



National Milk Producers Federation

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

January 8, 2009

Secretary Ed Schafer
U.S. Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250

Dear Secretary Schafer:

I write to you on behalf of the tens of thousands of struggling dairy producers across this country to offer some ways that USDA, within its scope of authority, could help to alleviate to some degree the challenging predicament facing our industry. 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 supports to the dairy industry during its most challenging times. We strongly recommend that USDA act on an emergency basis to take the steps needed to help address this crisis.

Many of these issues relate to the functioning of the recently revamped Dairy Product Price Support Program (DPPSP). Given the economic hardships faced by dairy farmers, squeezed between falling milk prices and historically high feed costs, it is more important than ever to make the DPPSP work quickly and effectively. There are a number of steps that USDA through its Commodity Credit Corporation (CCC) can take a number of immediate steps to clear the dairy markets and help feed the disadvantaged. Considering the many poor who are squeezed by the economic crisis both at home and abroad, the DPPSP presents an additional opportunity for the government to ease their hardship, as well as that of dairy farmers.

- One of the challenges facing those wishing to utilize the DPPSP are the additional costs imposed upon would-be sellers due to USDA's overly prescriptive specifications regarding acceptable package forms. USDA should extend its offer to buy cheddar cheese under the DPPSP to cheese that meets the Chicago Mercantile Exchange (CME) spot market standards. This would expand the volume of product which can move immediately to the CCC.
- In addition, limiting CCC purchases too strictly to the most basic commodity products unnecessarily limits CCC's purchasing ability and its capacity to fulfill its role in helping to provide a basic safety net floor for dairy prices.

Jerry Kozak, President/Chief Executive Officer

Randy Mooney, Chairman

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

Earlier CCC offers to buy instantized and vitamin-fortified powder, processed American cheese, and butter prints under the DPPSP should all be restored. Purchase of these products has been a long-standing practice that was abruptly halted on Jan. 5th. Their inclusion in the DPPSP made it much easier for USDA to use the purchased products in feeding programs, a goal that should be of critical importance as many families now struggle with high prices and declining wages.

To help further augment this goal, these offers should also be extended to encourage production of high heat, protein-standardized skim milk powders, especially to the extent that these can be more effectively applied to overseas aid programs.

These types of products are direct derivatives of the products explicitly named under the DPPSP statute and purchase of them would significantly aid the DPPSP's directed goal of supporting dairy product prices, as well as in USDA's secondary goal of using the program to help bolster vital feeding programs.

- As USDA develops the appropriate price levels for these products, it is essential to note that the 2008 Farm Bill requires that DPPSP purchase prices satisfy minimum levels without ruling out payment exceeding those amounts. The Farm Bill states that the Secretary shall "support the price of cheddar cheese, butter, and nonfat dry milk through the purchase of ... cheddar cheese in blocks at not less than \$1.13 per pound... cheddar cheese in barrels at not less than \$1.13 per pound... butter at not less than \$1.05 per pound; and... nonfat dry milk at not less than \$0.80 per pound."

Clearly, USDA has the authority to pay above these prices in support of dairy product prices since the Farm Bill does not prohibit the payment of premiums above these specified floor levels. To have an effective market impact, the price premiums for these additional products should be sufficient to encourage manufacturers to provide the added value that allows the products to be used more directly in feeding programs.

- Another way in which USDA could help make the DPPSP more effective and impactful would be to 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 provided, significant time lags in providing them have contributed to the unnecessary cost and time burdens imposed on those wishing to sell to CCC.

These types of steps mentioned above would make significant differences in the ability of the DPPSP to achieve its goal of providing support to the dairy industry in times of significantly depressed dairy prices.

NMPF and its members recognize, however, that we are not the only ones hard-hit by the current economic environment. USDA should take steps to make effective use of its purchasing abilities through a variety of programs in order to provide targeted

nutritional assistance to communities here at home and abroad that are also struggling to survive in a rocky economic situation. (Naturally, all efforts should be made to ensure that steps taken to augment nutritional assistance programs do not have unintended negative consequences on the DPPS's primary goal of helping provide an essential support to producers at this time of great distress.)

- For instance, the Farm Service Agency should work actively with the Food and Nutrition Service and other state and Federal agencies to make effective direct use of the nutritious products purchased under the DPPSP in domestic nutrition programs. These should include such dairy-for-dairy swap programs as were put to effective use in recent years to provide bonus products to the school nutrition program.
- Additionally, USDA should work actively with the Foreign Agricultural Service and the State Department to make effective direct use of these nutritional products in overseas aid.
- Another meaningful step to help needy American populations while simultaneously providing indirect support to the dairy industry would be to fully fund 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.

There are also other important tools at USDA's disposal to help combat the crisis facing the dairy industry.

- For instance, USDA should immediately 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.
- Another vital program under USDA's control is the Dairy Export Incentive Program (DEIP), the use of which is much-needed as dairy prices collapse both domestically and internationally.

The 2008 Farm Bill directed USDA to use the DEIP to the fullest extent permitted under WTO regulations. DEIP is an integral component in the existing U.S. dairy support system. It 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 limit higher costs under 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.

Meaningful use of DEIP at this time would also play a role in helping to ultimately provide for a smoother and swifter recovery for the U.S. dairy industry, thereby helping to limit the total DPPSP outlays that may be required to see the industry fully through this crisis.

A significant number of dairy companies have become involved in the export market over the past few years. However, as global prices dwindle and international demand drops, many of them will be challenged to keep intact their relationships with existing buyers. If U.S. dairy firms are forced due to economic circumstances to let those business relationships lapse, reentering the market at a later date will be more difficult.

DEIP could help to sustain those important relationships with a view towards supporting the long-term importance of the export market as an essential aspect full sales market for U.S. dairy products.

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 (such as the casein conversion program and DEIP) 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: Deputy Under Secretary Floyd Gaibler
Tom Vilsack
House Agriculture Committee
Senate Agriculture Committee