OBAMA-BIDEN TRANSITION PROJECT

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NFFC

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Emergency Action in Response to Dairy Crisis
Memo to the Obama-Biden Transition Team
Submitted by Dairy Subcommittee; National Family Farm Coalition
January 2, 2009

For many reasons it is important for our nation to have a regionally dispersed milk supply system that is economically resilient. Today, there are fewer than 60,000 dairy farmers in the United States. Continued volatility in milk pricing and skyrocketing production costs for dairy farmers are creating the crisis.

During the campaign, the Obama-Biden Rural Leadership for Rural America stated, "As president, he will help family farms and rural small businesses find profitability in the marketplace and success in the global economy. As part of the platform, a major point is to "Prevent anticompetitive behavior against Family Farms" and stated, "In an era of market consolidation, Barack Obama and Joe Biden will fight to ensure family and independent farmers have fair access to markets, control over their production decisions, and transparency in prices."

The Dairy Subcommittee of the NFFC strongly believes that the solution to this deepening crisis requires an immediate response from the government at many levels. The Department of Justice (DOJ) must address the excessive control exerted by Dairy Farmers of America (DFA), whose actions in 2004 cost farmers millions yet were penalized only by a $12 million fine from the CFTC and a ban on trading at the Chicago Mercantile Exchange. We urge DOJ to complete the pending anti-trust investigation and take action that will provide fairness and transparency in dairy pricing to dairy farmers.

We urge USDA to act quickly to implement provisions of existing law – Section 608 c(18) of the Agricultural Marketing Act of 1937 which requires the Secretary of Agriculture to adjust farm milk prices within all federal milk orders to "reflect the price of feeds, the available supply of feeds, and other economic conditions which affect market supply and demand for milk or its products". We encourage the consideration of a new milk pricing formula based on cost of production with variations based on regional costs of production to help achieve this goal. This action provides stability to the dairy pricing system and will hopefully avert the further fall in dairy prices that threatens most if not all of the independent dairy farmers remaining in the U.S.

Dairy farmers have seen a 40% drop in their milk-gate prices since June 2008 and prices are projected to fall more in the next few months triggering Milk Income Loss (MILC) payments for February – June 2009. . This is at a time of increasing input costs and projections for record high prices for seed, fertilizer, and continued high prices for diesel

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fuel. This is in addition to the overall higher inflation rates and instability in agricultural credit fueled by the financial crisis and projections of continued low prices and increased input costs.

While the 2008 farm bill for the first time acknowledged the need for a feed adjuster, this increased payment applies to the level of the MILC payment. It means the taxpayer will be paying part of this loss of dairy farmer income when it should be coming from the processors and buyers of the milk. We urge Congress to consider the milk pricing and supply management provisions of S.1722 – as introduced by Senator Casey (D-PA) in the 110th Congress. Provisions of this proposal are attached to this memo.

We urge USDA and the Obama-Biden administration to take swift action to ensure that dairy prices do not continue to fall. Without this action, we will be seeing record liquidations, foreclosures, and bankruptcies across rural America as dairy farmers have no choice but to sell their cows and further jeopardize the economic health of their families and their communities. In addition to USDA's action to implement existing provisions, we urge Congress to consider immediate action to reinstate a floor price at a level that reflects a farmers' cost of production as part of the economic recovery/stimulus package. This would not only ensure fair prices to farmers – but it would avert the MILC payments enabling these scarce taxpayer funds to be utilized for other purposes; either FSA direct lending which faces a major shortfall or USDA food and nutrition programs such as Women, Infants, Children (WIC) or other food assistance programs.

For more information, please contact Paul Rozwadowski- NFFC Dairy Subcommittee Chair (715) 644-5079 or Kathy Ozer – NFFC (202) 543-5675.

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Suggestions by Pro Ag for a new pricing formula and supply management program. This program is much needed if we are to save our nation's dairy farmers.

Class II Milk Pricing

- MINIMUM PRICE-The Secretary of Agriculture shall base the minimum price for Class II milk on the average cost of producing all milk in the 48 contiguous States, as determined by the Economic Research Service (ERS) of the Department of Agriculture.
- NATIONAL AVERAGE COST OF PRODUCTION-The national average cost of production shall equal the national average of the operating cost and the allocated overhead cost of producing all milk.
- SURVEY-The Secretary shall survey producers and associations of producers subject to Federal and State milk marketing orders and in all unregulated areas applicable to all milk.
- PRICE ANNOUNCEMENT-No later than November 1 of each calendar year, the Secretary of Ag shall announce the minimum price for Class II milk for the next calendar year.
- ADJUSTMENTS-Using the most currently available national average cost of production, the Secretary of Ag shall adjust the price announced for a calendar year on April 1, July 1, and October 1 of the calendar year.
- BASIC FORMULA PRICE-The Secretary of Ag shall use the Class II milk price announced as the basic formula price for all Federal and State milk marketing orders and all unregulated milk production areas.
- CLASS I MILK-The price of Class I milk in all Federal and State milk marketing orders and all unregulated milk production areas shall be equal to the basic formula price plus existing Class I differentials in each Federal or State Milk Marketing Orders. The Secretary of Ag shall assign comparable Class I differentials in all unregulated areas.
- ESTIMATION OF ANNUAL MILK PRODUCTION AND DOMESTIC CONSUMPTION-No later than November 1 of each calendar year and taking into consideration

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the import projections for all milk products, the Secretary of Ag shall estimate the quantity of all milk to be produced in the 48 contiguous States and marketed by producers for commercial use during the next 12 months.

- INVENTORY MANAGEMENT PROGRAM-In any case in which the dollar value of exported milk products is equal to the dollar value of imported milk products, the Secretary of Ag shall carry out this clause in a manner that is necessary to manage inventory of all milk in the United States.
- MILK PRODUCTION TOTALS-No later than February 1 of each calendar year, the Secretary shall determine the total quantity of all milk produced by each producer during the preceding calendar year.
- EXCESS PRODUCTION DETERMINATION-No more than once every two months, if the Secretary of Ag, acting through the Commodity Credit Corporation (CCC), has purchased the maximum quantity practicable of excess milk and milk products, the Secretary of Ag may determine whether an excess quantity of milk and milk products are being produced for the national domestic market.
- REDUCTION IN PRICE RECEIVED-If the Secretary of Ag determines that there is excess production, the Secretary of Ag may provide for a reduction in the price received by producers for not more than five percent of all milk produced in the 48 contiguous States and marketed by producers for commercial use.
- AMOUNT-The amount of reduction in the price received by producers shall not exceed half the minimum price of Class II milk.
- ADDITIONAL REDUTION-If the Secretary of Ag determines that the reduction is sufficient to reduce excess production, the Secretary of Ag may reduce the price received by any producer that has increased the production of all milk in a calendar year as compared to the immediately preceding calendar year.
- APPLICATION-A reduction in price shall only apply to the quantity of milk produced in excess of the quantity of milk produced during the previous calendar year.
- NEW PRODUCER EXCEPTION-A new producer, as defined by the Secretary of Ag, may produce up to the average annual production of milk under the Federal or State milk marketing order of the producer or the unregulated are of the producer without being subject to an additional reduction.
- APPEALS-A producer subject to an additional reduction may appeal to the Federal or State milk marketing administrator to provide evidence that the producer did not increase production in the calendar year that the reduction was in effect when compared to the immediately preceding calendar year.
- EXTRAORDINARY CIRCUMSTANCES-In deciding an appeal, a Federal or State milk marketing administrator may take into consideration productions or severe disease outbreaks.
- COLLECTION-Except as provided, reduction in price shall be collected by Federal and State milk marketing administrators and timely remitted to the Commodity Credit Corporation to offset the cost of purchasing excess milk products.
- COLLECTION IN UNREGULATED AREAS-Reductions in price required for unregulated areas shall be collected by the Secretary of Ag and timely remitted to the Commodity Credit Corporation to offset the cost of purchasing excess milk products.