Proposed NMPF-IDFA Milk Crisis Plan for USDA

Situation

- Collapse of food service industry, massive economic insecurity, export disruptions and seasonally rising milk supply creating a massive gap between dairy supply and demand
- **We estimate that supply exceeds demand by at least 10%** -- a gap that could widen as supply increases to its seasonal peak and as "shelter in place" conditions endure
- Major supply chain upheaval as processors, marketers and merchants adapt to plunging restaurant sales and surging grocery store chains
- Lacking orders for finished goods, several processing plants are curtailing or ceasing operations, resulting in cancelled milk orders
- As a result, producers and cooperatives across the US are beginning to "dump" significant quantities of milk
- Dairy commodity market prices collapsing
    - Second quarter CME Class III milk futures closed at $13.14 per hundredweight on Friday, with Class IV at $11.35
- Using the DMC formula and prevailing futures prices, farm margins over feed costs project to $5.80 per hundredweight for Q2 and $6.76 for Q3
- Financial stress is building across the supply chain
- With more than 10 million Americans already losing jobs, food banks are seeing significant increases in demand, a trend that will likely only intensify in the weeks ahead

Objectives

- Use as many tools as possible – as quickly as possible – to bridge the supply/demand gap
- Provide aid to dairy producers
- Alleviate systemic financial/liquidity risks across the supply chain
- Stabilize commodity markets
- Fill US food banks with dairy products for distribution to the growing number of people in economic distress
- Immediately address food insecurity by removing restrictions that limit availability of nutritious dairy products across USDA food and feeding programs

- Balance urgent needs against long-term implications
    - Tie producer aid to limits in milk production
    - To the extent possible, avoid any supply overhangs

Producer Initiatives

Producer Market Balancing Assistance

- Goal: Help offset steep decline in farm milk prices and encourage producers to reduce excess supply resulting from demand disappearance
- Pay producers $3 per hundredweight on 90% of their production if they cut production by 10% from March 2020 baseline
- Program runs for six months – April through September
- Payments during any one of the months would be suspended if the average of the Class III and Class IV prices for that month exceeds $16 per hundredweight

Temporary Milk Disposal Reimbursement

- Goal: Compensate all producers and handlers for milk that must be disposed of because of supply chain disruptions resulting from COVID-19 pandemic
- Provide coverage of milk at the USDA Class IV (or lowest value Class) price
- Administer program through AMS' FMMO audit function
- Program runs for three months – April through June (peak production season)

Processor Initiatives

Recourse Loan Program to Support Working Capital

- Goal: expand availability of working capital for processors. Program would allow firms to carry heavier-than-normal inventories and reduce systemic financial/liquidity risk
- USDA does use recourse loans in other commodity areas
- Cover as many products as possible – basic commodities in addition to specialty cheeses, Class II products, etc.
- Loans would cover FMMO component ingredient costs (not packaging, plant margins, warehouse costs, etc.)

Forgivable Loan Program to Support Processor Operations (Modeled on SBA Program)

- Goal: provide loans to processors enduring significant reductions in sales
- Recipients required to continue to purchase milk from dairy producers
- Recipients required to maintain staffing
- Loans forgiven after compliance for a stated period

Consumer Initiatives

Dairy Product Purchases for Food Banks

- Immediately begin to purchase substantial volumes of dairy products for feeding programs

- Satisfies two objectives: creates demand for dairy products, ostensibly stabilizing markets, and helps address surging food insecurity as the economy contracts
- Allow a broad array of products and packaging
  - To the extent possible, provide flexibility to increase speed and convenience

2020 Food Bank Needs

Product	Quantity	Cost
Butter	17,000,000	$ 28,560,000
Cheese	170,000,000	$ 285,600,000
Fresh Milk	360,000,000	$ 146,511,628
Powdered Milk	60,000,000	$ 64,800,000
Total	607,000,000	$ 525,471,628

For Butter, Cheese and Powdered Milk, cost assumes 20% markup over basic commodity prices for conversion, packaging, etc. Fresh Milk priced at $3.50 per gallon.

Modify all Federal Feeding Programs to eliminate restrictions that limit consumer choice including WIC and School Lunch Program

- Eliminate all restrictions on WIC program (permit all states flexibility with container size selection for milk, cheese and yogurt and allow all fat levels of milk, to not mandate 1% milk for women and children > 2 yrs.) through calendar year 2020
- Continue to allow flexibility of school meals to operate under Summer Food Service Program rules that permit all fat levels and types of milk and expand options for serving sizes of milk larger than 8 ounces to be offered with meals

Other Initiatives

Re-open DMC Program

- Goal: Extend dairy producer financial safety net support
- Examine USDA ability to allow producers to retroactively sign up for 2020 DMC coverage with sign up required for the remainder of farm bill with no premium discount

Improve Existing Nutrition Programs to Address Food Insecurity

- Supplemental Nutrition Assistance Program (SNAP)
  - IDFA and NMPF urge USDA's Food and Nutrition Service (FNS) to use every administrative tool at its disposal to use the $15.8 billion provided for SNAP in the CARES Act to maximize the buying power of SNAP recipients. At a time when the nation faces double-digit unemployment, reliance on SNAP by consumers will increase. Meanwhile, the average American household spends nearly $700 per month on food, while the SNAP maximum monthly allotment for a family of four is $450 per month. By finding ways to increase the buying

power of SNAP recipients, on an emergency basis, USDA could address consumer food insecurity at a time when dairy is facing massive demand destruction.

    - In FNS's 2016 report on Foods Typically Purchased By SNAP Households (https://fns-prod.azureedge.net/sites/default/files/ops/SNAPFoodsTypicallyPurchased.pdf), 11% of goods purchased by SNAP households were dairy products. In fact, in the subcategory grouping, the number one purchased good in SNAP was white fluid milk. In the top 100 products, there are over 7 in the top 50 and 15 in the top 100 that are either 100% dairy or prominently feature dairy, which means that not only would dairy be helped, but all dairy categories would benefit.
    - Meanwhile, increasing SNAP household spending power would be an action that would rely on the existing supply chain to address the food insecurity issues resulting from the current crisis.
- Healthy Fluid Milk Incentive Program (HFMIP)
    - IDFA and NMPF urge USDA to release the request for proposals (RFP) for the HFMIP so that applications for projects can begin to be developed and to increase funding assigned to HFMIP.
    - The HFMIP was created in the 2018 Farm Bill and authorized at up to $20 million to fund projects to develop and test methods for increasing SNAP milk purchases through partnerships between non-profits or government entities and SNAP retailers. The FY2020 Agriculture Appropriations law provided $1 million for HFMIP to develop and test milk incentives in the marketplace. FNS is evaluating the RFP.
- In addition to these immediate administrative priorities, NMPF and IDFA stand ready to work with Congress and USDA as discussions begin on the next coronavirus legislative package. We support providing additional funding for SNAP in subsequent legislation and in that context, we are also eager to provide additional funding for the HFMIP.

Maximize International Food Aid

- Investigate how to move food to people in need elsewhere in the world while staying within the boundaries of international trade agreements, etc.