

Milk Powder Scandal Rumor Mill: **Producer Losses Nearly \$1 Billion, Head(s) to Roll at USDA**

The USDA milk powder price scandal is growing bigger.

Unofficial sources indicate that the total losses to dairy farmers whose milk is priced by USDA's federal milk marketing order (FMMO) program will total close to one billion dollars. That's the tab for low-ball milk powder prices reported to USDA from mid-summer 2006 through late March 2007.

Unofficial word from Washington, D.C. also tells that one or more employees will lose their jobs over this screw-up.

Back on April 20, USDA announced that milk powder prices had been misreported to its National Agricultural Statistics Service (NASS) by "one plant" (commonly known as DairyAmerica). The whole issue boils down to DairyAmerica's reporting low-ball prices for export sales based upon a contract signed with New Zealand interests sometime in the first half of 2006.

But NASS rules clearly specify that no milk powder sales may be reported on weekly forms if those sales are based upon contracts older than 30 days.

Personnel from NASS and the Agricultural Marketing Service (AMS—the branch that oversees federal milk orders) immediately started reviewing weekly milk powder pricing reports, going back to April 2006. Looking over their shoulders during the milk powder price review is USDA's Office of the Inspector General.

The milk powder price scandal resulted from DairyAmerica reporting unduly low milk powder sales prices, starting sometime in mid-summer 2006. This scandal was busted publicly by *The Milkweed* in a special, four-page expose in March 2007. At that time, using data for August 2006 through January 2007, this publication estimated that dairy producers' milk income losses totaled about \$597 million for that six-month period. Since January 2007, producers' milk income losses have continued ... at least through April 2007 milk marketings.

As noted elsewhere in this paper, USDA has received revised weekly milk powder reports detailing sales volumes and prices. A review of the revised data is now underway. USDA will probably go public with its findings about the impact upon producer prices sometime in the second half of June. Key elected officials are watching closely. On May 9, 2007, a group of eleven U.S. senators wrote Agriculture Secretary Mike Johanns—demanding answers about the milk powder pricing scandal.

Where may the heads roll at USDA over the milk powder price scandal?

NASS "bean-counters" collect weekly data from reporting plants. NASS kept accepting what were clearly low-ball milk powder reports during fall 2006 and through the first three months of 2007—despite the fact that DairyAmerica's milk powder price reports were so far below any other measures in value for nonfat dry milk, either domestically or internationally. Did NASS employees live in an isolated bubble, oblivious to real world milk powder price trends?

And then there's AMS. When did AMS employees believe that DairyAmerica was reporting unduly low milk powder prices? One private consultant—Mary Ledman—contacted USDA in September 2006, questioning the accuracy of NASS' weekly milk powder price reporting. Dana Coale, who oversees the federal milk order program, admitted during the April 20, 2007 telephonic press event held by USDA to announce the milk powder pricing problem that she had first been familiar with milk powder pricing issues in September 2006. Coale also was present on February 12, 2007, at a dairy producer meeting in Maryland where the regional milk market administrator, in response to a question from the audience, said that Class IV (butter-powder) prices in the federal milk order system were being held down by long-term export contracts. Obviously, persons at USDA's milk order program knew that long-term export contracts were depressing dairy producers' incomes ... but apparently did nothing.

Sources generally credit the "spark" igniting USDA to review milk powder prices as being the formal complaint submitted to Inspector General Phyllis Fong in late February 2007. The National Family Farm Coalition—a group representing interests of family farmers—submitted that complaint to USDA Inspector General Fong on February 27, 2007.

It's suspected that NASS and AMS officials didn't really show much interest in exercising proper oversight about lowball milk powder price reporting until the Inspector General's team started asking questions.

What did they (NASS and AMS personnel) know? When did they know it? And what did they do about it?

One thing's for sure. USDA—during both the Clinton and Bush administrations—ignored laws passed in 2000 and again in 2002 which mandated the auditing of weekly dairy commodity price reports to NASS. If USDA had complied with the law by auditing prices reported to NASS, this whole mess would never have happened.