MIDWEST DAIRY COALITION

Member Organizations:

Associated Milk Producers Inc.

Bongards' Creameries

Ellsworth Cooperative Creamery

FarmFirst Dairy Cooperative

First District Association

Midwest Dairymen's Company

Rolling Hills Dairy Producers Cooperative

Coordinator:

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September 18, 2018

The Honorable Sonny Perdue
Secretary
U.S. Department of Agriculture
14th and Independence Ave, SW
Washington D.C. 20250

Dear Secretary Perdue:

On July 13 of this year, I wrote on behalf of the Midwest Dairy Coalition to urge the Administration to provide emergency assistance to dairy farmers to mitigate the economic harms they are facing related to retaliatory tariffs from Mexico, China and other countries.

On July 24, you announced the broad outline of a $12 billion tariff mitigation plan for U.S. farmers, including dairy farmers. Dairy farmers were initially encouraged by the announcement. However, when the details of the plan were announced on August 27, that encouragement turned quickly to deep frustration. The dairy assistance portion of the package represents only a tiny fraction of the market declines dairy farmers have suffered from the retaliatory tariffs.

We appreciate your interest in making a distinction between economic harm related to the retaliatory tariffs versus normal market volatility. However, since the retaliatory tariffs were announced in late May, milk futures prices through December of this year have declined by $1.2 billion, and milk prices are estimated to be about $1.10 per hundredweight lower than price estimates just prior to the imposition of the retaliatory tariffs.

A recent study by Informa Economics projects economic losses to dairy farmers of $1.5 billion if the retaliatory tariffs remain in place through the end of 2018, and $16.6 billion if the tariffs remain in place for the next five years. These declines are directly related to the retaliatory tariffs and completely independent of any normal market volatility. As such, the Administration's announced Market Facilitation Program payment rate of 12 cents per hundredweight on half of a producer's production history, representing only $127 million in payments to dairy farmers, is woefully inadequate.

The rate of dairy farm loss in the Upper Midwest is quite alarming and very devastating to the rural economy of our region. As the region of the nation with the most concentration of dairy farms, many of our rural communities are deeply dependent on the economic health of the dairy farms in the area. In Wisconsin alone, dairy farm losses through the first nine months of 2018 have been about 40 percent higher than the average attrition rate for the same nine-month period over the previous five years. The attached graphic from the University of Wisconsin-Madison demonstrates that 2018 dairy farm loss trends have been significantly worse than historic trends. The trade disruption and related market price declines have greatly exacerbated those trends.

Therefore, we are requesting the Administration take immediate action to:

1) Commit to a second round of tariff mitigation payments to dairy farmers, to be available by the end of the year; and

2) Significantly increase the payment rate for dairy farmers to more fully reflect market losses related to the retaliatory tariffs.

For the sake of dairy farmers and dairy-dependent communities throughout the Upper Midwest and across the nation, we thank you for your urgent consideration of these requests.

Sincerely,

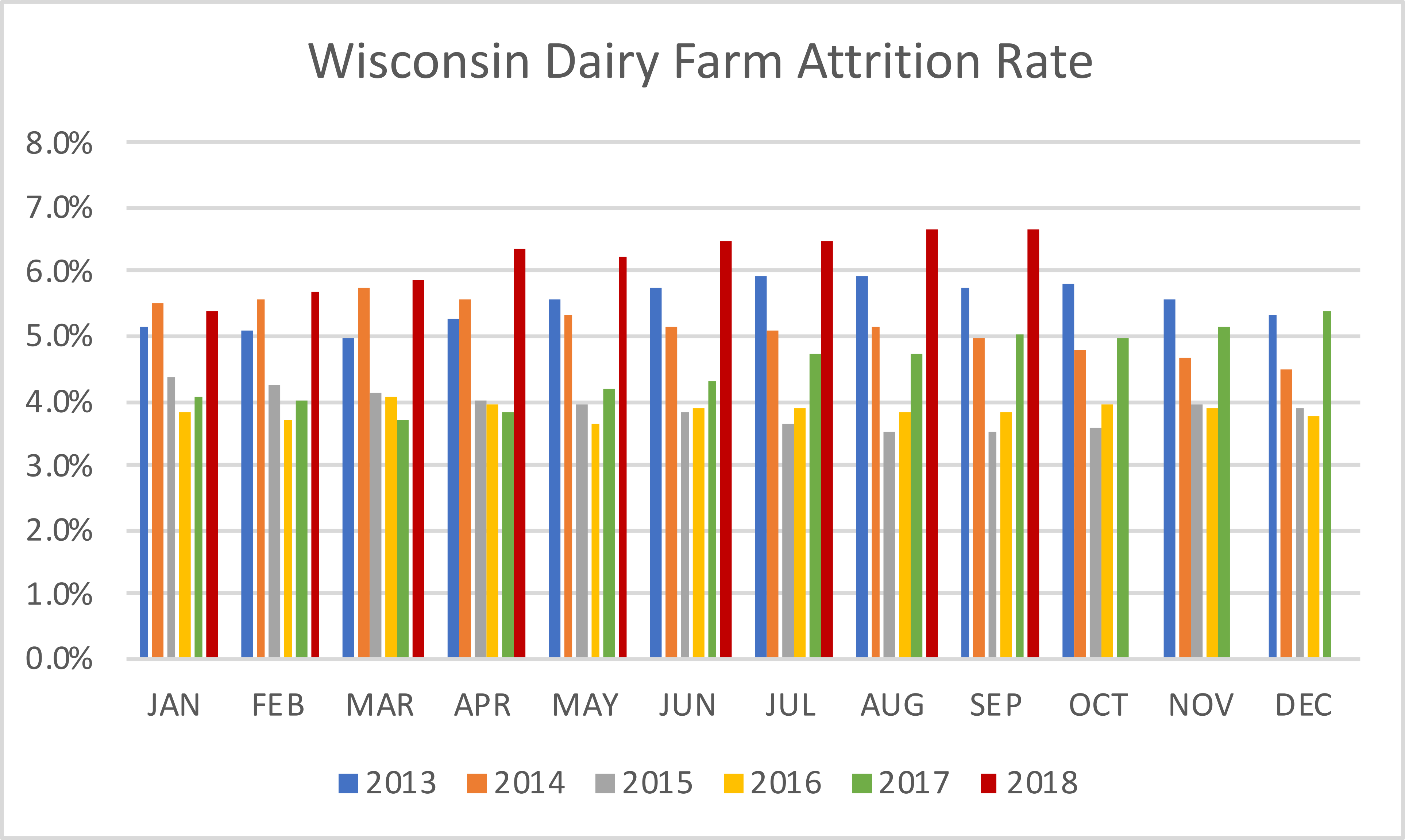
Steven D. Etka

Steven D. Etka
Coordinator

Attachments:

Chart: Wisconsin Dairy Farm Attrition Rates, from University of Wisconsin-Madison, Dairy Markets and Policy

Executive Summary of Informa Economics study on Economic Impacts of Retaliatory Tariffs from Mexico and China on the U.S. Dairy Sector



Wisconsin Dairy Farm Attrition Rate
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
2013
2014
2015
2016
2017
2018

Economic Impact of Retaliatory Tariffs from Mexico and China on the US Dairy Sector

I. EXECUTIVE SUMMARY

In response to the US imposition of tariffs on select Mexican and Chinese imports following the release of two US Section 232 investigations and a US Section 301 investigation, these countries retaliated against select US exports including dairy products.

- China imposed an additional 25-percent tariff on US exports in response to the US Section 301 investigation. As a result, total tariffs on selected US dairy products range from 27 percent to 45 percent.
- Mexico imposed tariffs on most US cheeses that range from 20 percent to 25 percent.

This study evaluates the impact of the above retaliatory tariffs placed by China and Mexico on the US dairy sector in terms of US exports to those countries, the resulting impact on US farm-gate prices and US dairy farm sector revenues and the overall impact on the US economy. Informa analyzed the impacts compared to its baseline forecasts for the period 2018 to 2023.

China and Mexico are vital to US dairy product exports. These two countries combined account for around 35 percent of total US dairy exports worth approximately $1.9 billion. The study finds that China's and Mexico's retaliatory tariffs significantly impact the US dairy sector.

- US dairy product exports combined could fall by $115 million in 2018 and $415 million in 2019.
- From 2018-2023, US dairy product exports combined could fall by roughly seven percent from baseline projections worth $2.7 billion.
- Farm-gate prices are expected to fall roughly $0.64 per hundredweight (cwt) to average around $16.44/cwt through 2023 compared with the baseline price forecast of $17.09/cwt through 2023.
- Lower farm-gate prices are forecast to reduce farm-gate revenues by roughly $1.5 billion in 2018 and roughly $3 billion in 2019. From 2018-2023, the lower farm-gate prices are forecast to reduce farm-gate revenues by $16.6 billion.
    - Lost exports to China account for the bulk of the impact on farmers. Of the total $16.6 billion loss in farm-gate revenue, $12.2 billion or roughly 73 percent can be attributed to Chinese tariffs. Lost exports to Mexico account for the remainder of approximately $4.4 billion or 27 percent of the total loss.
- When including impacts of reduced exports to industries that are linked to the dairy farming industry, US economic output is reduced by $8.3 billion through 2023, GDP is reduced by $3.5 billion and indirectly risks over 8,200 jobs throughout the broader economy.

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The current trade situation between the US and China and the US and Mexico is very fluid. The US tariffs placed on select Chinese and Mexican goods as well as the Chinese and Mexican retaliatory tariffs placed on select US goods can all be removed at any time. But, with the current tariffs in place, the US dairy sector is being negatively impacted and will suffer more the longer these tariffs remain in place.

II. CONCLUSION

The current trade situation between the US and China and the US and Mexico is very fluid. The US tariffs placed on select Chinese and Mexican goods as well as the Chinese and Mexican retaliatory tariffs placed on select US goods can all be removed as easily as they were put in place. However, as the tariffs stand, the US dairy sector is poised to lose significant export shares in China as well as shares in Mexico.

Under the retaliatory tariffs, price is forecast to drop $0.64 to average around $16.44/cwt through 2023 with total production forecast at 613 million MT. This decline in price directly impacts farm-gate revenue. Under the baseline, farm-gate revenue through 2023 is forecast at roughly $233.4 billion. Under the retaliatory tariffs, farm-gate revenue is forecast to total roughly $216.8 billion through 2023. This equates to a reduction in farm-gate revenue worth $16.6 billion. In 2018, lower farm-gate prices are forecast to reduce farm-gate revenues by roughly $1.5 billion and roughly $3 billion in 2019. Lost exports to China account for the bulk of the impact on farmers. Of the total $16.6 billion loss in farm-gate revenue, $12.2 billion or around 73 percent can be attributed to Chinese tariffs. Lost exports to Mexico account for the remainder of approximately $4.4 billion or 27 percent of the total loss.

US dairy exports to China and Mexico account for around 35 percent of total US dairy exports worth roughly $1.9 billion. The retaliatory tariffs directly reduce this amount by increasing the cost of US dairy exports leading to adverse impacts on the US dairy sector. US dairy product exports combined could fall by $115 million in 2018 and $415 million in 2019. The direct impact on exports resulting from the retaliatory tariffs is approximately a $2.7 billion loss through 2023. When including impacts to industries that are linked to the dairy farming industry, US economic output is reduced by $8.3 billion through 2023 and indirectly risks over 8,200 jobs throughout the broader economy.

The reduction in exports creates a surplus in the domestic market leading to a reduction in price which negatively impacts farmer revenue. As discussed in chapter four, the decreased exports to China and Mexico lead to an excess domestic supply which puts downward pressure on prices. This decline in prices paired with slow adjustments to production lead to significant loss in farm-gate revenue.

The longer US dairy exports are subject to tariffs above and beyond normal rates, the more market share the US will lose to foreign suppliers of the Chinese and Mexican markets. The future is uncertain for US dairy farmers making it difficult to plan any distance into the future with realistic expectations. What is for certain, is the US dairy sector will continue to suffer under Chinese and Mexican retaliatory tariffs for as long as they are in place.