

# Milk Powder Price Scandal: Show Dairy Farmers the Money

by Pete Hardin

Step #1 in getting to the bottom of the massive milk powder price scandal is to determine the approximate size of the damages to U.S. dairy producers' milk incomes. USDA is at work on that portion of the clean-up. USDA is now reviewing revised weekly milk powder sales/volume report submitted since April 2006.

Once those weekly price/volume reports for milk powder sales are corrected, then it's a fairly easy move to determine just how much money was "shorted" from the milk checks of farmers in USDA's federal milk order pricing program. *The Milkweed* projects that dairy producers lost milk income from August 2006 through April 2007. Our worst-case month: December 2006, when, we estimated, the average producer whose milk is priced by the federal milk order program was shorted \$2.77/cwt. on all milk produced. (That estimate was generated by a dairy economist who works at a regional federal milk market administrator's office.)

## STEP #2: WHERE'S THE MONEY???

Following determination of damages, it's important to demand that USDA promptly and fully compensate dairy farmers for lost milk income due to the milk powder pricing scandal. Both the National Farmers Union and National Milk Producers Federation have requested that USDA pay up for the damages. NFMU is asking for "Section 32" payments—from discretionary funds available to the USDA Secretary. The fact that USDA instituted no auditing of dairy commodity prices reported to the National Agricultural Statistics Service (NASS) for the past several years is ample reason to make Uncle Sam liable for the damages ... promptly.

In early May, a group of eleven U.S. Senators wrote USDA Secretary Mike Johanns and Inspector General Phyllis Fong, demanding an explanation of how the milk-pricing mess happened. It's important that those senators—and other elected officials—follow up the explanations from USDA with pressures for prompt, full compensation for damages.

Using that "worst case" (December 2006) estimate, USDA lost nearly \$3.00/cwt. of producer revenue for the final month of a year which featured the worst net margins for milking cows that U.S. dairy farmers had seen since the Great Depression. Inexcusable.

**It's important that U.S. dairy farmers start raising a ruckus to their elected officials, wanting to know where their money is. In the next month, once the damages are announced, that is the key focus in this whole issue.**

### How much money involved? Estimates vary

Exactly how much milk income was lost by dairy farmers is becoming a bit of political football—kicked around by some without much insight.

*The Milkweed* reports elsewhere in this issue that the rumor mill at USDA now estimates that dairy farmers have lost close to one billion dollars, because

DairyAmerica failed to accurately report milk powder prices. This publication's earlier estimates of losses at \$597 million included only August 2006 through January 2007. Subsequent months were not calculated when the March 2007 "Special Report: Missing Milk Powder Millions" blew the lid off this scandal.

*The Milkweed* stands by these figures. If anything, our estimates in March were conservative. **If recent rumors from USDA are close to the bull's-eye, that damages are close to \$1 billion, then the average dairy farmer in the federal milk order program lost about \$20,000 in this whole milk-pricing fiasco.**

Other opinions on the subject:

- Penn State dairy economist Ken Bailey pluggged the losses at just over \$200 million, in an article in the May 14, 2007 issue of *Feedstuffs*.

- *Hoard's Dairymen* quoted UW ag economist Dr. Robert Cropp saying that the milk powder scandal cost dairy farmers \$.18/cwt. per month in lost income.

- DairyUSA executive Greg Wickham told a farm radio show host in western New York that the losses were just a few cents per cwt.

### Details critical in compensation payments

IF the government pays dairy farmers compensation for lost income, then HOW Uncle Sam doles out the money is important, to assure that the producer doesn't end up paying a lot back as taxes, etc.

DAMAGES is perhaps the most important, single word to keep in mind. Since such payments to dairy producers would be for DAMAGES due to a failed USDA milk pricing oversight, if payments for lost milk income can be categorized as DAMAGES, then perhaps the Internal Revenue Service would go along with the notion and dairy farmers could avoid tax liability ... as if there were an insurance matter for which DAMAGES were received. Get the picture?

Second best alternative, if such payments cannot be couched as "DAMAGES," would be to gain authorization from Congress (and IRS) that the payments for 2006 be attributed to 2006 income and allow dairy farmers to refile that year's income tax statements. Most U.S. dairy farmers lost so much money in 2006 that a few thousand dollars more income would only lower the losses a bit.

If such damage payments from USDA are counted as regular income for 2007, this year's big milk prices are going to guarantee that a good portion of any payments from Uncle Sam would merely be fed back to Uncle Sam in the form of higher income taxes and Social Security obligations.

Thus, HOW the government compensates dairy farmers for the milk-pricing fiasco is almost as important as the actual payments. The "HOW" of any such payments merits careful consideration, in advance, to assure that dairy farmers get fairly compensated for the DAMAGES, resulting from both the mis-reporting of weekly milk powder prices and USDA's failure to audit those as mandated by law.