August 10, 2018

Chairman Charles Herbster
Dr. Sam Clovis
Trump Agricultural & Rural Advisory Committee

Dear Chairman Herbster and Dr. Clovis:

Milk Producers Council is a California dairy farmer trade association, which has represented our family farmer members since 1949.

The current trade dispute is having a significant immediate impact on our financial ability to manage our farms. We appreciate President Trump’s recognition of this threat to our survival and his action to have USDA make $12 billion available to help us and our fellow farmers out.

We are part of an association of other dairy farmer trade associations in the western United States. In the letter from that organization which accompanies this introduction, we spell out as best we can our estimate of the impact of the trade war on milk prices and our proposed method for getting the USDA money out to dairyman to bridge the gap between where we are and where you and we want to be with fair and solid deals with our trading partners.

In short, we calculate that the cost of the trade war to American dairy farmers will be close to $1.4 billion between June 1, 2018 and the end of this year. This is a huge hit, which causes real pain and damage to the dairy farming community.

We thank the President for his leadership and assistance on this very important topic.

Sincerely,

Kevin Abernathy
General Manager

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2328 Jonathon Court, Escalon, CA 95320 – phone: (209) 691-8139
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August 9, 2018

Secretary Sonny Perdue
U.S. Department of Agriculture
1400 Independence Ave., S.W.
Washington, DC 20250

Sent Via U.S. Mail and E-Mail to agsec@usda.gov

Dear Secretary Perdue:

Western States Dairy Producers Association (WSDPA) is a voluntary membership association of state dairy producer organizations. Each member of WSDPA is funded and directed by dairy farmers. The WSDPA Board of Directors is comprised of dairy farmers, each of whom serve in a voluntary capacity to advocate for the interests of their fellow dairy farmers. The states from which our members originate include five of the ten largest dairy states in the country and collectively produce approximately 40% of the milk in the United States.

We greatly appreciate the recognition by USDA that the trade war the US is engaged in is having very real and negative consequences for the dairy industry and dairy farmers. The announced $12 billion of assistance to agriculture was a very important signal to us that the government recognizes the impact that this is having and is willing to put real money up to help mitigate the damage in the short term.

The purpose of this letter is to outline for you our best initial estimate of the magnitude of the impact on milk prices and recommend a compensation process that will get the help to where it’s needed in the most direct and expeditious fashion.

We start with our estimate of the impact of the trade war. For this we rely on analysis of Katie Burgess and Blimling and Associates. This analysis, which is based on comparing the futures prices for milk that existed just before the trade war started on May 31, 2018 with what has happened since that time, shows that Class III futures have dropped 7.5% and Class IV futures have dropped 7.1%. Applying those reductions to the volume of milk that will be produced between June and the end of the year reveals a nearly $1.4 billion in reduced income to American dairy farmers over that seven month period of time.

We recognize that not all of the futures movement can be directly attributed to the trade war. But it does explain the vast majority of the factors that are causing very real impacts to the dairy industry. The Western States market a disproportionate percentage of our milk and dairy products to foreign buyers who are now engaged in this trade dispute with the United States. What this means is that Western dairy farmers are on the front lines in this trade war.

Dairy has been identified as one of the commodities to be assisted through USDA relief. Historically, many dairy assistance programs have been targeted toward small and medium size farms. Dairies in the West are significantly larger than the national average. But the erosion of milk prices as a result of the trade war impacts all dairy farmers on all of their milk production. Our members implore that any direct payments to dairy farmers be distributed on all milk produced, without production caps. Any other outcome would disproportionately saddle our member dairies with the consequences of market losses.
Based on the impacts we have described our recommendation is that USDA provide direct assistance to all dairy farmers of $1.00 per cwt. of milk produced over a six-month period of time from June 2018 through November 2018. Based on actual milk production for June 2018 and estimates for production going forward, we calculate the cost of such payments to be approximately $1 billion.

USDA has also indicated that in addition to direct cash payments to producers, the authority of the Commodity Credit Corporation would be used to develop a program to purchase dairy products directly from the market. We have some advice on that issue as well. It is important that any purchases not unnecessarily disrupt the supply/demand balancing that naturally goes on in the dairy industry under normal marketing conditions. Our specific cautions are on attachment II. We also encourage that purchases of dairy products in addition to cheese, butter, and powder be made, if it is determined that such purchases would have a greater impact on balancing supplies and demands.

WSDPA greatly appreciates the recognition that the current trade actions being taken to benefit the entire country do cause serious consequences for dairy farmers as well as farmers in general. We understand the challenge USDA faces in finding the most effective, efficient and fair way to get the help to those who need it. Western dairy farmers need it and we stand ready to assist in any way possible to facilitate a successful implementation of this unprecedented effort to provide support.

Sincerely,

Jim Boyle, President
Western States Dairy Producers Association

cc: Under Secretary Gregory Ibach (by e-mail to greg.ibach@osec.usda.gov)  
Bruce Summers, Administrator, USDA, AMS (by e-mail to bruce.summers@ams.usda.gov)  
Dana Coale, Deputy Administrator, USDA, AMS-Dairy Programs  
(by e-mail to dana.coale@ams.usda.gov)  
Western States Congressional Delegation
Attachment I

It’s hard to isolate the impact of the trade war, because the domestic dairy surplus, particularly in the form of lackluster domestic cheese demand has clearly played a role in lower milk prices. On the other hand, Cheddar barrels likely backed up at the CME spot market in June and early July in part because cheese processors were hesitant to make cheese for export. The uncertainty has been crippling.

With that caveat in mind, it’s fair to contrast milk prices on May 31 – just before the trade spat hit dairy – and today. Compared to May 31, the average of July through December Class III futures has fallen 7.5%, with Class IV futures down 7.1%.

Blimling & Associates has done some calculations on the impact of lower milk prices spread across the industry. The calculation approximates a national average blend price as follows:

31% Class IV
42% Class III
27% of the Advance Class I price, using the higher of for the following month

Given current prices, we show that dairy producers’ milk checks will be reduced by the following amounts per cwt. compared to the futures on May 31:

<table>
<thead>
<tr>
<th>Month</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>June</td>
<td>91¢</td>
</tr>
<tr>
<td>July</td>
<td>$2.14</td>
</tr>
<tr>
<td>August</td>
<td>$1.74</td>
</tr>
<tr>
<td>September</td>
<td>$1.14</td>
</tr>
<tr>
<td>October</td>
<td>71¢</td>
</tr>
<tr>
<td>November</td>
<td>55¢</td>
</tr>
<tr>
<td>December</td>
<td>51¢</td>
</tr>
</tbody>
</table>

Assuming that milk production will continue to run about 1% higher than year-ago levels, and using actual milk production in June, we get the following losses:

<table>
<thead>
<tr>
<th>Month</th>
<th>Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>June</td>
<td>$166.2 million</td>
</tr>
<tr>
<td>July</td>
<td>$394.4 million</td>
</tr>
<tr>
<td>August</td>
<td>$316.8 million</td>
</tr>
<tr>
<td>September</td>
<td>$197.0 million</td>
</tr>
<tr>
<td>October</td>
<td>$128.1 million</td>
</tr>
<tr>
<td>November</td>
<td>$95.8 million</td>
</tr>
<tr>
<td>December</td>
<td>$93.1 million</td>
</tr>
<tr>
<td>Total</td>
<td>$1,391.4 million</td>
</tr>
</tbody>
</table>

Once again, these are losses relative to May 31 pricing, when the futures were near their recent peak, and not all of these losses can be blamed on the trade war.
Attachment II

Threading the needle will be important any direct buy program. Injecting too much money in the next few months could cause prices to run up and milk to increase resulting in a price depression in early 2019. Additionally, USDA needs to spread the purchases across a variety of cheese. Cheddar blocks are tight to balanced currently and spiking that price without addressing processed cheese and Mozzarella would not have the desired impact on milk checks. We have evidence of this from the 2016 buy program. It spiked the markets in August and prices fell back by late October.

Some suggestions –

1. The buy needs to include processed cheese, Mozzarella and likely shreds to remove some of the 640# blocks from the system. Too many blocks and that could cause problems as there are not a lot of 40# blocks to spare.

2. The buy should be spread out – right now the markets will tend to move higher on its own, so a modest buy could have a profound impact on price. Typically we rely on exports toward the end of the year when our seasonal demand falls and milk production rises. Another buy at the end/start of the year would bolster the impact to milk checks.

3. The buy needs to help provide a lift, but caution too much will impact cheese promotion domestically and could lessen competitiveness in overseas markets like South Korea. So a move to the $1.60 – maybe the $1.70 for blocks is okay – but anything more than that and demand could weaken.

4. Lastly, we have heard butter is included – again this needs to be a delicate balance to remove excess but not push prices to extreme highs as that will have a negative impact on demand and consumption come late October.