DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

JAN 31 2003

The Honorable Don Sherwood
U. S. House of Representatives
1223 Longworth House Office Building
Washington, D.C. 20515-3810

Dear Congressman Sherwood:

Secretary Veneman asked me to respond to your letter of October 17, 2002, co-signed by several other members of Congress supporting a request for a hearing on a proposal submitted by Dairy Farmers of America (DFA) that would establish a "drought adjustment surcharge" on Class I and Class II prices.

USDA administers the Federal Milk Marketing Order (FMMO) Program. The objectives of the FMMO Program are to assure an adequate supply of milk for the fluid market and to create an orderly structure under which farmers can market milk year round – a structure which better balances the market power between dairy farmers and their cooperatives (the sellers) and milk handlers (the buyers). The FMMO Program is a marketing tool, not a price support program.

After reviewing the DFA proposal to add a surcharge to FMMO Class I and Class II prices to compensate farmers for additional feed costs brought on by drought conditions, USDA decided not to hold a hearing on the proposal. The bases for this decision are:

1. The proposal would result in higher prices for Class II raw milk that are not marketing-cost justified, which would likely result in Class II buyers substituting butter and nonfat dry milk (lower priced Class IV products) for Class II raw milk;

2. Adding a surcharge to Class I and Class II prices would provide substantially different benefits to farmers depending upon their location. For example, the farmers in the Florida FMMO, which has higher Class I utilization of about 90 percent, would benefit greatly from such a surcharge for milk used in Class I products. However, there would be substantially less benefit to producers marketing milk in the Upper Midwest FMMO where only about 20 percent of the milk is used in Class I;

3. The proposal would not provide any relief to dairy farmers who market milk outside the FMMO program, which is about 30 percent of the milk produced in the United States; and

4. USDA has recognized that the availability and prices of grains and forages have been a burden for some dairy farmers because of the drought. As a result, USDA has already taken action to provide assistance to those impacted. The USDA actions include:

   - Amending the Non-Insured Crop Disaster Assistance Program to implement the statutory elimination of the area loss requirement so that individual producers losses of forage produced for animal consumption are covered;

   - Providing $937 million for direct payments to assist livestock farmers affected by drought. This cash assistance was made available to farmers with livestock on a statewide basis in 7 States and to specified, hard hit counties in 30 other States. Dairy farmers in the designated drought areas who applied received $31.50 per cow and $13.50 per head of young stock for animals owned or leased as of June 1, 2002;

   - Establishing "Hay Net," a website for farmers to list the need for or the availability of hay;

   - Allowing the emergency haying and grazing of Conservation Reserve Program acreage; and

   - Taking steps to reduce the burdensome stocks of government-owned nonfat dry milk which are overhanging the market and delaying any milk price recovery.

We at USDA are aware of the financial stress facing the nation's farmers and are working to provide assistance through various programs. Again, thank you for writing to share your concerns on this important issue.

Sincerely,

Richard M McKee

Richard M. McKee
Deputy Administrator
Dairy Programs