USDA

United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 22 2010

The Honorable Todd Staples
Commissioner
Texas Department of Agriculture
Post Office Box 12847
Austin, Texas 78711

Dear Commissioner Staples:

Thank you for your letter of December 1, 2009, expressing your support for the dairy policy proposals of the Texas Farm Bureau. The proposals will be made available to the U.S. Department of Agriculture (USDA) Dairy Advisory Committee as you have requested.

We realize that dairy farmers have experienced considerable adversities over the last year. USDA has initiated several actions to address the level of milk prices and the hardships facing dairy farmers. These actions are outlined in the enclosure. We will continue to look for long-term solutions to the economic difficulties faced by U.S. dairy farmers.

Sincerely,

Thomas Vilsack
Secretary

Enclosure

Dairy Accomplishments

Summary of Actions Taken by USDA Agencies to Help the Dairy Industry

Dairy Industry Advisory Committee (Committee)

On January 6, 2010, Secretary Vilsack announced the appointment of 17 members to serve on the Committee. The members were selected from more than 300 nominations and represent producers and producer organizations, processors and processor organizations, handlers, retailers, consumers, academia, and State agencies involved in organic and non-organic dairy at the local, regional, national, and international levels. Over the next two years, the Committee will review the issues of farm milk price volatility, dairy farmer profitability, and consolidation and offer suggestions on ways USDA can best address the needs of a struggling dairy industry.

Farm Service Agency (FSA)

Dairy Economic Loss Assistance Payment (DELAP) Program:

On December 17, 2009, Secretary Vilsack announced a program to provide financial relief to struggling dairy producers. Eligible producers will receive a one-time direct payment based on the amount of milk both produced and commercially marketed by their operation during the months of February through July 2009. Production information from these months will be used to estimate a full year's production for an operation to calculate the payments using a 6 million pound per dairy operation limit. For more details, see www.fsa.usda.gov. DELAP payments were sent out beginning the week of December 21, 2009. A 100-cow dairy farm could expect payments of roughly $6,000; a 200-cow dairy could expect about $12,000; and operations of 400 cows and more could expect roughly $19,000 because of a 6 million pound payment limitation. Payments of $271 million had been distributed as of January 20, 2010.

Purchase of $60 Million in Cheese and Cheese Products:

On December 18, 2009, Secretary Vilsack announced that approximately $60 million in cheese and cheese products will be purchased by the Commodity Credit Corporation (CCC) for use in domestic feeding programs through USDA's Food and Nutrition Service. USDA is expediting this cheese purchase to help provide much-needed support for low-income families struggling to put nutritious food on their tables, and to deliver timely assistance to dairy farmers. Contracts have been awarded for $48.6 million of cheese purchases. A solicitation of bids for $11.4 million of cheese has been issued.

Milk Income Loss Contract (MILC) Program:

USDA's MILC Program compensates dairy producers when domestic milk prices fall below a specified level. The 2008 Farm Bill authorized MILC through

September 30, 2012. Key program dates are as follows:

- December 4, 2008 – Regulations reauthorizing the MILC Program through 2012 were published in the Federal Register.

- December 22, 2008 – MILC program signup began. The program is to continue through September 2012.

- April 1, 2009 – MILC program payments to dairy producers began based on final payment rate.

- As of January 20, 2010, nearly $915 million has been paid to dairy operations.

Dairy Product Price Support Program (DPPSP):

- The Commodity Credit Corporation (CCC) stands ready to buy certain dairy products at support price levels. On July 31, 2009, Secretary Vilsack announced temporary increases in the DPPSP purchase prices for cheddar cheese blocks from $1.13 per pound to $1.31 per pound, cheddar cheese barrels from $1.10 per pound to $1.28 per pound, and nonfat dry milk (NDM) from $0.80 per pound to $0.92 per pound. These prices are effective for products produced from August through October 2009. For any products produced after October 2009, previous support prices apply.

- Since October 2008, the CCC has purchased nearly 270 million pounds of NDM under the DPPSP.

- On March 26, 2009, Secretary Vilsack announced a disposition plan for about 200 million pounds of the NDM. The plan is intended to help support both low-income families struggling to put nutritious food on their tables, both domestically and abroad, as well as dairy farmers challenged by high feed and low dairy prices. The plan contains seven outlets for the NDM.

    - 2 million pounds of NDM was sold on a competitive basis for the production of casein.

    - 32 of 40 million pounds of NDM committed has been fortified, instantized, placed into consumer-sized packages, and made available for use in several domestic feeding programs.

    - CCC has donated 11 million of 30 million pounds of NDM to States for further processing to acquire fortified fat-free fluid milk and macaroni and cheese for use in the National School Lunch Program (NSLP).

    - 28 million of 60 million pounds of NDM committed has been bartered in exchange for ultra high temperature (UHT) (1 percent butterfat) milk for

use in The Emergency Food Assistance Program (TEFAP).

- 0.2 million of 20 million pounds of NDM committed has been bartered in exchange for ready-to-eat, milk-based soups for use in TEFAP.

- 42 million of 50 million pounds of NDM committed has been bartered in exchange for reduced fat and lite cheese for use in the NSLP and TEFAP.

- Approximately 1.5 million pounds of NDM will be used to meet food assistance needs overseas in the near future.

Farm Loan Programs:

- During FY 2009, FSA provided 1,813 direct loans to dairy producers totaling approximately $108.6 million (including 164 loans for approximately $9.8 million from ARRA funding).

- During FY 2009, FSA provided a significant number of guaranteed loans to dairy producers. (Number of loans cannot be determined due to system limitations.)

- March 13, 2009 – FSA issued guidance to field offices on approaches to deal with the dairy price crisis such that as many dairy producer borrowers and applicants could be assisted as possible:

    - Annual production loans with multi-year repayment schedules to continue operations and allow time for recovery.

    - Release of funds collected from dairy assignments back to borrowers to help them pay essential operating expenses.

    - Notified all dairy borrowers of options available for them to restructure, reschedule, or defer payments on existing FLP loans.

    - Contacted commercial lenders to clarify that FSA would guarantee qualified annual production loans with multi-year repayment and to explain loan restructuring alternatives under the FSA guarantee for existing guaranteed loans to dairy farmers.

FSA continues to make direct and guaranteed operating loans available to family-sized dairy operators. Operating loans can be used to pay for annual operating expenses, such as feed, fuel, etc.; to purchase livestock and equipment; and in some cases to refinance farm related debt. FSA is utilizing all of its available authorities, including those outlined in the guidance issued on March 13, to help the nation's family-sized dairies make it through these difficult economic times.

Foreign Agricultural Service (FAS)

- On May 22, 2009, Secretary Vilsack announced allocations under USDA's Dairy Export Incentive Program for the July 2008 through June 30, 2009, period, as allowed under the rules of the World Trade Organization. The program helps U.S. dairy exporters meet prevailing world prices and encourages the development of international export markets in areas where U.S. dairy products are not competitive due to subsidized dairy products from other countries. The allocations of NDM, butterfat, and cheese were made available through Invitations for Offers announced on May 22, 2009. USDA rolled over these commitments for the July 2009 through June 2010 period.

- USDA has accepted bids for 37,228 metric tons of NDM, 17,470 metric tons of butterfat and 1,843 metric tons of cheese through November 16, 2009. By facilitating exports of these products, USDA will assist U.S. exporters in maintaining market share overseas, which has been negatively impacted by the reintroduction of subsidies by the European Union, and will reduce the amount of products being taken into stocks.

Risk Management Agency (RMA)

Livestock Gross Margin for Dairy Cattle:

- The Federal Crop Insurance Corporation Board of Directors (FCIC Board) first approved Livestock Gross Margin for Dairy (LGM Dairy) in July 2007 to be sold in a number of States. LGM Dairy provides protection against loss of gross margin (market value of milk minus feed costs) on milk produced from dairy cows. LGM Dairy uses futures prices for corn, soybean meal, and milk to determine the expected gross margin and the actual gross margin.

- On March 12, 2009, the FCIC Board approved expansion of LGM-Dairy in four States that were previously ineligible. The FCIC Board also approved expansion of the sales period to allow more time for LGM-Dairy Sales and other minor enhancements to make LGM-Dairy more producer friendly. Any producer who owns dairy cattle in Arizona, Colorado, Connecticut, Delaware, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Utah, Vermont, West Virginia, Washington, Wisconsin, and Wyoming is eligible for Livestock Gross Margin for Dairy Cattle Insurance Policy coverage. (See following link for announcement: http://www.usda.gov/wps/portal/usdahome?contentidonly=true&contentid=2009/05/0179.xml.)