President's Letter
Allen G. Squire
February, 2010

This is a copy of a letter that was delivered to our congressional delegation by Sharon, Gerry Greathouse and David Lawrence; and hand carried to the Secretary for us by Congressman Harry Teague. I would like to thank my wife Linda and our attorney Ryan Miltner for helping fine tune the letter.

Secretary Tom Vilsack
U.S. Department of Agriculture
1400 Independence Ave., S.W.
Washington, DC 20250

Dear Secretary Vilsack:

As president of Dairy Producers of New Mexico, I would like to acknowledge and thank you for your efforts to distribute funds provided by Congress to help assist the dairy industry in attempts to deal with our most financially devastating year in recent history. You were assigned the impossible task of trying to equitably allocate $350 million in financial help for dairy businesses of all shapes and sizes from all areas of the country. It seems as if you were handed a butterfly net and were told to capture a huge herd of elephants. You were not given adequate resources for the project and the effort has only served to irritate the elephants.

It seems ironic that the federal government is now apparently trying to help us climb out of this massive dairy financial crisis when misguided federal programs and mandates were major factors in creating the problem in the first place. Our export markets disappeared because of the recession and the international credit crisis. The global financial meltdown was a product of the subprime mortgage mess which was a product of government interference in banking and mortgage regulations. Our feed costs skyrocketed because of the unintended consequences of the federal ethanol subsidy program, which as you know diverted feed grains into fuel production, drastically driving up feeding costs for all animal agriculture industries.

Congress appropriated $350 million for an immediate solution to the dairy crisis and then $60 million was cut out of this fund to purchase cheese later in 2010 for food programs. This in itself shows a serious lack of understanding of the severity of the financial disaster and what it will take to fix the problem. In fact, if the entire $290 million was distributed equally throughout the dairy industry, it would help offset only about 3% of all the losses this past year for the entire industry with no consideration at all for lost income or lack of any return on investment. In Harry Teague's letter to you, dated December 21, 2009, the New Mexico Congressman points out the fact that the disproportionately larger share of the $290 million that was awarded to smaller producers effectively discriminates against the larger producers. The financial harm that has visited this industry this past year is so serious that if the entire $350 million allocated for the program had been given solely to the 170 New Mexico dairy producers, we still would not have even recouped our losses for 2009, nor would we have received any return on investment for the year.

In your effort to be fair and equitable, I estimate that you compensated smaller producers for up to 8% of their losses while dairies with over 2000 cows recouped less than 1% of their losses. Bear in mind that dairies of this size or greater produce over 1/3 of the milk in this country and represent the average New Mexico dairy.

Your payment cap of $19,200 seems like a lot of money when compared to federal poverty guidelines. However, please consider the fact that an average 2000 cow dairy has lost over $2.5 million either through lost equity, additional debt incurred, or a combination. The payment of $19,200 represents less than 1% of losses sustained by an average NM dairy during the past year. An average New Mexico family dairy farm milks over 2000 cows, employs over 20 people and produces enough dairy products to feed nearly 100,000 people per year. When I am talking about losses, I am talking about the amount of money it has cost just to stay in business. Again, I am not referring to lost revenue, reduced profits, or lower than expected return on investment or return on assets. I am referring to the personal equity and farm assets that have been used to keep our dairy businesses in operation. Most large dairymen have been borrowing hundreds of thousands of dollars per month to stay in business, to keep issuing paychecks to employees, to keep paying feed bills, utility bills, fuel bills and service and repair bills, and to try to keep our operations intact. It takes many years of hard work and planning, and a huge personal and financial commitment to put together a successful dairy farm no matter what the size of the operation. Milk production is not a process that can be easily started up or shut down on short notice. This is a way of life for many of us. That is why so many of us are trying to hang on.

The current financial dilemma of a larger dairy owner would equate to that of a senior administrative official in USDA who had in previous years earned $200,000 per year. This year, however he would receive no salary for the entire year while still being required to continue to perform all his job duties. He would be forced to deplete his savings and retirement accounts for living expenses. For the privilege of showing up for work each day, he would need to withdraw $800 from his savings and there would be no available new income sources. His net losses for the year would approach

$400,000. Under a program similar to the terms of DELAP, he would receive a check for 1% of losses, or $4000.

The financial woes of a smaller dairy owner might be equated to those of an individual working at a lower pay scale, for example at a $25,000 salary. This individual would sustain almost $50,000 in losses while still performing all job duties but under a program similar to DELAP he would be qualified to receive a check for 8% of his losses for the year, or $4,000.

Neither dairy and neither individual could receive meaningful or sufficient help because too much time had passed with nothing being done to address the core problem, which was the lack of fair compensation. There was not adequate appreciation or consideration of the urgency and seriousness of the situation in the early phases of the problem and the "wait and see" approach proved devastating. As both large and small dairymen alike continue the struggle to survive, the discriminatory caps and payment rates of DELAP actually have created an atmosphere of dissension among producers. As it was structured, the DELAP program was not adequately funded to offer a significant level of help to any dairyman, large or small, to enable him to find his way out of a financial disaster situation. Further, the entire $350 million is borrowed money that our children and grandchildren will be forced to pay back with interest.

What was really needed from USDA was timely intervention for fair and equitable milk pricing. The minimum pricing and price support systems did not act as any kind of safety net for dairy producers. Instead of a fair price for our milk we received a low price…all year. The low raw milk prices did not translate into low consumer prices in the grocery stores. Low prices translated into record profits last year for Dean Foods, Kraft, and other milk processors, while consumers continue to pay high prices for dairy products and dairymen are still going broke.

In normal times and in a free market scenario, milk pricing will usually correct itself to reflect supply and demand, but this past year has been far from normal. In the future I urge you to be willing to utilize your powers to assure that milk prices are steadily maintained at least at a fair and reasonable level, reflective of increased costs of production. In the long run this will be the most cost effective method to assure continued survival of our country's dairy industry and to ensure the continued availability of reasonably priced, high quality, "made in the USA" dairy products. Recognizing that in the future, food safety and acts of bioterrorism could become very serious issues that USDA may have to be prepared to address, this approach makes sense. Imported dairy products, produced under conditions that are out of our control, and at best with only random inspections and testing, could never be as safe as domestically produced products. For example, imagine your comfort level consuming a glass of milk or a slice of cheese produced in China. Limiting the importation of food would also translate into the preservation of millions of American jobs in the agricultural sector and in all the agriculture related businesses that keep the industry mobilized. Finally, I also urge you to avoid the establishment of any federal policies or programs that discriminate against producers based on management methods, total herd size, total volume of production, geographic location or any other arbitrary criteria. Basing milk pricing, or any other taxpayer funded USDA dairy programs or policy, on any of these types of criteria has proven to be counter productive and the cause of much disagreement among producers.

Again, thank you for your consideration of these points and for your efforts to help the dairy industry during these very difficult times. Please feel free to contact me if I can provide further information or assistance.

Sincerely,

Allen G. Squire, D.V.M.