

April 23, 2018

The Honorable Pat Roberts
Chairman
Senate Committee on Agriculture,
Nutrition, and Forestry
US Senate
Washington, DC 20510

The Honorable Debbie Stabenow
Ranking Member
Senate Committee on Agriculture,
Nutrition, and Forestry
US Senate
Washington, DC 20510

The Honorable Michael Conaway
Chairman
Committee on Agriculture
US House of Representatives
Washington, DC 20515

The Honorable Collin Peterson
Ranking Member
Committee on Agriculture
US House of Representatives
Washington, DC 20515

The Honorable Sonny Perdue
Secretary
US Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20002

Re: Addressing America's Dairy Crisis

Dear Chairmen, Ranking Members, and Secretary Perdue:

As you are aware, America's dairy farmers are in crisis. Farmer milk prices are currently at \$15 per hundred pounds (cwt) of milk, well below the cost of production of \$20/cwt – and USDA's Economic Research Service (ERS) forecasts a 19.2 percent drop in dairy farm net cash income from 2017 to 2018. In the last few months, dairy marketing cooperatives have provided suicide hotline information to members along with milk checks. Small, family-run dairy farms play a vital role in the rural economy while providing a safe, affordable food to consumers. If the current cycle of low prices and contracted dairy markets continues, we will see virtually all of these farms go out of business, with serious impacts on the economic and social health of rural America.

Family farmers are being pushed out of the dairy business due to inefficiencies of the Federal Milk Marketing Order (FMMO) pricing structure; dairy handlers' acceptance of milk from large dairy operations outside their regions instead of from local small family farmers; and the absence of any meaningful dairy safety net. The recent changes to the Margin Protection Program and the dairy provisions proposed in the House farm bill will do little to change the situation for most dairy farmers.

Therefore, the undersigned member and allied organizations of the National Family Farm Coalition call for immediate action by both Congress and USDA to address this crisis in rural America. These actions include:

- Setting an immediate floor price of \$20/cwt for milk used to manufacture dairy products;
- Establishing a milk product purchasing initiative by utilizing U.S. Department of Agriculture's authority under 7 USCS Section 612c, commonly referred to as Section 32 surplus removal;
- Implementing an immediate moratorium on Environmental Quality Incentives Program (EQIP) funding and direct and guaranteed loans for concentrated animal feeding operations (CAFOs);
- Holding hearings on the milk pricing formula and the dairy crisis;
- Implementing a supply management program as outlined in the Federal Milk Marketing Improvement Act of 2011 to stabilize milk production;

More information on these actions follows.

Set an immediate floor price of \$20/cwt for milk used to manufacture dairy products.

The USDA Economic Research Service estimates the cost of milk production at \$20/cwt. The average price of milk that dairy farmers receive is currently \$15/cwt, 25 percent below the cost of production. Today's price drops are hitting farmers especially hard because they are heavily leveraged: ERS indicates that dairy operations lost at least \$150,000 in equity after the 2009 price crash. Current dairy policy has not provided farmers the opportunity to regain lost equity. As prices continue to fall, many farmers can no longer stay afloat, jeopardizing the \$64 billion in tax revenue generated by the dairy industry.

To immediately address this crisis, Congress should set a floor price of \$20/cwt for milk used to manufacture dairy products. However, while this floor price will provide some emergency relief for dairy farmers, it should not be viewed in any way as a permanent solution or adequate correction of the FMMO pricing structure.

Establish a milk product purchasing initiative.

To further stabilize the milk price, we request that the Secretary of Agriculture utilize his authority under 7 USCS Section 612c, commonly referred to as Section 32 surplus removal. Section 32 funds may be used to encourage domestic consumption of farm products by increasing their use by low-income groups.

We propose that USDA establish an immediate protocol to purchase surplus milk and whole milk products with Section 32 funds for use by emergency food providers. The measure would help dairy farms without adding to purchasing costs for food banks and other feeding programs. Specifically, this strategy would require the use of one-half the excess cheese products on the market. As with other USDA procurement strategies, this would also include the following contract selection criteria:

- 75 percent of purchases coming from dairy farms with fewer than 300 cows;
- Contract bidders sourcing their milk from women-owned dairies would receive 20 priority points;

- Contract bidders sourcing their milk from rural HUB zones would receive 20 priority points; and
- Employing the \$25,000 Small Business small contract threshold to source milk from small dairy businesses.

Implement an immediate moratorium on EQIP and federal loans for CAFOs.

Designed to provide cost-share and incentive payments to farmers to address natural resource concerns on their farms, the Environmental Quality Incentives Program (EQIP) has been used by hundreds of thousands of farmers to make environmental improvements. However, much EQIP funding currently goes to new or expanding CAFOs, including large dairy facilities, contributing to overproduction and low prices. The situation is similar with regards to Farm Service Agency (FSA) direct and guaranteed loans, which provide critical capital to farm operations but are too often directed to building new CAFOs or expanding existing facilities.

When similar oversupply situations have occurred in the past, USDA has suspended use of the programs for construction of these facilities. For example, the agency issued a directive on January 8, 1999, suspending all direct and guaranteed loan financing for the construction of hog facilities, citing concerns that FSA loans could exacerbate the crisis of oversupply and low prices then affecting the hog industry.

The same should be done today for dairy CAFOs. In particular, EQIP contracts should be capped at \$150,000 and should be prohibited for all new and expanding CAFOs. The limits on federally guaranteed loans should not be raised, and they too should be prohibited for all new and expanding CAFOs.

Hold hearings on the milk pricing formula and the dairy crisis.

The current price crisis facing family dairy farmers is not simply bad luck; it is the result of bad policy. The emergency fixes outlined above are critical, but without additional long-term solutions, cyclical crisis situations will continue.

Under the current FMMO system, a hearing to challenge the process and procedures of a marketing order cannot take place unless dairy processors, handlers, and manufacturers are in full agreement. While family-owned dairies have been the backbone of the rural economy for decades, they cannot by themselves call for a hearing on the pricing system that is driving them out of business.

Congress must therefore mandate that national and regional FMMO hearings be held within the next nine months. The hearings must focus on the impact of the current pricing system on family farmers, the monopsony power of dairy processors and manufacturers, and on developing new approaches to dairy policy in partnership with family dairy farms.

Implement a supply management program as outlined in the Federal Milk Marketing Improvement Act of 2011 (S.1640) to stabilize milk production.

Finally, as part of a long-term solution to meet changing market demands while ensuring farmer prices are based on cost of production, we urge the development and implementation of federal dairy policy to manage supply. The Federal Milk Marketing Improvement Act of 2011

(<https://www.congress.gov/bill/112th-congress/senate-bill/1640>), vetted by family dairy farmers, outlines how such a program could work. These common sense provisions protect against market price drops due to oversupply and ensure dairy farmers a price based on their cost of production, allowing them to provide fair wages to their workers and support their local economies.

In conclusion, we remind you that not only are family farms essential to the economic sustainability of rural communities, their growth and vitality is recognized by law. **7 USC Section 2266 (a)** states the clear Congressional support for the continued existence of family farmers, including dairy operations:

“Congress reaffirms the historical policy of the United States to foster and encourage the family farm system of agriculture in this country. Congress believes that the maintenance of the family farm system of agriculture is essential to the social well-being of the Nation and the competitive production of adequate supplies of food and fiber. Congress further believes that any significant expansion of nonfamily owned large-scale corporate farming enterprises will be detrimental to the national welfare. It is neither the policy nor the intent of Congress that agricultural and agriculture-related programs be administered exclusively for family farm operations, but it is the policy and the express intent of Congress that no such program be administered in a manner that will place the family farm operation at an unfair economic disadvantage.”

In order to level the playing field for family farms, we strongly encourage you take immediate action to implement these programs and policies. Thank you.

Sincerely,

[signing orgs]