



May 10, 2007

The Honorable Michael Johanns
Secretary of Agriculture
United States Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250

Dear Secretary Johanns:

The National Farmers Union (NFU) was pleased to see the April 20, 2007 press announcement from the U.S. Department of Agriculture's (USDA) National Agricultural Statistics Service (NASS) regarding a review of price reporting of nonfat dry milk (NFDM).

I write today to follow up on my April 13, 2007, correspondence to Inspector General, Phyllis Fong, outlining NFU's concerns regarding potential misreporting of NFDM price data and sales volumes and the consequences to dairy producers. According to USDA's annual Milk Production, Disposition and Income summary report, producers' cash receipts from milk marketings in 2006 were the lowest since 2003, while input costs skyrocketed. In short, the gross misreporting error by NASS could not have occurred at a worse time.

On April 13, 2007, NASS revised NFDM survey prices for the weeks of March 17, 24 and 31. The price revisions resulted in a total loss of \$3.2 million. The revisions included both revised prices, as well as removing a total of nearly 20 million pounds of product from those specific weeks' surveys. On April 20, NASS issued a press statement announcing it will ask 39 plants to review and revise weekly price data and sales volumes reported over the past year. While this investigation is welcome and encouraged, it is vital that the overall impact of the incorrect reports is remedied through indemnification to producers. It simply is unacceptable for producers to be held financially accountable for a mistake made by regulatory authority.

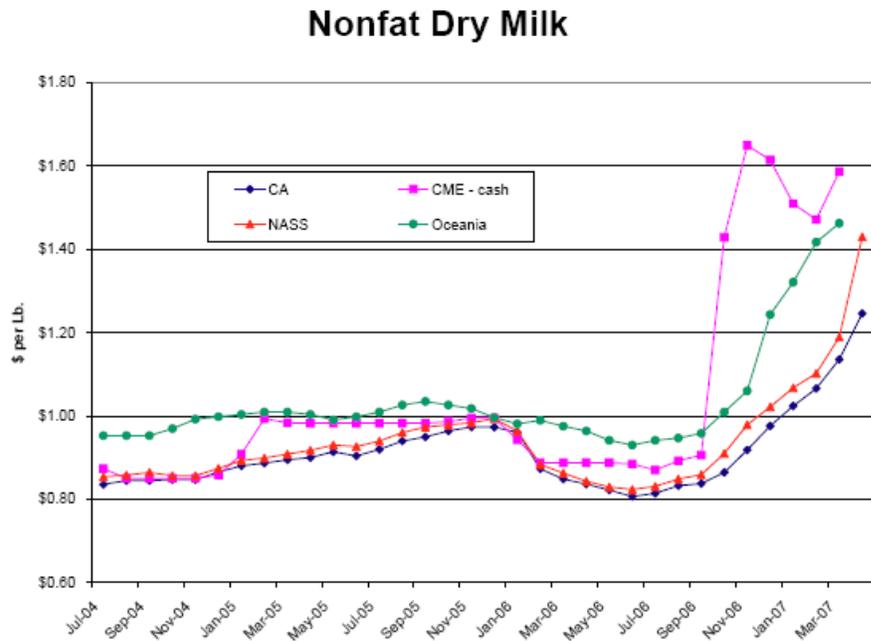
In addition to the 52-week review, the report from NASS should include a calculation of how much dairy producers have lost as a result of the misreporting, including a detailed explanation of the calculation. As I outlined in my earlier correspondence to Ms. Fong, we estimate that since the NASS misreporting began, roughly eight months ago, dairy farmers have lost hundreds of millions of dollars. This is real money lost and comes at a time when soaring input prices are already threatening the livelihood of America's dairy farmers. It is the responsibility of USDA to ensure proper administration of their programs; NASS should not be allowed to continue under-reporting prices at the expense of dairy producers. I also urge you to direct NASS to review and recalculate weekly whey reported prices. NASS recently revised whey prices for the last two weeks in March, with an overall impact of \$0.024 per pound. It is only prudent to review and audit all reported prices, specifically the NFDM and whey prices, which have already been proven incorrect.

Once the individual producer calculation is finalized, I encourage you to utilize your authority under Section 32 of the Agricultural Act of 1935, commonly referred to as "Section 32" to direct existing USDA funds for dairy producer indemnification as a result of the misreporting. Upon the receipt of the final analysis, I urge the department to schedule a meeting with our producers to discuss its findings, plans to prevent repeated misreporting in the future, intentions for adjusting other classes of milk and plans for producer indemnification.

It is difficult to absolve the department for today's situation, considering Congress provided USDA a mandatory auditing tool in 2000 and again in 2002. When NASS was given the authority to require dairy plants to report data that has an impact on product prices, mandatory auditing authority was also provided. To date, no such auditing tools have been implemented. Current statute explicitly states, the secretary to "take such actions as the Secretary considers necessary to verify the accuracy of the information submitted or reported under this subtitle." A full explanation as to why the department has not implemented such auditing measures would be welcome by producers.

A further concern beyond the misreporting of NFDM prices, is the overall impact on all classes of milk. As you know, the Class I price is determined by a formula that uses the higher valued product between NFDM and cheese. It is feasible that after adjusting for incorrect NFDM reporting, the powder value may have exceeded the value of cheese, thus negatively impacting the Class I price over the same period. As stated in the April 13, 2007, Cheese Reporter, changes in the Class III prices have a significant impact on the overall milk-pricing system, because, “at least in federal orders, it is assumed that every one-cent increase in the NDM price raises the Class IV and Class II prices by almost \$0.09 per hundredweight.” I urge you to include calculations on the impact of all classes of milk and adjustments to monthly prices for Class I, Class II and Class IV, when applicable. Furthermore, I urge you to provide producers the data used for independent verification of the analysis.

The graph below details the differences in NFDM prices among the spot (CME), Oceania, NASS and California markets.



Source: USDA

National Farmers Union requests your immediate attention to include the additional provisions within the NASS review and take steps to restore producer confidence in USDA and fix this gross error in price reporting.

Sincerely,

Tom Buis, President
National Farmers Union

cc: OIG Inspector Fong; U.S. Senate Agriculture Committee; U.S. House Agriculture Committee; U.S. Senate Agriculture Appropriations Subcommittee; U.S. House of Representatives Appropriations Subcommittee