



National Milk Producers Federation

National Milk Producers Federation • 2101 Wilson Blvd., Arlington, VA 22201 • 703-243-6111; FAX 703-841-9328

January 29, 2009

Agri-Mark, Inc.

Arkansas Dairy Cooperative Association

Associated Milk Producers, Inc.

Continental Dairy Products, Inc.

Cooperative Milk Producers Assn.

Dairy Farmers of America, Inc.

Dairymen's Marketing Cooperative, Inc.

Dairylea Cooperative Inc.

Ellsworth Cooperative Creamery

Farmers Cooperative Creamery

First District Association

Foremost Farms USA

Humboldt Creamery

Just Jersey Cooperative, Inc.

Land O'Lakes, Inc.

Lone Star Milk Producers, Inc.

Manitowoc Milk Producers Coop.

MD & VA Milk Producers Cooperative Association, Inc.

Michigan Milk Producers Assn.

Mid-West Dairymen's Company

Northwest Dairy Association

Prairie Farms Dairy, Inc.

St. Albans Cooperative Creamery, Inc.

Scioto County Co-op Milk Producers' Assn.

Select Milk Producers, Inc.

Southeast Milk, Inc.

Swiss Valley Farms, Co.

Tillamook County Creamery Assn.

United Dairymen of Arizona

Upstate Niagara Cooperative, Inc.

Zia Milk Producers

Secretary Tom Vilsack
U.S. Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250

Dear Secretary Vilsack:

I write to you on an issue of the utmost importance to the tens of thousands of struggling dairy producers across this country -- those actions by which USDA, within its present scope of authority, could help to alleviate the challenging predicament facing our industry. Earlier this month, NMPF sent a letter to Secretary Schafer (with a copy to you, Mr. Secretary) outlining a number of issues of concern related to the current functioning of the Dairy Product Price Support Program (DPPSP) and detailing various ways that USDA's existing programs could be put to more effective use to help combat the dire and quickly worsening situation facing dairy producers this year. Together with your new leadership team at USDA, we look forward to working with you to address these issues on behalf of the hardworking dairy farm families across America.

There are several actions that USDA could take to make more efficient and effective use of the tools at its disposal that have been put in place by Congress in order to help provide much-needed support to the dairy industry during these most challenging times. Many of these issues relate to the functioning of the recently revamped Dairy Product Price Support Program (DPPSP). Dairy farmers are currently facing particularly challenging times, caught between rapidly falling milk prices and historically high feed costs. This makes it all the more urgent for USDA to operate the DPPSP as effectively as possible in order for it to fulfill its crucial role of helping to provide some degree of floor for dairy prices.

We strongly recommend that USDA act on an emergency basis to take the steps outlined below that are needed to help address this crisis. Each week of delay threatens to impose significant costs on an industry already facing tremendous pressures.

For instance, in late 2000 when milk prices plummeted, it took significant time for plants to change their manufacturing practices to meet the cheese standards required by the price support program. Additionally, it took USDA quite some time to adapt to the increased demand for grading and testing caused by the greater number of companies forced to resort to selling product to CCC. As a result of these additional unnecessary administrative burdens on industry and delays on the part of USDA, in Nov. and Dec. 2000 cheese prices fell well below their support level, costing dairy producers over \$100 million in just two months.

Given the degree of the challenge now facing our industry, we are once again facing delays and time-consuming regulatory requirements. However the scope of affected products now extends beyond cheese to butter as well. Since all major segments of processed dairy products are affected by these operational hurdles, fluid milk prices are also dampened due to linkages in pricing formulas between processed dairy products and fluid milk. If the situation continues and conditions are permitted to deteriorate to the crisis situation we experienced in the cheese market in 2000, we could see a loss to the dairy industry of upwards of \$275 million over just a short two-month period this year.

If the exorbitantly high volumes of surplus milk production are left to be addressed primarily by market forces, without timely and sufficient intervention from USDA, we could see almost 2,000 dairy farms lost this year alone. The impact of these farm failures will ripple through rural communities, costing over 30,000 jobs in the agricultural economy. In these bleak economic times, the last thing the country needs is fewer family farms, a further deterioration of our hard-hit rural communities, and greater job losses.

Specific Recommendations to More Effectively Use DPPSP:

- Allow sales, at least temporarily, of cheese and butter that meet the Chicago Mercantile Exchange (CME) spot market standards to the Commodity Credit Corporation (CCC). This would expand the volume of product which can move immediately to the CCC and remove a barrier caused by excessively rigid packaging standards for cheese and butter that differ from the packaging standards widely used throughout the industry.
- Expand the scope of products CCC may purchase in order to more swiftly target the DPPSP's relief to the dairy industry. The universe of permitted products should include those that CCC had historically purchased before abruptly curtailing sales on January 5, 2009, as well as additional products that would also help to provide more immediate and wide-spread support to the industry. To do so, CCC clearly has statutory authority to exceed the minimum purchase levels specified in the 2008 Farm Bill.
 - Historically purchased non-commodity products and recommended minimum purchase prices in line with minimum CCC pricing for these products:
 - Butter prints (36/1 lb.; salted) at \$1.095 per lb
 - Fortified Non-fat Dry Milk (Vitamins A & D) at \$0.82 per lb
 - Instant NFDM (6/4 lb and 25.6 oz packages) at \$1.06 per lb
 - Processed cheese (6/5 lb loaves) at \$1.20 per lb
 - Processed cheese (12/2 lb loaves) at \$1.24 per lb
 - Recommended additions to CCC's permitted purchasing list:
 - High-heat, protein-standardized skim milk powder at \$0.83 per lb
 - The inclusion of these further processed, more consumer-ready products in the DPPSP make it much easier for USDA to use the purchased products in feeding programs at home and abroad, a goal that should be of critical importance as many families now struggle with the global economic crisis.
- Swiftly provide the grading and inspection and other services that are necessary to allow timely sales of all these products to CCC. Although these services are currently

provided, significant time lags in providing them have, in the past, imposed unnecessary costs on those wishing to sell to CCC, and harmful delays to the balancing of markets at the support prices.

The types of steps mentioned above would greatly help DPPSP to achieve its goal of providing timely support to the dairy industry in a period of significantly depressed dairy prices. They would also entail minimal additional costs – or in some cases, no extra costs - for USDA to implement, as CCC will be forced in any case to purchase enough product to clear the market at the support level. The delays and additional administrative hurdles to CCC sales described above simply represent heavy additional costs to dairy producers and manufacturers with no savings ultimately realized by USDA.

To augment purchases under the DPPSP, we urge USDA take three other meaningful steps to help combat the severe challenge facing the dairy industry.

1) Move quickly to use the Dairy Export Incentive Program (DEIP). DEIP provides bonuses for limited quantities of cheese, nonfat dry milk (NFDM), and butterfat to assist in their export. It is a cost-effective way in which to help bolster dairy prices, in turn helping to reduce the cost of the DPPSP by providing simply a relatively small bonus to assist in export, rather than covering the entire cost of the product, as under the DPPSP.

➤ DEIP Authorized Quantities:

- Butter – 21,097 Metric Tons
- Skim Milk Powder/Non-fat Dry Milk – 68,201 MT
- Cheese – 3,030 MT
- Other Dairy Products – 34 MT

➤ These amounts translate into approximately 1.75 billion lbs of milk used in the creation of those quantities of dairy products. This means that full DEIP usage alone would equate to over a quarter of the estimated 6.5 billion lbs of milk that NMPF has estimated will be overhanging the market in 2009.

2) Restore full funding for dairy products in the WIC program. This is particularly important from a nutritional perspective since studies have shown that children in the WIC program consume significantly higher amounts of calcium and nutrient-rich dairy products compared to their socioeconomic peers.

➤ This move would address the nutritional needs of a particularly vulnerable population while simultaneously generating demand for an additional 1 billion lbs of milk through the higher amounts of dairy products such as milk, cheese and yogurt that would again be provided under WIC.

3) Offer the minimum one million pounds of nonfat dry milk for casein production, and consider expanding that program. This would make good use of purchased inventory while helping to provide much-needed support to a fledgling yet growing product sector in the U.S.

Additionally, to complement the purchasing arm of the DPPSP and the impact from swift and full usage of the other programs cited above, there are a number of feeding programs to which

USDA should establish a strong commitment, providing much-needed and healthy dairy products to meet the significant nutritional needs facing growing segments of our population. These goals would be more easily met were USDA to allow for purchases of the various processed products cited above, as these are more readily useable by feeding programs.

- From Fiscal Year 2002 to FY 2005, USDA put 1.42 billion lbs of NFDM to good use through a wide variety of feeding programs. (Breakdown: 528 million lbs used in export donations; 722 million lbs used in domestic feeding programs; 170 million lbs used in nonprofit feeding programs.)
 - In addition to their enormous nutritional benefits, these quantities meant an additional \$2.7 billion over time for dairy farmers as a result of expanded demand.
- The faltering economy is increasing the need for nutrition assistance. Just as this need has increased, private donations have fallen off for the same reason. Forecasters expect that this will get worse before it gets better.
 - Food banks have very substantial potential use for fortified instant nonfat dry milk, UHT milk, cheese in smaller packages, and other dairy products. This potential need can and will be quantified with the help of such feeding organizations as Feeding America, Feed the Children, and the Society of St. Andrew, among others.
- We urge USDA to commit publicly to significant donations of NFDM and cheese through these programs. Such a commitment would benefit not only the important goals of the feeding programs themselves, but also help dairy prices recover more quickly by effectively committing stocks that might otherwise be resold into the commercial marketplace.
- The use of price support purchases to supplement nutrition programs has a long history, and has been refined to include a variety of programs that should be fully utilized, especially direct food distribution programs:
 - The Emergency Food Assistance Program (TEFAP) makes commodities available to state agencies for distribution to nonprofit organizations and needy households.
 - The Commodity Supplemental Food Program (CSFP) similarly makes commodities available to state agencies for distribution to WIC recipients.
 - Nutrition Services Incentive Program (NSIP) provides state agencies commodities available for distribution to the aged.
 - Schools/Child Nutrition Commodity Programs (CNP) provide USDA-purchased commodities, in addition to cash reimbursement, to school and child nutrition programs.
 - For instance, dairy-for-dairy swap programs were put to effective use in recent years to provide bonus products to the school nutrition program. These have included products such as soups, UHT milk boxes and pudding.
 - Food Distribution Program on Indian Reservations (FDPIR) is a commodity-based alternative to food stamps for low-income people in American Indian communities.

- Overseas aid programs could be better utilized as well through concerted cooperation with the Foreign Agricultural Service and the State Department.

The U.S. and global economic slowdowns are leaving large volumes of U.S. dairy products stranded in growing manufacturers' inventories. Dairy product prices are crashing below their support levels. USDA should aggressively defend dairy product prices at or above the support level, make use of these nutritious products to relieve some of the pain caused at home and abroad by the very same economic crisis, and access all tools at its disposal in order to help provide the necessary assistance to address these extremely challenging circumstances.

Sincerely,

A handwritten signature in black ink that reads "Jerry Kozak". The signature is written in a cursive, flowing style.

Jerry Kozak

cc: Carolyn Cooksie, Acting FFAS Deputy Under Secretary
Patricia Sheikh, Acting FAS Deputy Under Secretary