

United States Senate
WASHINGTON, DC 20510-4904

July 16, 2009

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

Dear Secretary Vilsack:

As you know, our domestic dairy industry continues to struggle with milk prices that are well under the cost of production, and the situation gets more desperate each month. I am glad that you plan on meeting with dairy farmers during your visit to Wisconsin this week. While the statistics on low prices, relatively high costs, increasing loan delinquencies and even suicides of dairy farmers give an idea of the growing crisis, they are no substitute for visiting rural communities and looking the proud men and women of Wisconsin's farm families in the eye as they face an uncertain future.

At the end of January, I sent a letter with Senator Kohl and thirty-three other Senators recommending a number of actions that USDA could take to assist dairy farmers. I commend the Department for taking several of these actions including utilizing 200 million pounds of nonfat dry milk in international and domestic feeding programs, utilizing the Dairy Export Incentive Program allocation and taking steps to delay and work with dairy farmers struggling to repay direct farm loans. While these actions have been positive, unfortunately, the threat to America's dairy farmers and the rural communities that depend on them continues and I encourage you to consider additional actions.

In addition to the suggestions from the January letter that were implemented, there were a few other recommendations that I hope you will consider. I encourage you to examine whether the procurement rules of the Dairy Product Price Support Program (DPPSP) can be harmonized with those commonly used in the industry to broaden the amount of dairy products that qualify for purchase without harming the quality of the products purchased. This examination should also consider reinstating the slight premium paid for packaged dairy products suitable for distribution through nutrition programs instead of purchasing in bulk. Additionally, while nonfat dry milk was transferred to the nutrition programs, the continuing global economic troubles mean that demand for these nutritious products by low income individuals, food banks and schools continues to be strong. Additional purchases of dairy products, including cheese that is extremely popular with program participants, would provide a win-win situation and benefit farmers along with those struggling to put food on the table.

Even in America's Dairyland where many farms have endured challenges from weather and markets over several generations, the current situation is dire and will cause irreparable harm if it

continues unabated. Therefore, I encourage you to take more dramatic steps than what was contemplated in the January letter and provide a higher floor price for milk.

The cost of production for dairy farmers remains significantly higher than the minimum price under the Federal Milk Marketing Order (FMMO) system. In a parallel situation, several years ago the cost of production for dairy processors was outstripping the make allowance under the FMMO. In January 2006, USDA held an emergency hearing on this issue and ultimately adjusted the make allowance to better reflect the cost of production faced by dairy processors. Under 7 USC 608(c)(18), USDA is provided the authority to adjust the minimum price of milk under the FMMOs if the price is "not reasonable in view of the price of feeds, the available supply of feeds, and other economic conditions which affect market supply and demand for milk." Given the continuing high cost of feed, the USDA should consider invoking this authority.

In addition, I am concerned that dairy market supply and demand may be out of kilter. Specifically, there have been some strange patterns in retail prices of dairy products not reflecting the dramatic decrease in the prices paid to farmers for their milk. The enclosed editorial from the Cheese Reporter highlights these 'sticky' retail prices, which are also harming dairy farmers by dampening consumer demand, interrupting the signal from lower retail prices to consume more dairy products. Just as USDA held a hearing in 2006 to consider whether the FMMO prices were covering processors' cost of production, it appears to be appropriate to consider another hearing now to examine dairy farmers' cost of production under the FMMO system.

For a variety of reasons, decisions under the FMMO hearing system can often take months or even years to implement. The most recent farm bill set minimum prices under the DPPSP for purchases of butter, nonfat dry milk and cheese, but provides the flexibility to set the price higher than the minimum. So either as an alternative or as a short term remedy while the FMMO hearing process moves forward, I encourage you to use your authority under the DPPSP to set a higher price for dairy products in order to increase the floor price for milk. The 1996 farm bill reduced the support price to \$9.90 per hundredweight from \$10.35 in January 1999. Over a decade later, the effective support price remains at \$9.90, so even without the current crisis there is a strong argument that an adjustment in the support price is overdue.

Thank you again for taking the time to meet with dairy farmers in Wisconsin, for the actions that USDA has already taken to address the growing crisis facing dairy farmers and for considering my renewed request. I look forward to working with you to meet the needs of dairy farmers and the rural communities that depend on them during these challenging times.

Sincerely,



Russell D. Feingold



CHEESE REPORTER

Cheese Reporter Publishing Co. Inc. © 2009
2810 Crossroads Drive, Suite 3000
Madison, WI 53718-7972
(608) 246-8430 • Fax (608) 246-8431
<http://www.cheesereporter.com>

DICK GROVES
Publisher/Editor
e-mail: dgroves@cheesereporter.com

MOIRA CROWLEY
Specialty Cheese Editor
e-mail: mcrowley@cheesereporter.com

KEVIN THOME
Advertising & Marketing Director
e-mail: kthome@cheesereporter.com

BETTY MERKES
Classifieds/Circulation Manager
e-mail: info@cheesereporter.com

REGULAR CONTRIBUTORS:
Mike Comotto, Bob Cropp, Don Dahlstrom,
Neville McNaughton, Ray Mueller,
Rice Dairy, Dan Strongin, John Umhoefer
e-mail: contributors@cheesereporter.com

The Cheese Reporter is the official
publication of the following cheese &
dairy associations.

California Cheese & Butter Association
Lisa Waters,
1011 Pebble Beach Drive, Clayton, CA 94517

Central Wisconsin Cheesemakers' and
Buttermakers' Association
Gordon Mosen, 908 Sawyer Drive
Marshfield, WI 54449

Cheese Importers Association of America
Richard Kobay, 460 Park Ave.,
New York, NY 10022

Eastern Wisconsin Cheesemakers' and
Buttermakers' Association
Barb Henning, Henning's Cheese
21812 Ucker Road, Kiel, WI 53042

International Dairy-Deli-Bakery Association
Carol Chraston, P.O. Box 5528,
Madison, WI 53705

Iowa Dairy Products Association
Norm Mokedstad, 4621 Douglas Ave.
Des Moines, IA 50310-2742

Missouri Butter & Cheese Institute
Terry S. Long, 19107 Factory Creek Road,
Jamestown, MO 65046

Nebraska Cheese Association
Ed Price, 3104 Nebraska, Fremont, NE 68025
New York State Cheese Manufacturer's Assn
Kathryn Box, 11 Stocking Hall,
Cornell University, Ithaca, NY 14853

North Central Cheese Industries Association
Lloyd Metzger, SDSU, Box 2104,
Brookings, SD 57007

North Dakota Cheese Makers' Assn
Chuck Kretter, P.O. Box 309,
Medina, ND 58467

Ohio Swiss Cheese Association
Darlene Miller, P.O. Box 445,
Sugar Creek, OH 44681

South Dakota State Dairy Association
Howard Bornemann, SDSU, Box 2104,
Brookings, SD 57007

Southwestern Wisconsin
Cheese Makers' Association
Myron Olson, Chalet Cheese Coop,
N4858 Cty Hwy N, Monroe, WI 53566

Wisconsin Cheese Makers' Association
John Umhoefer, 8030 Excelsior Drive,
Suite 305, Madison, WI 53717

Wisconsin Dairy Products Association
Brad Legreid, 8383 Greenway Blvd.,
Middleton, WI 53562

EDITORIAL COMMENT



DICK GROVES

Publisher / Editor
Cheese Reporter
dgroves@cheesereporter.com

...retail milk prices are simply "stickier" than in the past. That is, retail prices just don't respond very quickly to changes in wholesale prices.

Sometimes, Retail Dairy Prices Do The Strangest Things

It's a well-known fact in the dairy industry that farm-level milk prices have taken a major dive this year, and that dairy product prices have also taken a major dive (some took the bulk of their dive last year and have remained low so far this year).

What hasn't been known is how retail dairy product prices would react to these lower product prices. As 2009 progresses, those retail price movements are beginning to become better known and, frankly, in at least some instances they are a bit strange and a bit frustrating, to put it mildly.

As reported on our front page last week, the Consumer Price Index for dairy products did decline in January, as did the price indexes for both milk and cheese. The CPI for whole milk in January was at its lowest level since June of 2007, and January's CPI for cheese and related products was at its lowest level since last June.

So far, so good. But then things get a little strange.

For example, the average retail price for natural Cheddar cheese in January was over \$5.00 per pound for just the second time ever (the first was last November).

Looked at another way, Cheddar prices at the CME cash market have been over \$2.00 per pound at various times in three of the past six years (2004, 2007 and 2008) but only in November of 2008 and January of 2009 (when CME cash prices averaged under \$1.09 per pound) did retail prices average over \$5.00 per pound.

Granted, Cheddar in stores in January was produced last year, so it's a bit of a stretch to think retail Cheddar prices would drop precipitously. But Cheddar still above \$5.00!

More eye-opening, however, is what happened with retail fluid milk prices earlier this month. This information is from the monthly survey conducted by federal order market administrators between the 1st and 10th of each month in selected federal order cities or metro areas.

In early February, as would be expected with the big drop in the federal order Class I price (February's Class I base price was \$10.72 per

hundred, down \$5.02 from December), retail fluid milk prices did indeed decline; the market administrators' survey found an average price of \$3.45 per gallon, down 17 cents from January and the lowest price since May of 2007.

But the retail price movements in various cities were, well, they were pretty inconsistent, to say the least.

Arguably, the consumers who have the most "responsive" retail milk prices live in the Baltimore area; in early February, whole milk prices in that city averaged \$3.04 per gallon, down some 92 cents from early January. Those would appear to be some of the more fortunate consumers in the US.

By contrast, consumers in two cities actually saw milk prices increase in early February compared to early January. One of those cities was Portland, OR, where whole milk prices jumped from \$3.16 per gallon in early January to \$3.51 per gallon in early February. That just doesn't seem to make any sense whatsoever.

Meanwhile, milk buyers in the largest city in Wisconsin also saw their milk prices increase in early February. Granted, the increase was only two cents per gallon, but given all the news stories in farm and general newspapers and on TV about plummeting farm milk prices, it's a bit surprising farmers haven't organized a protest against certain Milwaukee retailers because they haven't dropped their milk prices in line with the drop in farm prices.

While they're at it, maybe farmers should protest the fact that Milwaukee's retail milk prices, at \$3.86 per gallon for whole milk, are well above the average for the 30 cities surveyed by the market administrators.

Come to think of it, at current milk and gas prices, Milwaukee consumers might be better off driving to Detroit and stocking up on milk (at an average of \$2.96 per gallon) than staying close to home and paying some of the highest retail milk prices in the US.

Speaking of some of the highest retail milk prices in the US, Milwaukee consumers appear to be getting a

real bargain compared to milk buyers in another of the Upper Midwest order's major cities, namely Minneapolis.

Yes, consumers in that market did see a decline in milk prices in early February, but at \$4.09 per gallon, Minneapolis milk buyers, who reside in one of the largest milksheds in the US, are paying less for milk than consumers in just two other cities among the 30 surveyed by market administrators: New Orleans (\$4.55) and Fort Lee, NJ (\$4.12).

Fort Lee (metro New York) is an interesting story for a couple of reasons. First, average retail milk prices there didn't change from early January to early February, despite the big drop in the Class I price.

And second, milk prices there trail only New Orleans, despite being located near two of the top five milk-producing states in the US. There's added intrigue in this point because about 250 miles away, in Syracuse, NY, retail milk prices in early February averaged just \$2.92 per gallon, among the lowest in the country.

Now, maybe a big part of the problem here is that retail milk prices are simply "stickier" than in the past. That is, retail prices just don't respond very quickly to changes in wholesale prices.

But that apparently only applies when prices are dropping. When prices increase, retailers are quick to pass along the bulk of that increase. Back in 2007, to cite just one example, the Class I base price increased by about \$5.00 per hundred from May to July; retail milk prices in the market administrators' survey rose from \$3.38 per gallon in early May to \$3.80 by early July.

It would seem that there are perhaps three options here for getting retail dairy prices to more quickly reflect wholesale and farm prices. Two of those are to get rid of the "stickiness" when prices drop, or prevent prices from rising so much in the first place.

Or maybe, as seems to be the case in some markets, more competition is needed at the retail level. •