



NEW YORK STATE SENATOR

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Struggle Continues For Dairy Farmers

JAMES L. SEWARD May 20, 2010

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Over the past year I have met with dairy farmers and agribusiness officials on several occasions to discuss the ongoing milk price crisis. Low milk prices have hurt farmers across the nation, but the problem is particularly acute in New York because the cost of production is extremely high in comparison to other states. The combination of low milk prices, high taxes, rising energy costs, along with other rising costs of production have forced many upstate farmers out of business. It is a disturbing problem that shows no sign of lessening.

While I have advocated strongly for help at the state level, the reality of the situation is that milk prices are established and controlled at the federal level. Washington must step up and enact a long-term solution that will ensure farmers receive a reasonable price. The Dairy Economic Loss Assistance Payment Program provided some temporary relief, but it is clear that more needs to be done.

Recently, I joined with 15 of my senate colleagues in sending a letter to United States Department of Agriculture Secretary Tom Vilsack, pleading for help for our struggling dairy farmers. Our letter reads in part:

In thinking about strategies for achieving long-term stability, a number of options come to mind. First, we would encourage you to look at an alternate mechanism for determining milk prices rather than relying

solely on the Chicago Mercantile Exchange (CME). The CME markets a very small percentage (< 1%) of the milk products sold in the United States, but it drives the price formulas for all dairy products nationwide.

It is clear that there is a need for better price indicators, as the current CME pricing mechanism overreacts to small imbalances of supply and demand, to the detriment of dairy farmers. Moving towards a system of multiyear pricing contracts between dairy farmers, cooperatives, processors and retailers is one possibility that could reduce volatility of milk prices. A multiyear contract would increase stability and ensure that an average milk price is paid to farmers over a set time period. Stable prices also would likely lead to increased demand and expanded sales of dairy products.

In addition to developing alternative pricing mechanisms, we would urge you to also take steps to ensure that supply and demand are in balance. The Cooperatives Working Together (CWT) is an effective model that could be replicated and enhanced by the USDA. We should primarily focus on increasing demand for dairy products and, if warranted and done carefully, undertake efforts to reduce supply. It is important to note, however, that any supply reduction plan must take into account the cost of production.

We are also encouraged by the recent creation and appointment of members to the USDA's new Dairy Industry Advisory Committee. This presents a real opportunity for a thorough review of the issue of milk price volatility and we hope that the committee is able to identify some viable options. However, we are concerned that the committee is not fully representative of all stakeholders in the dairy industry and would like to see more participation from dairy farmers, including independent producers, and agricultural businesses.

Finally, we would urge you to immediately raise the floor for dairy prices through an increase in the Dairy Price Support Program. Last year's decision to temporarily increase the support price provided immediate relief by increasing the market price dairy farmers received for their milk. Although we understand that you have already rejected previous calls to raise the floor price this year, we would hope that you would give this option further consideration.

We understand that changes to the dairy pricing system may be discussed as part of the 2012 federal Farm Bill. However, as leaders in New York State government, we believe that this will be too late to help dairy farmers in our state who are facing a crisis now. As such, we implore you to take immediate action to develop a long-term solution.

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