



MEMO

To: Roger Johnson, President, National Farmers Union
From: Annie Cheatham, President, New England Farmers Union
Re: Dairy Concerns from New England States

Date: March 16, 2010

The New England Farmers Union would like for the National Farmers Union to consider the following points when you are making your presentation to the USDA Dairy Industry Advisory Committee (DIAC) later this month. Input for this paper has come from the NEFU Board of Directors, the Northeast States Association of Agriculture Stewardship, the state legislators from the northeast region of the Council of State Governments, and the Northeast Organic Dairy Producers Alliance.

The groups that gave input to this document do not all agree on all of the points listed herein. Like Farmers Union itself, the northeast and New England dairy groups (conventional and organic) differ on attitudes toward GMO technologies like Round-Up ready alfalfa and rBST, and other matters. Trade organizations with one constituency differ from organizations made up of representatives from a wide range of constituencies. When I asked the listed organizations to weigh in and help NEFU craft a response for your DIAC presentation, I assembled the various comments without tagging points to any particular contributor. So as you are crafting your presentation, you should not assign any of the points of NEFU's memo to any group other than New England Farmers Union itself.

What all parties in New England agree on is that dairy farming in the northeast is in a perilous state at a time when consumers are eager to buy milk and milk products from New England farmers. We need the regulations, the market mechanisms, supply management schemes and pricing formulas to take into account New England's, and the northeast's, innovative models for sustaining its farms, its strong direct sales and marketing successes, and its unique cultural characteristics.

As you develop your approach to the DIAC, I and those who helped craft our memo are available for a conference call to discuss our common interest in helping the DIAC lead the USDA and the Congress to a more equitable and sustainable dairy policy for all of America's dairy farmers.

1. Don't let regulations impede local initiatives – There are many successful examples of State and farmer-led initiatives that have proved successful. Maine has been paying their dairy farmers a subsidy based on volume; Massachusetts has initiated a program of tax credits and increased access to assistance; and in all states there has been an increased demand for raw milk with Vermont producing landmark legislation to regulate the supply side. There are many

other areas for growth without returning to the regional wars that we had under the Compact and the Compact is not politically possible.

To protect the future of these initiatives we need to be careful that we have regulations that do not make it more difficult for small and mid-size operations to be successful. For example the recent producer handler proposals kept the exempt plant level very low so that will mean that groups of producers who get together to process their milk locally and sell locally – which has been successful in the past – will be at a competitive disadvantage since they will be paying into the pool which is a cost of anything up to \$2/cwt. Food safety regulations are increasingly affecting the future of size appropriate slaughterhouses and milk plants. An increased reliance on a one-size-fits-all regulatory approach penalizes the smaller plants who do not have the resources to have a designated employee to maintain HACCP and other regulatory requirements. New regulations that are designed to protect our food supply should be designed to reflect the risk and benefits from small operations and recognize the benefits to the farming community of increased infrastructure to stimulate value-added marketing. State subsidization of farmgate prices can only be seen as a short term stimulus to increase farmer controlled initiatives.

2. Change the process for determining farmgate price (not necessarily pay price) and bring a greater weighting for costs of production and worldwide demand for dairy rather than trading by Kraft on the Chicago market. The answer to most questions about the Federal Milk Marketing Order (FMMO) is that nobody understands it enough to know what to change, but the recent change to the producer handler regulation proceeded relatively quickly.

The FMMO was originally designed to protect producers and was tied to parity pricing rather than to make allowances that benefit processors and contribute to the roller coaster cyclical price changes. Data for cost of production is available by region and needs to include Return On Investment plus a living wage. This formula should become the base for farmgate price (which is a combination of components and deductions for marketing and trucking).

Retail price is only slightly related to farmgate price and demand for milk is not price sensitive within a wide range of price points. Consumers' preferences vary and they pay more for branded milk products or products that claim an environmental or health benefit. If processors are making extravagant profits when farmers are losing money and the retail price is not significantly different year over year, the pricing system is broken, unrepresentative of true costs of production and does not give the farmer a fair share of the retail dollar.

3. Supply management – There are plenty of models out there so we don't need to re-invent the wheel. But there needs to be a system designed to fit the US market and culture. The northeast has a large consumer market but only limited opportunities for farmers to achieve economies of scale. As more milk is ultra-pasteurized and stored in central warehouses, the need for a supply of milk to be located near market centers is disappearing.

Supply management needs to be geared to ensuring regional equity that reflects the increased costs of inputs in different locations and also the future environmental impact of trucking fluid milk across the country. Having a system built on killing dairy cows to control supply is

illogical and expensive and geared to control by cooperative block votes. The different supply management practices need to be evaluated in the context of a world market, consumers' desire for food safety, COOL regulations that apply to dairy products, enforceable regulations, environmental costs and regional priorities.

4. Block voting – Change will only be achieved if decisions on the criteria for pay price are taken away from block voting by cooperatives whose priority is to maintain their manufacturing facilities and contracts with brands rather than a viable pay price for farmers. To put control of decisions around price and marketing of wholesale milk in the hands of those committed to maximizing profits from manufacturing definitely puts the fox in control of the chicken house. Farmers do not have the ability to influence decision making while block votes are used. A regional approach to decision making on price and supply that gives added weight to geographic differences will be more reflective of the costs of maintaining a national supply of milk.

Legislation being considered in New York at this time would require cooperatives to provide all dairy producer members with the opportunity to independently vote on issues rather than continue the practice of block voting. This legislation requires that individual producers must be notified 30 days prior to any referendum date and receive individual voting ballots.

5. Market conditions and milk pricing – Farmers are encouraged to adopt valued added practices to increase their return but are then faced with market conditions (the processor is charging more for a product (rbST free) but is under no pressure to pay farmers a bonus for not using this drug despite the loss in production) or potential regulations (GMO Alfalfa drift threatens local and organic marketing of uncontaminated product). Dairy has high capital investment costs, and farmers need to be know that their future market will be protected if they adopt practices that improve their bottom line.

6. Milk ownership – Ownership needs to be defined as ending when the milk transfers into the possession of the purchaser, (in their bulk tank or in the tank of a contract hauler) not at the time it reaches the processors' plant. Dairy farmers should not be paying for trucking and hauling of a product they no longer own.

7. Definition of milk – The definition of milk must exclude products that have additional milk protein solids since these products, often imported, have caused milk prices to bottom out. Products with significant levels of added MPCs or similar products should not be labeled "milk." While federal law attempts to have a definition of milk, there are many products being sold today as some form of milk with added MPCs.