



National Milk Producers Federation

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

September 9, 2009

Senator Herb Kohl
United States Senate
Senate Hart Building Room 330
Washington, DC 20510

Dear Senator Kohl:

On behalf of America's hard-working and struggling dairy farmers, the National Milk Producers Federation is writing to express our support for the \$350 million included in the Senate FY 2010 Agriculture Appropriations by Senator Bernard Sanders (I-VT) as an amendment to the Farm Service Agency budget with the intent of assisting dairy producers.

In the interest of determining how best to help dairy producers with the proposed Senate amendment of an additional \$350 million in Congressional funding, NMPF has conducted an economic analysis (attached) of the impact on producers' income of various options, including increasing the purchase prices under the Price Support program, providing direct payments under MILC (or emergency direct payments) and directing USDA to purchase processed cheese on the commercial market for feeding programs.

While purchasing processed cheese off the market at commercial prices over a period of several months would enhance producer income by up to \$1.3 billion, using the same \$350 million to further increase the Dairy Product Price Support Program or to provide additional direct payments to producers would be expected to increase dairy producers' income by a total of \$185 and \$335 million, respectively.

NMPF sincerely appreciates your support and therefore respectfully requests using the \$350 million to fund programs such as TEFAP for purchases of processed cheeses, including American, cheddar, and mozzarella, among others, that can in turn be used by the food banks of America to feed families experiencing economic hardship. USDA purchases of cheese from the market must be done at a price level necessary to pay for processing, packaging and delivery to the feeding programs such as food banks.

Just as important, this measure would provide a huge and targeted nutritional benefit to millions of food-insecure American families during this time of national economic hardship. In 2007, U.S. Department of Agriculture (USDA) reported that 36.2 million people lived in households considered to be food-insecure. Of these 36.2 million,

Jerry Kozak, President/Chief Executive Officer

Randy Mooney, Chairman

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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

23.8 million are adults (10.6 percent of all adults) and 12.4 million are children (16.9 percent of all children).

More than 35 million people use the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps). These benefits typically run out 2.5 weeks into the month, leaving these people at risk for hunger. Food banks are another means for feeding these individuals. Unfortunately, commodities available for food bank distribution are limited by funds and availability. USDA purchasing of surplus cheese is an excellent opportunity to provide another source of a nutrient rich protein to the food banks.

Dairy products are among the top sources of calcium and potassium in the food supply. Calcium is critical for keeping bones strong, and potassium regulates the body's blood pressure and muscle activity. Calcium intake continues to be a critical concern. According to government sources, milk and milk products provide about three quarters of the calcium available in the food supply. Science shows that consuming three servings of milk, cheese or yogurt every day helps people meet their daily calcium, potassium and other nutrient recommendations and may help reduce the risk of chronic diseases such as osteoporosis, hypertension and obesity. Dairy's role in a healthy diet has long been established by the nutrition and science community. This includes the National Osteoporosis Foundation, the Surgeon General, the National Institute of Child Health and Development, the National Institutes of Health, the American Medical Association's Council of Scientific Affairs and many other leading health organizations.

Targeted assistance can maximize the cost-effectiveness of feeding programs at a time when resources are limited. Targeted assistance avoids disrupting commercial markets, including commercial sales. As such, NMPF urges Congress to adopt language in the FY 2010 Agriculture Appropriations conference report directing USDA to use the \$350 million in additional funding for dairy producers to buy commercial grade cheese over the course of FY 2010 and provide it to various feeding programs, most importantly to our food banks that are facing such high demand for nutritious products this year.

Sincerely,

A handwritten signature in black ink that reads "Jerry Kozak". The signature is written in a cursive style with a large, prominent "J" and "K".

Jerry Kozak
President and CEO

cc: Secretary Tom Vilsack

NMPF Economic Analysis: Alternative Uses of Additional Dairy Appropriations

The current futures markets indicate that prices for the end of this year and into next year will be as follows:

	<u>Cheese</u>	<u>Nonfat Dry Milk</u>
October	\$1.39	\$0.98
November	\$1.42	\$0.98
December	\$1.44	\$0.99
January 2010	\$1.48	\$1.04
Rest of 2010	higher	higher

Option 1: Increase Price Support Levels

Given the market price outlook, it is estimated that market prices for nonfat dry milk would increase by an average of three cents a pound for three months and cheese prices would increase by an average of five cents a pound for three months if the CCC purchase prices were raised to \$1.40 for cheese and \$0.97 for nonfat dry milk, beginning in October. No market effects would likely be achieved beyond December. This would increase milk prices received by U.S. dairy farmers by an average of \$0.40 per cwt. during October, \$0.50 per cwt. during November and \$0.30 per cwt. during December, which averages \$0.09 per cwt. over a year's time, and increase dairy producers income by a total of about \$185 million during those three months. It is estimated that cost of additional CCC purchases resulting from the increased support prices would be less than \$100 million.

Option 2: Increase Direct Payments

If additional dairy appropriations were paid directly to producers, producer income would increase by slightly less than then total increased funding, since milk production would increase slightly as a result of the additional payments, reducing milk prices. So, for example, an additional \$350 million in payments might generate an additional \$335 million in dairy producer income. If \$350 million of additional appropriations were distributed equally to each of the approximately 54,000 licensed dairy producers, each would receive about \$6,500, regardless of size. If this amount were distributed at a uniform rate per cwt. to all dairy producers, with no payment limitations, the payments would be equivalent to about \$0.185 per cwt. The payments could also be targeted to smaller producers. For example, if payments to an individual producer were capped at 3 million pounds of annual milk marketings, then only about 40 percent of the total volume of milk would be paid, and the payment rate could be \$0.46 per cwt. of eligible milk, with about 80 percent of U.S. producers receiving this payment on all their milk and 20 of producers, who are concentrated in certain states, receiving considerably less than this.

Option 3: Increase Donations of Cheese

If these same additional funds were used to purchase processed cheese for food program distribution, then \$350 million would fund the purchase of an additional 210 million pounds of processed cheese, assuming the current outlook for market prices plus a \$0.20 per pound cost for processing, packaging and transportation. The natural cheese content of 210 million pounds of processed cheese represents about 60 percent of total monthly production of American-type cheese, so it is assumed that purchases and donations would be spread out over a year, over which time they would represent an additional four percent of production. The impact of this additional product use would be up to \$0.65 higher milk

prices and up to \$1.3 billion more producer income, depending on how much commercial product sales were displaced. These maximum numbers assume that the estimated levels of product donations, which are very high by historic standards, could actually be distributed through existing food assistance channels with minimal displacement of commercial sales.

Summary

The following summarizes the various outcomes:

	<u>Increased Average Producer Prices (annual basis)</u>	<u>Increased Producer Income</u>
	(\$ per cwt.)	(mil. \$)
Million \$:	\$350	\$350
Increase Price Supports	\$0.09	\$185
Direct Payments	\$0.17	\$335
Cheese Purchases	\$0.65	\$1,300

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