Congress of the United States

Washington, DC 20515

January 29, 2007

Mike Johanns, Secretary
U.S. Department of Agriculture
14th Street & Independence Ave., S.W.
Washington, DC 20250

Re: Docket No. AO-14-A76, et al.; DA-07-01

Dear Secretary Johanns:

We are writing because we are deeply troubled with USDA's rush to move forward with proposed amendments to federal milk marketing orders that would significantly change classified pricing formulas. We believe the National Milk Producers' Federation's (NMPF) proposal that, in effect, increases the value of Class I milk and delinks Class I fluid milk prices and Class III cheese milk prices, will undermine the regional harmony that has been attained in recent years. It has the potential to reignite regional conflict within the dairy industry and it could lead to the unraveling of federal milk marketing orders. As such, we are asking you to reject it.

This proposal to further increase the value of milk for fluid use through regulation is unfair to farmers in the Upper Midwest. Class I differentials already hurt the dairy industry in the Upper Midwest because, as currently structured, the Upper Midwest order has a lower fluid utilization than orders covering other regions. Farmers in the Upper Midwest are further disadvantaged because the value of the Class I differentials grows the further you get from Eau Claire, Wisconsin. The result of this combination of low Class I differentials and low fluid milk utilization is lower prices.

This anachronism dates back to a time before the interstate highway system, before refrigerated trucking and to a time when Wisconsin and Minnesota held the majority of the nation's reserve milk supply. USDA has failed to make the necessary adjustments to the federal order system to recognize changes in the dairy industry, in the national infrastructure and in technology over the past 70 years with the result that dairy farmers in the Upper Midwest suffer these bureaucratic disadvantages for reasons that no longer exist. Instead of considering proposals to bring regulation of dairy markets into the 21st century, the proposal that USDA is considering would exacerbate the inequities and increase the market distortions caused by the anachronistic federal orders.

Worse still, this plan also proposes to decouple the price formula link between Class I/II and Class III/IV milk. This is a dangerous and wholly unjustified proposal. The proposed increase in the value of Class I milk will encourage increased production especially in those orders and those regions of the country with high fluid utilization and high Class I differentials. However, anyone who has observed the dairy industry over recent decades knows that consumption of Class I fluid milk is flat. Sending a signal to the market to increase production in high fluid utilization regions will simply increase the oversupply of milk in those markets. That will drive milk towards high Class III cheese manufacturing regions, increasing the supply of milk in those regions and lowering farm milk prices. Further, the proposed changes in Class I/II and Class III/IV will mean that those lower prices will not be properly reflected in lower prices for fluid milk. Consequently, the signal to producers in high Class I utilization orders to increase production will continue and grow, the oversupply will grow, the flow of milk into manufacturing will continue and prices for milk in the Upper Midwest will be further depressed.

This proposal is nothing short of an assault on the dairy industry in the Upper Midwest and an attack on the livelihoods of dairy farmers and the communities that depend upon them.

We would also note that a few years ago when dairy farmers faced a similar squeeze due to high feed prices and drought some dairy farm groups proposed a Class I and II price surcharge as a solution. At that time, Under Secretary Bill Hawks wrote Congressman Blunt, January 23, 2003, and Congressman English, June 16, 2003, rejecting the request for a hearing and explaining that adequate supplies of milk negated a need for regulated price increases. Mr. Hawks stated , that the federal order program "is a marketing program with the objective of assuring that fluid (drinking) milk markets are adequately supplied and is not intended to be a price support program." The hearing now under consideration represents a sharp reversal of agency policies expressed in the letters to Congressmen Blunt and English, and threatens more financial harm than good for a large number of the nation's family dairy farms.

It is noted, further, that USDA's swift action on this ill-conceived proposal contrasts markedly with the glacial pace of its consideration of proposals to revise federal make allowances and, as such, raises concerns that USDA is exhibiting favoritism for one segment of the dairy industry over another and for certain regions of the country over others. Certainly, there is no economic justification for what is, in effect, a redistribution of income from the Upper Midwest to regions with high fluid utilization. This is certainly a matter worthy of scrutiny.

Finally, this proposal will undermine the intent of the Milk Income Loss Contract (MILC) program. MILC is intended to serve as a strong dairy price safety net so that when prices drop farmers enjoy a measure of protection. Because the MILC program assistance is triggered off the Class I price, that protection will be eroded and the benefits of MILC devalued if Class I prices are artificially inflated in the manner proposed.

We would like to repeat our deep-seated opposition to USDA's decision to move ahead with this proposal, opposition that is shared universally throughout the dairy industry in Upper Midwest. Dairy farmers in the Upper Midwest are simply seeking fair treatment and fairness demands that USDA reject this proposal.

Sincerely,

Herb Kohl

Senator Herb Kohl

David R. Obey

Congressman David R. Obey

Russell D. Feingold

Senator Russell D. Feingold

cc: Joyce Dawson, Hearing Clerk, OALJ
Room 1031 South Building
US Department of Agriculture
Washington, DC 20250-9200

Attachments (2)

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MEMBER OF CONGRESS
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STEERING COMMITTEE

October 11, 2002

35-4207295
~~FSA~~
AMS

The Honorable Ann Veneman
U.S. Department of Agriculture
1400 Independence Avenue, SW
Room 200-A Administration Building
Washington, DC 20250

Dear Ann:

I am writing to request a national hearing to discuss the establishment of "drought adjustment charges" to handlers over and above Federal Order Class I and Class II prices.

I have been in contact with many of my constituents regarding their concerns and struggles as a result of feed cost increases. Due to the prolonged drought throughout much of the crop production area in southwest Missouri and around the country, profitability and survival of the nation's family-run dairies has been threatened. Because dairy cattle must be fed a ration of high quality feed in order for milk production to remain consistent, you cannot use CRP lands for grazing, as you could with beef cattle, or accept variations in their daily rations.

While originally drafting milk support programs, Congress indicated that feed costs should be considered when establishing milk prices. Congress recognized then that, as a perishable product, the milk supply cannot be allowed to be put at risk. The alternative is reduced milk supply as producers alter their rations or go out of business.

A hearing will allow statistics to be reviewed and the impact to all involved in the dairy industry to be evaluated. This is a national issue, as feed cost affects every dairy farmer regardless of region or size of the operation.

Please contact my Agricultural Specialist, Don Lucettia, at 417-781-1041 if you have any further questions. I appreciate your serious consideration of my request.

Sincere regards,

Roy Blunt
Member of Congress

RDB:dl

Thanks for your attention to this

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

January 23, 2003

The Honorable Roy Blunt
U.S. House of Representatives
217 Cannon House Office Building
Washington, D.C. 20515

Dear Congressman Blunt:

Secretary Veneman asked me to respond to your letters of October 11 and December 3, 2002, supporting a request for a hearing on a proposal submitted by Dairy Farmers of America (DFA), that would establish a "drought adjustment surcharge" on Class I and Class II prices.

USDA administers the Federal Milk Marketing Order (FMMO) Program. The objectives of the FMMO Program are to assure an adequate supply of milk for the fluid market and to create an orderly structure under which farmers can market milk year round – a structure which better balances the market power between dairy farmers and their cooperatives (the sellers) and milk handlers (the buyers). The FMMO Program is a marketing tool, not a price support program.

After reviewing the DFA proposal to add a surcharge to FMMO Class I and Class II prices to compensate farmers for additional feed costs brought on by drought conditions, USDA decided not to hold a hearing on the proposal. The bases for this decision are:

1. The proposal would result in higher prices for Class II raw milk that are not marketing-cost justified which would likely result in Class II buyers substituting butter and nonfat dry milk (lower priced Class IV products) for Class II raw milk;

2. Adding a surcharge to Class I and Class II prices would provide substantially different benefits to farmers depending upon their location. For example, the farmers in the Florida FMMO, which has higher Class I utilization of about 90 percent, would benefit greatly from such a surcharge for milk used in Class I products. However, there would be substantially less benefit to producers marketing milk in the Upper Midwest FMMO where only about 20 percent of the milk is used in Class I;

3. The proposal would not provide any relief to dairy farmers who market milk outside the FMMO program which is about 30 percent of the milk produced in the United States; and

4. USDA has recognized that the availability and prices of grains and forages has been a burden for some dairy farmers because of the drought. As a result, USDA has already taken action to provide assistance to those impacted. The USDA actions include:

- Amending the Non-insured Crop Disaster Assistance Program to implement the statutory elimination of the area loss requirement so that individual producer losses of forage produced for animal consumption is covered;

- Providing $937 million for direct payments to assist livestock farmers affected by drought. This cash assistance was made available to farmers with livestock on a statewide basis in 7 States and to specified, hard hit, counties in 30 other States, including Missouri. Dairy farmers in the designated drought areas who applied received $31.50 per cow and $13.50 per head of young stock for animals owned or leased as of June 1, 2002;

- Establishing "Hay Net," a website for farmers to list the need for or the availability of hay;

- Allowing the emergency haying and grazing of Conservation Reserve Program acreage; and

- Taking steps to reduce the burdensome stocks of government owned nonfat dry milk which are overhanging the market and delaying any milk price recovery.

We at USDA are aware of the financial stress facing the nation's farmers and are working to provide assistance through various programs. Again, thank you for writing to share your concerns on this important issue.

Sincerely,

Bill Hawks

Bill Hawks
Under Secretary
Marketing and Regulatory Programs

3rd District, Pennsylvania

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May 20, 2003

The Honorable Ann M. Veneman
Secretary, United States Department of Agriculture
14th Street & Independence Avenue, SW
Washington, DC 20250

35-4221535
AMS

Dear Secretary Veneman:

I write today regarding dairy farmers' cost of production and its impact on the dairy industry. With historically low milk prices, coupled by higher feed and transportation costs, dairy farmers are going out of business in record numbers.

Last Fall, your Department turned down the petition submitted by Dairy Farmers of America (DFA) and Dairylea Cooperative requesting an emergency Federal Order hearing to establish a Class I and Class II price adjuster under all Federal Milk Marketing Orders. This petition was filed in response to the drought conditions and increased feed prices that at that time had contributed to these farms' increased financial stress.

Farmers across my district and the nation are now in worse financial shape. The Boston Class I milk price for April was $12.89 per hundredweight, the lowest in twenty-five years. While I commend your Department for the steps taken to assist livestock owners, my farmers continue to be faced with a crisis. They struggle to care for their families while continuing to ensure daily production of fresh, safe, and wholesome milk for the nation's food supply.

Despite the efforts of USDA and the Congress, my farmers continually face high feed and transportation costs and other variables that challenge their ability to sustain their farms and rural communities. Therefore, I am asking your review of the 1937 Agricultural Marketing Agreement Act (AMAA), which takes into consideration the regional costs of feed, feed availability, or other region specific economic factors. The AMAA, Section 608c(18) clearly called for the consideration of the economic factors regarding the marketing of milk in regional orders across the country. Upon your review, I am requesting the full enforcement of the AMAA, which would eliminate the hardships inherent to the dairy farmers' cost of production.

Thank you for your time and utmost consideration of this important matter. I look forward to hearing from you upon your review.

Sincerely,

Phil English

Phil English
Member of Congress

Phil.English@mail.house.gov
www.house.gov/english

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

JUN 16 2003

The Honorable Philip S. English
U.S. House of Representatives
1410 Longworth House Office Building
Washington, D.C. 20515-3803

Dear Congressman English:

Thank you for your letter of May 20, 2003, to Secretary Veneman. The Secretary has asked me to respond on her behalf.

Indeed this has been a difficult time for dairy farmers and, as you mentioned, the Department of Agriculture (USDA) has taken steps to aid farmers. However, the current supply of milk continues to exceed the demand of milk and dairy products. Until the rate of growth in the use of milk and dairy products is greater than the rate of growth in milk production, farm level milk prices are expected to remain low.

In your letter, you ask for a review of the 1937 Agricultural Marketing Agreement Act (AMAA) with respect to regional costs of production. As you know, the AMAA authorizes the Federal Milk Marketing Order (FMMO) program. We at USDA believe that our administration of the FMMO program is consistent with the authorities provided in the AMAA. The FMMO program is a marketing program with the objective of assuring that fluid (drinking) milk markets are adequately supplied and is not intended to be a price support program.

Within the FMMO program, a national classified pricing network has been established that enables milk to move to more urban fluid consumption and milk processing areas from more rural milk production and dairy product manufacturing areas. Section 608c(18) of the AMAA requires USDA to consider the parity price for milk when setting the level of minimum prices under the FMMO program. The section further provides that if USDA finds that the parity price for milk is not reasonable based upon evidence submitted during a rulemaking proceeding, a price should be established that is reflective of available supplies of feeds and other economic conditions which affect market supply and demand for milk. Based on our review of the AMAA, we believe that these factors have been appropriately incorporated into the FMMO program.

Thank you for your continued interest and leadership on dairy issues. We look forward to working with you on this and other issues.

Sincerely,

Bill Hawks

Bill Hawks
Under Secretary
Marketing and Regulatory Programs