracted for and cannot require a reduction greater than 150 percent of the contracted-for amount in any subsequent calendar quarter.

7) Marketing History

a. A producer desiring to participate in the program will be responsible for establishing his marketing history through the County ASCS office.

b. No history will be established for producers who began marketing milk after December 31, 1982.

c. The marketing history may be adjusted as the Secretary determines necessary to correct for abnormally low production resulting from natural disaster or other condition beyond the control of the producer or other factors the Secretary determines necessary to provide an equitable marketing history.

d. No transfer of marketing history is allowed unless the entire production facility and the entire herd is transferred by reason of:

   A. Death of the producer;
   B. A gift from the producer; or
   C. To a member or members of the producer's family.

8) Assignment of contracts: Contracts may be assigned under limited circumstances. If this is done, the producer's entire interest in the production facility and the herd must be transferred and it must be to a person whom the marketing history could be transferred. The producer and the assignee must agree in writing that the assignee will take over the contract and the Secretary must receive a copy of the agreement before the transfer takes place.

9) If the 50 cent assessment provided for under the legislation is held invalid or its collection is restrained by the courts, the Secretary shall suspend diversion payments under the program and resume the payments only if court action is overruled, stayed or terminated.

10) National Dairy Promotion Program
   a. Authority is provided for establishment of a national promotion program to be funded by a mandatory 15 cent per hundredweight assessment on all milk marketed.
   b. Program would be established by an order issued by the Secretary. Upon enactment, the way is cleared for presentation of a proposal for an order to the Secretary. Following receipt of a proposal, the Secretary has 30 days to publish the order in the Federal Register and call for comments. Within 90 days of publication, the Secretary will issue the final order which will be effective at that time.
   c. The program will be under the direction of a 36 member Board of Directors comprised of dairy farmers. Program proposals, budgets and other actions of the Board must be submitted to the Secretary for review and approval.
   d. The 15 cent assessment would not begin until the order becomes effective. For six months following enactment, a credit of up to 15 cents will be allowed for a producer's participation in qualified state or regional promotion programs. After that, the credit allowed will be 10 cents.
   e. During the sixty day period preceeding September 30, 1985, a referendum must be held to determine if dairy farmers desire to continue the program. For the program to continue, it must be approved by a majority of the producers voting in the referendum. Cooperatives may vote on behalf of their members in the referendum. If this is done, the cooperative must inform the producers of how the vote was cast and provide information as to how the producer can cast an individual ballot if this is desired. A ballot must also be provided as part of this notification.

EXPLANATION OF

Worksheet to Determine Cash Incentives to Particpate in Diversion Program

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The Dairy Stabilization Act of 1983 offers most dairy farmers a cash incentive to reduce milk marketings during the period January 1, 1984 to March 31, 1985. The attached worksheet is designed for dairy farmers to determine the cash incentive they have, if any, to participate in the program. Participation requires contracting for a reduction of not less than 5 percent and not more than 30 percent of base period marketings. The program limits milk marketings only for farmers choosing to participate.

Some or all of the following factors may influence an individual farmer's decision of whether or not to participate in the diversion program.

1. Total expected milk production from January 1, 1984 to March 31, 1985 relative to the base if the decision is not to participate in the diversion program.

2. Variable cost/cwt. of milk produced.

3. Level of contracted reduction (5-30%) in milk production below the base.

4. Expected milk blend price during the period January 1, 1984 to March 31, 1985.

5. Expected cash receipts from cull cow and calf sales.

6. Expected difficulty of conforming to the requirement of plus or minus 3 percent of the contracted reduction below base.

7. Long range herd size and production plans given the expectations about profitability of the dairy enterprise after March 31, 1985.

8. Knowledge of the details of the law.

9. Patience with disruption from major changes in herd size.

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*The work of these specialists is supported in part by the milk check-off program of the Ohio Dairy Farmers Federation.

10. Value placed on operator and family time.

11. Attitude toward government programs.

12. Noneconomic goals for the dairy enterprise.

An important early step in analyzing an individual farm situation is to review this list and decide which factors are to be weighed heavily in the decision. If review of the list leaves doubt about participation, the attached worksheet provides a step by step process for pulling together some numbers that should be helpful. The worksheet takes into consideration only the first five factors in the list of 12.

The worksheet looks only at the short run cash incentive to participate. In summary, there is a cash incentive to participate if the positive impacts (diversion payment plus reduced cash outlays for producing milk) are greater than the negative impacts (reduced milk sales plus reduced dairy cattle and calf sales). Special note should be given the fact that the worksheet does not take into consideration cash receipts from sale of cows to meet the contracted reduction in milk production. These sales are a once only receipt. Since the program is temporary (15 months), it is assumed that most dairy farmers planning to stay in business long run will add cows to their herds following the diversion program. Users of the worksheet wanting to take the sale of cows into consideration can simply add cow sales as a positive impact.

Detailed Instructions

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Number

1 Base is calculated from the amount of milk marketed in either calendar year 1982 or the average of calendar years 1981 and 1982.

Your 1982 marketings with the first quarter added in twice ____________ cwt.

OR

Your 1981 marketings with the first quarter added in twice ____________ cwt.

(plus)

Your 1982 marketings with the first quarter added in twice ____________ cwt.

Total ____________ cwt. ÷ 2 = __________ cwt

2 Percent of base contracted for diversion. Producers can contract for as little as 5 percent reduction in production from the base or as much as 30 percent. Payments will be made for diversion only if the total amount diverted over the 15-month period is within plus or minus 3 percent of the amount contracted. Note that the contracted diversion is a decrease below the base period marketings not a decrease below the expected production during the period January 1, 1984 to March 31, 1985.

3 Cwt. of milk contracted for reduction below base. It equals 1 times 2.

4 Diversion payment. Producers will be paid $10.00 per cwt. for the contracted amount under the base. The diversion payment equals 3 times $10.00/cwt.

5 Total expected production from January 1, 1984 to March 31, 1985 if the decision is not to participate in the diversion program. This amount could be less than, equal to or larger than the base. If production has already been decreased below the base or if the plan is to decrease below the base with or without participation in the diversion program, there is, for sure, a short run cash incentive to participate in the program.

6 Total production from January 1, 1984 to March 31, 1985 if the decision is to participate in the program. It equals 1 minus 3.

7 Total reduction in production if the decision is to participate in the program. This is calculated by subtracting 6 from 5. For most farms, this total reduction will be more than 3 because 3 shows only the amount of reduction below base.

8 Variable cost per cwt. of milk produced. This is the most important and most difficult estimate in the entire worksheet. Variable cost is the cost that the producer expects to save if production is reduced. The items listed below should be considered in making the estimate. A producer's own records are the best source of information for making this estimate. For those wanting data for comparison, the first column of data shows the variable cost estimates in the 1984 Dairy Cow Enterprise Budget (13,000 pounds of milk per cow) published by the Ohio Cooperative Extension Service.

VARIABLE COSTS OF PRODUCING MILK
BASED ON 50-50 CORN SILAGE & HAY EQUIVALENT RATION
13000# MILK PER COW

	1984 Enterprise Budget Cost/ Cwt.		Your Cost/ Cwt.	
Feed[1]				
Corn - 34 bu. @ $3.00	$ .79		$____	
SBOM - 868# @ .16	1.07		____	
Dicalcium Phosphate - 57 lb. @ .20	.08		____	
Salt - 29 lb. @ .08	.02		____	
Hay Equivalent - 2.88 ton @ $99.00	2.22		____	
Corn Silage - 7.00 ton @ $24.00	1.29		____	
Total Feed Costs		$5.47		$____
Vet and Medicine		.25		____
Breeding, Milk Testing and Registration		.28		____
Utilities		.35		____
Bedding		.16		____
Miscellaneous and Supplies		.22		____
Marketing Costs		.75		____
Interest on Operating Capita[2]		.28		____
Hired Labor[3]		.31		____
Ownership Costs of Livestock[3]		1.25		____
Other __________				____
__________				____
Total Variable Costs		$9.32		$____

(See footnotes on following page)

Footnotes for Variable Costs Calculations

[1] All reductions in purchased feed as a result of participating in the program should be included. The reduction in use of home grown feeds as a result of participating in the program should also be included. Include both feed now in storage and feed that would have been produced in 1984. Use expected net market value in placing a value on home grown feed.

[2] Hired labor may or may not be reduced as a result of participating in the program. If there is a change, include reduction in wages, social security, workers' compensation and other perquisites. The amount shown in the budget column is 15 percent of the total labor cost per cwt.

[3] The amount shown in the budget column for ownership costs of livestock is 50 percent of the total ownership costs (cow replacement and interest on cow). Sale of lowest quality cows, some increase in herd size after the diversion program, and tax implications are the reasons for including only half the cow ownership costs. All equipment, building, operator and family labor costs are assumed to be fixed.

9 Total reduction in variable costs over 15 months if the decision is to participate in the program. It equals 7 times 8.

10 Total positive cash impacts. It equals 4 plus 9.

11 Average blend price expected during the period January 1, 1984 - March 31, 1985. The blend price in 11 should be before subtraction of hauling and membership fees because these items are included as variable costs in 8. Expected blend price for Ohio during the 15 months of the program is $12.50/cwt.

12 Total reduced cash receipts from sale of milk over 15 months if the decision is to participate in the program. It equals 11 times 7. (7 on the right side of the worksheet has the same value as 7 on the left side.)

13 Most producers participating in the program will reduce the number of cows in their herd and thus reduce cull cow and calf sales over the 15 months. The reduction in cash receipts will vary substantially from farm to farm and be influenced very much by local prices. The 1984 Dairy Cow Budget shows cull cow and calf cash receipts of $1.72 per cwt. of milk marketed. This estimate should be reduced to the $1.25 - $1.50/cwt. range given the expected decrease in cull cow prices.

14 Reduced cash receipts from sale of cull cows and calves during the 15 months of the program. It equals 13 times 7.

15 Total negative cash impacts. It equals 12 plus 14.

16 The difference between the total positive cash impacts 10 and the total negative cash impacts 15 equals the net cash impact 16 If the net cash impact is positive, there is a 15-month cash incentive to participate. If the net cash impact is negative, there is not a cash incentive to participate. This estimated cash impact does not take into consideration initial sale of cows to get production reduced to the contracted level below base.

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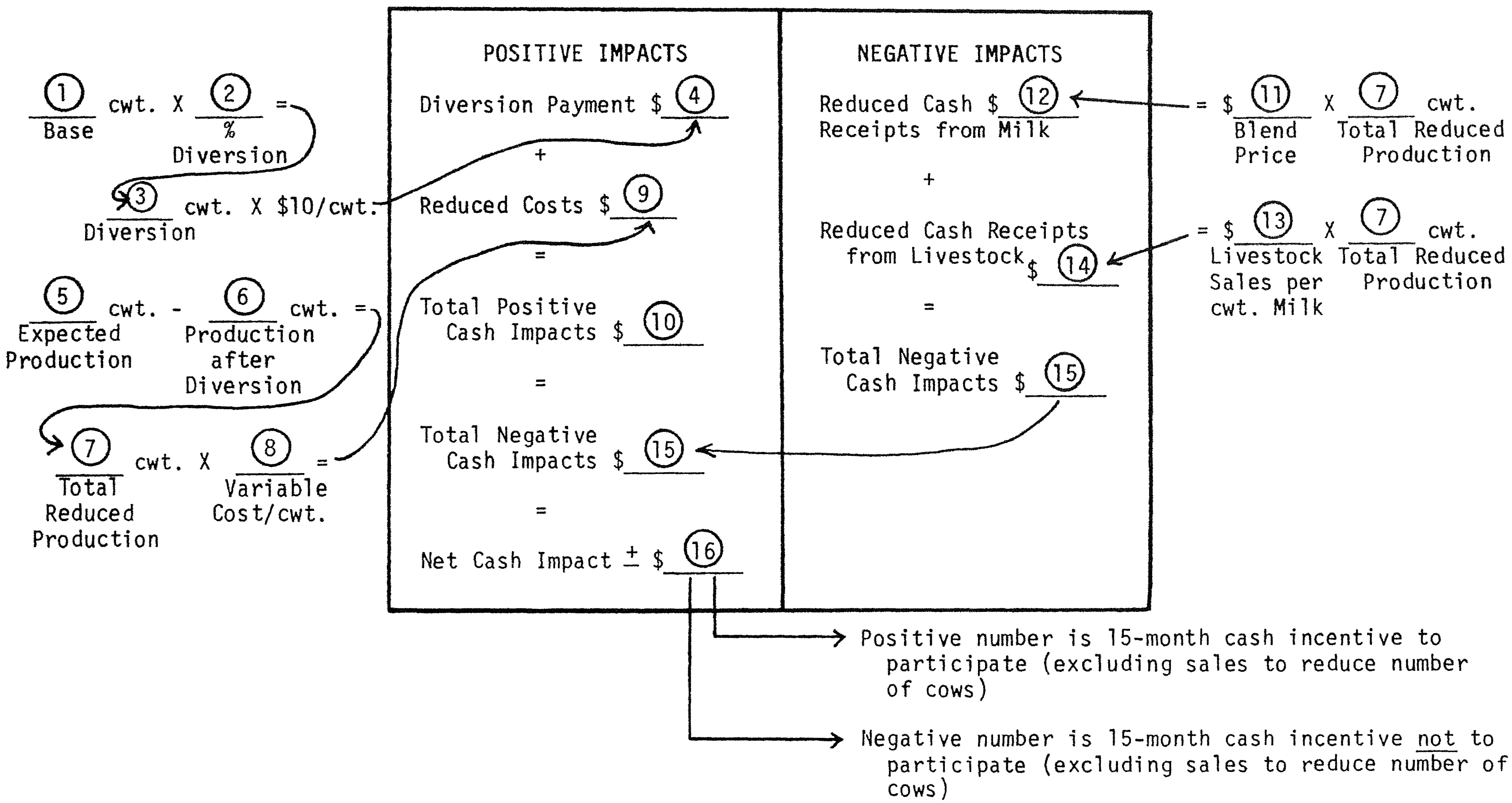
Worksheet to Determine
Cash Incentive to Participate
in Diversion Program



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Summary Table
CASH INCENTIVE TO PARTICIPATE IN DIVERSION PROGRAM

Assumptions

1. Base is 7,000 cwt
2. Blend price of milk = $12.50
3. Livestock sales (cattle and calves) per cwt of milk = $1.25
4. Diversion contract is 10%, 20%, and 30% of base

EXPECTED PRODUCTION FROM BASE DURING
JANUARY 1, 1984 to MARCH 31, 1985 WITH NO PARTICIPATION

Diversion of 10% Below Base

Variable Cost-Per cwt of Milk	-10%	0%	+5	+10%	+20%	+30%	+40%
Reduced Prod.-cwt	0	700	1050	1400	2100	2800	3500
Diversion-cwt	700	700	700	700	700	700	700
$ 7.00	$ 7,000	$ 2,275	$ -88	$-2,450	$-7,175	$-11,900	$-16,625
$ 8.00	7,000	2,975	962	-1,050	-5,075	-9,100	-13,125
$ 9.00	7,000	3,675	2,012	350	-2,975	-6,300	-9,625
$10.00	7,000	4,375	3,062	1,750	-875	-3,500	-6,125
$11.00	7,000	5,075	4,112	3,150	1,225	-700	-2,625
$12.00	7,000	5,775	5,162	4,550	3,325	2,100	875

Diversion of 20% Below Base

Variable Cost-Per cwt of Milk	-10%	0%	+5	+10%	+20%	+30%	+40%
Reduced Prod.-cwt	700	1,400	1,750	2,100	2,800	3,500	4,200
Diversion-cwt	1,400	1,400	1,400	1,400	1,400	1,400	1,400
$ 7.00	$ 9,275	$ 4,550	$ 2,378	$ -175	$-4,900	$-9,625	$ 14,350
$ 8.00	9,975	5,950	4,137	1,925	-2,100	-6,125	-10,150
$ 9.00	10,675	7,350	5,887	4,025	700	-2,625	-5,950
$10.00	11,375	8,750	7,637	6,125	3,500	875	-1,750
$11.00	12,075	10,150	9,387	8,225	6,300	4,375	2,450
$12.00	12,775	11,550	11,137	10,325	9,100	7,875	6,650

Diversion of 30% Below Base

Variable Cost-Per cwt of Milk	-10%	0%	+5	+10%	+20%	+30%	+40%
Reduced Prod.-cwt	1,400	2,100	2,450	2,800	3,500	4,200	4,900
Diversion-cwt	2,100	2,100	2,100	2,100	2,100	2,100	2,100
$ 7.00	$12,550	$ 6,825	$ 4,462	$ 2,100	$-2,625	$-7,350	$-12,000
$ 8.00	13,950	8,925	6,912	4,900	875	-3,150	-7,100
$ 9.00	15,350	11,025	9,363	7,700	4,375	1,050	-2,200
$10.00	16,750	13,125	11,812	10,500	7,875	5,250	2,700
$11.00	18,150	15,225	14,262	13,300	11,375	9,450	7,600
$12.00	19,550	17,325	16,712	16,100	14,875	13,650	12,500