



National Milk Producers Federation

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Agri-Mark, Inc.
Associated Milk Producers Inc.
Bongards' Creameries
Cooperative Milk Producers Association
Cortland Bulk Milk Producers Cooperative
Dairy Farmers of America, Inc.
Ellsworth Cooperative Creamery
FarmFirst Dairy Cooperative
First District Assoc.
Foremost Farms USA
Land O'Lakes, Inc.
Lone Star Milk Producers
Maryland & Virginia Milk Producers Cooperative Association
Michigan Milk Producers Association
Mid-West Dairyman's Company
Mount Joy Farmers Cooperative Association
Northwest Dairy Assoc.
Oneida-Madison Milk Producers Cooperative Association
Prairie Farms Dairy, Inc.
Premier Milk Inc.
Scioto County Cooperative Milk Producers' Association
Select Milk Producers, Inc.
Southeast Milk, Inc.
St. Albans Cooperative Creamery, Inc.
Tillamook County Creamery Association

The Honorable Pat Roberts
Chairman
Senate Committee on Agriculture,
Nutrition, and Forestry
328A Russell Senate Office Building
Washington, DC 20510

The Honorable K. Michael Conaway
Chairman
House Committee on Agriculture
1301 Longworth House Office Building
Washington, DC 20515

The Honorable Debbie Stabenow
Ranking Member
Senate Committee on Agriculture,
Nutrition, and Forestry
328A Russell Senate Office Building
Washington, DC 20510

The Honorable Collin C. Peterson
Ranking Member
House Committee on Agriculture
1305 Longworth House Office Building
Washington, DC 20515

Dear Chairmen and Ranking Members:

Thank you for your superb work in completing the Agriculture Improvement Act of 2018 (H.R. 2), also known as the Conference Report on the 2018 Farm Bill. We have very much appreciated the opportunity to work closely with you and your staffs over the last two years to repair the dairy safety net, and we are grateful for the comprehensive suite of reforms you have included in the final version of the Farm Bill.

As you know, dairy farmers and the cooperatives they own are enduring a period of prolonged economic distress. Milk prices have remained stagnant, export market challenges abound, and several of the major dairy states face an ongoing processing capacity crunch as supply continues to outpace demand. This year, dairy farmers are expected to see a double-digit decline in cash receipts according to the U.S. Department of Agriculture (USDA). Thanks to your work, with the support of your conferees, timely reauthorization of the Farm Bill will provide effective, needed risk management tools to dairy producers across the country as we enter yet another year of uncertainty.

We developed the current dairy program through a deliberative, grassroots process in response to the dairy financial crisis of 2009. The program allows farmers to insure against low margins – the gap between milk prices and feed costs – with participants paying higher premiums for higher levels of coverage.

During consideration of the last Farm Bill, Congress accepted our proposal as the template for the dairy safety net program, but the enacted version was modified such that it fell short of providing the protection required of an effective farm safety net.

In advance of work on this Farm Bill, our Economic Policy Committee reached consensus on a range of dairy policy improvements. Our members agreed on two core principles. First, we have the right program for dairy's future, but it must be reformed so that it provides the effective, meaningful coverage for producers that was originally intended. Second, we felt dairy farmers should have access to a variety of risk management options.

Fortunately, several of our proposed reforms were enacted into law earlier this year, including reducing premium rates to make coverage more affordable as well as calculating margins monthly rather than bi-monthly to better reflect volatility and make the program more responsive to producers. Also, the annual \$20 million cap for all livestock insurance products was removed to give dairy producers access to additional risk management tools. Following these changes, USDA re-opened the sign-up for 2018 and producers enrolled at higher levels of coverage than they had in several years, and also approved the new Dairy Revenue Protection plan as an additional option.

While these improvements were critically important, it was clear more needed to be done to strengthen dairy policy for the long term. The reforms embodied in the Conference Report reflect the culmination of this years-long effort.

We are pleased that the 2018 Farm Bill includes several major reforms to the newly-named Dairy Margin Coverage (DMC) program, which will continue to be run by USDA's Farm Service Agency. These policy reforms include:

- *Affordable Higher Coverage Levels* – The bill will permit all dairy producers to insure margins above \$8.00 on their Tier 1 (first five million pounds) production history. Specifically, producers will be able to insure margins of \$9.50, \$9.00, or \$8.50. These higher coverage levels account for significant deficiencies in the program's feed cost formula, ensuring that the program will more accurately reflect producer margins, and will be very affordable for all producers. Notably, dairy farmers milking roughly 220 cows or fewer will be able to insure these margins on all of their covered production history.
- *Affordable \$5.00 Coverage* – The bill will reduce the cost of \$5.00 margin coverage by roughly 88 percent, reducing the Tier 2 premium rate from \$0.04 cents per hundredweight to \$0.005 cents per hundredweight. This is a significant reduction that will better help larger producers in particular to purchase coverage on much of their milk in a way that better reflects producer margins. This is critically important in states where the milk margins fall more quickly during challenging times.

- *Partial Decoupling of Tiers 1 and 2* – If producers insure a Tier 1 margin above \$8.00, those with production history above five million pounds will be able to select any coverage level from \$4.00 to \$8.00 on their enrolled Tier 2 production history. Those producers that select a Tier 1 margin of \$8.00 or less will be required to cover any enrolled Tier 2 production history at that same level. As such, if larger producers insure a Tier 1 margin of \$9.50, \$9.00, or \$8.50, they will be able to select the newly-affordable \$5.00 option on the remainder of their production history up to 95 percent.
- *Equitable Access to Tier 1* – The bill will reduce the minimum required enrollment from 25 percent to five percent of a producer’s production history. Combined with the partial decoupling of the tiers as outlined above, this provision will allow all producers to access the affordable premiums on their Tier 1 production history without having to pay to cover any additional milk if not desired.
- *Premium Discount Option* – The bill will allow producers to receive a 25 percent discount on their premiums if they agree to lock in their coverage level for the entirety of the bill.
- *Feed Cost Study* – The bill will require USDA’s National Agricultural Statistics Service to revise monthly survey reports to include prices for high-quality alfalfa hay, to reflect that dairy cows are fed higher-quality hay than other animals. It will also require USDA to review data pertaining to average producer feed costs.
- *Premium Refund Option* – The bill will enable producers that participated from 2014-17 to receive repayment of a portion of their net paid premiums (premiums paid minus any payments received). Producers will either be able to receive 50% of their net premium as a direct cash refund, or 75% of their net premium as a credit toward their DMC premiums.

In addition to the significant improvements to the DMC program, the Conference Report completely repeals the existing restriction that limits producers to either the Margin Protection Program (MPP, now DMC) or the Livestock Gross Margin-Dairy program. This will allow dairy farmers the same access to multiple risk management tools that other farmers already enjoy. In addition, we are grateful that the bill will allow producers who were locked out of MPP in 2018 to retroactively sign up for coverage from January 1, 2018, pursuant to the Bipartisan Budget Act of 2018.

Finally, we are pleased that the bill incorporates the provisions of an important agreement that we reached last year with the International Dairy Foods Association to improve the price risk management of fluid milk while protecting the farm-level revenue that the Class I formula generates for producers under the Federal Milk Marketing Order system. We also commend the replacement of the Dairy Product Donation Program with a new Milk Donation Program to reimburse dairy producers or processors that donate fluid milk to outlets like food banks. Of note, Section 32 is not modified under this legislation.

Outside of Title I, the Conference Report includes numerous other provisions of critical importance to dairy farmers, including:

- *Conservation* – The Conservation title helps dairy producers access technical and financial assistance to carry out multiple conservation practices on their land and water. H.R. 2 reauthorizes the Environmental Quality Incentives Program, a working lands program that provides farmers with voluntary, incentive-based assistance to implement numerous land management practices. We are pleased that the bill provides robust funding for the program, and support enhancement of the Conservation Innovation Grants subset to allow for on-farm testing of nutrient recovery systems that can help dairy producers solve water quality challenges. We also commend the reauthorization and funding of the Regional Conservation Partnership Program which funds targeted projects developed at the local level, and we support the enhanced focus on environmental markets.
- *Trade* – The dairy industry has made great strides on trade since the turn of the century. Our nation has gone from exporting dairy products valued at less than \$1 billion in 2000 to exporting a record \$7.1 billion in 2014, an increase of 625 percent. The trade promotion programs included in the Farm Bill are of critical importance to dairy farmers and their cooperatives. We applaud the continued funding for the Market Access Program and the Foreign Market Development Program under the umbrella of Agricultural Trade Promotion and Facilitation.
- *Nutrition* – We are grateful for the milk incentive program included in H.R. 2 intended to increase consumption of fluid milk among low-income populations. Milk is the primary source of nine essential nutrients in a child’s diet.
- *Rural Development* – We are pleased that H.R. 2 reauthorizes the Farm and Ranch Stress Assistance Network (FRSAN). FRSAN can provide grants to extension services and nonprofit organizations to assist producers who are facing greater stress now more than ever due to the continued downturn in the farm economy. We have also long supported the Rural Energy for America Program, which provides financial assistance to farmers to purchase and install renewable energy systems, including methane digesters which use manure and other organic wastes to produce baseload electricity and give dairy farmers a unique environmental stewardship opportunity.
- *Miscellaneous* – We applaud provisions to establish and provide mandatory funding for the National Animal Vaccine and Veterinary Countermeasures Bank to focus specifically on combating Foot-and-Mouth Disease (FMD). FMD is a severe and highly contagious viral disease that can spread quickly and cause significant economic losses. Finally, we commend the inclusion of the Dairy Innovation Act which could provide important new opportunities for dairy sector innovation in today’s economy.

In conclusion, we commend you for your diligent work to complete this process this year, and we are thrilled to be on the cusp of enactment of a bipartisan, bicameral Farm Bill that will make significant improvements to dairy policy. We urge all members to vote YES on the Conference Report to accompany H.R. 2 and thank you for your work on behalf of America's dairy farmers.

Sincerely,

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Tillamook County Creamery Association
United Dairymen of Arizona
Upstate Niagara Cooperative, Inc.
Virginia State Dairymen's Association
Washington State Dairy Federation
Western United Dairymen