

## EXECUTIVE SUMMARY

### **TRANSITION RULE PAYMENTS UNDER § 1502 OF THE 2002 FARM BILL ARE UNCAPPED**

#### **The language of the Farm Bill provides that:**

**The Payment Limitation applies only to contract payments.** Subsection (d)(2) establishes a limitation on the payment quantity for payments made under subsection (b). The entirety of subsection (b) deals with contract payments. Therefore, the limitation cannot apply.

**Transition Rule payments are available in addition to contract payments.** The very first phrase of subsection (h) makes it clear that the payments made under the Transition Rule are to be available to eligible producers “in addition to any payment that is otherwise available under this section.”

**The Transition Rule is defined entirely outside the framework of subsection (b).** The quantity of milk eligible for Transition Rule payments is defined within subsection (h) (the quantity of eligible production produced between December 1, 2001 and the date a producer enters into a contract with the Secretary). The payment formula is specified in subsection (c). A producer’s eligibility is defined at subsection (a)(5). The Transition Rule neither explicitly nor implicitly incorporates subsection (b).

**Eligible Production is already defined.** Subsection (a)(2) defines a producer’s eligible production as all the milk he or she produces in a specific state. This quantity is limited only with respect to the contract payments made under subsection (b). Transition Rule payments are to be made on the entire eligible production of a producer.

#### **The impact of capped Transition Rule payments:**

About 15,000 dairy farmers across the country are affected by the Transition Rule cap. Producers subject to the cap are paid differing amounts on the same limited quantity. (See attached).

While the average market price for milk since December 2001 is over \$2.55 per hundredweight below the trigger price for market loss payments, some producers will receive less than ten cents per hundredweight in payments due to the Transition Rule cap.

#### **The Secretary has not implemented the Farm Bill as directed:**

The Secretary was instructed to begin offering subsection (b) contracts on July 12, 2002. She did not offer those contracts until August 13, 2002.

The statute instructs the Secretary to make contract payments beginning with the first day of the month a dairy producer signs up for the program. The Secretary is requiring producers to sign up by the fifteenth of the month prior to the months payments are made.

Even if Transition Rule payments are capped, the Secretary’s delay in offering contracts and making payments reduces benefits by up to 68% (\$13,082 v. \$34,101 for a farmer with 800 cows.)

**COMPARATIVE MARKET LOSS PAYMENTS  
WITH A CAPPED TRANSITION RULE PAYMENT**

<b>Cows</b>	<b>Annual Prod</b>	<b>FY 2002 Payment</b>
67	1,200,000	10824
100	1,800,000	16235
117	2,100,000	18941
133	2,400,000	21647
200	3,600,000	23790
267	4,800,000	21400
333	6,000,000	20300
400	7,200,000	19560
467	8,400,000	19100
467	8,400,000	19100
533	9,600,000	18640
600	10,800,000	18630
667	12,000,000	18620
733	13,200,000	18610
800	14,400,000	18600
867	15,600,000	18896
933	16,800,000	20349
1000	18,000,000	21803
1067	19,200,000	23256
1133	20,400,000	24710
1200	21,600,000	26163
1267	22,800,000	27617
1333	24,000,000	29070
1400	25,200,000	30524
1467	26,400,000	31977
1533	27,600,000	33431
1600	28,800,000	34884

As the table shows, a producer with 200 cows will make more money than a producer with 1000 cows—even though both producers are being paid for 2.4 million pounds of milk produced. This absurd result does not, cannot occur when the Transition Rule payment is uncapped.