Agri-Mark, Inc.

P.O Box 5800, Lawrence, MA 01842
Office Location: 40 Shattuck Rd., Suite 301
Andover, MA 01810

Agri·Mark FAMILY DAIRY FARMS TM

agrimark.coop

P. 978.552.5500

Honorable Thomas Vilsack
U.S. Secretary of Agriculture
U.S. Department of Agriculture
1400 Independence Ave., S.W.
Washington, DC 20250

September 2, 2015

Dear Secretary Vilsack,

The dairy farm families of Agri-Mark Dairy Cooperative and their farmer neighbors throughout the Northeastern U.S. have serious concerns about the Dairy Margin Protection (MPP) Program enacted under the 2014 Farm Bill. The intent of the program is to have dairy farm families purchase margin protection insurance from the Federal government through the Farm Service Agency of USDA.

USDA representatives, in person, in publications and on the FSA website have repeatedly stated that the margin insurance would specifically protect pre-set differences between the national average price of milk received by dairy farmers (known as the all-milk price) and the national average costs to dairy farmers of feed needed to produce their milk. For example, the 2014 Farm Bill Fact Sheet distributed by USDA-FSA dated June 2015 states: *"The MPP-Dairy offers protection to dairy producers when the difference between the all-milk price and the average feed costs (the margin) falls below a certain dollar amount selected by the producer."*

Furthermore, the FSA website dealing with the Dairy Margin Protection Program states: *"The national dairy production margin is the difference between the all-milk price and the average feed costs. Producers may purchase buy-up coverage that provides payment when margins are between $4.00 and $8.00 per cwt."*

Unfortunately, both of these statements are incorrect.

Upon close examination of the margin calculation, USDA uses the prices of feed PAID TO grain and forage farmers as equivalent to the prices PAID BY dairy farmers. These price levels are NOT equivalent, yet those discrepancies were not explained to dairy farmers. The potential impact of this can be seen by an example relating specifically to milk prices:

During June 2015, dairy farmers on average, were paid less than $1.50 per gallon for their milk, according to USDA generated all-milk price survey. If that price received by farmers was used as being the cost of a gallon milk to consumers, if would clearly be seen as a misrepresentation of those costs, since consumers cannot obtain milk at that price anywhere in the country. In fact, USDA's Agricultural Marketing Services reported that in June, the U.S. city average consumer cost was $3.37 per gallon, more than twice the price paid to farmers. If USDA had legally contracted with consumers determining a payment to them based upon the retail cost of milk yet then used the farm price received as the measurement without adequately stating that action beforehand, I believe the government would clearly be in violation of any such contract.

Dairy farmers contracted to purchase certain levels of margin insurance coverage at substantial costs, but that commitment was not honored by USDA. Farm Credit East did an analysis with real cost information and it shows that Northeast farms paid at least 20% higher for their feed than the MPP indicated. Their calculation for June showed a feed price distortion of $1.61 per cwt. FSA reported an $8.16 margin in June that would result in no payments to any farmers.

(over please)

However, the corrected number, according to Farm Credit East, would have been a margin of $6.57. This could have paid significant dollars to anyone who bought coverage at or above $7. Based upon discussions between Northeast dairy farmers and their peers in other areas of the U.S., this cost distortion extends to other areas of the country and the national average milk price as well.*

It appears that due to language in the Farm Bill, it is very doubtful that FSA can use the feed prices paid by dairy farmers in there MPP calculations. However, they never should have promoted to farmers that they intended on using them, thereby convincing farmers to enter into a multi-year contract and paying significant sums of money for false coverage levels. On behalf of Agri-Mark farm families and their fellow farmers, we believe that FSA needs to take three actions to rectify this problem:

1. Allow current MPP participants to void their contract and receive a full refund of all money paid (less any small government MPP payments already made). Those farmers would then have no obligation to participate further in the program unless they signed a new contract.

2. In conjunction with other USDA agencies, determine the true national average feed costs paid by dairy farmers and report those numbers, as well as the difference from those prices being used in the actual MPP calculations. This should give farmers the ability to evaluate the real effect of the margin that they would be securing under any new contract. For example, if the difference affected the MPP calculation by $1.50 hundredweight, then the true effective margin would be reduced by that amount. For example, a ppurchased margin of $6.50 would really be an effective $5.00 margin in that case.

3. Once the above feed price comparisons are available, FSA should communicate that new information to dairy farmers and then give them 90 days to decide if they want to sign-up for 2016. At this point, the 2016 year's sign-up deadline should be extended at least until December 2015.

This is a very serious problem for dairy farmers and for USDA. Many Agri-Mark members and other dairy farmers are saying that they feel FSA misled them and gave them wrong information in an attempt to increase participation in the MPP. Some farmers even feel that FSA has manipulated the numbers to avoid making any significant payments. While I do not believe that is the case and have told Agri-Mark members that, it is very disturbing for the future of this program that even a few farmers feel that way.

I have been asked to share the concerns outlined in this letter with many Northeast State Departments of Agriculture and elected officials and will be doing so. I was also at the Washington D.C. offices of the Farm Service Agency of USDA in late August and mentioned our concerns. I would be happy to discuss this further with you or members of your staff.

Sincerely yours,

Robert D. Wellington

Robert D. Wellington
Senior V.P. of Economics,
Communications & Legislative Affairs

CC: Mr. Val Dolcini
USDA Farm Service Agency Administrator

*Dairy farmers do recognize that national averages for milk prices, such as the all-milk price, will differ from individual farm prices. For some operations, like those in the Farm Credit study, their milk prices may be higher. This difference could be estimated by each farm since that national all-milk price series was known and available and therefore could be factored into their original MPP participation decision. Feed costs paid by farmers will also differ for individual farms and from regional and national averages. However, the distortion caused by USDA using a feed price indicator that was not the prices paid by dairy farmers despite assurances by the Agency that it was, is the problem that needs to be acknowledged and corrected.