

National Milk Producers Federation

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"Connecting Cows, Cooperatives, Capitol Hill, and Consumers"

December 15, 2011

Dr. Lee Ann Thomas
USDA APHIS VS
4700 River Road
Riverdale, MD 20737-1238.

Re: *Appraisals Using Beef and Dairy Calculators*" and *Options for Federal Indemnity Payments Veterinary Services Bovine Tuberculosis and Brucellosis Programs*

Dear Dr. Thomas:

The National Milk Producers Federation (NMPF) takes great interest in the U.S. Department of Agriculture (USDA) Animal and Plant Health Inspection Service (APHIS) Veterinary Service (VS) proposals for *"Appraisals Using Beef and Dairy Calculators"* and *"Options for Federal Indemnity Payments Veterinary Services Bovine Tuberculosis and Brucellosis Programs"*. The National Milk Producers Federation, based in Arlington, VA, develops and carries out policies that advance the well-being of dairy producers and the cooperatives they own. The members of NMPF's 31 cooperatives produce the majority of the U.S. milk supply, making NMPF the voice of more than 32,000 dairy producers on Capitol Hill and with government agencies.

The national tuberculosis (TB) and brucellosis eradication programs have successfully reduced the incidence of the diseases in United States (US) cattle. Brucellosis has effectively been contained to the Greater Yellowstone Area (being endemic in Bison in Yellowstone National Park). There also continues to be a low incidence of TB as evidenced by the newly identified infected herds over the past several years. When a herd has been identified with TB or brucellosis and depopulation has been identified as the appropriate approach to control disease, USDA must have the ability to fairly and accurately appraise the animals for indemnification purposes.

NMPF strongly believes that indemnification is a governmental process as it is a benefit for the public good (human health). As such, any efforts which seek to diminish or minimize indemnity payments must be carefully weighed against the ultimate goal of disease eradication. Therefore our current comments on indemnity are inextricably intertwined with NMPF comments on the draft Regulatory Framework for Bovine Tuberculosis and Brucellosis (Docket No. APHIS-2011-0044) and Traceability for Livestock Moving Interstate (Docket No. APHIS-2009-0091).

NMPF has carefully reviewed the proposals for *"Appraisals Using Beef and Dairy Calculators"* and *"Options for Federal Indemnity Payments Veterinary Services Bovine Tuberculosis and Brucellosis Programs"* and will provide comments on each. Our comments pertain to specific questions asked by USDA APHIS-VS and general comments on the proposals.

Jerry Kozak, President/Chief Executive Officer

Randy Mooney, Chairman

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Zia Milk Producers, Inc.

APPRAISALS USING BEEF AND DAIRY CALCULATORS

NMPF does not have the expertise or representation in membership to comment specifically on beef indemnity calculators. Rather, we encourage USDA to carefully consider comments from the beef industry. Our comments on “*Appraisals Using Beef and Dairy Calculators*” will focus exclusively on dairy animals.

Based on the outline provided, the milk cow appraisal calculator appears to generate a reasonable engineered price. It depreciates a recently freshened first-calf cow until it is a cull cow, with logical adjustments for higher productivity and, through productivity, for breed. NMPF believes that the milk cow appraisal calculator may overstate this depreciation in the first year or two, and we encourage USDA to investigate this possibility. The dairy replacement appraisal calculators are a bit more ad hoc, because they rely on less consistent information, but also seem to be reasonable. Nevertheless, NMPF encourages USDA to examine all these models’ ability to predict actual market prices (especially if that was not part of the original validation process) and to periodically review the models’ accuracy, especially for appraising whole herds.

Additionally, NMPF believes that with the ability to quickly change the indemnity process through program standards and the use of appraisal calculators there is a need for an appeals process for indemnity valuations. An appeal process is necessary to provide the producer an opportunity to discuss the indemnity process and receive justifications as to why circumstances in their instance results in the indemnity proposed.

OPTIONS FOR FEDERAL INDEMNITY PAYMENTS

One important purpose of the indemnity payments is fair compensation of producers for the cost they bear for the public’s benefit and fairness demands effective valuation. Providing fair market value for livestock is also important for eliminating an owner’s incentive to hide an infection or to resist taking appropriate steps for wider animal health. In that light, NMPF has reviewed the four options presented “*Options for Federal Indemnity Payments Veterinary Services Bovine Tuberculosis and Brucellosis Programs*” and will provide brief comment on each question USDA has sought a response. Afterwards, we present a more thorough concept using elements of these options as a potential pathway for indemnification for USDA.

- 1. Given the limited availability of indemnity funds, which of the following do you consider to be the highest priority and why? (A) Provide the largest indemnity payment possible for each animal; or (B) Provide indemnity for as many animals as possible.***

As stated in the introduction to this section, NMPF believes that providing fair market valuation for as many animals as necessary is essential in the effectiveness of the TB and brucellosis eradication programs. Therefore USDA should annually seek adequate funding to run an effective eradication program.

- 2. Which specific option or combination of options do you prefer and why?***

The NMPF proposal for indemnification follows in **Enhanced Disease Management and Eradication Options**.

3. *If option 1 were adopted, do you envision any other sources of payments?*

NMPF concurs that fair market value compensation should include compensation from all sources. Other sources of funding may include State or local indemnity, or insurance. This would need to be determined on a case-by-case basis and USDA should not necessarily rely on these other potential sources of indemnity.

4. *If option 2 were adopted, what do you think the maximum payment or cap paid per animal should be? How should the maximum payment be determined?*

The current TB eradication program limits indemnity to no more than \$3,000 per animal. NMPF believes this limit, in general, has worked well and could be applied to both the TB and brucellosis eradication programs in the future. NMPF believes the cap should be applied across a group of animals (group or herd average) rather than to each individual animal in a herd. The cap should also be updated on a regular basis to ensure it reflects changes in general animal values.

5. *If option 3 were adopted, what do you think the fixed payment per animal should be? How should the fixed rate be determined?*

While the fixed-rate indemnity option currently exists for animals destroyed because of brucellosis, NMPF does not find this option the best use of resources for whole-herd depopulation. A fixed-rate indemnity at the same rate of as the indemnity cap (Option 2) could be an incentive for test-and-cull strategy. While this may overvalue some animals in a test-and-cull strategy, limited resources maybe better utilized overall. This is discussed more in **Enhanced Disease Management and Eradication Options**.

6. *If option 4 were adopted, what biosecurity practices should be linked to the indemnity payment? How should the indemnity payment be determined (i.e., what percent of FMV should be linked to a certain practice?) How should VS determine if these practices are in place?*

NMPF believes in this context, linking indemnity payments to proper biosecurity measures may be particularly useful in a test-and-cull strategy for affected herds. That is once an infection has been detected, indemnity payments should only be tied to ongoing cooperation in disease control from the time that the producer engages with USDA or, at the earliest, after the infection is detected. In a test-and-cull strategy, an enhanced fair market value (i.e. a bonus above 100%) could be tied to certain practices such as animal identification. While the individual animal cost may be higher, the overall governmental cost would be lower in a test-and-cull strategy than whole herd depopulation. This is discussed more in **Enhanced Disease Management and Eradication Options**.

Enhanced Disease Management and Eradication Options

Enhancement of the management tools available for producers who have a TB or brucellosis infected animal identified to their premises is required to advance disease eradication program. Traditionally, USDA and States have relied on whole herd depopulation as the preferred response to maintain State status. The recent TB experience in California where a single TB-infected animal is identified out of thousands of animals demonstrates the need for a viable test-and-cull

strategy. At the same time, whole herd depopulation must remain in the suite of management strategies. A linchpin to these efforts is an effective animal ID system.

The choice of a test-and-cull strategy over depopulation should not be based strictly on herd size. However, herd size may reasonably affect USDA's strategy regarding indemnification for an infected herd; this should be based on a benefit/cost analysis that properly integrates disease transmission risk. While small herds are more easily and cheaply depopulated, their owners may have incentives – including high genetic value or even sentiment – to pursue a test-and-cull strategy.

In the case of a large herd, where a test-and-cull strategy may represent a substantial savings to USDA, these savings should not eliminate depopulation as an option for the producer. In some locations, a producer with an affected herd may find it impossible to secure a market for his milk, or may be forced to ship such long distances that the full costs of a test-and-cull strategy are well above those of depopulation.

Where USDA's costs are similar, such a producer can easily be offered a choice. Where significant savings to USDA would result from one method over another, and where either would effectively address the risk of disease transmission, USDA should reasonably offer producers additional incentives to choose the less costly protocol, without eliminating either option for the producer.

Herd Management Strategies – Traditionally when a TB- or brucellosis-infected animal was traced to its herd of origin, depopulation was the first choice of action. During the last decade nearly \$250 million (mostly in emergency funding) has been spent to depopulate herds. This allowed a State to maintain its disease-free status. While depopulation needs to continue to be a tool in the management of TB-infected herds, a viable test-and-cull strategy is necessary. NMPF believes that USDA should take the following measures to ensure effective herd management strategies include depopulation and test-and-cull procedures are available to producers:

1. Develop a risk-management decision-making tool for depopulation and test-and-cull strategies:
 - Depopulation consideration should not be made on herd size, rather disease transmission risks; and
 - Test-and-cull strategies should expedite return of a herd to commercial status linked to disease transmission risks
2. Indemnity payments
 - Maintain fair market value for individual animals;
 - Maintain a payment cap while averaging fair market value across a group or herd of animals; and
 - Provide a bonus above fair market value to incentivize a test-and-cull strategy
 - When a herd has been affected, link indemnity payments to specific risk mitigation practices such as:
 - Participation in animal ID and traceability system;
 - Frequency of whole-herd TB testing;
 - Best management practices to reduce wildlife interfaces in areas with endemic TB wildlife populations; and

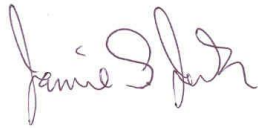
- Provide financial assistance for labor costs/production loss (including milk and meat devaluation) when a producer implements a test-and-cull strategy contingent on risk mitigation practices.

Animal Identification & Traceability – Inadequate individual animal ID continues to hamper successful traceback and epidemiological investigations when an animal has been identified during slaughter surveillance. A compounding issue in traceback is the growing frequency and complexity of cattle movements during an animal's lifetime. NMPF believes that an effective animal ID and traceability system are necessary and USDA should take the following measures:

1. Mandate individual animal ID with prescribed technology standards; and
2. Require individual animal traceability from herd of origin through slaughter or death.

NMPF appreciates the opportunity to provide comment on the important matter of indemnification for the TB and brucellosis eradication programs. We are happy to answer any questions you may have or discuss our comments in greater.

Sincerely,

A handwritten signature in blue ink that reads "Jamie Jonker". The signature is written in a cursive, flowing style.

Jamie Jonker, Ph.D.
Vice President, Scientific & Regulatory Affairs