



OHIO FARMERS UNION

Serving Ohio's Family Farmers

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Legislative Hotline: 1-866-989-3671

December 20, 2006

Deputy Administrator Dana Coale
USDA - AMS - Dairy Programs
1400 Independence Avenue, SW
Washington, D.C. 20250-0225

Dear Administrator Coale:

We appreciate the previous opportunity to submit comments on the current Class III and Class IV pricing formulas, as well as the opportunity to discuss the proposal at the U.S. Department of Agriculture information session on December 5. Bryan Wolfe, a dairy farmer from Ashtabula County, Ohio, attended the hearing on behalf of Ohio Farmers Union. The following provides additionally insight into Ohio Farmers Union's original proposal dated September 29.

The current pricing system has left dairy farmers throughout the country struggling under financial hardship. Several factors have combined in the dairy industry, which have left dairy producers struggling to pay their bills because of prices below the cost of production. Concentration at the retail level, processing sector, and amongst co-ops have combined to leave farmers with few marketing options. Late spring and summer 2006 milk prices have averaged below the same months some 25 years ago.

The continued influx of imported dairy products also contributes to keeping the farm-gate milk price artificially low. Imports, including illegal milk protein concentrates when combined with anhydrous butter, skew reports on domestic dairy product supply, resulting in depressed prices.

Of additional concern, is the tremendous influence the cash dairy market at the Chicago Mercantile Exchange has on the price of all dairy products in this country, and the paychecks of dairy farmers. This unregulated, thin market, where less than one half of one percent of cheese in the United States is traded by only a few players, should not dominate dairy prices around the world. Ongoing investigations by the Commodity Futures Trading Commission and the Government Accountability Office into possible manipulation at the CME illustrate the inadequacy of this market and the current pricing system.

We can create a better pricing system for all stakeholders in the dairy industry by crafting a mechanism that more closely reflects the cost of production. The current price discovery system falls far short of meeting the requirements of Section 608c(18) of the 1937 Agricultural Marketing Agreement Act to “. . .insure a sufficient quantity of pure and wholesome milk to meet current needs and further to assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs and be in the public interest.”

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A more effective market-based system would be a hybrid-model with Class III and Class IV prices for milk determined by creating a pricing formula weighted one-third from the CME, one-third based on the farmers cost of production, and one-third from the Consumer Price Index. The regional cost of production as calculated by the Economic Research Service of the USDA could serve as data for the second third, while the U.S. Bureau of Labor Statistics data on dairy prices would provide the figures for the final third. Such a system would efficiently transmit price signals from the farm to the consumer. Additionally, price volatility would be greatly reduced.

The cost of transportation on a regional basis, or transportation differential, should continue to be part of a new pricing mechanism; however, the differential should be based on today's dairy marketplace. California is presently its epicenter. A new pricing mechanism must ensure that increasing transportation costs do not fall upon the backs of producers, who do not have the ability of recourse from the marketplace. Such a system should be based on the finished product rather than the raw commodity.

We believe a new less volatile dairy pricing mechanism based partially or solely on the cost of production will result in a system giving farmers and processors the stability they need to conduct their business plans and meet their costs. A fair farm-gate dairy price would also protect the U.S. Treasury from making payments to dairy farmers when prices fall below set levels. The Ohio Farmers Union supports the Milk Income Loss Contract Program as an important part of current dairy policy, but realizes operating the program in the current budget atmosphere is difficult. We would prefer dairy farmers receive a fair price so that the MILC Program is only necessary in the direst of situations.

Additionally, Ohio Farmers Union continues to oppose block voting by dairy cooperatives. Dairy farmers should also have the capability to vote on each specific amendment to the federal order system with an up or down vote, rather than choosing whether or not to eliminate the entire order system.

We appreciate your recognition that dialogue must begin on the issue of dairy pricing given the current crisis in rural America, as well as the opportunity to further expand on our original proposal. We urge you to consider this and other proposals and request a formal hearing on the matter of a price discovery mechanism for Class III and IV milk prices where producers may further voice their concerns.

Best regards,

Joe Logan
President
Ohio Farms Union