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VETERANS' AFFAIRS
Oversight

February 9, 2009

The Honorable Tom Vilsack
Secretary
United States Department of Agriculture
1400 Independence Avenue, S.W.
Washington, DC 20250

Dear Secretary Vilsack:

I am writing to urge you to take swift action to assist dairy producers around the country who are experiencing serious economic difficulty due to high input costs and low milk prices.

The dairy industry is critically important to Minnesota's economy. On an annual basis, Minnesota's dairy producers contribute more than \$1.2 billion to the state's economy and the dairy industry generates more than 27,000 jobs, including direct employment of more than 6,000 workers.

However, dairy producers in Minnesota and across the country are facing tough economic conditions, including reduced milk prices and skyrocketing input costs that could result in herd disposal, lower production and loss of thousands of good-paying jobs if we don't act quickly to provide assistance.

Given the high input costs and operational costs for dairy producers, the breakeven point for many producers is around \$15/cwt. In early 2008, the Class I Boston Milk price was nearly \$18/cwt and at that time, farmers were able to make a slim profit even considering their high costs of production. However, in August 2008, market prices for bulk milk began a significant downward trend. In early 2009, producers in Minnesota received about \$11.50/cwt and prices are expected to drop even lower, to an estimated \$10/cwt this month.

I have heard from dairy producers across Minnesota who are very concerned about the future of their industry if swift action is not taken. To that end, I encourage you to consider the following actions that USDA could take to provide immediate assistance to dairy producers in Minnesota and across the country:

- 1.) **Use Section 32 funds to purchase surplus commodities:** As you know, Section 32 funds can be used at the discretion of the Secretary of Agriculture to purchase surplus commodities to help encourage domestic consumption of farm products through USDA's nutrition programs. I urge you to consider utilizing Section 32 program funds to purchase surplus milk and processed milk products to increase demand for milk and help address the crisis dairy producers around the country are facing.

2) **Dairy Product Price Support Program:** The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) directs the Secretary of Agriculture to support the price of cheddar cheese, butter and nonfat dry milk through the purchase of such products at the following rates:

- Cheddar cheese blocks: \$1.13 per pound
- Barrel cheese: \$1.10 per pound
- Butter: \$1.05 per pound
- Nonfat Dry Milk: \$0.80 per pound

As USDA continues with the implementation of the Farm Bill, I encourage you to take steps to facilitate the ability of dairy processors to sell processed milk through the Dairy Product Price Support Program. For example, I understand that packaging standards for cheese under the Dairy Product Price Support Program are somewhat different than industry norms utilized for cheese that is traded on the Chicago Mercantile Exchange. Representatives of Minnesota's dairy industry have suggested that if packaging standards could be harmonized – without adversely impacting quality – to reflect industry standards, it could lead to an immediate increase in milk prices by 40-50 cents/cwt.

During this time of economic uncertainty, it is critically important that we act quickly to maintain good-paying jobs in rural America. I appreciate your consideration of this request and your dedication to maintaining the competitiveness of America's agricultural producers.

Sincerely,



Tim Walz
MEMBER OF CONGRESS

IJW:mjw