



## National Milk Producers Federation

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

December 4, 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.  
Dairy Lea Cooperative Inc.  
Ellsworth Cooperative Creamery  
Farmers Cooperative Creamery  
First District Association  
Foremost Farms USA  
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

The Honorable Tom Vilsack  
Secretary of Agriculture  
United States Department of Agriculture  
1400 Independence Avenue, SW  
Washington, DC 20250

Dear Secretary Vilsack,

As you know, NMPF represents three-fifths of America's dairy farmers through their collective ownership of NMPF's 30 constituent cooperative associations. Recent revisions to the USDA cheese stocks data have caused great concern among our members that the market may have been artificially depressed by inaccurate data. They are frustrated that this data comes from an unaudited and voluntary survey, despite a decade-old statute calling for mandatory dairy product inventory reporting.

Please help us avoid this happening in the future.

In the November 20 *Cold Storage* report, the National Agricultural Statistics Service (NASS) made substantial revisions to the monthly cheese stock numbers for 2009. These showed that actual inventories of natural American-type cheeses (including Cheddar cheese) had been about 3% lower than was reported during most of 2009. This report is based on a voluntary survey, and NASS makes estimates of the stocks held by warehouse operators who stop reporting. The November revisions were a timely reporting of new data from warehouses that had agreed to cooperate; but the new data showed NASS' previous estimates were less than perfect, as estimates tend to be.

When inventories are reported too high, they may give a false impression of ample supplies, and can depress market prices for cheese and milk. In this case, the revisions were modest, relative to typical seasonal and annual fluctuations in cheese stocks. There was also a sense in the market over these months that much of these stocks were older cheese that was neither eligible to trade on the Chicago Mercantile Exchange nor readily substitutable for new cheese production. Finally, prices on the cheese spot market and Class III futures prices did not seem to react to the revisions in the next trading sessions on November 23.

So to be fair, we do not believe these errors had a significant impact on dairy markets, this time.

However, we do believe that such inaccuracies could easily be larger in the future, and cause a substantial problem. Farmers are especially frustrated that we still lack a mandatory inventory reporting program for dairy products more than 9 years after the "Dairy Market Enhancement Act of 2000" was passed by Congress and signed by President Clinton.

Under that law, as amended in the last two Farm Bills, "The Secretary shall establish a program of mandatory dairy product information," including mandatory price and inventory reporting for cheddar cheese, butter, sweet whey powder, and nonfat dry milk. (7 USC 1637-1637b)

**Jerry Kozak, President/Chief Executive Officer**

**Randy Mooney, Chairman**

[www.nmpf.org](http://www.nmpf.org)

NMPF has regularly requested, formally and informally, that USDA act on this Congressional mandate. On September 28, 2001, I wrote to Secretary Veneman, urging the implementation of mandatory inventory reporting for dairy products. In 2003, I visited with NASS Administrator Ron Bosecker, and urged him to implement the mandatory reporting requirements. On June 10, 2005, NMPF sent a letter to NASS urging the implementation of mandatory reporting requirements. On May 9, 2007, NMPF and the National Farmers Union sent a joint letter to Secretary Johanns urging him to implement the mandatory reporting requirements by turning it over to the Agricultural Marketing Service. On October 10, 2007, NMPF and the International Dairy Foods Association (IDFA) wrote acting Secretary Conner, urging him to implement mandatory electronic dairy product price reporting to the Agricultural Marketing Service (AMS).

A mandatory price reporting program was finally established, with NASS collecting data and AMS auditing it, in 2008. (7 CFR 1170) This only happened after serious reporting errors cost producers \$50 million, by USDA's own conservative estimate, and spurred direct action by the Secretary's office. (See OIG Report No. 26901-01-IR, issued in February 2008.)

NASS is once again examining options for enforcing mandatory storage reporting. But NASS insists that it is not well-suited to perform the necessary audits. This is why AMS is already handling the audits for the mandatory price reporting. There is consensus that effective mandatory reporting requires effective auditing.

Secretary Vilsack, you have proven yourself to be a champion of the dairy producer. So today, in the wake of the most recent evidence of the weakness of voluntary inventory reporting, I urge you to direct AMS to undertake the mandatory dairy product inventory reporting program required of USDA by statute; and I further request that you to direct AMS to implement the full electronic reporting program for prices and inventories that is authorized by the same statute.

My staff and I stand ready to discuss details, and to assist in any way we can with this issue.

Thank you again for all your help to dairy producers and the dairy industry over the past year.

Sincerely,

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

Jerry Kozak  
President & C.E.O.

e-cc: Cynthia Clark, NASS Administrator  
Rayne Pegg, AMS Administrator