

# NEDLT Newsletter

## From the Desk of Bob Gray

### • **Gillibrand Named to Fill New York State Senate Seat**

Although the gloomy news on the economy just won't go away, there is some very good news to report this morning. Congresswoman Kirsten Gillibrand of New York's 20th Congressional District has been selected to fill the Senate seat that was vacated by Hillary Clinton who is now the Secretary of State.

In her two years as a freshman in the House, Congresswoman Gillibrand has cut a "wide swath" as an effective legislator and a strong proponent of agriculture. In her position as a member of the House Agriculture Committee the Congresswoman pushed very hard for improvements in the MILC program for dairy producers and for more conservation funding in programs such as EQIP that provide cost-share help for animal agriculture. She clearly made a big difference for the Northeast in the final Farm Bill provisions.

We are now fortunate to have her as a member of the U.S. Senate and wish her well as she takes on her new responsibilities.

### • **Economic Stimulus Package Slogs Along**

Momentum is not the best word to describe the progress of the House Economic Stimulus Bill. Although Congressional leaders have set a general target date of having an Economic Stimulus Package on the desk of President Obama by mid-February, that time table looks more iffy now as the bill moves through the Committee process in the House. Both the House Appropriations Committee and the Ways and Means Committee have major roles in finalizing the Stimulus Bill. The going has been slow so far. The Senate is still putting the conceptual pieces of its package together. And many folks are raising the question on how much "job creation" and "job retention" does this bill contain? Read on.

### • **How Much Economic Stimulus Does the House Bill Contain?**

That is a very good question. If you look at the numbers in the House Bill in terms of where spending will be directed in this \$825 billion package, the job creation numbers and the economic boost to the economy seem somewhat slim. True, there is a \$275 billion tax cut which is a combination of cuts and rebates to taxpayers but overall in the past the economic benefits of tax cuts to the economy are very short-term. Then there is \$87 billion in the bill for a temporary increase in Medicaid matching grants to states. Certainly this is much needed but what specifically does it do for jobs and the economy? There is another \$43 billion for increased unemployment benefits, another worthy expenditure, but it won't create any jobs. There is also \$79 billion for state fiscal relief which will help replenish the short-falls in state coffers. Again, very little economic stimulus here.

There is \$32 billion to improve the electric grid, \$31 billion for federal and public

infrastructure and \$30 billion for highway construction. The Congressional Budget Office has stated that most of this money will not get out the door until some time after 2010. So called “shovel ready projects” are not that easy to get off the ground.

The point is that it is hard to “prime the economic pump” through federal expenditures only. Other private investments have to be made and more credit has to be made available in order to produce jobs and revenues in the private sector.

Republicans in Congress want more tax cuts directed to small businesses. They think this will help in both the short-term and longer run to get the economy back on the road to recovery. And so the argument goes.

### • **What About Agriculture?**

I don't see a lot in the House Bill that will directly help the agriculture sector and dairy in particular through these tough economic times. The House Bill has \$100 million in grants and \$2 billion for loans for economic development. That is OK but these are not farm related projects. There is \$3.8 billion in water and sewer grants and loans and \$1.2 billion for community facility loans and grants. Good . . . but no real help to agriculture right away.

And there is \$350 million for USDA's Natural Resource Conservation Service for flood prevention, including \$175 million for purchase and restoration of flood plain easements. Whoopee, but again these expenditures do not directly help the ailing agricultural sector. And finally, there is \$44 million for USDA to help with repairs to their headquarters here in D.C. and to help with greater security. Probably needed, but it wouldn't be on my top list of economic stimulus priorities.

### • **Dairy Package Looks Frugal**

In comparison to the expenditure being made for agriculture overall, the dairy provision request seems very, very small. What we would like is a \$200 million loan guarantee from USDA's Commodity Credit Corporation (CCC) that would allow a private bank such as CoBank to extend this guaranteed loan to the CWT program. This money would provide for an expanded Herd Retirement Program in the months ahead. And believe it or not, this guaranteed loan would actually result in savings to the federal government due to lower expenditures for the dairy programs in the future once milk supplies are in line with demand.

The other piece of the package would involve taking these savings and returning them back to dairy producers right away either through an enhanced MILC program or through some other direct market loss payment. In the end this package would have no net cost to the federal government.

This seems simple and straight forward enough but given the realities of the legislative process, nothing is simple.

### • **Is Wisconsin Behind the Curve on the Milk Price Crisis?**

Certainly to some degree it seems that dairy producers in the upper midwest have not been much of a factor here in Washington in articulating their concern for the state of the dairy industry in the months ahead. In talking with my counterparts about the proposed dairy package they seemed “mildly interested in it” but told me they have not heard much from their producers back home. This surprises me because of all states, Wisconsin and Minnesota have plenty of dairy production and \$10 per hundredweight milk is not good news for anybody in the business today. Even western state producers are feeling the pinch due to the combination of high feed

costs and dramatically lower milk prices.

Today I noticed an article in the Milwaukee Journal Sentinel entitled “Falling Milk Prices Hurt Dairy Farmers”. It lays out the problem in detail and quotes Bob Cropp, University of Wisconsin professor emeritus as saying that “milk prices were forecast to be lower in 2009 but no one forecast prices this low.” He is certainly right about that. Maybe the word is starting to get through and it would be a major help here in Washington since the state has a number of Members of Congress in key positions in the House and Senate Appropriations Committees. Than can accuse us folks in the Northeast of being overly aggressive at times but they certainly can’t accuse us of being asleep at the switch.

- **EU to Put Export Subsidies Back in Place**

On top of all the other news, comes the most recent decision by the European Union to re-establish its export subsidies on dairy products. This will not help us recover our export market since, as you know, export subsidies are tough to compete against. And now that New Zealand and Australia are coming out of their prolonged drought and increasing their milk production, this is another factor in the export market as well.

- **New 111th Congress Convenes**

On Tuesday, January 6th, the new Members of Congress plus the re-elected incumbents were sworn in and Congress immediately went into session. There are a number of new faces in both the House and Senate. We have several new House members in the Northeast which I have discussed in previous newsletters. Given the many huge challenges the 111th Congress is facing, this is going to be a very, very interesting session to say the least.

- **The Forgotten Congressman!**

I have to apologize to newly elected Congressman Paul Tonko of New York’s 21st Congressional District (Albany area). Mr. Tonko won the open Congressional seat that was vacated by the retirement of Mike McNulty. Some NDFC folks in his Congressional District pointed this out to me when I left him off of my list of newly elected members of the House in the Northeast. A graduate of Clarkson College with an engineering degree, Mr. Tonko was in charge of the New York State Energy Research and Development Authority (NYSERDA). Before that, he was an assemblyman in the New York state legislature and prior to that, a county supervisor. He knows a lot about agriculture and is very interested in renewable energy development.

Sorry for the oversight, Mr. Tonko. We are glad to have you in Congress.

- **The Economic Stimulus Package Is Front and Center**

The plan is to pass a major economic stimulus package in the next few weeks. The size of the package in terms of dollars keeps growing almost every day and the total could well exceed \$1 trillion or more by the time it is finalized. Note I said trillion with a T not billion with a B. I guess from now on I will have to learn to move one major notch higher when giving the price tag to federal legislation. Quite frankly, it is mind boggling to see these kinds of numbers being bandied about.

The focus in Congress on the Economic Stimulus Package is both job creation and job retention. That means that they (Congress) wants to put a huge chunk of the money going toward what is being characterized as “shovel ready” infrastructure projects that would include

everything from highway and bridge repair to airport construction, water and sewage treatment upgrades and a host of other related items. Also, there will be a major push to utilize these funds to create “green jobs” through massive renewable energy projects. However, President-Elect Obama also wants to put almost 40% of the stimulus package into a major tax cut for 95% of Americans. And lastly, funds will be spent for unemployment benefits, shoring up state shortfalls, for Medicaid costs and additional money for federal nutrition programs such as WIC, school lunch, Food Stamp and senior feeding programs.

How quickly this package comes together in the next few weeks will depend entirely on how well Congress works together with the incoming Administration. Although one party is now in control of the Senate, House and the Oval Office, that does not necessarily mean that everyone will be on the same page.

### • **House Unveils Its Version of the Economic Stimulus Package**

Although work still remains to be done at the Committee level to finalize the last pieces of the House Economic Stimulus Package the overall thrust of the \$825 billion bill was unveiled yesterday. The major bulk of the House package, or about \$550 billion, would go for various local projects such as to build new schools, repair highways and bridges as well as other infrastructure. In addition, money would be available to invest in energy projects that would promote renewable energy and energy efficiency. Also funds would be directed toward health care related projects and provide both health care and unemployment benefits for the growing number of individuals who have lost their jobs as a result of the recession. And finally there would be a tax cut provision in the package that would give most workers in the U.S. a \$500 tax cut. There were much less tax cuts and tax incentives for businesses in the bill than many Republicans in the House had hoped for.

Now the Economic Stimulus bill has to be completed in the House Appropriations and Ways and Means Committees next week before it can be passed by the full House. The plan is for the House to vote on this huge bill by Wednesday, January 28th and then send it to the Senate. The Senate will likely make a number of additions to the bill. Some expect the total package to reach \$1 trillion by the time it goes to incoming President Obama in mid to late February.

### • **Dairy Fights for a Piece of the Action in the Economic Stimulus Package**

As the Stimulus bill moves through Congress the Northeast has been in the forefront of efforts to include a number of provisions in the package that would help deal with the catastrophic drop we have seen in farm milk prices in just the past few weeks and to provide some longer term help for the industry. Last week I mentioned the combined work of NDFC and our state Departments of Agriculture in developing a series of initiatives that could be included in the Stimulus bill or in other legislation passed by Congress in the future. These Initiatives include:

- \* Producer Milk Pricing Stabilization
- \* Farm Loan and Financing Programs
- \* Improvement of Dairy Processing Infrastructure
- \* Risk Management Options
- \* Improving Dairy Exports
- \* Other related Federal policy issues such as trade, nutrition programs, etc.

The main focus has been on two key areas. The first one, of course, is to come up with

options that will help to stabilize farm milk prices right away and to start them back on the road to recovery. There are a series of legislative ideas that are being worked on, including everything from adjusting Class I milk prices to modifying the MILC program and to expand the CWT program through a federal guaranteed loan. Some of these ideas are shorter term; i.e., getting money back into the pockets of dairy farmers right away while others are more intermediate term that would bring declining demand for dairy products back in line with supplies. All of these options are being worked on. At the same time, there needs to be more funds available for dairy producers to refinance their loans in order to reduce their payments and “buy down” interest on current loans. Producers will say they don’t need any more loans and they are right – but if their loans can be modified to cut back on the size of payments and extend the terms, reduce interest and consolidate debt, that will help.

As you would expect, dairy in particular and agriculture in general have to fight for everything or anything it gets. We are not at the top of the list – although we should be – of the economic priorities in this Stimulus Package. Agriculture is a basic and vital industry to the economic well-being of our country.

And we will fight as hard as we can to make sure that our voices are heard!

During the confirmation hearing of the incoming Agriculture Secretary this past Wednesday before the Senate Agriculture Committee, Secretary designate Vilsack acknowledged that dairy, of all the sectors in agriculture, has been hit the hardest by the recession. Now that acknowledgement needs to be translated into some real economic stimulus provisions to jump start the industry on its way to full recovery.

### • Will the MILC Program Help?

The short answer is yes, but any MILC payments will clearly fall well short of making up for low farm milk prices that we will see in the months ahead. The “feed adjustor” that was included in the MILC Program as part of the 2008 Farm Bill will make a difference in triggering payments. As you can see from the table below based on current and future farm milk prices the MILC payments in February and March will be \$1.49 and \$1.97 per hundredweight respectively (see next to last column on the right of the table). For a 100 cow dairy it is projected to bring in about \$19,000 in total payments for 2009. Not enough and that is why Congressional members are looking at a MILC enhancement option among other items. This still does not resolve the problem with the 3 million pound cap on annual production. Farmers that cap out need to be careful and pick the best months for selecting MILC payments.

The projections made below were done by economist Ken Olson.

## Projected MILC Payments

2009	51% Corn \$/bu	8% Beans \$/bu	41% Alfalfa \$/ton	Ration \$/cwt	Feed Diff	\$7.35 0.45 % Diff	Feed Base MILC Multiplier		Class III Future	Est. Boston Class I	Proj. MILC Pmt.	Estimated Payment for 100 cow dairy (20,000#)
							Adjusted Mover - Boston I	Nat. Class I Mover				
Jan	\$3.66	\$9.70	\$155.00	\$7.80	\$ 0.45	6%	\$ 17.41	\$ 14.16	\$ 15.74	\$18.99	\$ -	\$ -
Feb	\$3.66	\$9.70	\$155.00	\$7.80	\$ 0.45	6%	\$ 17.41	\$ 14.16	\$ 10.85	\$14.10	\$1.49	\$ 2,483
Mar	\$3.74	\$9.75	\$155.00	\$7.88	\$ 0.53	7%	\$ 17.49	\$ 14.24	\$ 9.87	\$13.12	\$1.97	\$ 3,280
Apr	\$3.74	\$9.75	\$155.00	\$7.88	\$ 0.53	7%	\$ 17.49	\$ 14.24	\$ 10.27	\$13.52	\$1.79	\$ 2,980
May	\$3.84	\$9.85	\$155.00	\$7.99	\$ 0.64	9%	\$ 17.60	\$ 14.35	\$ 10.84	\$14.09	\$1.58	\$ 2,634
June	\$3.84	\$9.85	\$155.00	\$7.99	\$ 0.64	9%	\$ 17.60	\$ 14.35	\$ 11.36	\$14.61	\$1.35	\$ 2,244
July	\$3.95	\$9.95	\$155.00	\$8.10	\$ 0.75	10%	\$ 17.72	\$ 14.47	\$ 12.16	\$15.41	\$1.04	\$ 1,732
Aug	\$3.95	\$9.86	\$155.00	\$8.09	\$ 0.74	10%	\$ 17.71	\$ 14.46	\$ 12.70	\$15.95	\$0.79	\$ 1,318
Sept	\$4.02	\$9.74	\$155.00	\$8.14	\$ 0.79	11%	\$ 17.76	\$ 14.51	\$ 13.45	\$16.70	\$0.48	\$ 792
Oct	\$4.02	\$9.74	\$155.00	\$8.14	\$ 0.79	11%	\$ 17.76	\$ 14.51	\$ 13.83	\$17.08	\$0.30	\$ 507
Nov	\$4.02	\$9.75	\$155.00	\$8.14	\$ 0.79	11%	\$ 17.76	\$ 14.51	\$ 13.94	\$17.19	\$0.26	\$ 426
Dec	\$4.18	\$9.75	\$155.00	\$8.28	\$ 0.93	13%	\$ 17.91	\$ 14.66	\$ 13.99	\$17.24	\$0.30	\$ 502
												\$ 18,898

### • Northeast Working Group

Although NEDLT staff is closely involved with the various options being discussed for the Economic Stimulus Package, I just wanted to say from my standpoint that so far the discussions are going well and the ideas that have emerged are good. Everything from milk pricing to risk management, agricultural economic development and tax incentives are being talked about.

Leon Berthiaume, the General Manager of St. Albans Co-op, has pushed the group hard with two teleconferences so far and another one scheduled to try and finalize the menu of options. Leon is then planning to bring the final recommended options to the larger group that was in Albany last Friday on Monday, December 22nd.

I need some advice and counsel from each of you as to the best way to present this to our Congressional delegations. We will have to move quickly and that is true for the dairy cooperative leadership as well.

### • Picking up on the GAO Report

When the Government Accountability Office revealed last week that 2,700 farmers had received \$49 million in commodity payments from 2003 to 2006 despite having Adjusted Gross Incomes (above \$2.5 million) that would have made them ineligible, it got lots of attention, including from President Elect Obama's Transition Team. The AGI limitations were significantly reduced in the 2008 Farm Bill but the new rules for implementing them have not been put out yet by USDA. However, it looks like the new Administration may well look into this issue further with the idea of clamping down even more. Members like Collin Peterson of Minnesota and Senator Saxby Chambliss of Georgia will strongly resist this.

### • Northeast Dairy Industry Plays a Major Role in the Region's Economy

In addition to the approximately 16,000 dairy producers in the Northeast that produce about 30 billion pounds of milk annually that accounts for 20% of all U.S. production, the impact of

this output has a huge ripple effect in both the region's and the nation's economy.

It starts, of course, with our producers for without them the rest of the economic impact that is put into motion once the milk leaves the farm would not exist. Recently NDFC members and our state Departments of Agriculture have put together the following data:

The dairy industry is critical to the Northeast:

- \* It provides 20 percent of total U.S. milk production
- \* Northeast dairy producers feed 50 percent of the U.S. population
- \* The industry supports more than 145,000 "direct dairy" jobs
- \* It supports many commercial dairy food manufacturing facilities
- \* Northeast dairy farms produce a total milk value of \$12.2 billion
- \* The industry supports \$50 billion in regional economic activity
- \* A high percentage of the Northeast's dairy farms are small, family-owned businesses, with an average herd size of about 100 cows
- \* Those farms provide wide open spaces to recharge the water supply and contribute significantly to the tax base for the region's rural communities.

The point here is very straight-forward. The dairy producers in the Northeast and all the ancillary businesses associated with their milk production play a significant role in the region's economy. If our dairy industry is damaged in a major way by this recession, the consequences will also be felt well beyond the farm gate.

### **• Joint Efforts by NDFC & State Departments of Agriculture Critical to Overcoming Recession**

It was difficult for me to start out my first Newsletter of the year by talking about the burgeoning recession in the agriculture sector and dairy in particular. But it is a reality and we must face it and take quick and decisive action. One very good piece of news is that our Secretaries and Commissioners of Agriculture in the Northeast are working very closely with our dairy cooperatives. The big three dairy states of Vermont, New York and Pennsylvania under the auspices of the Northeast Dairy Leadership Team have been working with NDFC members in the last few weeks. The other state Departments of Agriculture have joined in this process. It is very important for everyone to be on the same page. In addition, Maryland-Virginia Cooperative and Land O'Lakes have been active in this effort as well.

You can be very proud of the fact that anything which will be put forth in the days ahead by the Northeast will be totally coordinated. We are also working to expand efforts with the rest of the country. Right now the Northeast has taken a lead role in getting the ball rolling.

### **• Congressman Eric Massa Gets on House Agriculture Committee**

The new Congressman from New York's 29th Congressional District who defeated Republican incumbent Randy Kuhl has been named to the House Agriculture Committee. A Naval Academy graduate and a retired Navy Commander, Massa served as a Special Assistant to the Supreme Allied Commander of NATO, General Wesley Clark, during the conflict in Bosnia a number of years ago. He has served in a number of positions, including the business sector and as a professional staffer on Capitol Hill. It is great to have him on the House Agriculture Committee. Welcome aboard, Mr. Massa!