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RESPONDING TO LOW DAIRY PRICES: EXPLORING AVENUES FOR FEDERAL ACTION

HEARING

BEFORE THE

SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING, INSPECTION, AND PLANT AND ANIMAL HEALTH

AND THE

SUBCOMMITTEE ON PRODUCTION, INCOME PROTECTION AND PRICE SUPPORT

OF THE

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RESPONDING TO LOW DAIRY PRICES: EXPLORING AVENUES FOR FEDERAL ACTION

Tuesday, October 27, 2009

United States Senate,
Subcommittee on Domestic and Foreign Marketing,
Inspection, and Plant and Animal Health,
Subcommittee on Production, Income Protection,
and Price Support,
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC

The Subcommittees met, pursuant to notice, at 2:41 p.m., in room SH–216, Hart Senate Office Building, Hon. Kirsten Gillibrand, Chairman of the Subcommittee, presiding.

Present: Senators Gillibrand, Casey, Klobuchar, and Johanns.

Senator Gillibrand. I call this meeting to order. I would like to recognize my Co-Chairman, Senator Casey, and allow him to make his opening remarks.

STATEMENT OF HON. ROBERT P. CASEY, JR., U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator Casey. Thank you very much, Senator Gillibrand. I wanted to welcome everyone to our hearing today. We will be here for a while, as is appropriate for this topic, and we are grateful that we have two Subcommittees represented here. And I am grateful that Members of the Senate who are concerned about this issue are with us today, Senator Klobuchar as well as our Chair, Senator Gillibrand, and Senator Johanns as well.

I will submit a fuller statement for the record, but I do not think I need to highlight or impress upon anywhere here the urgency in the gravity of the issue that brings us here today—the crisis that is dairy farming today, the crisis that the families and communities have been living through. Even in the midst of a terrible economic recession that so many families have lived through, I do not think there is a category of families or a group of families that have been more hard hit than those who are dairy farmers all across the Commonwealth of Pennsylvania as well as so many other States that are represented here today.

So we have, I think, an obligation, those of us in the

United States Senate broadly, but especially those of us who have agricultural interests in our States—in Pennsylvania, for example, we have a lot of important sectors, a lot of strong sectors of our agriculture economy, but dairy is the largest and one that we have real concern about.

We have as a region, beyond Pennsylvania, in the northeastern corner of the United States, the projection—we hope it does not materialize or come true, but the projection that we could lose up to 25 percent of our family dairy farms throughout the time of this crisis. In total, it is some 40,000 jobs in the Northeast at risk when I talk about this crisis.

My top priority—and I think it is the top priority of everyone here—is to make sure that our agriculture in any State, but across the country, can compete nationally but also internationally. I think that is something we can all agree on. So whether you are a milk producer, a manager of a co-op, a plan operator, a food manufacturer, we all need a healthy industry. And we all gather here today to explore ways to get through this crisis, to provide short-term help but also long-term help for our families and for our communities.

So, with that, I will turn it back to our Co-Chair—I guess we are Co-Chairs today.

Senator GILLIBRAND. Yes.

Senator CASEY. Two Subcommittees meeting at the same time. It does not happen very often around here. And I think it is important that we note the diversity of this audience in terms of geographic diversity as well as the diversity of this panel. And we are grateful that so many are here. Thank you.

[The prepared statement of Senator Casey can be found on page 44 in the appendix.]

STATEMENT OF HON. KIRSTEN E. GILLIBRAND, U.S. SENATOR FROM THE STATE OF NEW YORK

Senator GILLIBRAND. Thank you, Senator Casey.

I am so pleased that I have the opportunity to co-chair this hearing with my fellow Subcommittee Chairman Senator Casey. I would like to thank Ranking Member Johanns for also being here, as well as the other Senators—Senator Klobuchar, I appreciate you being here—to engage these distinguished panelists in a dialogue about the crisis that is now facing the dairy industry.

The cost of doing business continues to surpass the price farmers are receiving for their product. There are not many businesses where people do back-breaking labor 7 days a week and come out financially worse for their trouble. Since February, prices per hundredweight have remained well below the cost of production. In my home State of New York, farmers pay over $18 to produce a hundredweight of milk. After action this summer by Congress and the USDA, prices have only risen to $15.80—still a losing game for our farmers. The pricing system simply does not work for America's hard-working dairy farmers.

As I met with farmers from across New York State, I saw the absolute anguish and despair on their faces as they showed me their balance books that simply did not add up. I heard stories of families quickly seeing generations of hard work simply vanishing into foreclosure. Dairy farmers compose the economic backbone of many of America's rural communities. Over 60,000 American families directly earn their livelihoods from the dairy industry. Dairy farms also have a multiplier effect, creating support jobs that strengthen local economies.

In addition to hurting our agricultural communities, losing our local producing family-owned dairies will pose an enormous threat to the safety of America's food supply. Instead of purchasing products made to satisfy American food safety standards, a race to the bottom will mean importing food from wherever costs are the lowest, such as China.

As experience has shown us over the last few years, giving up our ability to produce our own food is something we cannot afford to do as a national security priority. I hope this hearing will give us an opportunity to have a very frank discussion about the proposals currently out there and help members of the Committee develop solutions that will work for our dairy farmers, processors, and our American families.

With the sustained low prices we have seen over the last few months, it is important that we provide farmers with the short-term assistance they need to make up for the money they are losing every day. In order to achieve this goal, I have introduced two pieces of legislation designed to improve the MILC Program's ability to provide a true safety net during such a crisis.

It is my hope to work with other Members of Congress to ensure that this crucial aid becomes a reality so we do not lose any more farms. However, as we have been seeing, there is something fundamentally wrong with the way dairy farmers are paid for their work. We must develop new solutions to ensure that this does not happen again.

My colleagues in Congress and agricultural advocacy groups across the Nation have been working on a number of proposals to help remedy the many problems that are currently facing the dairy industry. Today's hearing will focus on these solutions in order to determine the opportunities they present and the shortcomings that they may face.

I am dedicated to developing comprehensive legislative fixes that will ultimately fix the problems the industry has once and for all. Today's hearing will serve as a starting point for those discussions as we begin working on the next farm bill.

I would like to remind panelists that they have 5 minutes to deliver their testimony. When you have 30 seconds remaining, a yellow light will illuminate, and at the end of 5 minutes, you will see a red light illuminate. Any part of your testimony that you are not able to get to will be submitted for the written record.

I also encourage all attendees not on the panel to see my staff at the end of the hearing if you are interested in submitting testimony for the record.

I am now opening the floor to Senator Johanns to make his opening statement.

STATEMENT OF HON. MIKE JOHANNS, U.S. SENATOR FROM THE STATE OF NEBRASKA

Senator JOHANNS. Well, thank you very much. Let me start out and just acknowledge the good work of both Chairs, and thank you for putting this hearing together.

Before I begin with my statement, I would like to note that Senator Pat Roberts, the Ranking Member of the Production, Income

Protection, and Price Support Subcommittee, could not be with us today, but he will submit an opening statement for the record.

I am pleased to be here to be a part of this hearing today. Having grown up on a dairy farm myself, I have always had a very strong and special interest in the issues that affect this very important industry.

Dairies in the United States currently face a whole host of significant challenges. Significant increases in the cost of feed, energy, unpredictable foreign markets, and the current global economic downturn have all certainly contributed to the decreased demand for dairy products and a decline in milk and dairy product prices.

The numbers are all too familiar to those that are in this room and to those who will testify today, but they really tell the story very clearly.

The Congressional Research Service recently released a report on the dairy industry. I would recommend it. It states that the Milk Income Loss Contract—MILC—payments have been triggered every month since February of this year, and as of last month, total payments for the year were over $700 million. Anyone who knows something about the MILC Program will tell you that happens only because of very, very poor prices. The report also states that from January through September of this year, the all-MILC price received by farmers was 36 percent below a year ago.

Administering the dairy program as the Secretary of agriculture provided me great insight into the intricacies and complications inherent in the Federal dairy policy. In fact, I had one reporter say to me at one point, he said, "Mr. Secretary, when you come to understand the dairy program, you have probably been in Washington too long."

Any changes in Federal policy must seek to strike an appropriate balance between providing producers with a reliable and a predictable safety net during times like these while at the same time not encouraging overproduction or inhibiting other sectors within the agricultural community.

Today should provide us a productive forum to examine the existing challenges and positive solutions for the U.S. dairy industry.

If I could take a moment just to welcome a panelist who is a friend of mine, Doug Nuttelman, from Stromsburg, Nebraska, Doug is a dairy owner and operator. As I said, he is a good friend, and he operates what I would describe as a "family farm." I have known Doug for many years. He has worked very closely with me as I was the Governor of Nebraska.

I have had an occasion to visit Doug's family-run operation in Stromsburg and the great work that is done there. Doug's impressive bio has been made available today with all the other hearing materials, but I just wanted to take a moment to personally attest to his leadership in agriculture. It is awful good to have Doug here.

In addition to his involvement with Dairy Farmers of America, the National Milk Producers Federation, and the Nebraska Dairy Council, Doug is a member of my Ag Advisory Council, which is a collection of Nebraskans who are involved in production agriculture. I value Doug's input, his perspective, and his friendship so, again, thank you.

Let me just wrap up my comments today and say I look forward to the hearing, and I look forward to the testimony of all the witnesses. I think we are going to have a very productive discussion. And, again, I want to thank our Chairs for putting this together.

Senator GILLIBRAND. Thank you so much, Ranking Member.

I would like to now invite Senator Klobuchar to give opening remarks.

STATEMENT OF HON. AMY KLOBUCHAR, U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator KLOBUCHAR. Thank you very much, Madam Chairman, and thank you, Senator Casey as well for co-chairing this. I would like to first extend a welcome to our witnesses, including Mr. Toft, who, although he is from Wisconsin, is the Chairman of the Associated Milk Producers, which is based out of New Ulm, Minnesota. Like Brett Favre, he is a guy from Wisconsin who has seen the virtues of joining a Minnesota-based organization.

You know, nowadays when we hear the word "crisis," it is not always an appropriate description of reality. I have a 14-year-old daughter, so I know this firsthand. Today's hearing, however, addresses a real crisis—a crisis that has hurt dairy farmers across our country.

My State, the sixth largest dairy-producing State, is home to nearly half a million dairy cows who together produce nearly 9 billion pounds of dairy products each year. Our farmers have seen the price of milk drop severely.

Now, in the 2008 farm bill, we worked hard to include the MILC Program into—actually improve the MILC Program to help ensure stability for our Nation's dairy farmers. In the summer of 2008, when we passed the farm bill, we were seeing dairy prices peak. After that, however, dairy prices began to fall, eventually reaching their lowest levels in 20 years. And while dairy prices were falling, input costs remained high, creating a perfect storm for the nearly 70,000 dairy farmers around the country.

In the past year, I have met many times with our dairy farmers, including just recently last month. One family I met with, the Krieger family, offered this letter expressing the crisis that their family was facing: "I am writing out of desperation for the situation at hand. We are on the verge of losing everything we have worked for, for many, many years, including our home. Expenses to purchase fuel, grain feed, hay, electricity to produce the milk, medical expenses for the animals are all high, and there is no relief in sight. In spite of this, the prices we are receiving for our milk have remained low and, in fact, just went down again."

To address the short-term crisis and help farmers get back on their feet, we were able to amend the agriculture appropriations bill to provide, as you know, $350 million in additional relief. But in the long term, we need to consider how to change our dairy policies to prevent a future crisis.

The National Milk Producer Federation's Strategic Planning Task Force recently announced four actions to help address long-term problems with price volatility in the market. These include: revamping the safety nets of the Dairy Product Price Support and Milk Income Loss Contract Programs; creating a new Dairy Producer Income Insurance Program; addressing the need to improve participation in the producer self-help program, which is called "Cooperatives Working Together," while allowing it to better address periodic imbalances in the milk supply; and reforming the Federal Milk Marketing Order Program.

Madam Chair, there was no single cause for this crisis, and farmers in Minnesota and across the country, our dairy farmers, are still not out of the woods. I look forward to hearing our witnesses' thoughts on these long-term solutions as well as what we can do in the short term, and I look forward to working with all of you.

Thank you very much.

Senator GILLIBRAND. Thank you.

[The prepared statement of Senator Roberts can be found on page 46 in the appendix.]

Senator GILLIBRAND. I invite the panelists to come up.

I would like to welcome each of you and thank you for your expertise. I want to take a personal privilege of introducing Mr. Ooms, who is from my State. Eric Ooms is a partner with his father and brothers of a 425-cow dairy farm in Columbia County, New York. The Ooms family has been milking cows in Columbia County since 1950. They also grow 1,700 acres of crops for their cows as well as selling forage to neighboring farmers.

In addition to his work on his farm, Eric serves as the Vice President of the New York Farm Bureau. He has been part of this organization for over 14 years. He serves on the New York Commissioner of Agriculture Patrick Hooker's Milk Marketing Advisory Committee. He is on Agri-Mark's Legislative and Education Committee and the National Milk Producers Federation's Immigration Committee.

I also want to congratulate Eric and his lovely wife, Catherine Joy, on the newest addition to their family, 4-week-old Grace.

STATEMENT OF ERIC OOMS, DAIRY FARMER, OLD CHATHAM, NEW YORK

Mr. OOMS. Thank you. Good afternoon. My name is Eric Ooms. I am the Vice President of the New York Farm Bureau, which represents nearly 30,000 farm families in the Nation's third largest dairy State. My father, two brothers, and I milk 425 cows in Chatham, New York. My family's lineage in the dairy industry traces back to at least 1525 in the Netherlands and is part of who we are, and we are very proud of this. Many generations of my family have had the awesome opportunity to follow our Dad to the barn and learn the lessons that he has taught us. Part of my goal in life is that my son and daughter have the same opportunities that I have enjoyed so much.

In addition to being a great place to raise a family, a dairy farm is a business. If the business is not successful, this is all academic, and the theory of raising kids on a farm becomes some relic of a Norman Rockwell painting of days gone by. Northeast Farm Credit estimates that dairy farm income will be down over $700 million in New York State alone in 2009. This, coupled with recent increased costs of production, is presenting us with a dilemma that my father assures me he has never seen in 60 years in the dairy industry. I am actually surprised that there have not been more farms exiting the industry. I believe that the reason for this is the fact that the cows, land, and just about everything else is undervalued, so a farmer's only choice is to proceed forward and hope for the best.

Rather than spending time outlining the obvious economic challenges we are facing, I will outline some of the things that can help remedy the situation.

First and foremost, we need to keep in mind that we are in an all-encompassing economic downturn that has not only left the U.S. economy staggering, but has also brought the global economy to its knees. If global and domestic economic conditions were stronger, dairy product demand would be greater, and we would not be facing such a historic dairy crisis.

Essentially, the price of milk is set by the price of cheese on the Chicago Mercantile Exchange. With so little milk trading on the Merc, we feel very strongly that another method of price discovery must be devised. Unfortunately, I do not have a great remedy for the fiscal inequity presented by this price discovery method at this time, but the issue needs to be studied. We strongly support decoupling the price of Class I or beverage class milk from the CME, as fluid milk consumption is fairly inelastic and should not be tied to consumption of cheese.

We fully support Secretary Tom Vilsack's development of a Dairy Industry Advisory Committee and hope that it will come up with some positive ways to revamp the Federal order. Any plans that recommend eliminating or lowering the Class I differentials should be viewed very skeptically, if not out rightly opposed. With growing emphasis on the importance of regional food systems and local foods, it seems obvious to me that to steer Federal policy away from Class I differentials is counterproductive.

We strongly support and appreciate the Milk Income Loss Contract Program and appreciate any and all efforts to increase the rate of payment and the production cap to accommodate multi-family farms. In addition, we greatly appreciate the addition of $350 million to the appropriations bill, and we encourage that those payments be expedited.

Looking forward, we need to be certain that imported milk products are on a level playing field with domestic products. Imported products should be paying the same 15-cent-per-hundredweight promotion fee that every U.S. dairy farmer is paying. This is something that should not be delayed. We urge Secretary Tom Vilsack to implement the rule that would allow the assessment of 7–1/2-cents-per-hundredweight on imported dairy products and ask that individual Members of Congress demand this action be taken as it was mandated in the 2008 farm bill. In addition, we support Senate 1542 which would assure that imported milk protein concentrates are paying tariffs that are consistent with our World Trade Organization commitments. There may be more that can and should be done, but let us stand and walk before we try to run.

Conversely, part of the favorable farm milk price we received in 2007 and 2008 was due to robust export opportunities for our products. We commend the Secretary for doing the Dairy Export Incentive Program earlier this year, and we encourage that it continue to be utilized. We need to continue to aggressively pursue export opportunities for our products as we, for better or worse, are in a global economy.

We support the U.S. Department of Justice investigating business concentrations in the dairy industry as we need to be certain that dairy farmers are able to compete in an equitable environment. However, it is important to note that we need to continue to maintain the Capper-Volstead law as it empowers farmers to work together and improve economic situations we face.

We also support California's standards for drinking milk as this type of fortified milk will better serve our nutrient-deficient populations, particularly in under served urban and rural areas. Nutrient-fortified milk which meets the higher solids standard to children in schools and families in their home communities is a practical and cost-effective way to improve public health. In my immediate area, Stewart's shops have an award-winning milk that is fortified similar to California milk, so it can and should be done nationally.

Currently, the American Farm Bureau Federation has policy that opposes a Government-run, mandatory supply management program. This is probably consistent with industry feelings on the issue for quite some time. However, there is a great deal of dialogue in the dairy industry about the issue right now, and the next few months will dictate if there is enough impetus to change our longstanding opposition to supply management.

We have been very supportive of Cooperatives Working Together, and I am happy to report that my family supports that as well with our dollars.

Thank you again for having this hearing and inviting me to speak today. We are in an uncertain time, and there is a great deal of trepidation throughout our industry. I remain optimistic, though, that we have an industry that is worth fighting for, and I look forward to partnering with you on all these endeavors.

[The prepared statement of Mr. Ooms can be found on page 91 in the appendix.]

Senator GILLIBRAND. Thank you, Mr. Ooms.

Mr. Paul Toft, President, Associated Milk Producers, Inc., Midwest Dairy Coalition from Rice Lake, Wisconsin. Mr. Toft.

STATEMENT OF PAUL TOFT, PRESIDENT, ASSOCIATED MILK PRODUCERS INC., MIDWEST DAIRY COALITION, RICE LAKE, WISCONSIN

Mr. TOFT. Chairwoman Gillibrand, Chairman Casey, Ranking Members Johanns and Roberts, Senator Klobuchar, and other members of the Subcommittees, I appreciate the Committee's invitation to present my views on solutions to the current dairy crisis. I am Paul Toft, a dairy producer from Rice Lake, Wisconsin. My family operates what many would call a classic Wisconsin dairy farm. With two generations working side by side, we milk 70 cows and grow the forage and grain to feed our herd.

Our milk is marketed through Associated Milk Producers Inc., a Midwest milk marketing co-op. As Chairman of the AMPI Board of Directors, I participate in the dairy policy groups to which AMPI belongs: the National Milk Producers Federation and the Midwest

Dairy Coalition. The perspective I provide today is one of an upper Midwest dairy farmer, dairy cooperative member, and one who is active in the formation of dairy policy.

Prices paid to dairy farmers are about half what they were a year ago. The economic stress in dairy-dependent regions like the upper Midwest, as in all dairy regions, is severe. Consistent anecdotal evidence suggests dairy farmers are losing $100 a cow each month. When this happens, we rapidly lose equity or our livelihoods. It is with this background that the following short-and long-term solutions are reviewed.

Let us first examine the short-term solutions. The temporary hike in the Dairy Product Price Support Program is a good example of a short-term fix. Raising the cheese support to $1.31 from August through October served as an invisible floor. The market moved past $1.31—without the Commodity Credit Corporation buying a pound of cheese.

Though the bump in the support price will expire this week, it resulted in dairy farmers receiving about $2 more per hundredweight of milk marketed. In times like these, I must underscore the importance of these dollars to my dairy farm.

The next short-term fix is the $350 million Congress added to the agricultural spending bill. On behalf of all upper Midwest dairy farmers, thank you. I urge the USDA to quickly spend these dollars, given the severity of this dairy crisis.

Now let us consider more long-term solutions to dairy reform. These must include current programs that work and due diligence on proposed policies. What works? The Milk Income Loss Contract and the previously discussed Dairy Product Price Support Program. Without a doubt, the economic safety net provided by these programs must be maintained.

When the 2008 farm bill passed more than 1 year ago amidst $20 milk, many did not think these programs were relevant. I am glad they are in place today.

The MILC has provided significant financial assistance to dairy farmers nationwide during times of low prices. The direct assistance provided by this program has community-wide benefits as the dollars multiply throughout the dairy-dependent local economies.

As originally envisioned, the MILC Program was intended to be a partner with the Dairy Product Price Support Program. The two programs working together, in theory, would provide the stability to allow viable dairy producers to weather the storm of low-price cycles. But the theory remains untested, because the Product Price Support Program is not fully functioning.

AMPI and the Midwest Dairy Coalition urge the U.S. Secretary of Agriculture to implement a long-term increase in the Commodity Credit Corporation purchase price for butter, powder, and cheese. The 3-month increase has proven how cost-effective this can be. Support for the existing programs that work, however, does not negate the need to reform the dairy industry policies. Clearly, I do not want to operate my family farm under the current conditions.

Due diligence is needed on new policies aimed at solving the dairy crisis. Let us make the 2012 farm bill our goal as we review policies introduced by groups such as the National Milk Producers

Federation and the Holstein Association USA. These policies all have merit, but must be analyzed with the following in mind:

We must seek ways to reduce volatility in dairy farmer income.

Proposals must not discriminate against manufacturing milk, by providing artificial enhancement of Class I (fluid) milk prices.

Proposals must seek to eliminate or reduce the regional discrimination of the current Federal milk marketing order system.

Proposals must be sensitive to the fact small-and medium-sized dairy farms make up the overwhelming majority of this Nation's 55,000 licensed dairy farms. Our rural communities cannot afford to lose one of them.

With these objectives in mind, AMPI is supporting the concept of dairy price stabilization. The program developed by the Holstein Association aims to stabilize prices by managing production. The program recommends a market access fee for expanding milk production, not a quota system. This pricing approach has long been part of AMPI's core policy resolutions which support managed, incremental expansion in our industry. Such a plan, however, will only be effective if paired with import controls.

We must establish tariff rate quotas on imported products such as milk protein concentrate, casein, and products containing butterfat.

In closing, I strongly urge these committees and the U.S. Secretary of Agriculture to help the industry analyze and develop options for the long-term viability of dairy farming in this country. While doing so, build upon the effective policies—the MILC and the Dairy Product Price Support Program—and consider ways to stabilize domestic markets.

Thank you for this opportunity to testify.

[The prepared statement of Mr. Toft can be found on page 121 in the appendix.]

Senator GILLIBRAND. Thank you, Mr. Toft.

Mr. Ray Souza, President of Western Union Dairymen, Mel-Delin Dairy in Turlock, California.

STATEMENT OF RAY SOUZA, PRESIDENT, WESTERN UNITED DAIRYMEN, MEL–DELIN DAIRY, TURLOCK, CALIFORNIA

Mr. SOUZA. Good afternoon, Chairs Gillibrand and Casey and members of the Subcommittee. My name is Ray Souza. I am from Turlock, California. My family and I have operated a dairy since 1973. My wife and I also ship to California Dairies, Incorporated, which is a California Cooperative, and have shipped to that company now for a number of years.

I want to thank you for giving me this opportunity to present a California perspective. What I am going to do, I am going to go through three things. I would like to talk about the current conditions, programs that are available for a short-term resolution, and then maybe some thought for the future. But before I do, I would like to also put a human face on the conditions in California. I would like to use two families.

The Linhares family was recently honored by our community as having the longest continuous dairy operation in the area. For 102 years, they have had a dairy farm. For 102 years, they have operated as a family farm, as most California farms do. They went through the hoof-and-mouth disease outbreak and survived that, went through the Great Depression and survived that, but they have not been able to survive this current condition. They have lost so much equity that the family came together and decided to enroll their herd and retire their herd through the CWT so that they could retain some equity and some money for future generations. So that farm is no longer in operation, and I was talking to Joe the other day, and he told me they had never missed a day's shipment of milk in 100 years until now, the first time.

The other family is two young dairymen that got into the business a little over a year ago. They worked. They came from immigrant parents, worked on the farm, saved their money and had enough money to put a sizable down payment on a herd of cows. They paid for half of their cows. They went into the dairy business with half of their cows paid for, which is something that a lot of farmers who have been in the business cannot do today. A year ago, 50 percent of their herd was paid for. One year later, because of the drop in equity, cows dropping as much as $1,000 a cow, heifers dropping $750 in calves, which is $400—if you total that up, we have lost $2.6 billion in equity in that State, the dairy farmers in that State. As a result of that, they have become insolvent in less than a year, hard-working families, and they will probably be exiting the dairy industry as well.

Like them, and the rest of us, we have suffered from high feed costs while we have had declining prices on our milk. Our cost of production in California alone has gone up 26 percent in 3 years. I have provided a chart for you in my written testimony to give you kind of an idea where these price fluctuations go.

In 2006, we lost $3.30 a hundredweight, and we talked about that for the longest period of time, for a year or two. We had never seen losses like that until now.

In 2009, we are looking at losses on dairy farms as much as $8 a hundredweight—unprecedented in my life, and as you can see, that has been some time.

But these problems are not unique just to California. It is beginning to happen across the country. We have had this dramatic increase in feed prices. We have these record levels in costs. And just about the time we see some recovery, we see feed costs begin to rise again.

Production costs posted a slight decrease from 2008 to the first quarter of 2009 and again in the second quarter of 2009 due to slight decreases in feed costs. However, cost-of-production figures are not expected to decline by any significant amount as we move forward.

And just this last few weeks alone, we have seen our canola prices, on which we are so dependent in California, move up 36 percent. Corn prices, of course, have risen, but most of all, hay is a particular issue in California. Hay and canola are protein feeds. We feed two types of feed: protein feeds and energy feeds. Our protein feeds have escalated. As you probably know—I am sure you know, we have a drought in California, the west side of the valley, which is a primary hay-growing area. That area, we have suffered tremendous losses of alfalfa production in that area. And to add to that, Nevada has become a big hay-supplying area for our State, and the rains that we had earlier this year basically ruined the best cutting of hay. The first cutting of hay has basically been ruined in Nevada. So hay is going to be quite an issue for us.

I see we are running out of time, so I will try to get through the rest of my testimony as quickly as possible.

The outlook for the remainder of 2009 and into 2010, we see some movement in price, but we do not see much movement in margins. As these prices move up, we were so far below the actual cost, our margins, we still see those as being pretty sad margins. We do not see much in recovery there

The dairy safety nets. The support program, which has been the program that we have looked to for years and years as our basic support program, our safety net program, really has become inadequate and ineffective. As costs have gone up as dramatically as they have and the support price frozen where it is, it does not make—it is almost irrelevant any longer. Normally, we would have a support program below the cost of production, and in these downturns, we would have a number of producers that would exit the area, the more inefficient farmers, for whatever reason, a number of farmers that could weather the storm, and a number of farmers that could still produce a little bit. This loss has been so dramatic, no one is going to survive at these prices. I do not care how big, how small, where you are located, no one will survive. And what we have done, we have got ourselves into a situation now we have an inefficient industry. We have borrowed so much money against such little equity, we are no longer—we do have a global market, and I do not see how we can compete in that global market with these kind of prices. We need to do something immediately to stop the bleeding.

The DEIP program, we want to thank the Secretary for help with the DEIP program. That has been a very effective program. We have moved some product out, and it has certainly helped us with our exports, and I think we need to remain—we would encourage the Secretary to fully use the DEIP program, as they can continue to do so.

Back to the support program, I also want to thank the Secretary for raising the price to a level that it at least reasonable. The current price that we have, as we know, the way that program works, as the product price moves up by 10 percent, that product is reintroduced into the market. Theoretically, I could see where we could buy cheese at the current price, not the price that the Secretary has said. That could have the effect of actually lowering the price of cheese long run. As the price moves up slightly, that product is moved back into the open market, again, reducing the market price. I would encourage—and let me once again say, encourage with everything that I have—that he continue to use the new price to extend the current price at least through July. That would be tremendously helpful, I think, to all of us in the West—in the country, I should say.

Dairy export enhancement I have talked about. Steps to take to address the issue, we have looked at a number of things. We have looked at the Holstein plan. We have not endorsed the plan. We feel it has—we endorse the concept of the plan, and we have made 11 recommendations on how to improve the plan. That is not an endorsement of the plan but a simple recognition that there is interest and it should be fully developed, and we want to look at those opportunities.

I have the rest of my testimony written——

Senator GILLIBRAND. You can submit the rest for the record.

Mr. SOUZA. I will submit the written, but one thing, though, I want to tell you that we do support the CWT program, and we encourage all non-participants to get involved. No matter how you cut it, there are 300,000 cows that have been retired, and that does have an impact.

Thank you.

[The prepared statement of Mr. Souza can be found on page 108 in the appendix.]

Senator GILLIBRAND. Okay. Thank you very much.

Mr. Doug Nuttelman, dairy farmer, Nuttelman Dairy from Stromsburg. Mr. Nuttelman, go ahead.

STATEMENT OF DOUG NUTTELMAN, DAIRY FARMER, NUTTELMAN DAIRY, STROMSBURG, NEBRASKA

Mr. NUTTELMAN. Distinguished Senators, thank you, first of all, for such a warm welcome, and thank you for the opportunity to testify on the critical state of the American dairy industry. As has been mentioned, my name is Doug Nuttelman, and I am a dairy farmer from Stromsburg, Nebraska. My three sons and I own and operate Nuttelman Dairy. We milk 185 cows and farm a total of about 2,000 acres, which includes corn, soybeans and alfalfa. Although our family has not been milking for many years, we were rewarded this summer for being 108 years in our family farm at our local county fair.

I am on the Board of Directors of Dairy Farmers of America and also on the Board of Directors of the National Milk Producers.

First, I would like to express my appreciation to the Senators of this Committee and others for their relentless efforts to help dairy producers in these difficult times. Thanks to your tremendous efforts and that of USDA and the dairy producer community contributing to NFPF's Cooperatives Working Together Program, industry experts believe the dairy industry may soon begin to recover from its disastrous years.

As you know, U.S. dairy producers have been hit hard, experiencing unprecedented financial stress caused by historically high production costs. I would like to share just a little bit about how it has affected my farm this past year.

In 2008, we were milking 145 head, and I brought my youngest son home to be on the farm, and we built a new dairy barn that would house 75 cows. Our goal was to have enough housing for 185 to 200 cows. And the results of 2009 versus 2008—in 2008, we were milking about 145 cows. This summer we were milking 190 cows. My income from my milk is $4,000 a month less than it was last year.

My feed costs—we raise all our own heifers, we raise all our own steers, and even though we do produce a lot of our forages and our silages, we are running about $12,000 a month higher than last year.

When I add my son on the payroll, when I add health insurance that I furnish my workers with, when I add my utility expense, when I add my vet bill and my $45 a month extra payment that I had to make for my building, I was at a net cash flow loss of $25,000 a month. And even with MILC at $5,000, you know, my farm was going backwards to the tune of about $20,000 a month on 200 cows. So you can just escalate how much some of the larger producers were losing in the loss of equity in the year.

Even though I produce my own feed, my fertilizer costs this year were $1,000 a ton compared to $350 to $400 last year. My seed was $250 to $300 a bag, and my chemical costs were twice what they were last year.

The sudden loss in late 2008 of export markets translated into a loss of over 25 percent of the U.S. dairy exports or about $6.5 billion of dairy producer equity. During January through August this year, the U.S. average all-milk price was $5.10 per hundred, below the U.S. cost of production. And if I would add $5 a hundred to my milk production over these periods, that translates into $20,100—in other words, a break-even for my dairy farm.

And while milk prices are expected to recover, they are still not projected to reach break-even levels until early next year, which will only stop the bleeding. It will take much longer for some dairy farmers to recover equity that they have lost this past year.

The traditional safety net for dairy farmers, the Price Support and Federal Milk Marketing Order Programs, are not designed to operate in the environment that we have had in 2009. However, to address the underlying problems that caused this crisis, we need to focus on solutions to avoid a reoccurrence of the present milk-pricing dilemma in the future.

A new approach to dairy programs must foster a climate of growth for the industry while protecting dairy farmers by taking the following steps:

One, we need to revamp the current programs and revise them to establish a better safety net—specifically, a Dairy Producer Income Protection Program operating similar to that of other insurance programs. As a farmer, I participate in my Crop Insurance Program. I would like to see some type of program that would allow me to participate in a margin-type program on my dairy. The purpose is to help dairy farmers survive financially difficult times by paying them on an insurance indemnity when a loss occurs.

We need to reform the Federal milk orders. The final outcome of that process must take into consideration various concerns by different regions of the country as well as different roles that the cooperatives play in balancing milk supplies and demand in the United States. The present make allowance system creates a winners and losers scenario.

We need to evaluate a number of options to build upon the success of the industry initiative CWT, Cooperatives Working Together program, and make it even more effective. Currently, there are about 66 to 67 percent of the producers in the United States participating in this program. DFA has begun a program which we have looked at as far as dairy growth management which works to the goal of trying to get 100 percent participation in CWT, which may take a mandatory move by the Government.

If you look at our check-off system, if only 66 to 67 percent of our producers participate in our dairy check-off promotion, it would not be a successful program. But with the help of 100-percent participation, it is.

As we all work to reform and reshape dairy policy in the future, we need to be cautious as it would be far worse to create crisis if we put policies in place that would hurt our ability to fulfill the opportunities that we may encounter in the domestic market, as well as international markets. Producers, like me, agree that the more than 70-year-old programs, especially safety net programs, need revamping. It needs to be made more relevant for the future to avoid the conditions we are now experiencing.

Thank you again for the opportunity I have had to testify before you.

[The prepared statement of Mr. Nuttelman can be found on page 81 in the appendix.]

Senator GILLIBRAND. Thank you, Mr. Nuttelman. Thank you, each of you panelists, for these excellent testimonies and for your insights and expertise.

I would like to talk a little bit about financing, because one of the issues that I have heard from a lot of my dairy farmers is they have no access to capital right now and that, in fact, they are not able to get the kinds of loans they typically would be able to get or the interest rates are too high. I would like you to give some information on that issue, if you have experienced any challenges with regard to getting access to capital in these tough economic times.

Mr. NUTTELMAN. I guess I would like to speak on behalf of my farm. I have had to increase my working line this year, which even though I have been growing my farm, I have been able to maintain over the last 5 years, but this is the first year in 5 that I have had to increase my working capital line at the bank. And it took me testifying before, you know, my loan officers as far as where I was and what was happening in the dairy industry to be able to get that.

I was fortunate enough to get it, but borrowing money on agriculture now with high inputs is getting tougher and tougher every day, not only for me as a dairy farmer but as for a farmer goes.

Rents have escalated. Production costs have escalated. Equipment costs just continue to grow. And so I was fortunate enough to get the money I needed to finish this year, but it is getting tougher.

Mr. OOMS. I think it has been a real challenge for anyone to get enough capital to keep going. For our farm personally, with our location where we are, we have enough equity that we have not had any problem yet. But there are plenty of people who are not—we live in the same county, Senator, and our land equity really kind of helps float the rest of us through times like these, even though our farms— we are optimistic about the future; we are concerned as well. And I think the industry as a whole is having a challenge, as I think our whole society is.

Senator GILLIBRAND. Do you have an additional——

Mr. TOFT. Yes. On our farm we have so far weathered the storm. We have talked to our loan officer, and we have redone some of our loans. Come next spring, when it comes time to put crops in, it is going to be an interesting time.

But I was at our local feed mill, and I bought some feed, and when I wrote the check out, I told the gal behind the counter, I said, "I am going to have to quit writing these checks out pretty soon." And she said, "Well, at least you are not calling in and telling us to use a different credit card." So there are people out there that are putting feed costs on credit cards, and different credit cards, and that is going to be an awful disaster when those come due.

So it is getting tight out there. It is starting to hurt really bad.

Mr. SOUZA. I would say the same thing. I think that the farmers in California are doing the same. They are just burning up their equity, which is putting us in a pretty difficult position as far as being competitive.

I am talking now to banks, and I am hearing information that banks will soon be cutting off credit. I do not know of any—maybe one or two farms they have actually gone out and picked up the cows, but it appears that they have finally come to the point where dairy is no longer the preferred crop in California so the credit is becoming more difficult. But what the financial institutions are looking at, though, they want to see policy that will put the industry back on its feet. They are very concerned about the long-term health of the industry, more so than they are the short-term health.

Senator GILLIBRAND. Right. In terms of the subject of this hearing, we are really talking about what are the potential solutions, both short term and long term. And your testimony was all quite similar. You basically said that the safety nets need improving; they are not working as well as they need to be; you would like to see a new pricing mechanism, but do not necessarily know how to do that or what the best mechanism would be. So I think that is the kind of information we are going to have to develop over the next several months and years until we get to the next farm bill.

But one issue that you all brought up was the CWT program, and you all spoke pretty favorably about it, so I would like to know what are your impressions of a mandatory Government-run supply management program. What would the strength or weakness of that be? And what is it about the CWT program now that you actually like that you would want to preserve?

Mr. OOMS. I think the strength of the CWT right now is that it is producer controlled, so it is able to be responsive to the industry, and I think it has moved pretty fast this year. And I think a drawback of it being mandatory and having Federal involvement is you lose that ability to respond.

Having said that, I know a number of people that are very favorable towards doing that, but I think there are drawbacks once you involve the Government in a program.

But, overall, it has been successful and it could do more.

Senator GILLIBRAND. Mr. Souza.

Mr. SOUZA. Well, our organization has favored CWT, although there has been a lot of debate on how it could be run. But being a privately run organization, it really does help us deal with some of the WTO rules. That is why we are doing it through the cooperatives. Through Capper-Volstead it gives us that opportunity.

As far as a Government-run program, there are a lot of things about the Government-run program that we have to concern ourselves with. We have looked at supply management programs in the past that have been run by the Government that have been, to one degree or another, successful or not successful. But we are dealing with a whole new set of—we are in a global economy. We have WTO rules. And I think from our industry's perspective, we recognize that there is some value there, but we really need to be careful how we move forward in this thing.

The WTO rules, unfortunately, today—although we have tried to tighten them up as much as we can, there is a lot of wiggle room with our international competitors. So we continue to look at that, and we believe that needs to be fully vetted before we can fully buy into that type of a program.

Senator GILLIBRAND. Thank you. I actually need to move on to Senator Klobuchar because I want to stick to the 5-minute rule. But we can revisit this issue when I have time again next.

Senator Klobuchar.

Senator KLOBUCHAR. Thank you very much. I appreciate it.

One of the things that I was wondering about—maybe you can start, Mr. Toft—is just the effect that this has beyond dairy farmers, you know, on processors and the rest of the dairy industry. We have a lot of co-ops and different dairy processors in Minnesota. Could you talk about the effect you have seen beyond dairy farmers?

Mr. TOFT. When a dairy farmer has a dollar in his pocket, he spends it. And when you do not have that money in your pocket, you do not go to town, and it involves everybody on Main Street.

In our county, we have been told that a dollar coming in on a milk check will turn seven times before it leaves our county. So that is a lot of money. And that keeps a lot of different businesses—whether it is a furniture store, a grocery store, or whatever, it keeps all these other businesses going.

In the same way, this price volatility makes it hard for our coop to—when we sell product to a customer and the price goes up and down, they would rather have a stable price rather than the—I mean, the farmers like a high price, but our customers would rather have a low price. So we would rather have it somewhere in the middle so that we both can keep on.

If that customer of ours reformulates from a dairy product to something else, they do not come back right away. And that is going to be a problem now if the prices go up. We are losing dairy farmers so that the milk supply is dropping. But there are too many customers that have already reformulated, and they are not coming back to dairy right away.

So it involves the co-op, it involves the dairy farmer, it involves Main Streets.

Senator KLOBUCHAR. Anyone else want to add to that, the effect?

Mr. SOUZA. Well, I come from a high unemployment area. We are in the middle of the San Joaquin Valley in California. We have towns with as much as 25 and even 30 percent unemployment. And when you take $3 billion of farm gate value right out of the San

Joaquin Valley, it is going to have an impact. But the biggest impact really has been on the poor—of course, which we are all becoming poor quickly. But those folks that do not have jobs, have lost their jobs in agriculture today, really have nowhere to go.

One of the good things that we did with our Cheese Buy Program and trying to get that Cheese Buy and the dairy products moved through the appropriations bill into those families was to help some of those families survive this very, very difficult time. It has had a very dramatic impact. And if you drive through the valley in some of those poor rural towns, you can see it for yourself. It is quite sad.

Senator KLOBUCHAR. How about the export market? You know, we tried to figure out if there is anything out there to help in that way. And, of course, we have had issues with some of the concentrated milk and other things coming in from foreign countries. But what is the status of that? We fully funded the Dairy Export Incentive Program, but what do you think we can do better to promote exports?

Mr. NUTTELMAN. I think the continuation of the DEIP program is going to help us out quite a bit. You know, just the idea that if markets around the world do improve, we become more competitive, too, and we can become a player in those markets. But I think the continuation of the DEIP program will continue to help us with our surpluses and get us into those countries we need to be in.

Senator KLOBUCHAR. I just had a hearing yesterday in Minnesota on exports—it was not specific to agriculture— because I head up that Subcommittee in Commerce, and I was just struck by the growing markets out there internationally, like 95 percent of our customers are outside of the U.S. And I know this is not the panacea, but the more that we can try to help you with those exports, I think the better off we will be as some of these developing countries actually become consumers.

Mr. NUTTELMAN. If you look back at what happened in 2008, other countries were not able to supply the markets and we were. And we grew a dairy industry that could be a player in the industry as far as other markets. And then all of a sudden when they were gone, you know, that was what created a lot of our dilemma. But now I think, you know, through DEIP and other programs, we will be able to get back in there and be a supplier.

Senator KLOBUCHAR. Mr. Ooms.

Mr. OOMS. I think one thing that is really playing a big role in this, as I said in my testimony, is that in 2007 and 2008 our prices were high. We were exporting up to 11 percent of our product, and historically we have done 4 or 5 percent. Part of the reason for that happening is the economics of everything, but the other thing is we cannot underestimate the impact of the melamine scandal in China, because the Chinese historically have not been dairy product consumers. So when they have that melamine issue, they do not switch to another milk. They just started drinking this product, and then they have their kids dying. They are not going to go back to it too quick.

So I think that is another key factor because it is a huge market, and the dollar being a little weaker will help us export more.

Senator KLOBUCHAR. That is what we hope, and you mean to open up the Chinese market more or to——

Mr. OOMS. If they drink milk, we will find a way to get it there.

Senator KLOBUCHAR. Mr. Souza.

Mr. SOUZA. Yes, I would like to take a shot at that, too. Being from California, we have, you know, particular interest in the Chinese market. That is probably our market of the future. But we needed to pursue a more aggressive public-private partnership in reaching into those markets. It is very expensive, product development, marketing, and strictly for the co-ops themselves, it is extremely expensive and very difficult to do.

But I think one of the things that we could look at is a public-private partnership and how do we aggressively crack those markets and get our American products to those markets.

Senator KLOBUCHAR. Right. I was just struck at this hearing that 30 percent of small businesses—again, outside of agriculture but there are a lot of lessons to be learned—say that they would like to export more, but they just do not know where those markets are, and trying to focus on that I think could be a big part of the solution. As we know, dairy products would be really good for people in these developing countries.

Mr. NUTTELMAN. If I could make one more comment. If you look at the Price Support Program, you know, a lot of the products that have been manufactured over there were manufactured to meet Government standards, our Government standards, so that if the market fell out, we could sell them to the Government. You know, if we are going to be looking at playing in exports, we need maybe help of some type of developing the products that these other countries wants and get away from just producing products that would have a Government support program attached to it. So I think it is important that we help develop products that other countries want.

Senator KLOBUCHAR. Thank you very much.

Senator GILLIBRAND. Senator Johanns.

Senator JOHANNS. Well, let me just start out and tell each of you how impressed I have been by your testimony. But, of course, you would know this industry because you live it every day.

In preparation for the hearing, I was reviewing some of the overall numbers that are available through the USDA and the Congressional Research Service report, and there just is not any doubt about it. There was a perfect storm here.

About the time, Doug, that I went back to Nebraska to start the campaign for the Senate, we saw historic prices for milk. Had I told you that you would see $21 milk, I think you probably would have wanted to debate that with me, but that is what you saw.

It appears to me that the signal that sent to the producer was to do what farmers and dairy folks are really good at, and that is, to produce. After all, the price was very, very good.

Consequently, it looks to me like what occurred is that instead of culling those animals out of the herds, some cows got kept, the herd expanded, while at the same time productivity has been going like this in dairy, just like it has in the rest of agriculture. Then all of a sudden you started to experience very expensive input costs. Corn prices in Nebraska flirted with $7. As you know if you were buying that corn, that was going to be a painful situation, while at the same time demand dropped. And it just could not be a worse set of circumstances for the industry. It just could not be a worse set of circumstances.

What I am trying to figure out and I think all of us here today are trying to figure out is the right approach that recognizes that you are really good at what you do and we should encourage that. We should encourage you producing, because with better genetics, et cetera, we are going to see great productivity. But the piece of that I think we have a role in is, number one, what is the right safety net. You do not want agriculture to collapse in bad times. And then, secondly, how do we increase that demand for the product that you raise?

Now, let me throw something out to you on that demand equation. About 2 years ago, a little more than 2 years ago, trade promotion authority lapsed. Our President does not have trade promotion authority, and that is the legislation that allows for the up-or-down vote on a given trade agreement.

I submit, having worked in trade as a member of the Cabinet, there will be no bilateral trade agreements by this administration. There will not be any—not because they do not talk like they want them, but you cannot get them without trade promotion authority. What country would negotiate with you if 535 people then have the ability to amend the trade agreement?

So tell me what your opinion is on trying to expand trade. We have got three bilateral agreements pending. We have got the issue of trade promotion authority, which I would gladly work to help the President get.

Doug, get us started here. What is your sense of what I have said here about trade?

Mr. NUTTELMAN. Well I think when it comes to outside markets and trade, we need to be able to be a fair player. You know, whatever we have, if the trade agreements are, it needs to be fair for both of us. And I know there is always a lot of talk about free trade with other countries and stuff like that. I am not that well versed when it comes to what the President can do or cannot do, and that is why I rely upon you, Mike, on knowing some of that stuff.

But I believe that we can be a fair player in all these markets, and if these markets were open to us and we produced the products that these countries want, I think we could have a thriving dairy industry in this country.

Senator JOHANNS. Mr. Souza, what is your thought on that?

Mr. SOUZA. Well, first of all, I am impressed with your statement because I think you have pegged the industry exactly correct. I feel that trade is the future of our industry. We have a natural inclination to grow, and for us to grow, we have to get into the trade business. But, once again, we have to work—we have to be competitive. That goes back to the statement I made earlier that we need to have a public-private partnership in expanding those markets, and to do that we have to have good research. We have to be very aggressive in product development—product that is developed specifically for a country to meet their demands, not our demands. And, secondly, we have to have trade laws that will make those markets accessible to us.

I am with you. I think we need to strengthen our trade laws. I think we need to get very aggressive back in that arena, and hopefully those options will be made available to us.

Senator JOHANNS. Mr. Toft or Mr. Ooms.

Mr. TOFT. I probably have a little bit different perspective of what exports should be. We have talked a lot about free trade, and free trade is not what we need. What we need is fair trade. We need to be able to export on a fair basis rather than just free.

But the problem comes in, if we are going to be an exporter of dairy products, unless they are something spec, some specific product that somebody else does not—we can export whey and whey products simply because most of the other countries in the world that export do not have much export in whey products. So we can export a lot of our whey products.

But in order to be an exporter of non-fat dry milk, which is the biggest one that goes, we would have to be able to produce it at world prices or less. And the last 6 to 8 months has shown that we cannot survive at $9 milk. We have got to have something higher.

So unless there is some way to raise the prices and we can still export, you know, non-fat is not going to be something that we can do at a profit. But there are products out there that we do, but like I say, the rest of the world does not make whey products to any extent and we do. So we have got a lot of that. But cheese and others, you know, our prices are too high for that most of the time.

Now, with the falling dollar, that is going to make our prices a lot more competitive with foreign markets.

Senator JOHANNS. Yes. Let me wrap up there.

Senator GILLIBRAND. Yes, I think so. Thank you very much.

Chairman Casey.

Senator CASEY. Thank you, Senator Gillibrand, and I am grateful for all of your testimony. I know, Mr. Nuttelman, I missed your testimony. I had to step out. But I will—we do have your testimony.

I think it gives an opportunity for you and others as well to focus on one or two questions. The first question would be: Each of you in your own way—and it is set forth in your testimony, Mr. Toft, on page 2, Mr. Souza, for example, on page 10, you talk about short term and long term. And I am glad you did that because it is critically important. In Washington, when there is a problem, sometimes saying we have a bill on that or there is a bill does not respond immediately enough to a lot of problems, but especially I think in this situation.

If you were able to—and I know some of this will be redundant, but in this town it is important to be redundant, and then again and again and again, because of how busy people get and how sometimes we lose our focus.

If you had to pinpoint—just dealing with the short term first—two or three immediate actions that the Congress, the executive branch of the Federal Government, any agency could take at the Federal level, what would be those two or three things if you had the proverbial magic wand? Because we are trying to think about in those time periods both short term and long term. And in our second panel, Russell Redding is here, and he has broad experience in Pennsylvania, and I am going to be giving him a half-hour build-up when his panel appears. But he can tell you how immediate the crisis is for Pennsylvania farmers, and I know it is true across the country.

So if you had even two, what are the two things you would hope that the Federal Government could do in the near term, the next 6 months or so, if not the next year? Why don't we just go right to left?

Mr. NUTTELMAN. I think one of the things you could do—and you have already done that with your $350 million—is getting some money into dairy farmers but be an active player in some of our markets and help us in controlling maybe some of our inventories. The purchase of cheese and even that for, you know—I am not going to say export, but for feeding programs and stuff like that, or anything that could help stimulate our price. I think our price is going to be, you know, gaining but I think that would help speed up the programs.

When I look at what our co-op does right now, we do not have enough milk in some areas to supply markets. And you might think, well, that is not very good the way the markets are. But our milk supply at present right now does not supply all the milk without moving a lot of milk around. But the inventories that we still have on hand is what is holding some of our price back. So helping in some type of lowering of inventories would.

Senator CASEY. Helping moving the inventory.

Mr. NUTTELMAN. Helping moving the inventories I think would stimulate the price and get it back into dairy farmers' pockets.

Myself, you know, I would rather get my money from my market. You know, if there is something I could tell you guys, I believe in having the programs as safety nets and everything else. But I would like to be—I would love to be a farmer that gets all my money from the markets. And let me market my stuff the way I want to or whatever it is, and let me be a steward in marketing my product and not rely upon you guys to keep me in business.

So we need to find a way to strengthen the price sooner than later.

Senator CASEY. Thank you.

Mr. Souza.

Mr. SOUZA. Well, Chair Casey, I would agree that the most immediate thing with the greatest impact and probably it would give you the most bang for your buck would be the Cheese Buy, and I say cheese not dairy products, but in particular cheese. There was an analysis done by the National Milk Producers Federation that showed that the Cheese Buy Program would return more money per each dollar invested than a direct payment program or actually even an increase in the support price.

And it also takes care of two problems. We have a business crisis in the dairy industry, but we have a social crisis. And I cannot think of an idea that would handle the dairy industry crisis, the social crisis, and is fiscally sound, money spent on that Cheese Program would effectively reduce the payments put into other safety net type of programs. And I think you can show a savings with that.

So number one in my book is the Cheese Buy, but the one problem that I have was we actually gave a figure of 100 million pounds, and there was a specific reason. We have 100 million pounds of overhang, of too much cheese. Anything below that, what concerns me is we may spend the money but not get the benefit.

So I would recommend that we look hard to find the rest of the money to get the 100 million pounds bought, move that off the market right off of the CME, not through CCC, which requires additional packaging requirements and inspection requirements, take it right off of the CCC, the same way you buy it at home, get it to those families, even the $60 million we have now, it has to be moved immediately, and then immediately move into another phase to buy the rest of the cheese.

We have a fairly good balance of supply and demand. Some regions you have a little bit more than you need. Other regions, there is a short supply. In California, we are short. They say as California goes, so goes the Nation. We are down 6.4 percent from where we were a year ago.

We feel the market signals. I hope that the rest of the country will understand and will do the same as California does and get our production in line. But Cheese Buy is my answer to your question.

Senator CASEY. Mr. Toft? I know I am out of time, but I will let the responses——

Mr. TOFT. I have to agree with these two gentlemen that buying that cheese as soon as possible, not waiting a month, but with our economy the way it is, there is an awful lot of hungry people out there that could put that cheese to good use. And I think if we did that right away, that would help us more than anything. And the other 290 million would go a long ways as soon as that can be put into the pockets of dairymen, that would really help the individual dairymen.

I was going to mention, too—Senator Klobuchar is gone, but the other thing you could do is, you know, in Wisconsin we send aging quarterbacks, expensive quarterbacks across the State line.

Senator CASEY. Well, she will watch this testimony tonight, so be careful.

[Laughter.]

Mr. TOFT. Okay.

Senator CASEY. Just kidding.

Mr. OOMS. I would just say I cannot disagree with anything that they said, but we oftentimes get caught up in big things, and there are little things that we let elude us. And two things that just really bother me is the 15 cents that every dairy farmer in America pays for promotion and the imported products do not have to pay it. The farm bill mandated that they pay 7–1/2 cents, which sounds like a good Washington deal that, you know, the IDFA wanted that. It should still be 15 cents, and why USDA is not expediting that process is beyond me.

The second thing is that Senate bill 1542, which would basically—milk protein concentrates are essentially a new product that were left out of the last WTO round. They could be tariffed under the WTO rules, just so we are making sure that everybody is playing on a fair playing field.

Again, they are not big things. They hit the big things, so I would take the opportunity to give you two things that we just need to pay attention to this stuff, because we are letting too much of the little things go by.

Senator CASEY. Thanks so much.

Senator GILLIBRAND. I want to thank you all for participating in this hearing. This is obviously the first hearing on a very complex topic that is going to take a lot of time to develop a record and develop testimony and develop the ideas. I am very appreciative, in particular, of offering your short-term solutions and at least being able to lay out some of the long-term ideas that we need to begin to debate.

But thank you for being here. We know how much stress your farms are under. We all represent dairy States, and we are very worried and concerned for you.

We are going to do everything we can do to follow up on the three things that were your top priorities: getting the 15 cents for promotion out of our foreign competitors, making sure we focus on 1542 as a way to have more money in, and then trying to get that cheese bought. So thank you so much for being here. I am very grateful.

I invite the second panel to come up.

Senator CASEY. Welcome to the second panel, and we are grateful that people are still in the audience to listen to the testimony. We are also grateful that our witnesses are here. And I think you know, our witnesses know the drill by now. We are going to try to keep your testimony to 5 minutes if you can. We probably have been adding a minute here or there, but I am not supposed to say that.

What we will do is Senator Gillibrand will introduce Mr. Gallagher, and then I will introduce the next three witnesses, and then we will go from there.

Senator Gillibrand.

Senator GILLIBRAND. Thank you all for being here. Thank you, Mr. Chairman.

Ed Gallagher serves as the Vice President of Economics and Risk Management at Dairylea Cooperative Inc., Dairy Marketing Services, and Dairy Farmers of America Farmer Services Unit. As a member of Dairylea's senior management team, Ed is involved in milk marketing, regulatory and government affairs issues, and providing assistance developing various business ventures. He oversees the operation of Dairylea's and DFA's milk price risk management programs.

Prior to joining Dairylea, Ed was employed for 12 years at the Office of the Federal Milk Market Administrator for the New York-New Jersey Marketing Area. He spent his last 5 years there as Chief of Market Analysis Research and Information. He was raised on a dairy farm in Sangerfield, New York. The family farm is currently being operated by his brother and sister-in-law. Ed lives with his wife and two children in Cosnovia, New York.

STATEMENT OF ED GALLAGHER, VICE PRESIDENT OF ECONOMICS AND RISK MANAGEMENT, DAIRYLEA COOPERATIVE INC. SYRACUSE, NEW YORK

Mr. GALLAGHER. Thank you, and thank you for the invitation to speak to you today, and thank you for everything that you have done to date supporting America's dairy farmers, and thank you for having this hearing.

I do not want to make light of the economic crisis that is facing our dairy farmers, but I do want to get into some specific things. In my lifetime, this is the single worst crisis facing the dairy industry. This cost price squeeze is having impacts that are going beyond anything that we have ever seen before. It is made far worse by the cost of production increase that has occurred because of Federal policy to support the production of ethanol. My research would suggest that it has probably added almost $2 a hundredweight on average across the country right now to the cost of producing milk.

When I look at farm returns, it is very similar to some of the returns that Mr. Souza spoke about earlier that losses on farms are deeper than they ever have been, and they are probably $5 per hundredweight or more. In the Northeast, they are probably averaging about $75 a cow a month, and as you go west where they buy more of their feed, they get worse.

You know, the ultimate issue that we are dealing with is a collapse in demand, not a collapse in domestic demand but a collapse in export demand, that specifically can be attributed to the financial crisis. I often talk at dairy farmer gatherings about governmental policy, and I frequently start by saying the single most important policy that we should be trying to develop is policy that results in a strong, growing national economy.

All of us here have a sense of what goes on in the dairy industry, but beyond that, about the issues that caused the financial collapse, we are neophytes. We need your support and your efforts to continue pursuing solutions to that so that crisis never occurs again.

Prices are improving. I am optimistic about price increases, although I am not sure we are going to get beyond or up to in some cases break-even. Certainly there has been a lot of discussion about the $60 million. We need that spent right away, and we need it spent to buy cheese, not just any type of cheese but cheddar cheese. That will have the biggest bang for the buck, and I think markets are tight enough that we can move cheese prices fairly significantly with a new buyer in the marketplace.

As the economies around the world pick up, there is definitely going to be inflationary issues running across commodities. One of the things we have to make sure is that undue speculation in the commodity markets is not contributing to higher prices. That has harmed dairy farmer income in the past. It has harmed prices that all of us have had to pay. There are issues that can—we need your support in making sure that some of that speculative activity is reined in and supports dairy farmer income.

Regardless of some of the policies that we come out of after this is over, longer term with some of the things that we can do, milk price volatility is not going to go away, in my opinion. We need to help dairy farmers get educated on the opportunities that are out there to help them manage their milk price risk. I have got farms in my programs that are getting up to $8 a hundredweight over the market price right now because of actions they took last year through forward contracts in the DFA and Dairylea programs.

I think there needs to be incentives to encourage them to use the programs. I think for many farms there are some really good opportunities to create their own price floor far above anything the Federal Government will be able to afford to give them, but some farmers balked last year in doing that because they did not want to pay the cost of it. And I believe some incentives will help them.

We need to look at supply management options. The CWT program has been successful. We have taken what would normally be a 1-to 3-percent increase in production and zeroed it out, and it is starting to decline now. Certainly if we can get more people participating in the investment in CWT, that would be helpful.

Federal orders definitely need to be looked at and reformed. At the end of the day, we have got to make sure that we do not go create an unintended consequence of discouraging manufacturers from buying milk, and we have to make sure there is a linkage so that farmers and milk processors can continue to hedge.

We need to get Secretary Vilsack's Dairy Advisory Committee going. We need that so that we can get a pulse from the farming community and from the dairy industry about what is going on. We need to look at a whole bunch of things.

In addition to everything that has already been stated, maybe we need to look and review how data is collected and the impact that that may have, dairy data is collected and the impact that that may have on the pricing system and are there ways to do a better job collecting the data to make sure that it is relevant.

In closing, I want to thank you for the opportunity to be here. I look forward to working with this Committee and my partners here on this Committee and the entire dairy industry in working through these issues over the next months to improve the dairy industry and have a stronger, more profitable industry for dairy farmers.

Thank you.

[The prepared statement of Mr. Gallagher can be found on page 47 in the appendix.]

Senator CASEY. Mr. Gallagher, thank you very much for your testimony, and we appreciate you being here.

Secretary Redding, the Acting Secretary of Agriculture for the Commonwealth of Pennsylvania, I was kidding before when I said I was going to give him a half-hour introduction. I will not do that. But I have known Russell Redding for many years. He served in State government, actually prior to my own service, and we were there in Harrisburg together doing different jobs. He has been part of the Department of Agriculture's leadership team since 1995. He grew up on a family farm in Gettysburg, Pennsylvania, in Adams County. And since 2003, he has overseen the day-to-day management of the Department of Agriculture in Pennsylvania. I know his predecessor and former boss, Secretary Wolfe, is in the back of the room. I am happy to see Secretary Denny Wolfe from the Commonwealth of Pennsylvania.

He also served here in Washington as a member of the staff of actually one of my predecessors, Senator Harris Wofford, as agricultural policy adviser and executive assistant to Senator Wofford in the 1990s.

He has served our Commonwealth in so many different capacities. He is a proud graduate of Penn State, and, Russ, we are glad you are here. I should say, "Mr. Secretary, we are glad you are here." And we appreciate the perspective you bring to this for our Commonwealth and our country. Thank you.

STATEMENT OF RUSSELL C. REDDING, ACTING SECRETARY, PENNSYLVANIA DEPARTMENT OF AGRICULTURE, HARRISBURG, PENNSYLVANIA

Mr. REDDING. Thank you, Mr. Chairman, for the kind introduction. Madam Chairman, thank you, and to the Senators, thank you for being here and inviting the Commonwealth of Pennsylvania to be part of this testimony. This is certainly an important moment for us to talk about the dairy issue, and we heard from the first panel and we will hear from this group as well. But on behalf of Governor Rendell, thank you for the invitation to be here.

We look forward to working with you as a Committee and your colleagues to deal with this issue. On behalf of the Pennsylvania producers, about 8,000 of them presently, I want to say thank you to the Committee for the $350 million supplemental support for the dairy industry. Certainly that is a critical step. It is the first step. We know how difficult that was and how difficult it is to come by with extra money, so certainly an important statement from Congress and from the Committee.

It is certainly helpful in dealing with the near-term pain that the producers are experiencing, and you heard from them earlier. But also it maybe more importantly gives us some breathing room to really deal with this crisis and to talk through what is going on. I think that has been the real benefit of the $350 million, so thank you for that.

I have said often in the past several months that you never want to waste a crisis, and we certainly have one here in the dairy industry today. Now, it is both a crisis in confidence and it is a crisis in income. We must use the rare moment to reform our pricing system, better understand the dairy market dynamics, and most importantly, change the approach to managing risk at the farm level.

Now, several items of recommendation on reform. We must improve the system of price discovery. The U.S. dairy industry would benefit from a reliable and transparent method of price discovery for dairy commodities. It is questionable whether that exists today. The CME market for cheese and butter is thinly traded and is the market of last resort for both sellers and buyers at times. Yet it is these transactions and only these that send the signal to the USDA/NASS for prices of dairy products which the Federal Milk Marketing Order System depends on for prices of dairy commodities. There is a lot we could say on that. I just put that on the table as one of those items we need to come back to.

Secondly, we would also suggest improving the integrity of the marketplace by creating alternatives to the CME or consider using a collection of price discovery tools that would more accurately reflect what is going on in the market and the market conditions.

Thirdly, and maybe the most important recommendation I would make here today is that both Congress and the USDA work together to provide dairy producers with additional workable, affordable, and meaningful risk management tools. Mr. Gallagher mentioned this. I think this is one of those teachable moments that you rarely get in agricultural policy in particular. We spent a lot of time trying to build a system and a product and a private product that Congress gave the authority to do back in 2000 which Mr. Bruce Babcock called LGM Dairy. It is that first step to really encouraging dairy producers to use a risk management tool to hedge some of the risk that they are all experiencing. Whether it is the most effective product in doing that, there are certainly some things we should do, like providing some incentive. Ed mentioned this. That is the number one reason that folks buy crop insurance. There is some incentive there. There is no incentive at this point for the LGM Dairy. We think that is an important first step.

We believe that there are some things we could do from an incremental payment standpoint, is that right now all the money is due up front. That is a very heavy lift when you are working with negative margins. So having some opportunity to spread those payments out.

And, most importantly, I think, education, and clearly this is a changed day. You are asking producers to take a very different approach to managing their risk. We are going to have to help them get there. We have shown we can do that on the crop side over the last number of years, and thanks to Congress for having the foresight to consider that. We have worked hard on that. So the LGM Dairy or other risk management options I would say is important. And I think it becomes critical to moving forward because that is the tool that bankers and lenders will look to. How have you managed or will you manage your risk is important.

Just a couple of final points. The standards of identity for imported product, we keep hearing over and over those issues. I think, again, this is a moment for us to talk about what is coming into the country, who is bringing it in, what form is it in, how is it being used. That is an issue. This is the confidence side when I say crisis of confidence. Producers really do not understand the pricing mechanism and is compounded by—you have imported product where we are really not sure of its intended use. Is it coming in with tariff rate quota? Is it coming in under the same standards of identity? That is an issue that simply must be dealt with, and I put that on the table as one of the near-term items.

A final point, and this is not a dairy issue, but more in terms of going forward, is the most immediate thing we can focus on are the credit markets. Even if the milk market starts to turn up, which it is a little bit, and we have some outward hope, we have an issue in the near term of folks being able to finance their operations. We heard this in the first panel. That is the piece we really need to focus on. What can the USDA and Congress do to provide that bridge from this year to the better year? And we need to look at finance. We cannot probably price product the way everybody wants it priced at the moment or make all the changes. But we certainly can change the credit availability and how the USDA and the Federal Government manages this portfolio of credit for American agriculture.

Finally, we are fortunate in a State, in Pennsylvania, to have a Milk Marketing Board under Governor Rendell's leadership. Just as we have asked this Committee and Congress and the USDA to work hard at finding some solutions, the Governor has also asked the Milk Marketing Board, which is a separate independent entity in the State, to look at their own authority. What can we do as a State to address the issue? It certainly has been over the years a partnership between State and Federal Government. We are one of six States in the Nation that have a pricing mechanism. How do you use that? Is it being used effectively? Is there some other way to use that tool to help the producers in the State of Pennsylvania?

So I end there saying that we have a lot of good work to do. There has been a lot of good work done, and I think with this moment in time, we know producers now understand where their margins are or what their margins are. We know that. And that is an important statement, because only once you know that can you make an informed decision about how to manage your risk. So we have that moment now with the crisis that has been provided to us. We did not want it, but we have got it. What do we make of it? And then how do we apply these new risk management tools to really help our producers in Pennsylvania and this Nation.

Again, thank you to the Committee.

[The prepared statement of Mr. Redding can be found on page 96 in the appendix.]

Senator CASEY. Mr. Secretary, thank you very much.

Our next witness is Paul W. Kruse, and Paul is currently the Chief Executive Officer and President of Blue Bell Creameries. He is a graduate of Texas A&M and Baylor Law School and also currently serves as Chairman of the International Dairy Foods Association and had been chair of the Dairy Products Institute of Texas.

We are grateful that you are here, and thank you for your testimony, sir.

STATEMENT OF PAUL W. KRUSE, CHIEF EXECUTIVE OFFICER AND PRESIDENT, BLUE BELL CREAMERIES, L.P., BRENHAM, TEXAS

Mr. KRUSE. Thank you, Mr. Chairman and Madam Chairwoman and members of the Subcommittees. I appreciate the opportunity to be here today. As you said, I am the CEO and President of Blue Bell Creameries. We are an ice cream manufacturer located in Texas, and we basically distribute product through 18 South and Southeast States in the United States. We have been around in business for 102 years, so we have been at it a long time.

I am also, as the Chairman said, the Chairman of the International Dairy Foods Association. That is 220 member companies that actually handle about 85 percent of all milk, cultured products, cheese, and ice cream that is manufactured and marketed in the United States. As a group, we are deeply concerned with the situation that dairy producers face today, and we are definitely available to help find solutions so that all producers, both large ones and small ones, can get the necessary tools to manage their businesses profitably. The partnership that we have with milk producers is critical to protect.

There are three points I would like to make.

First, most of our dairy policies were designed over 70 years ago, and the industry has changed very profoundly since then.

Second, price swings are normal for farm commodities, but dairy farmers lack the tools that would allow them to smooth those swings, and I think Mr. Gallagher and the Secretary here both elucidated that very well, talking about risk management and just how important it can be.

And, third, the milk supply needs to continue to grow to meet demand, and Federal dairy policies should be reformed to let us reach that potential.

Just a few facts about milk and the dairy industry. About 45 percent of domestic milk goes into cheese production; 30 percent into fluid, or the bottled, the beverage milk; and about 10 percent goes into frozen products like ice cream. Milk production really in the United States has soared in the last 30 years. Fluid sales have been very stagnant during that time. Cheese sales have taken up most of the milk growth over those years. And the frozen products have been relatively stagnant also over those years.

As you know, probably three-quarters of our milk supply comes from the ten top dairy States. It is very concentrated. And when most of our Federal dairy programs were designed, there were 4.6 million dairy farmers, and today by our count there are about 67,000. So there has been a real decrease.

Long ago, most of the milk came off small dairy farms, and today I think 59 percent of the milk comes from only 5 percent of the dairy farms, and those are classed as 500 cows and up.

We used to be a net importer, and as you heard, I think, from the producers testifying today, last year about 10 percent of all the production of milk in the United States was actually exported last year.

There is no question that the low prices have been kind of historic this year and have created a lot of concern. I think by our calculations, the Federal Government has put about $1 billion in help into that market this year. But even with this, I think people will agree that our old system is not serving us very well, and changes are really looked forward to, I think, by our industry.

One of the ways, I think, is to stop treating dairy as different than any other commodity. We need to, as the previous two witnesses just testified, give them the ability to manage unavoidable swings in the market, encourage the use of market-based risk management tools that allow them and processors to manage the variability in market prices. As I understand it, I think every other agricultural sector can and does use those tools as a regular part of business, and it is just not real frequent in the dairy industry.

Expanded insurance programs like the Livestock Gross Margin Insurance Program, and also the forward contracting program, I think, that was reauthorized in the 2008 farm bill are steps in the right direction.

We think more can be done, and as the previous witnesses talked about, education for farmers to understand what tools are out there and what they can do. Providing the right insurance products is also important.

But our outdated dairy programs discourage the use of these tools and, what is worse, they really stand in the way of our industry's ability to expand demand for dairy both domestically and internationally.

Companies around the world have developed new dairy ingredients, but we have not done a good job in the United States of that. Why? Well, our support programs encourage the production of nonfat dry milk which food processors really do not want to use, and that is a drawback.

We need to simplify the system by reducing the number of classes of milk and by eliminating the complex formulas that we use to establish prices. Prices are ticking up, and hopefully we will see them go in the right direction. Projections for next year I think are much different than they are for this year, but the question is: How do we get there?

Some have proposed, I think, a supply management where the Government would be involved in managing the supply of milk, and those proposals I think are a little mind-boggling. We would rather not see those. We do not think that is the direction that the dairy industry needs to take in the United States.

In sum, the U.S. dairy industry needs to make some fundamental decisions about the future. Are we going to choose to modernize and grow like other Ag sectors? Or do we have the Government limit the milk supply in an attempt to try and guarantee stable and higher foreign milk prices? If we do that, the industry is going to stop growing and decline as domestic and world markets are captured by our competitors. With the right policies in place, we can thrive as a U.S. dairy-producing region and be able to build demand for dairy products both here and abroad.

I appreciate the opportunity to be here today.

[The prepared statement of Mr. Kruse can be found on page 69 in the appendix.]

Senator CASEY. Thank you very much.

And our final witness for this panel is Lucas S.—and I want to make sure I am pronouncing it right. Is it Sjostrom?

Mr. SJOSTROM. Sjostrom.

Senator CASEY. Say it again?

Mr. SJOSTROM. Sjostrom.

Senator CASEY. Sjostrom. Thank you, sir, and I appreciate the fact that Lucas has as his responsibility Government relations and communications for the Holstein Association USA, Incorporated. He grew up being fully involved in his family's 100-cow Holstein farm in southern Minnesota, and—I am sorry?

Senator GILLIBRAND. Isn't he from Vermont?

Senator CASEY. It says southern Minnesota. Is that correct?

Mr. SJOSTROM. Originally, yes. Originally.

Senator CASEY. Okay. We want to make sure we have the right State there. And we appreciate the fact that he can bring a perspective to this panel that we may not have heard before. Thank you very much.

STATEMENT OF LUCAS S. SJOSTROM, GOVERNMENT RELATIONS SPECIALIST AND COMMUNICATIONS ASSISTANT, HOLSTEIN ASSOCIATION USA, INC., BRATTLEBORO, VERMONT

Mr. SJOSTROM. Well, thank you, Chairs Gillibrand and Casey and Ranking Members Johanns, for inviting me here to testify before you today. I am the Government Relations Specialist and Communications Assistant for Holstein Association USA, a nonprofit dairy organization that is headquartered in Brattleboro, Vermont, with over 30,000 members nationwide. I am here to talk to you today about a program we have proposed, called the Dairy Price Stabilization Program, which will stabilize the peaks and valleys of milk prices which make it so difficult for those in the dairy industry to manage.

As you all know, for almost an entire year virtually all of America's dairy farmers have risen every morning to find that they will be selling milk for less than the amount it costs to produce it. Obviously there are many factors that add into what the milk price will be and what the cost to produce milk is.

In a typical commodity market, there is room for some volatility. You can have ups and downs and hedge against future losses. As stated earlier, milk is not a typical commodity; it is perishable. While we can forward contract milk, there is no way to hang onto that milk for a few months until the prices go up again, like farmers can in other commodity markets, such as corn, soybeans, rice, cotton, and others.

In the dairy market, an oversupply of milk leads to lower prices. As dairy farmers are paid per hundredweight for their milk, the only incentive they have to generate more income when milk prices are down is to produce more milk. This is precisely why we have seen the roller-coaster ride of milk prices over the years. Bottom line, in order to improve the plight of the American dairy farmer, there needs to be some incentive, either a penalty or a premium, to keep supply and demand closer together. The Holstein Association's Dairy Price Stabilization Program accomplishes this.

The Dairy Price Stabilization Program is not a quota system. Unlike supply management systems in other countries, you can still produce as much milk as you want, and there are no large barriers to growth. Ultimately the program rewards producers for making good decisions for the betterment of their industry. Instead of financial incentives directing farmers to produce more milk, the direction received at each farm will help the farmer decide, based on his goals, what that farmer wants to do.

The basic objectives of the Holstein Association's Dairy Price Stabilization Program are:

To prevent severely depressed producer milk prices that result in low and negative returns over feed costs to dairy producers.

To reduce the volatility of milk prices to dairy producers and thereby reduce the price risk to dairy producers, dairy processors, and consumers of milk and dairy products.

To complement, and not replace, other existing dairy programs such as the Federal Dairy Product Price Support Program and the Milk Income Loss Contract Program. In fact, our program may reduce the Federal Government cost of both of These two programs.

Here is a quick overview of the program, and further details have been submitted to the Committee in writing.

The Dairy Price Stabilization Program removes the incentive to produce milk beyond the levels our market demands. It rewards producers who stay in line with market needs.

The U.S. Secretary of Agriculture would administer the program with an Advisory Board. The Board will forecast the 12-month domestic and export market demands for fluid milk and manufactured dairy products. With consideration of the current level of milk production, a determination will be made to the needed change in milk production to fulfill the market needs for each quarter of the next 12 months and return a profitable price to dairymen. This is referred to as "allowable milk marketings."

Dairy farmers who maintain their milk marketings by quarter within the allowable milk marketings will not have to pay market access fees. Dairy farmers who expand their operation and exceed their allowable milk marketings will be accessed a market access fee per hundredweight on their additional milk marketings. The fee would be determined by the U.S. Secretary of Agriculture and the board on a quarterly basis. The fees collected from those producers paying the market access fee would be distributed as a bonus to the dairy producers who stayed within their allowable milk marketings.

Producers will receive their base by filing their history of milk production and monthly marketings to their area USDA Farm Service Agency office. The FSA office will notify the producer's milk plant or dairy cooperative to deduct the market access fee if the producer exceeded their allowable milk marketings.

The cost of the program to taxpayers is nothing. We would expect an assessment of less than 2 cents per hundredweight to producers on all milk marketings to cover the administrative costs of the program.

Dairy farmers are very thankful to our representatives

in Washington, DC, for putting dairy and agriculture as priorities. We would especially like to thank our Senator, Senator Sanders, and all the other Senators who aided in adding some short-term help for dairy farmers to the agricultural appropriations bill the President signed just days ago.

With the Dairy Price Stabilization Program, we have a long-term solution that can have an impact almost immediately, with no cost to taxpayers. The DPSP was developed for dairy producers, by dairy producers. The key to this program is that dairy farmers now have an incentive to produce milk for the market instead of producing all the milk they can and finding out what they are paid for it after it is sold. The program will be beneficial to dairy farmers, milk cooperatives, processors and consumers.

In closing, I would like to emphasize three points:

The Dairy Price Stabilization Program could be put into place without affecting any current dairy programs.

Implementing the DPSP does not require opening the farm gill.

The Dairy Price Stabilization Program is the only new, detailed program available that can have a positive effect on mailbox milk prices now and in the future.

On behalf of the Holstein Association USA's 30,000 members across the country, thank you for the attention you are giving to the volatile position America's dairy farmers are in.

[The prepared statement of Mr. Sjostrom can be found on page 101 in the appendix.]

Senator CASEY. Thank you very much, and I appreciate you mentioning your Senator, Senator Bernie Sanders, who worked very hard on that $350 million.

Let me go to questions. I will start, and we will try to keep our questions within the 5-minute limit.

I am going to ask two basic questions. I ran out of time on the first panel to ask the second part of this, so I will start with that.

With regard to risk management tools, I would ask each of you to assess where we are. I know that we have had in place the so-called LGM Dairy risk management tool. If you could assess that and any other risk management strategies in place right now or programs in place right now, and how we can either add to the list of tools or programs, but any improvements—or outline improvements, if any, for the LGM Dairy risk management program. Maybe we will just go left to right. Mr. Gallagher.

Mr. GALLAGHER. Thank you. One of the challenges we have with risk management that in its infancy the only thing you could do was lock in a milk price. And so at the end of the day, you were either so many dollars above the market or so many dollars below the market, and when you were below the market, you thought it was the worse thing in the world.

The programs have matured. We have got programs now where you can have price floors, where you can have things that we call an upside rider, which is basically you have a floor, and it is like a deductible on an insurance policy. You choose how much you are willing to give up on the upside, but you can get the rest. And I do not think there is enough knowledge of how those programs can help dairy farmers protect themselves against dramatic price declines.

When I go out and I talk to dairy farmers about these things, I talk to them about it as if it is insurance and they are ensuring all these assets and accepting those as cost of production, and yet they are not insuring the single biggest thing that can wreck the operation, and that is their milk price. And so we have got some really good programs, and I think some of the programs that are going on in Pennsylvania and in New York to help educate dairy farmers through the Centers of Dairy Excellence in the two States to educate dairy farmers on the benefits of these I think are extraordinary, and we have got to figure out how to lever that up and get more participation on a Federal level as well as, again, creating incentives.

One of the biggest challenges Russell mentioned with LGM is, one, it is kind of complicated and it is new, and it is talking about managing a margin, milk over feed. And a lot of farms—although they think that way, a lot of farms do not, so it is a little bit of a challenging concept. And so there is an extra added amount of education that needs to go on, as well as it is all front-loaded and farmers cannot afford to pay that.

Actually, our insurance agency sells LGM Dairy insurance, and we have been trying to work with the crop insurance people to allow us to have monthly milk deductions for the insurance so that there is no up-front cost, we just take it out of the milk check, like we do with our forward contracting programs. And I think that would be an improvement that would get more use out of the program. Thank you.

Senator CASEY. Thank you.

Secretary Redding.

Mr. REDDING. Yes, Senator, thank you. I appreciate the question on LGM. As I mentioned in the testimony, we have worked on that. It is a private product, which I think is sort of interesting. When Congress made some changes back in 2000 under the ARPA legislation, it basically allowed the private sector to come in the door with a product to propose to RMA and the Federal Crop Insurance Board, and we did that with an AGR-like product, and Bruce Babcock did it here with the support of initially the States in the Northeast. So you have a private product, which I think is important to note that that is not one that is offered by—it is approved by but it is not—it is approved by the USDA and RMA, but it is a private product. So you need to manage that system.

I would say this: It is only in the second year. It is available in 36 States. It is a pilot project. And probably the lesson here—Ed had mentioned this—when you really need to support it financially, you need to continually talk about it. You mentioned, Senator, in your opening comments about repetition. That is absolutely the key to understanding risk management. You need to hear this over and over and over several times to really grasp the principles. And then once you understand the principles, it is to translate that into a policy that is going to protect your paycheck. And the nice thing is farmers can do that in this program on a monthly basis, and they can do it to the level of insurance and deductible that they want. So it has a lot of nice pieces to it, but it is expensive at the moment. Education is key. And I think the near-term need is for folks like Dairylea, who really invested in risk management education and tools, to help guide that because they can sort of be that translator that we are needing right now. So I think it has a lot of potential.

The point I would make, I guess, we have tried with LGM, and we think it has a lot of potential. We do not know what all the options are, and in this moment, when you really have this dairy world upside down, you know, there may be a better product out there. There may be a better idea out there that the private sector can bring forth. And it would be nice, in this moment when we are really looking for what the next generation of risk management tools are, to set a course for the near term, the next couple of months or so, to really have four or five different pilot projects and products in the marketplace. Let us experiment, right? We have lost billions of dollars in dairy equity. We need to have a really good response to that, and giving the tools to producers in different parts of the country in different ways to experiment a little bit I think would be to our advantage.

Thank you.

Senator CASEY. Thank you. I am out of time, but I will try to come back.

Senator Johanns.

Senator JOHANNS. Thank you, Mr. Chairman.

Mr. Kruse, let me start with a question or two to you. If you do not mind my asking, how many people are employed by your company?

Mr. KRUSE. We have 3,100.

Senator JOHANNS. 3,100. And how would you feel about a Federal law that basically would give to me as Secretary of Agriculture—and I occupied that post for a while, as you know—the power to look across this country and dictate what the milk supply is going to be? Would that be troublesome to you as a processor of the milk supply?

Mr. KRUSE. Very much so, sir.

Senator JOHANNS. Yes. Now, I am not suggesting your company would do this, but some other company that employed people could look to Mexico, Canada, whatever, and say, well, they do not have such a law. Do you think there would be a temptation to move those jobs someplace else because of that kind of law?

Mr. KRUSE. I would think so, yes, sir. If I may say, you know, the up and down volatility, we hate it as an industry. I hate it as a company. It is very destructive. It chases away consumers. It makes many people go substitute products. You have heard that today, and it is very, very true. I still make ice cream straight out of milk, and I fully intend to. But, boy, if we can either through forward contracting, my biggest cost, milk and cream, I cannot. In essence, it has not been very easy. I forward contract everything else.

Senator JOHANNS. Yes. That was going to be where I wanted to go with my next question. I think there are some really good ideas here, and I think this is fixable. Interestingly enough, in the last farm bill, the Dairy Title actually went through without a lot of opposition. Of course, prices were very good.

When you talk about risk management, I think you have really hit the nail on the head. I really believe that farming these days is as much about risk management as it is about milking cows. And so what I have kind of pieced together through your testimony—and, Secretary, I would like you to respond to this—is the notion that with better risk management tools, better educational opportunities for producers on how to use those, and maybe even something like a revenue-based crop insurance program that would be subsidized—I will openly acknowledge there will be a piece of this that would be subsidized, like crop insurance is today—that you could put together a risk management forward contracting sort of approach for the dairy industry that would take some of these peaks and valleys that we see out, because these good producers that were here before you are doing exactly what the marketplace is saying to do. They are saying produce more, the price is good. And, by golly, they did it. And they are really, really good at it. But then there is a cliff effect to that.

What is your reaction to what I am saying about forward contracting, maybe a revenue-based almost crop insurance type program, only it would be revenue-based based upon milk prices? Is that something we should be thinking about as a Subcommittee?

Mr. REDDING. Senator, absolutely. I think it is the next generation of dairy policy. You know, you are going to have to move at some point from the MILC and the Dairy Price Support Program and deal with a lot of market dynamics that we all speak about. But the question is: How do you want the American producer, you know, to manage that risk?

We have found out you cannot self-insure, right? That is what we are experiencing right now. Folks thought they had enough equity, they had enough savings, and some are doing it. But long term I think we need to borrow the page from the other commodities where the Federal Government has made a significant investment in development of meaningful, workable, and affordable products to help mitigate that risk.

We have not done that on dairy. I think that is where we need to be focused. We need to insure and assure that there are really good products available for a dairy industry that reaches from coast to coast, and being Secretary, you understand the challenges of finding a product that works from coast to coast. So that was my point earlier, that there may be things in different markets and different areas that would be worth exploring, but the principles are the same. You are going to try to transfer some of that risk, hedge as much of that risk somewhere else away from your farm and out of the farm so you do not experience these cruel cycles that we are experiencing right now. But it takes support, financial support to do it. You would not sell many crop insurance policies unless you underwrote that by 40 or 60 percent, right? You would not have a lot of folks—and I will speak for Pennsylvania—in the crop insurance system if it was not for Congress identifying the State as an underserved State and really every year being there to help educate. And then you have got a delivery mechanism that you have to think about in dairy that may be a little different than crop because you use the private sector—not saying they cannot, but you are introducing a fundamental change in risk management and a whole new industry to a delivery mechanism that has not historically used or been involved in livestock risk management or dairy risk management.

So there are some things to learn, but most of what we have learned about risk management is transferable.

Senator JOHANNS. I have run out of time. This is such an important discussion because you cannot sell Holsteins unless you can allow the industry to grow and protect itself. And that is just kind of the bottom line. I think if we work on this, I think we can position ourselves to move these programs forward in a forward-looking sort of way, and I will conclude with this last thought.

I so appreciated Doug Nuttelman saying what I have been hearing since I was a little kid growing up on a farm. Farmers do not want to farm for the Government. They want to farm for the marketplace and for the price, and they want to manage their own operations. And I think if we can work with the dairy industry to get that done, we can come up with a good, a really good dairy program.

Thank you.

Senator CASEY. Thank you, Senator Johanns.

Senator Gillibrand.

Senator GILLIBRAND. I would like to follow up on some of the import and export market issues that particularly were raised in the last panel. We have touched on a number of them ranging from increasing the tariff on milk protein concentrates to promotion assessments to the Dairy Export Incentive Program. What, in your opinion, is the net result of these kinds of programs? Do the benefits they provide the American dairy farmers outweigh the potential for trade retaliation? Anybody?

Mr. GALLAGHER. I believe the benefits derived are greater than the risks and costs associated with it. The Dairy Export Incentive Program for this current fiscal year has the ability to take about 1.5 billion pounds of milk equivalent off the market. That is very meaningful and is going to help in the price recovery.

You know, one of the things that was mentioned frequently is the milk protein concentrate issue. You read the testimony and you listen to the colleagues of mine that have been testifying today, and on supply management, we are all over the board. On the issue about milk protein concentrate, I think there is complete producer unanimity in this country on that one particular issue, and we would encourage you to work with your colleagues to move that along because that can make a difference. And to tweak it a little bit, one of the things—you know, we can put tariffs on that will put limits on how much of a product will come in on an annual basis. But still and all, if they can bring all the product in 1 or 2 months, I am not sure we are solving the problem. And so if there is some way we could tweak that so that there maybe is some monthly limit as well, I think that would be extraordinary.

You know, there is tremendous opportunity in U.S. exporting products that we have to keep digging deeper and deeper and looking into ways to tweak our regulatory system to encourage that, and that may even be getting into things like do we adjust the Price Support Program a little bit to create incentives to create things like milk protein concentrates here in the U.S. as opposed to a discouragement, which the current program does.

But I think at the end of the day these things that we do on the export market I think will add more value to the U.S. dairy farmer than the risk of whatever retaliation may occur.

Thank you.

Mr. KRUSE. Madam Chairman, could I address that?

Senator GILLIBRAND. Yes.

Mr. KRUSE. One of the things is people are demanding milk protein concentrate as an ingredient for sports drinks, for energy bars, and things of that sort. We do not make it here because Federal policy favors making nonfat dry milk. That is the safer thing to make, and it is really not in demand. And so if we see some imports coming in, it is because there is a desire to use those ingredients. We need to make them here, but part of the reason they are not made here is there is a disincentive.

Senator GILLIBRAND. How does Federal policy favor only making the nonfat dry milk?

Mr. KRUSE. It relates to all the Federal support prices and things. There is a ready market for your nonfat dry milk, and you know where you are going to go with it. You might get into the MPCs and find out that you did not come out as well. So it is the safe way to do it.

Senator GILLIBRAND. Okay.

Mr. SJOSTROM. I will take a shot at that. Obviously, the MPC thing is unanimous, as we have said, and then also as we have said, there have been a few different opinions on supply management. But no matter what happens to the imports and exports, if we do not change the incentives to produce more milk all the time, which is what is happening right now when the price is low and what also happens when the price is high, and that is something that our program can change. Without changing those incentives, risk management is still hard to manage because we have not changed what is inevitably wrong with why there is too much milk.

Senator GILLIBRAND. Do any of you have comments about his proposal specifically, why you think it would work or why think it would not work?

Mr. GALLAGHER. We call the Holstein program a base access program, and it is actually being implemented right now on a private basis in California by the dairy cooperatives in California and in Arizona by the single dairy cooperative in Arizona. So it is a workable program. The program that Dairylea and DFA are talking to our counterparts in the National Milk Producers Federation about the Dairy Growth Management Initiative would look to take the best of the best of the things that people are talking about, including the plan like—a base access program like the Holstein Association's. If a region of the country would like to implement it, they have room within this initiative to implement it.

So there are some really good aspects of what the Holstein Association and the dairy farmers in California have been talking about.

Mr. KRUSE. You know, I think if it would tend to not bring on producers in areas that are growing, Nevada or Idaho or places like that, if all of a sudden there is a disincentive to enter the milk business and grow the milk in regions where processors have located and where it is natural for them to produce this milk, then I think I would have to study the program. I would rather not the Government dictate supply management. I think it is going down the wrong path.

Senator GILLIBRAND. Thank you.

Senator CASEY. Thanks very much. I want to make sure that Vermont gets a little rebuttal time here. I say that for a couple reasons. Number one, I do want to be able to have that opportunity, but one of the members, a longstanding member, of the Agriculture Committee and former Chairman of the Committee, Pat Leahy, would have been here today. He is very sick. We were talking at our caucus lunch today that he is out today, and if he is able to get here for a vote, it is going to be very difficult for him. But I know he would want to be here. So he would want me, as I do, to give Vermont some time to rebut that. Do you want to do that, sir?

Mr. SJOSTROM. Sure, yes. As a resident of Vermont, I am proud to support the State, and anytime we get—being somebody that has—a State that is represented very well by Mr. Leahy, and it is too bad he is not here.

In rebuttal, first of all, I thank all the farmers for the support on the last panel, and Mr. Gallagher's comments, they mean a lot.

Moving forward, I think it shows that our plan at least needs to be considered we hope for the short-term, if that is not possible, at least for the long-term solution, and it does not mean that we want our plan to be the sole sailing ship. There are other things that can come along with it. There are other things that can be added or subtracted from it. But we think the concept of it that changes the inherent incentives that are the bad part of our industry right now or what makes our industry hard to manage, we think if those incentives can be added into a long-term solution, it is going to be better for all of us.

Senator CASEY. Thank you. I wanted to also ask a couple more follow-up questions about the short term versus the long term. I will ask the same question I did of the last panel.

Each of you in your own way has provided testimony about your experience, your assessment of where we are now, and also where we should be going in the near term in addition to the long term. I think the long-term strategies are critically important. We have got to get them right. But most observers of this crisis—and there is no other better word, I do not think, to describe it—are mostly concerned about how do we help in the near term. And I just want to literally go down the table again as fast as you can, in 20 seconds or less, give us your one-two punch on what we should be doing in the short term.

In addition to that, I was just going to ask Secretary Redding, we have been losing in Pennsylvania a couple hundred dairy farms every year for a while. I do not know if you have any current sense of that, say, in the last 2 to 3 years, what the annual loss has been. Do we have any accurate numbers on—I have seen as high as 200 dairy farms to 300, losing that number every year in Pennsylvania. Is that——

Mr. REDDING. That is about right. You are just about 8,000 today, just slightly over 8,000. You were at 9,000 five years or so ago, so you end up with that 200, 250 a year that you are losing. Cow numbers have been stable. Production has been stable.

Senator CASEY. And I know, Mr. Kruse, you mentioned the national number. You said it was 4.5 million and went down to 67,000?

Mr. KRUSE. Right. A lot of consolidation.

Senator CASEY. In what time period was that?

Mr. KRUSE. From when the Federal orders came in, about 70 years ago.

Senator CASEY. Well, I will just wrap up with my 20-second response to my question on the one-two thing in the near term you think we should be doing.

Mr. GALLAGHER. Cash is king. Farms need cash right now. The milk production correction I think has occurred. We need to get more cash back on dairy farms. And, certainly, if there was some way to give a grant to CWT so that it could do more, taking out cows, if necessary, I think it would work.

Senator CASEY. Thank you.

Mr. REDDING. Several points I think I made earlier. This whole social crisis, I think you can deal with two problems at one time—that of the food bank and those who are nutritionally at risk and are relying on the tradable system. Of course, the dairy issue, but a couple of things.

One, continue to use the full authority of the USDA both on DEIP and the commodity purchase. Push the credit standards as hard as you can push them. I think folks are going to need to know that they have got at least the ability to refinance to get to the next year. Pilot projects on risk management. And I think most importantly for the confidence of the producer and the industry is we have got to challenge the current systems, both the domestic and international. A lot of questions about how a product is priced, not really understanding it well, and having less of an appreciation or understanding of what is coming in. I think focus on those points.

Senator CASEY. Thank you.

Mr. KRUSE. The problem occurred when markets more or less went away, the export markets, and we had to much milk. So every time we send a signal to say it is going to be okay, do not stop milking, we are going to get some money to you, it is a price signal. And so I think it is a little bit of a disservice. Obviously, we need to remove a certain amount of milk from the market, and it needs to leave and get back into balance.

I have heard a lot of dairy farmers talk about the overhang of stocks, whether it is in private holdings or it is in the Government through the CCC purchases, that is going to stretch out the pain. And so those are just things that happen.

But anytime you say, hey, it is going to be okay, you are telling them do not stop doing what you are doing; instead of pulling back, just keep going.

Mr. SJOSTROM. I would just like to say this is the dairy crisis of 2008, but if you look at all the modeling and if you look at when the next farm bill is going to need to be reconstructed, the next dairy crisis might happen to coincide at the same time as the next formation of that next farm bill. Without a long-term solution before then, you might see the same people in front of your, or maybe these four people behind me might all be gone by then, talking about the same sort of things. Obviously, they asked for cheese purchases, and there are a lot of other things that can be done in the short term. But we think long term you are going to need to change the incentives, and something like our plan can do that.

Senator CASEY. Thank you very much.

Senator GILLIBRAND. Thank you, Mr. Chairman, for hosting this panel.

I want to close with the same question but the long-term issue, and, Mr. Gallagher, you addressed this somewhat in your testimony, and so did Secretary Redding, about price discovery. And if you have any recommendations for long-term changes on how we price milk in this country, I would like to hear them.

Mr. GALLAGHER. The challenge we are going to have is getting consensus, and there are a lot of good ideas out there. Mr. Redding talked about having a market basket of things to look at.

You know, one of the things that, for good or for bad, most of the other commodities are priced off the futures market. It is some price off the Board of Trade. And there is a working group that I participate in of young bucks like myself that are steeped in dairy economics, and that is one of the things that we are next going to address to see is there some way that we can develop some sort of a futures-based pricing system that then has buyers and sellers that may be the gentlemen that testified in the first panel trying to hedge their milk that are impacting what their price of milk may be under the Federal order system. So that is something that we need to look at.

Senator GILLIBRAND. So you would like us to use credit default swaps in the dairy industry?

Mr. GALLAGHER. We——

Senator GILLIBRAND. It was a joke.

Mr. GALLAGHER. Yes.

Mr. REDDING. Just picking up on the testimony and Ed's comments, I think anything we can do in terms of transparency. I mean, I think folks need to know what the product is worth. We know what we are being paid, but what is the product worth? And I think this is one of those moments when you can talk about that. So you are going to need transparency to get to that point, and that ought to be mandatory reporting, what is coming in, in terms of trade, and what are we using and how are we using it, we ought to report that and use those numbers, that information to make an intelligent decision about what the price is worth.

Two, get rid of the lags in the system, the lags in pricing. Today there are lags just in reporting and how those numbers ultimately play out for the producer, reduce the lags or eliminate them at least.

And the final point would simply be looking at a two-class system. I think it is inherently complicated today to have four classes of product milk. You know, you get down to a fluid product. You can understand what fluid is; you understand what manufacturing is. Because in the pricing system, it should be something the producer did not understand as well. So a recommendation would be looking at a two-class system versus a four-class system.

Mr. KRUSE. You know, I would say that existing policies have not performed as we would have hoped they had and were not sufficient to do the job.

On the two-class system, IDFA has gone on record as saying, yes, we would like a two-class system of, one, fluid or beverage milk and then the second class being manufactured milk.

But long term, you know, look at everything we can do from a risk management standpoint to get dairy more like all the other Ag sectors that seem to manage themselves. There is volatility—I think in my written testimony, there is more volatility in the other ones as opposed to dairy, and so we just need to manage those risks out there.

Mr. SJOSTROM. As I have said before, thank you again for the opportunity, but the Holstein Association thinks one of the best long-term fixes is going to be implementation of a plan like the Dairy Price Stabilization Program that we have endorsed and tried to gain support for.

Thank you.

Senator GILLIBRAND. Thank you all for your time and your expertise.

Senator CASEY. Thank you as well. We can do it together? Hearing adjourned.

Senator GILLIBRAND. No, you can do it. I got to do the first one. Go ahead.

Senator CASEY. This hearing is adjourned. Thank you very much.

[Whereupon, at 4:54 p.m., the Subcommittees were adjourned.]

A P P E N D I X

OCTOBER 27, 2009

Agriculture Subcommittee Hearing
Subcommittee on Production, Income Protection and Price Support
Opening Statement on Low Dairy Prices
Prepared for Senator Robert P. Casey, Jr.
October 27, 2009

Today's hearing is an important step toward listening to the concerns, ideas, and views of farmers, processors, economists, policy proposers, and policymakers in the dairy industry. We, in Congress, have a responsibility to collect information on the dairy crisis and act on this information before even more farms close their doors for the last time and it is too late for us to provide meaningful help.

The crisis facing the dairy industry is a serious threat to Pennsylvania's already impaired economy. Dairy is the top agriculture sector in Pennsylvania. The Northeast could lose up to 25% of its family dairy farms in this crisis. In total, 40,000 jobs in the Northeast are at risk.

The loss of farms means that dairy processing plants could close due to decreased supply. My top priority is to keep dairy and all of Pennsylvania's agriculture a strong part of our economy that can compete nationally and internationally. That's one thing we can all agree on. Whether you're a milk producer, a manager of a co-op, a plant operator, or food manufacturer, we all need a healthy industry.

Yet, that is easier said than done. Every problem we try to solve creates energetic debate among the different members of the dairy industry. Nevertheless, I think we are all equally, if differently, affected by an antiquated system of federal dairy laws based more on history than logic. We are held back by an archaic dairy program that isn't nimble or flexible, and actually discourages innovation. Working together we can change that.

All segments of the industry have generated dozens of ideas to address the situation. In addition to lofty goals to advance the dairy industry, we also have practical problems to solve. The dairy industry is at a crossroads. We have some difficult questions to consider such as:
Should we get rid of marketing orders?
Do we manage supply in a nationally-mandated program?
Can we ensure dairy farmers don't continue to lose money by milking their cows?

Should farmers be able to forward contract directly with a processor?
What would happen if all milk just had one price?
Is real-time pricing possible?
What new technologies exist for processing milk and exporting new products?

We need to work together as an industry to answer those questions. We must meet the challenge of putting dairy smack in the middle of the 21st century global market place. I look forward to working with all of you to create the new future of dairy.

Senator Pat Roberts
Senate Agriculture, Nutrition and Forestry Committee
Statement for the Record
October 27, 2009

Chairman Gillibrand, Chairman Casey and fellow Ranking Member Johanns, thank you for holding this joint subcommittee hearing on the dairy industry. As the Ranking Member of the Subcommittee on Production, Income Protection and Price Support I believe it is important for us to hold hearings like this to assess and investigate issues in farm country.

Over the past year many of our agriculture producers have experienced marketplace ups and downs that would rival the most intense roller coaster. Unfortunately our dairy men and women have had a front seat on this ride. Last summer we saw milk prices spike to over $20 per hundredweight. A year later, due to the lack of overseas demand and increased domestic production prices plummeted to near $10 per hundredweight.

While Kansas might not be as well known for dairy production as some of the other states represented today, we are home to nearly 800 small, medium and large dairy farms. But our involvement doesn't stop there. We're also home to processing plants and many more businesses up and down the supply and distribution chain. Kansans support our dairy industry and at K-State we especially enjoy our Call Hall "Purple Pride" ice cream.

The title of this hearing is "Responding to Low Dairy Prices: Exploring Avenues for Federal Action." I appreciate and thank today's witnesses for taking time to engage us in this conversation. Federal involvement in dairy policy is not a new endeavor and it certainly is not an easy one for which to find consensus. As with any legislation Congress must be cautious of the unintended consequences of our actions. I recall the days of the 1986 taxpayer funded whole herd buy-out and the mess it created for our beef producers. That particular program resulted in a $1 billion loss to the cattle industry, a 25 percent decrease in prices paid to producers. As is the goal of any history lesson, let us not repeat the mistakes of the past as we move forward in examining what is and what is not appropriate federal action for the future.

I look forward to hearing from our witnesses and again appreciate their willingness to participate in today's discussion. Thank you.

Written Comments Submitted by:

Edward W. Gallagher

Vice President, Economics and Risk Management

On behalf of:

Dairylea Cooperative Inc.

Before the:

United States Senate

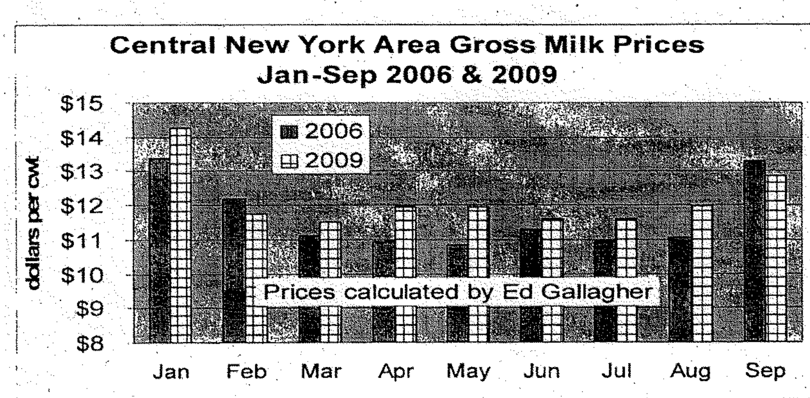
Committee on Agriculture, Nutrition and Forestry

October 27, 2009

Washington, DC

This testimony is submitted by Edward Gallagher, Vice President of Economics and Risk Management, on behalf of Dairylea Cooperative Inc. My business address is 5001 Brittonfield Parkway, Syracuse, NY. Dairylea has the largest membership of New York dairy farmers of any other dairy cooperative, and, according to *Hoard's Dairyman*, is the 5th largest US dairy cooperative. We have approximately 2,200 members in six northeastern US states.

Dairy farmers have been suffering through the worst cost-price squeeze in recent memory, perhaps in history. Prior to this down turn, one of the worst cost-price squeezes occurred during 2006. Milk prices this year, are about the same as they were in 2006, however, the financial conditions on dairy farms in New York and across the country is far worse.



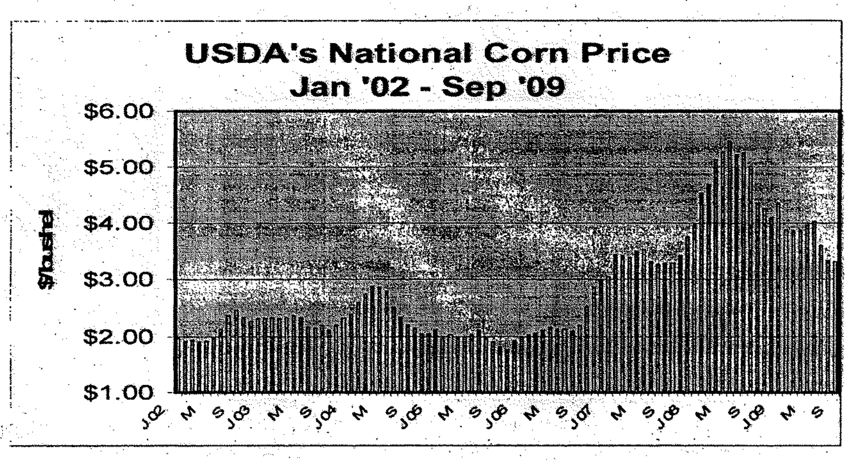
The situation is far worse due to the increased demand for corn-based ethanol and its impact on livestock feed prices.

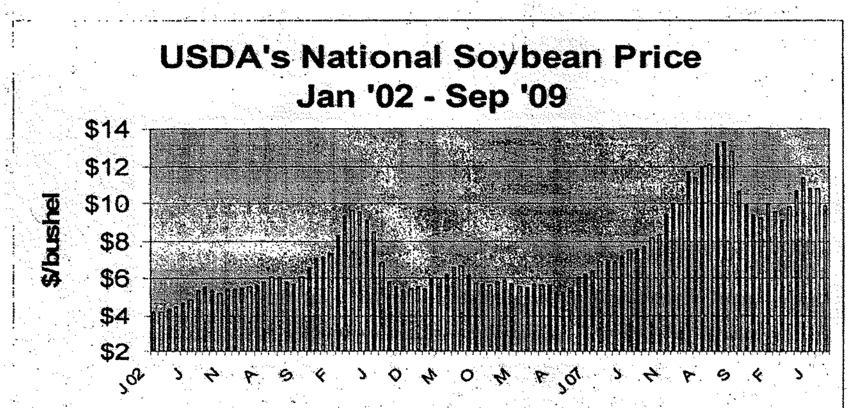
In 2006, the US had not significantly ramped up its ethanol production. In 2005, the US produced just short of four billion gallons[1]. Today, we are the world's largest producer of ethanol at 9 billion gallons – more than double the level from a few years ago. All farms purchase some feed. In New York, as it is across the country, the single biggest cost factor in producing milk is purchased feed. About one-third of the cost of producing a hundred pounds of milk is due to purchased feed. As you move across the county, that percentage will be larger. For many western US farms, the percentage is 50 percent or more.

As ethanol demanded more corn ground, it came at the expense of acreage to grow other feedstuffs – increasing their prices as well. Today, corn is priced in the $3 to $4 per bushel range. In 2006, it was closer to $2 per bushel. The spillover to other

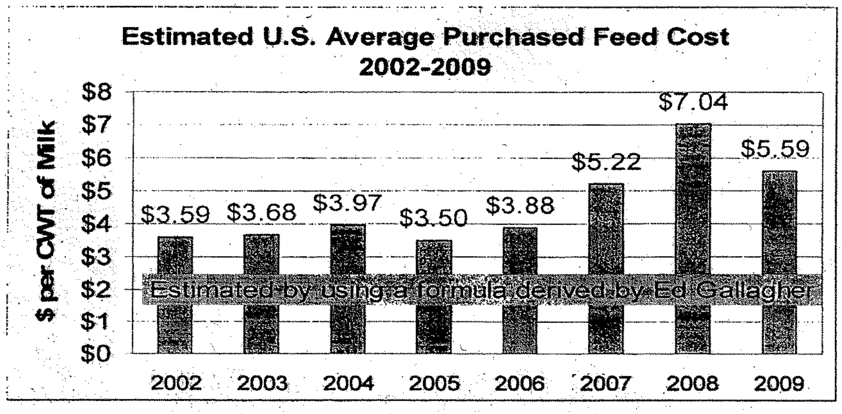
[1] US ethanol production from the Renewable Fuels Association website at http://www.ethanolrfa.org/industry/statistics/#A

livestock feedstuffs can be seen in soybean prices. Corn and soybean meal are the two most commonly purchased feed commodities, on dairy farms.

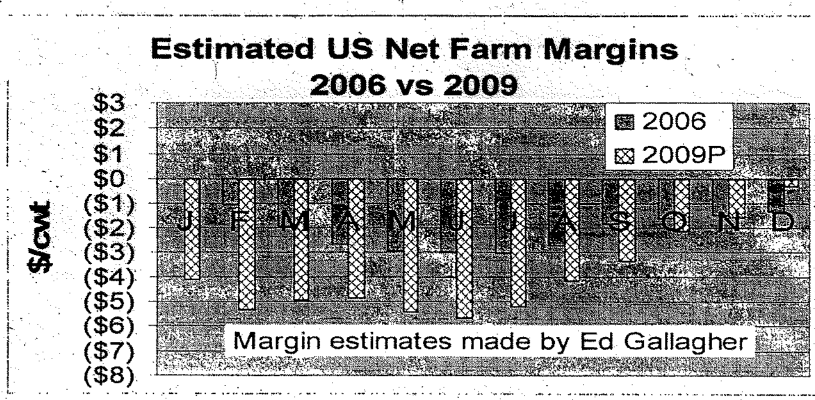




Due to the increased demand for corn from ethanol plants, and its impact on corn and other livestock feed prices, the cost of feeding dairy cows has risen by about $2 per cwt of milk between 2006 and 2009.



The ethanol impact on production costs has resulted in far more dire economic impacts on dairy farms, today, as compared to 2006. The loss on the average US dairy farm is about $2 per hundredweight greater in 2009 than in 2006. The losses average about $75 per milking cow per month. I have heard ranges given from a loss of $50 per cow per month in the Northeast to as much as $150 per cow per month in the western states.



For a number of years, my dairy policy talks have mentioned that the single best thing that the Federal government can do to preserve strong milk prices is to take actions to assure that the US economy is healthy and growing. The recent financial problems experienced, first here in the US and later around the globe, which hurt our economies and caused a recession, are the primary reason milk prices are so low.

The reason the US has seen a significant price decline has more to do with a shock on demand than anything else. This shock is not occurring in US consumer demand for dairy products – despite the worst recession, maybe since the Depression, the US consumers' demand for dairy products is up significantly – by about 3.3 billion pounds, milk equivalent. Instead, the demand shock occurred on our dairy exports. The US created financial crisis has caused a worldwide recession. This significantly reduced the demand for dairy products in emerging markets, the Middle East and Mexico – countries that had been aggressively buying our dairy products. Add in complications from China's melamine problem and significantly more milk production from the world's largest exporting country – New Zealand, and our exports were significantly reduced. I estimate that the US lost about 5.6 billion pounds, milk equivalent, of exports. Using data from US Dairy Export Council, I estimate that worldwide exports have shrunk by about 11 billion pounds, milk equivalent. As can be seen, the bulk of that loss occurred to US exports. Recent USDA data shows that US dairy exports have stabilized and are beginning to grow. Economic performance is improving in the US and around the world. I am cautiously optimistic that we have seen the bottom of the export decline and that, as we saw the biggest erosion in export volumes of any other country, we will see the largest gains in the coming months.

Dairylea, Dairy Farmers of America, St. Albans Cooperative Creamery and our other Northeastern US cooperative partners have fought very hard to win Federal stimulus money to support dairy farmers. In December of last year, the dramatic decline in US exports and the poor global economic performance signaled a dramatic downturn in milk prices. We put together a "triage" team that included senior management of the major northeastern cooperatives. In early January, with the support of Bob Gray, we were the first dairy group to go to Washington and ask for Federal stimulus funds to support the dairy industry as well as ask for USDA action in other areas. This activity and others like it from the National Milk Producers Federation and other farm organizations, eventually culminated in the tremendous actions undertaken by USDA Agricultural Secretary Vilsack including the full funding of the Dairy Export Incentive Program for the 2010 and 2011 fiscal years, the purchase of 200 million pounds of nonfat dry milk powder for food programs, and the increase in the dairy price support, among other activities. On behalf of the 2,200 members of Dairylea Cooperative and its management team, we commend Secretary Vilsack for his bold and swift moves to support America's dairy farmers.

Additionally, these combined efforts led to the $350 million dairy stimulus included in the 2011 Agricultural Appropriations Budget. Of this, $60 million has been earmarked to be used by USDA to buy dairy products for food pantries and other food programs. We expect the purchase of these products to have a strong and positive impact on dairy farmer milk prices. This impact may begin to be felt in late fourth quarter milk checks. The remaining $290 million is expected to be paid to dairy farmers in some form of direct payment. We request your assistance in making sure this money to lands in dairy farmers' accounts before the end of the year.

On all these initiatives, Dairylea's members and management team thank the members of the Agricultural Committee for their efforts in ensuring these activities came to fruition.

I am bullish on milk prices for the near term and throughout 2010. Part of the near-term bullishness is due to the $60 million available to USDA to buy dairy products. The biggest bang for the buck will occur if USDA uses the $60 million to buy Cheddar cheese. We ask that the funds be used in this manner.

I do believe the worst of the milk pricing crisis is behind us. The gross milk price in Central New York may be above $15 per hundredweight for November's milk production (received by farms in December). This is an all-in price that includes full component payments, the producer price differential and competitive premiums – but not the MILC or other direct payments. This is more than a $3 per hundredweight increase from this summer's prices. With modest growth in worldwide economies and no significant milk supply growth, 2010 prices could be at this level and higher.

I presented the following forecasts at Dairylea Cooperative Inc's 102nd Annual Meeting, two weeks ago. These forecasts are dependent on a number of factors. Since these factors are very difficult to gauge in advance, we developed a range system for forecasting the 2010 milk price. All forecasts are for the Central New York area gross milk price which includes full component payments and premiums.

The highest range, with an annual average ranging between $19 and $22 per cwt, would occur if there were rapid worldwide production declines and a corresponding rapid increase in demand, which would lead to a dramatic increase in US exports. This scenario envisions rebounding worldwide economies and sluggish or declining milk production around the world. There is about a 20% chance that this forecast could occur.

The mid-level range, with an annual average ranging between $16 and $19 per cwt, would occur if US milk production flattens out or rises slowly, worldwide milk production doesn't grow very much, and US domestic demand and export demand grow slowly. This scenario includes sluggish economic growth in the US but somewhat better growth in key US exporting countries. About a 45% probability has been assigned to this outcome.

The lowest range, with an annual average ranging between $13 and $16 per cwt, would result if the US and other countries see a double-dip recession slowing US demand and export growth and if milk production grew more than a nominal amount. A 35% probability has been assigned to this outcome.

As with all annual estimates, there are monthly prices that may fall above or below the annual average forecasts. For instance, in the mid-range forecast, a monthly price of $15 or $21 could occur and still have the annual average fall into the $16 to $19 range.

Right now, the dairy farming sector needs to heal. Almost every farm has taken on significant debt to cash-flow their operation through this down turn. These debts are significant. More so than any other year, we are hearing horrible stories about dairy farmers being cut off by their banks and suppliers. Many of those that have not reached this point live in fear that they soon will. This crisis is not that different than the one that faced the banking industry during the height of their crisis. The Federal government stepped up on a number of fronts that generated cash to maintain liquidity. The dairy farming sector needs to be flooded with cash right now. The Federal government and USDA have stepped up to do their part. As you can see from the attached handout, Dairylea and DFA have stepped up for their Northeastern US members. We are asking individual states in the Northeast to step up with financial support, as well.

Dairy farmers are going to need strong price recovery for more than a year in order to get their financial positions back to pre-2009 levels. Even in the midst of strong price recovery, supplemental direct payments will be needed to help dairy farms pay off the significant debts they have taken on to keep their family-businesses afloat during this crisis. We ask that you rally your Northeastern US state-legislative colleagues in support of state-level direct payments.

We need help on the cost-side as well. We are concerned that excessive speculative investments can, from time-to-time, cause higher commodity prices – pushing up feed and energy prices which drive up the cost of producing milk. We have been proponents of greater oversight of swap dealers using commodity futures. In mid-June, we wrote to the Commodity Futures Trading Commission asking them to change how they view swap dealers entering into futures transactions on behalf of investors transacting with them.[2] We asked the CFTC to look through the swap dealer and determine if the swap dealer's customer was using the swap as a legitimate hedge or as a speculative investment. If a speculative investment, then place speculative limits on that entity as if they were transacting directly in the futures market. As you deliberate on these derivative type issues, we ask that you take actions to limit excessive speculation that rewards a few at the expense of the masses via higher livestock feed, food, energy and other natural resource prices.

Longer term, there is much more work to do.

Milk price volatility is going to be a recurring problem. We do not believe there is any acceptable method to eliminate it from the industry. To do so, you will need to close the boarders to imports – ala Canada[3], or utilize Federal funds to artificially support dairy prices above those that would be derived in the marketplace, as was done in the late 1970's and early 1980's. Barring these policy initiatives, milk prices will continue to experience large increases, followed by large decreases.

It is of utmost importance that dairy farmers understand how to use price risk management tools to protect their farm businesses against a significant decline in milk prices. Dairylea and DFA have developed the industry standards in risk management/forward contracting options for our members.[4]

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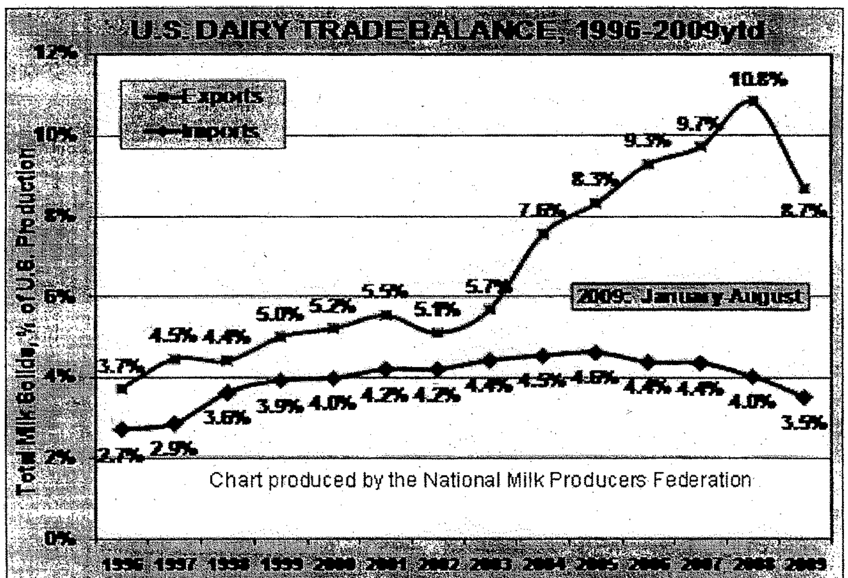
[2] A copy of the letter is attached to this testimony.
[3] This will most certainly result in a loss of US dairy exports as well.
[4] Dairylea's risk management offerings can be viewed at http://www.dairyriskmanagement.com/

This year, a number of our members had a portion of their milk production protected via milk price forward contracts. In some cases, members received more than $8 per hundredweight above the market price, on their forward contracted pounds. These programs can be used to create meaningful and important milk price safety nets. Our programs have matured beyond those that just lock someone into a price. We have a number of programs that allow members to get some or all of higher prices – that exceed their floor price. Additionally, we are in the final developmental stages of a program that allows members to lock into the margin between their milk price and primary feed costs – protecting their non-feed margins and holding members harmless to the vagaries of feed price volatility.

The Federal government has devised a milk price insurance program. The Chicago Mercantile Exchange operates dairy futures and options markets for dairy farmers to hedge their milk prices. These tools need to be more widely used by dairy farmers. I am encouraged by the activity of the New York Center for Dairy Excellence and the New York Farm Viability Institute and their counterparts in Pennsylvania to work with the broader industry to promote risk management education. More risk management education, improved programs and financial incentives are needed to change the practices on dairy farms so that they are more likely to use these tools that can protect against the financial ruin of their business.

Your help is needed. I am part of a National Milk Producers Federation Task Force to develop a better and more effective milk price insurance program. When it is devised we will need your help in getting it implemented. Financial incentives are needed to encourage broader use of risk management tools. I am circulating a proposal among a number of colleagues that would create a program to provide financial incentives to dairy farmers for using milk and feed price risk management tools that utilize some form of a futures option as a means of hedging. This incentive would be available to dairy farmers that forward contract their milk through a cooperative or proprietary handler, purchase milk price insurance or utilize their own futures account.

Right now the US is exporting about 8.7 percent of its milk production – down from over 10 percent a year and a half ago. The US imports the equivalent of about 3.4 percent of its milk production – creating a healthy and valuable positive balance of trade.

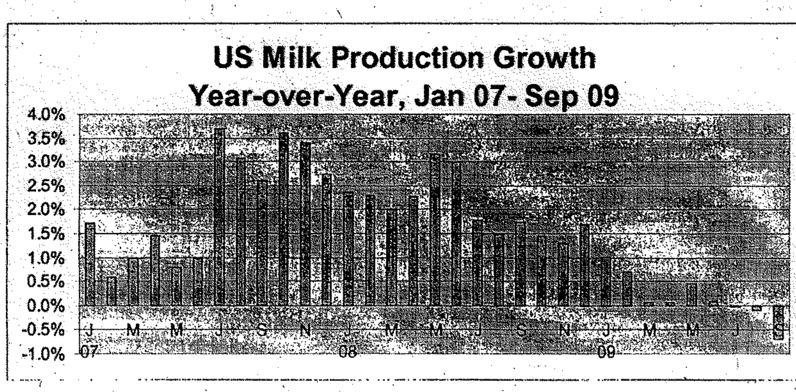


Most of our imports tend to be products that the US does not produce – or does not produce in very large quantities. For instance, brie cheese is a category of dairy products that is not widely produced here. Another category is milk protein concentrates (MPC).

MPCs were not on anyone's radar screen when the General Agreement on Tariffs and Trade Agreement (GATT) was implemented. At that time, the technology was just coming into use in Europe and had very little production. Today, the technology has advanced considerably and the uses for MPCs have increased as well. Unfortunately, the US Dairy Price Support Program creates an economic disincentive to produce MPC here in the US and very little is produced. Nonetheless, we are seeing growth in US MPC production. The National Milk Producers Federation is looking into options to create incentives to produce more MPC here in the US.

Although MPC has gotten a bad rap, the problem is not the product. The problem is that most of the product used here in the US is produced in another country – taking away commercial demand for US produced dairy products and hurting our milk prices. To this end, we are actively working with National Milk and others to create incentives to produce more here in the US and are strong supporters of the Schumer Bill to create tariffs on the importation of MPC. Right now, MPCs have no tariffs – which is an unintended loop hole in the GATT agreement. We ask that you reach out to your colleagues on both sides of the aisle and in both the Senate and the House to quickly pass legislation that corrects the MPC import loophole.

There has been significant discussion about supply management programs this year. Although, this pricing crisis was caused by a demand shock and not an oversupply problem, we support efforts to reduce milk supplies in times when supply is larger than demand. US milk production usually grows by 1 to 3 percent each year. Right now, US milk production has flattened out and is in decline.



Since the beginning of the year, the US milking herd has declined by 208,000 head. This has occurred almost entirely due to the efforts of the Cooperatives Working Together program. This is the primary cause for the milk production decline and has overcome an increase in output per cow of almost plus one percent.

Without the investments made by dairy farmers from across the US to fund this program, the price outlook for the fourth quarter of this year and into next year would continue to be quite bleak. Unfortunately, the significant decline in demand has overwhelmed the financial ability of the CWT program to immediately correct it on the supply side. Nonetheless, it has been a resounding success in removing cows from the marketplace to set up the price rally we are now beginning to see occur.

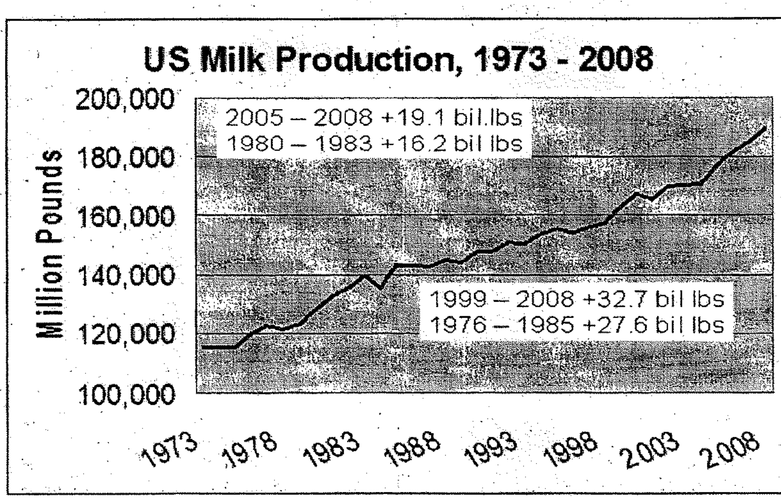
Keeping in mind that 2009 is more like the 100 year flood, we have been very reflective about changes in policy issues relative to supply management. We have spent a considerable amount of time this year engaging in dialogue with our members about their interests in supply management options. We have collected information via internet surveys. Dairylea had a member call-in, where members were given a specific time to call and talk to Dairylea's farmer-President, Clyde Rutherford and its CEO Greg Wickham, about their interests in supply management. We had three board meetings in which we allocated significant amounts of time to these issues. One of those meeting was an expanded board – which included unelected member leaders – where there was a panel discussion of members talking about their favorite supply management option. This was followed by a town hall type meeting. We had other member meetings, one-on-one discussion and information in cooperative-wide member communications.

Our members have spoken and the majority indicates support of the Cooperative Working Together (CWT) program and like its flexibility. Most oppose rigid government controlled, inflexible programs. Most support higher contributions to CWT and would like all farmers to contribute – beyond the current support that represents about 67% of the US milk supply. Although there are members, some of who are very vocal, that support the Canadian style quota program, the Specter-Casey bill or one of the programs similar to the Holstein proposal, there was not one of these that stood out above the other. Within the members surveyed by Dairylea, the minority of members supporting these concepts were split one-third, one-third, one-third.

We have put the member feedback into action and are working with other cooperatives and NMPF to develop a Dairy Growth Management Initiative (DGMI). DGMI would create a mandatory deduction on all farmers to fund a number of programs that are currently operated by CWT (excluding their export assistance program which would continue to be privately operated by CWT), include new programs to address possible oversupplies of heifers, allow for the use of milk diversion and partial herd reduction programs, consider base-excess programs in regions of the country that wanted to adopt them, programs to create incentives to produce dairy products demanded in international markets that are not readily produced here in the US, programs to produce dairy products demanded here in the US that are not readily produced here, and incentives for dairy farmers to utilize risk management programs, among other aspects. Although contributions would be mandated by government, DGMI would be administered privately and overseen by a board that would largely be made up of dairy farmers. This is similar to the set up of the Federal dairy promotion program.

We are also working with a number of different groups to review Federal Orders and the Dairy Price Support Program. We are looking into opportunities to floor Class I prices, adjust Class I prices higher when fuel prices rise, adjust Class I prices to better reflect higher milk hauling costs, create options for Class I plants to hedge their milk purchases on the futures exchanges – which could lead to reduced price volatility and greater Class I sales, eliminate manufacturing make allowances, reduce price circularity and other needed "tweaks" to the system. Additionally, we are exploring whether there needs to be major wholesale changes to the Federal order system that would change the method of price discovery it uses and make other modifications that might result in reduced price volatility, increased demand for dairy products and better overall milk prices. We are also looking at ways to modernize the dairy price support program so it does not penalize a plant for making MPC or other dry protein products that are demanded here in the US or in world markets. There are even considerations being given to the elimination of the program. Some people view the program as part of the reason this price down turn lasted so long. We do not know if this is the case, or if elimination of the support program is good or bad. Instead, the major point here is that nothing is being viewed as "sacred" and we are willing to look at all programs to see if they are supporting or hurting dairy farmer income. If a significant overhaul of these programs occurs, or even elimination of them occurs, the changes need to be gradual as opposed to abrupt. Many in the dairy industry have made strategic investments, and like it or not, these investments have been made under the guise of the current regulatory structure. If this structure is going to significantly change, incremental change will be needed in order to allow all stakeholders to adjust their investments without creating severe financial liabilities on some of them.

In closing, I would like to make note of two significant milk production growth periods for the US Dairy industry. One is the four-year period ending in 1983 and the other is the four-year period ending in 2008. These were the two greatest four-year milk production growth periods in US history.



Dairy farmers responded to price and profit signals during these two time periods and expanded milk production. However, there were two drastically different causes underlying the price induced growth. In the beginning of the 1980's, it occurred because the Federal government artificially established milk prices that exceeded those that the marketplace would have generated. In doing so, it spent over $20 billion dollars from 1979 to 1983 and purchased, in some years, more than 10 percent of the US milk supply.[5] From 2005 to 2008, the strong price was not induced by the government, but rather generated by market forces as US and international demand for dairy products grew and pulled farm milk prices to profitable levels for most of the time period.

As we address issues to create a stronger and healthier dairy industry that allows dairy farmers and others to maintain profitable businesses in the dairy industry, lets us reflect on which of these two scenarios are more preferential and how to best use Federal resources to support dairy farmers and the dairy industry in the 21st century.

Thank you for allowing us to provide these comments to you. We look forward to working with you as we grapple with today's challenges and opportunities.

[5] *US Dairy Programs: Who Pays and How Much?*; Hal Harris and Joe Outlaw; a paper as part of a series entitled "Dairy Markets and Policy, Issues and Options", a project of Cornell University's Program on Dairy Markets and Policy, February 1995.

A CENTURY OF COOPERATION
Dairylea Cooperative Inc.

DFA
Dairy Farmers of America

June 16, 2009

Mr. David Stawick, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW.
Washington, DC 20581

Re: Whether to Eliminate the Bona Fide Hedge Exemption from Speculative Position Limits

Dear Secretary Stawick:

Dairylea Cooperative Inc. (Dairylea) and Dairy Farmers of America (DFA) collectively request that the Commodity Futures Trade Commission (CFTC) change its policy relative to swap dealers being eligible for the bona fide hedge exemption and, instead, place limits on their speculative trading activity. We also request that speculative limits be placed on the non-commercial customers of swap dealers.

Dairylea and DFA are cooperatives exclusively owned by dairy farmers that operate family businesses. Our farmer members face financial harm by unchecked speculative activity when it increases commodity prices regardless of underlying market fundamentals – this increased volatility impacts dairy farmers' cash cost of operating. Although the comments below are specific to dairy farmers, unchecked market speculation harms everyone who consumes these commodities

Livestock feed is the life-blood of dairy farms. Without it, cows do not have the fuel necessary to produce milk. Although many of our dairy farmer members grow the preponderance of their feed, most purchase a significant amount in the form of pre-mixed feed concentrate, shelled corn, soybean meal and other commodities directly impacted by feed commodity futures prices. As an operating expense, purchased feed is the single largest component – representing about one-third, but up to 50% or more of production costs. Cash feed commodity prices, FOB the farm, change day-to-day and month-to-month, because of changes in futures prices which is the benchmark used in pricing these inputs.

In 2008, when corn futures prices escalated, physical commodity prices escalated as well. Speculative investment decisions by participants in hedge funds and other entities result in commodity price appreciation not supported by factors one would associate with impacting the supply and demand for the underlying physical commodity. When this occurs, commodity futures prices increase and push cash prices up. This non-fundamental increase drives up dairy farmers' cost of production and negatively impacts their financial position.

Your request for comments on the proposed change in regulation of swap dealers comes at a time when dairy farmers are suffering financial losses that may be the worst ever. U.S. dairy farmers are losing an estimated $74 per cow per month, on average – although farms that purchase a larger than average proportion of their feed may be losing significantly more[1]. For the average size farm of about 163 cows, this would be more than a $140,000 loss on an annualized basis. For dairy farms of 1,000 cows – which farms of this size and larger produce slightly more than 45 percent of the milk in the U.S. – the annualized loss is a staggering $1 million or more. Dairy farmers net margins have deteriorated due to price issues impacted by the loss of export markets and the worldwide financial crisis, and due to higher production costs largely showing up in feed prices. Since the expansion of federally supported ethanol production, the average cost of the purchased feed component of production costs has increased 68 percent[2]. A large factor in this increase is due to greater demand for feedstuffs generated by the ethanol marketing channel. Due to the feed price inflation caused by ethanol, dairy farmers can ill-afford additional price inflation caused by unchecked speculative investments.

Recently, July 2009 corn futures prices have increased from $3.59 ½ per bushel in March to $4.18 per bushel, today, a 16 percent increase. Along with increased prices in the soybean complex, this has driven cash operating costs on dairy farms up significantly at a time that milk prices remain at levels that is estimated to average 29 percent less than production costs during the first six months of this year[3].

Allowing unfettered speculation in feedstuffs to provide the opportunity of financial gain to some of the wealthiest Americans and its institutions, at the risk of financial harm to dairy farmers and at the risk of food inflation to all Americans, is unconscionable. Although we do not have evidence to offer as to the impact this has on economic activity, it seems evident that the prudent decision would be to take initiatives to limit the opportunities for speculative activities that potentially can significantly harm commerce and the pocketbooks of the majority of Americans not able to partake in the gains of the speculative activities.

Lynn Stout, the Paul Hastings Professor of Corporate Securities Law at UCLA, in her testimony to the Senate Committee on Agriculture, Forestry and Nutrition on June 4, 2009, stated when commenting about derivatives speculation that: "These speculative trading gains are purely private benefits, however, that come at other investors' expense. Meanwhile, unrestrained derivatives speculation has historically been linked to a host of very serious economic ills, including price bubbles, increased risk, reduced real economic growth, and increased fraud and manipulation."

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[1] Dairylea has projected the average loss at $74 per cow per month. Information from others suggests that losses exceeding $100 per cow per day have been occurring on farms that purchase larger than average amounts of feed.
[2] As projected by Dairylea using USDA data for corn, soybeans and alfalfa and a utilization formula developed by Dairylea. The analysis indicates that purchased feed cost has risen from a 2002-2006 average of $3.72 per hundredweight of milk produced to $6.26 in 2009.
[3] As projected by Dairylea.

Michael Masters, Managing Member, Master Capital Management, LLC, in his testimony to the Senate Committee on Homeland Security and Governmental Affairs in May 20, 2008, stated when asked are institutional investors contributing to food and energy price inflation: "Institutional investors are one of, if not the primary, factors affecting commodities prices today."

The concern we present goes beyond the spot month prices. Dairy farmers forward contract their feed purchases – locking in feed prices months in advance of deliveries. Regulations allowing investors to speculate, beyond reasonable limits, in non spot months, can have a price distorting impact on dairy farmer feed prices. This can result in farmers locking into feed prices at levels much higher than the fundamentals would suggest. For some farms that milk large numbers of cows on a small land base, locking into a year's worth of feed prices in late summer/early fall, is customary. Since dairy feed is the lifeblood of the business, these farmers contract with neighboring farms, feed mills, or others on a yearly basis – to assure that they will have feed for their dairy farm. These feed purchase contracts are influenced by futures prices – beyond the spot month. Excessive speculative activity, beyond the spot month that results in rising prices, can contribute to higher feed costs for these dairy farms.

In response to the questions posed relative to the oversight of non-commercial activities of swap dealers, we provide the following comments.

1) Swap dealers that are not providing transactions for the legitimate hedge of underlying physical commodities should have speculative limits imposed and no longer be allowed to qualify for exemption under the existing bona fide hedge definition.

2) A limited risk-management exemption for swap dealers is appropriate on transactions hedging underlying physical commodities, provided the transactions for the client are legitimate physical hedges. For example, if the client is a grain elevator that uses the swap dealer as a means of hedging its natural price risk, but also uses the swap dealer to place bets on copper prices, the transactions relative to copper should not carry the exemption. We realize this can slide into a gray area very quickly. For instance, a milk company that uses a swap dealer to hedge corn and soybean prices, that are part of a milk contract whereby the plant is paying dairy cooperatives a milk price that is adjusted by changes in feed prices, should qualify for the exemption since the changes in corn and soybean prices directly impact the price the plant pays for its milk supply. We recommend administrative latitude on the part of the CFTC, combined with a system of appeals for reconsideration, to handle these "gray" areas.

3) Upon making the change, some time period should be allowed to bring swap dealers into compliance.

4) Speculation that can drive energy and metal prices higher have the same ill-effect as speculation on feed commodities – including negatively impacting dairy farmers cost of production and their financial performance. Corn futures for example are linked to

crude oil futures because of the relationship of ethanol to fuel prices. We believe the same speculative limits should apply for energy and metals, as well.

5) Transactions for swap dealers' clients that are hedging price risk of the underlying physical commodity should still be considered bona fide hedgers. Guidance should be given to what constitutes a commercial, however, administrative discretion should be left to the CFTC or the self-regulatory organization, to appropriately adjust as necessary to the continued maturation of the derivative marketplace hedging physical commodity price risk.

6) Swap dealers should self certify whether clients are commercial, report information to identify such and be periodically audited. Annual reports should be filed along with monthly reporting of new clients or changes in existing client's activity (i.e., change from commercial to non-commercial activities).

7) More information is always better than less information, to the extent that it does not create a large financial burden for a small benefit. Transparency will be improved by creating subcategories as presented in the request for public comment.

8) No comment at this time.

9) It would be important to look through to the intermediaries to review their transactions and apply speculative limits to the initial counter-party, if applicable., For example, if a swap dealer transacted with a hedge fund, the CFTC or its representative should look through the transaction and apply applicable position limits to the hedge fund to assure the hedge fund did not work through another swap dealer, gaining additional speculative exposure and possibly circumventing the position limits.

10-15) No comments at this time.

Dairylea and DFA request that the CFTC change its policy and place limits on the speculative trading activity of large swap dealers. Doing so, will limit the speculative impact on feed and other commodity prices faced by dairy farmers and may lead to reduced volatility in commodity markets. This requested action may help limit the appreciation in operating costs on US dairy farms.

Dairylea is a farmer owned agriculture marketing and service organization with more than 2,200 members. It is the largest milk marketing organization in the Northeastern US, selling more than 5.5 billion pounds of raw milk annually through an extensive milk marketing network. Dairylea's goal is to maximize net returns at the farm by preserving and enhancing milk markets and milk marketing relationships, and by providing services and programs that create real value to our members.

DFA is a leading dairy marketing cooperative that serves and is owned by nearly 18,000 dairy farmers in 48 states. Through programs and services designed to help make businesses more profitable, DFA brings added value in the form of farm lending options, health insurance, sustainability resources, risk management tools, member retirement plans and on-farm field and lab services. Through its Gold Standard Dairy Program, DFA member farms meet high standards in areas including animal well-being, environmental stewardship, employee training and milk safety and quality. In addition to marketing milk, DFA is one of the country's most diversified manufacturers of dairy products, food components and ingredients, and is a leader in formulating and packaging shelf-stable dairy products.

Thank you for allowing Dairylea and DFA to comment on this important issue to the thousands of family business owners that own our cooperatives.

Sincerely,

Edward W. Gallagher

Edward W. Gallagher
Vice President
Economics and Risk Management
Dairylea Cooperative Inc.
Dairy Farmers of America, Farm Services Division
1-800-654-8838

Dairylea and DFA Northeast Initiatives and Actions

Dairylea Cooperative Inc. and Dairy Farmers of America's Northeast Area Council have undertaken a number of initiatives and other actions to improve members' financial positions and the overall milk price. The following lists a number of these efforts. These efforts are part of a constant "work in progress". The management staff and employees of Dairylea and DFA are always striving to create new opportunities and to improve existing programs to better support member profitability and cash flow needs.

Providing Capital to Members

- Dairylea and DFA have pumped millions of dollars into members' milk checks.
- Through Risk Management Services (RMS), Dairylea and DFA are the only cooperatives in the Northeast to provide milk price stabilizers to members to assist in their cash flow needs. Members using this program have received blend prices in excess of $2 per hundredweight above market prices.
- Through Dairylea's and DFA's lending unit, Agri-Max Financial Services, members have accessed lines of credit to supplement their line from their primary lenders.
- Dairylea and DFA have been aggressively boosting advance payments to members to get more money back to farms sooner.

Providing Forward Contract Safety Nets

- Dairylea's and DFA's forward contracting programs are paying millions of extra dollars to members that used the programs.
- Through RMS, some Dairylea and DFA members booked forward contracts, over a year ago, that carry prices that are as much as $8 per hundredweight above market prices.
- RMS is assisting members in establishing forward contracting plans to protect them against future milk price downturns.
- RMS offers the widest variety of forward contracting programs to help members manage the market's extreme price volatility. Programs include options for members to create their own price support floor – higher than Federal supports – and have the opportunity to retain 100% of prices that exceed their floor level.
- RMS has undertaken an aggressive educational program to help more members understand how to utilize these programs to protect their milk price and farm's assets.

Offering Competitive Health Insurance

- Agri-Services Agency (ASA) has developed high deductible, lower cost health care options – some in conjunction with Health Savings Accounts, to assist dairy farmers in being able to maintain health coverage during the low milk price cycle. ASA offers a variety of program options to offer farmers a choice with their health plans.

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Dairy Farmers of America

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Using "Collective" Buying Power to Reduce Input Prices

- Eagle Dairy Direct uses the collective buying power of thousands of Dairylea and DFA members to negotiate lower prices for key milk production inputs. These lower prices are passed on to members purchasing through the program.
- Eagle estimates that members in their buying group realize a cost savings of up to $0.18 per hundredweight for purchasing through this programs. Eagle has a 5% operating margin limit however, so far in 2009, they have successfully operated on a 3.3% margin (typical farm supply companies operate between 20-30%).

Working With other Cooperatives to Maximize Milk Check Value

- Dairy Marketing Services, the joint-venture between Dairylea, DFA and St. Albans, along with our memberships in GNEMMA – the Northeast's milk pricing agency – has generated millions of dollars in over-order premiums and hauling cost savings to farms.
- Generating $8 million per month in over-order premiums that are distributed to dairy farmers marketing their milk though DMS.
- Coordinating the pickup and delivery of 900 loads of milk per day in a manner that reduces costly and inefficient routing – saving farmers hundreds of thousands of dollars each month.
- Financing milk balancing plants in a coordinated manner to provide a home for all milk produced by our farms. Dairylea's and DFA's investment in these programs serve to protect over-order premiums. In the absence of the milk balancing plants, farmers would have to compete for the more lucrative milk delivery locations – resulting in lower over-order premiums and loads of milk unable to find a delivery location.
- Employing well-trained professionals to work with members to produce high quality milk that earn farms quality premium bonuses.

Equity and Patronage Payments

Early Equity Retirement – Dairylea and DFA issued early equity retirements this year to provide direct assistance to our members in this crisis.

Patronage – Dairylea and DFA declared a patronage refund to members to ease financial stress. DFA paid 100% of its partonage early.

Undertaking Informational Actions

- Dairylea and DFA have done more than any other business to reach out to members in an effort to keep them informed and to initiate dialogue on important topics.
- Dairylea and DFA have been keeping members updated on markets, pricing and legislative issues via weekly faxes, monthly check letters, webinars, conference calls, face-to-face meetings, internet surveys and member call-ins.
- We have hosted webinars for the agri-business industry to keep them updated on pricing and legislative issues.
- We have reached out to members to get direct one-on-one input about the operation of DMS and the cooperatives, their needs and concerns and their feelings on various supply management and pricing programs.
- Dairylea and DFA have established a Northeast Marketing Hotline that provides weekly recorded message updates on relevant milk pricing issues.
- We have established a crisis hotline and member assistance program as a resource for members in need of consultative advice or assistance with farm stress.
- Dairylea and DFA established a member resource page on our websites, providing articles and information on ideas and programs that may be useful to members in their efforts to manage through this milk pricing crisis.

Evaluating Supply Management

- Dairylea and DFA expended considerable resources helping members understand various aspects of the supply management debate and seeking their input.
- These actions included a special member "call-in" on supply management and an "expanded" board meeting, with over 100 Dairylea and DFA members in key leadership roles attending, to discuss supply management options. This discussion was highlighted with members participating in a panel discussion of the various options. Additionally, Dairylea and DFA have been surveying members relative to their particular interests in supply management.
- Dairylea and DFA have also taken a leadership role within the industry debate on supply management so that we are well informed on the options and can ensure our members' concerns are heard across the industry. We are furthering discussions on supply and growth managements in conferences with cooperatives and farm groups around the country.

Additional Actions to Support Stronger Milk Prices

Dairy Growth Management Initiative (DGMI) - As a result of our supply management deliberations noted above, we proposed the Dairy Growth Management Initiative in efforts to ensure a secure industry with less volatility. This program would run similar to a mandatory CWT program, with farmers participating in creating legislation, advising the direction of the program, all while having a third-party administrator.

Cooperatives Working Together (CWT) - CWT completed three Herd Retirement programs since December of 2008 that will remove more than 4.8 billion pounds of milk from the US milk supply. CWT offers an avenue for producers to have an impact on the economic situation rather than relying on government programs. Additionally, CWT supports US dairy exports. Dairylea and DFA continue to support this program and provide leadership on program changes that would allow quicker responses to industry circumstances.

DEIP - Dairylea and DFA successfully lobbied the USDA for the implementation of the DEIP program to subsidize exports. This program assists in exporting US Dairy products such as nonfat dry milk powder, cheese and butter. We continue to encourage USDA to move excess milk supplies through the DEIP program in the upcoming year. The fiscal year '09-'10 allocations of DEIP can remove more than 1.5 billion pounds of milk equivalent from the U.S. market.

Dairy Product Price Support Program - Dairylea and DFA supported the USDA actions to raise the purchase price for cheese and nonfat dry milk, in the Dairy Product Price Support Program. We support additional support price increases. We also support discretionary ability by the Secretary of Agriculture to use $350 million either to raise the price support or to purchase cheese, butter, and powder for food-aid donations to other countries.

Dairy Management Inc. (DMI) - Dairylea and DFA supported efforts by Dairy Management Inc. (DMI) to increase demand and sales of US dairy products. Through DMI, dairy producers have invested in new products in the marketplace being offered up through McDonald's, Nesquick, Yoplait and others. DMI has also partnered with pizza powerhouse Dominos to introduce their American Legends pizza series which feature up to a 40 percent increase in the amount of cheese on each pizza. This partnership has the potential to place an additional 10 million pounds of cheese on American Legend pizzas each year, using more than 100 million additional pounds of milk. With over 25 percent of cheese sales going to pizza, we continuously seek out additional opportunities to increase dairy consumption.

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National Milk Producers Federation (NMPF) - Dairylea and DFA are working closely with NMPF for action on the present economic situation. The groups are working together to address legislation, create programs within the industry and modify existing programs to improve the milk pricing system. Some of the actions taken this summer supported by Dairylea and DFA through our partnership with NMPF include:

- Strategic Planning Task Force to analyze milk pricing proposals that may lead to more stabile milk pricing, and a long term solution to pricing problems
- Call for the USDA to implement promotion assessment on dairy imports
- Backing new senate legislation to impose tariffs on milk protein imports
- Supporting efforts to expand the Dairy Price Support Program
- Presenting to a Congressional Panel the economic crisis in the dairy industry, urging improvement in the USDA safety net program

Additional Legislative Efforts Undertaken by Dairylea and DFA

- **Milk Protein Concentrate (MPC) Imports** – We support legislation that would impose a tariff and regulatory guidelines on imports of MPC.
- **Enhanced MILC payment or other means of direct payments to dairy farmers** - Dairylea and DFA support actions to get more money to farmers to assist in paying off the debt they have incurred this year.
- **Milk Solids Standards** – We support a national increase in fluid milk standards to create healthier and better tasting milk beverages- increasing demand and supporting higher farm prices.
- **Dairy Import Assessment Program** – We support this rule that implements a promotion assessment on dairy imports which will generate $6 million annually for promotional programs.
- **State-by-State Dairy Payment** – We strongly support state initiatives that result in direct payments to dairy farmers. We are currently working with the NY Farm Bureau and legislators for a significant payment to NY dairy farms.
- **NYS Mandatory Overtime** – We oppose this legislation and continue to track this issue closely and will educate lawmakers on the impact of this legislation to the agriculture sector of the state.
- **PA Hauling** – We are in support of this legislation that would allow milk to move more freely throughout our market and ultimately reduce milk hauling costs.
- **AgJOBS Legislation** – We support this legislation and have a continued presence in Washington, D.C. to provide dairy farmer views of AgJOBS legislation and Comprehensive Immigration Reform.
- **Clean Water Restoration Act (CWRA)** – We are working to ensure the language in this bill does not negatively affect dairy farmers.
- **Climate Change** – We are opposed to this bill as written. Its overall impact could cost dairy farmers money. We're working to make it more beneficial to farmers.
- **Healthcare** – We are watching closely and meeting with congressional leaders to ensure that our insurance offerings to the agriculture sector through ASA are not harmed in this legislation.
- **CAFO Regulations** – We constantly track state rules and regulations and report changes to legislation to our members.
- **Farmers Assuring Responsible Management (FARM) Initiative** – We support the efforts to develop a nation-wide proactive program that addresses animal well-being and quality assurance on the farm.

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DFA
Dairy Farmers of America

International Dairy Foods Association
Milk Industry Foundation
National Cheese Institute
International Ice Cream Association

Blue Bell®

Statement of Paul Kruse
CEO and President
Blue Bell Creameries, L.P.

Before the Subcommittee on Domestic and Foreign Marketing, Inspection and Plant and Animal Health and the Subcommittee on Production, Income Protection & Price Support

Committee on Agriculture, Nutrition and Forestry
United States Senate
October 27, 2009

Madam Chairwoman, Mr. Chairman and members of the subcommittees, thank you for the opportunity to appear before you today. I am Paul Kruse, the CEO and president of Blue Bell Creameries based in Brenham, Texas. We are a regionally based company with manufacturing and distribution facilities across 18 states in the South and Southeast United States, including Arkansas and Georgia, the states of the Chairwoman and Ranking Member of the Senate Agriculture Committee. Blue Bell has been in business since 1907. Today the company manufactures a full line of ice cream products and is recognized as the third largest ice cream brand in the United States.

I am also speaking today as chairman of the International Dairy Foods Association. IDFA's 220 dairy processing members run more than 600 plant operations, and range from large multi-national organizations to small single-plant companies. Together they represent more than 85 percent of the milk, cultured products, cheese and frozen desserts that are produced and marketed in the United States.

I appreciate this opportunity to address our nation's current low dairy prices and potential reforms of our federal policies that will address some of the problems in the dairy industry. I would like to first give you a brief overview of the industry and the trends that have brought us to where we are today.

It is our view that our nation's dairy policies are not only failing to provide stability to the industry but are also standing in the way of our industry's enormous opportunity for expansion, something that will greatly benefit both dairy producers and processors.

Our government spends considerable resources on existing dairy programs. During this calendar year, payments to dairy farmers under the Milk Income Loss Contract program will total nearly $1 billion. Last fiscal year, the USDA spent nearly $270 million to purchase products under the Dairy Product Price Support program and just a few weeks ago, Congress appropriated an additional $350 million for additional direct payments and dairy product purchases.

Dairy remains a key component of our nation's agriculture industry. Nationwide, the dairy industry employs hundreds of thousands of people on farms, in processing plants, through marketing and transportation, in retail stores and in companies that supply inputs to the dairy industry. Dairy processors are in the middle of this equation. We depend on our dairy farmers and cooperatives for a reliable and high-quality milk supply to make our products. We have developed tremendous trust and reliance in these relationships. At the same time, our customers depend on us to deliver the nutritious and delicious products they want.

We are deeply concerned about the situation dairy producers face today, and want to help find solutions that will help all producers, both large and small, have the necessary tools to manage their businesses profitably. There is not a dairy product manufacturer in this country who takes for granted the great resource we have in our U.S. milk supply or the dairy farmers and their families and cooperatives that make it possible. This partnership between milk producers and milk manufacturers is critical, and the policies and programs that you consider here on Capitol Hill can affect that partnership in both positive and negative ways.

Today's Dairy Industry

There are different ways of measuring how farm milk is used, but roughly 45 percent of domestic milk production is used for cheese; 30 percent for fluid, or beverage milk, and 10 percent for frozen products like my favorite dairy product, ice cream. The remaining 15 percent is used for butter, nonfat dry milk and other products.

Although nearly every state, including Alaska and Hawaii, has at least a few dairy farmers, nearly three quarters of our nation's milk production currently comes from the top ten dairy states of California, Wisconsin, Idaho, New York, Pennsylvania, Minnesota Michigan, Texas, New Mexico and Washington.

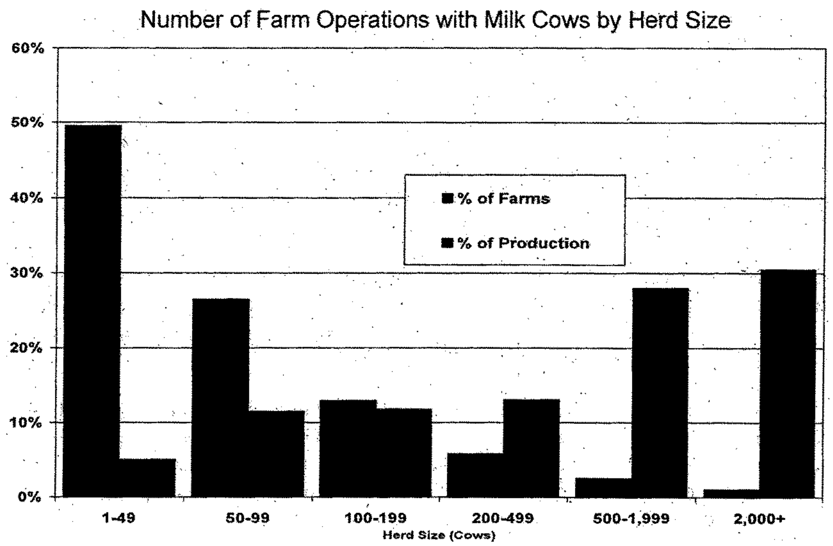
Dairy processors, as one would expect, are clustered in these same areas. As an industry, dairy processors directly employ over 120,000 people. Growth in milk production is now most often driven by investments in new dairy plants or increased capacity in an existing one. Some states are taking steps to reverse or stem the decline in milk and dairy processing capacity, looking to create more demand for milk, new jobs and long term economic growth.

Decades ago, most dairy products were only marketed locally or regionally, but with advances in transportation and efficiencies in production, most of our dairy products are now marketed regionally and nationally. In addition, a growing global market has increased demand for products such as milk powders that can be easily incorporated into many other food products. Last year over ten percent of the U.S. milk supply was exported in the form of dairy products.

The dairy industry is defined by a few fundamental trends that often explain governmental policy towards the industry.

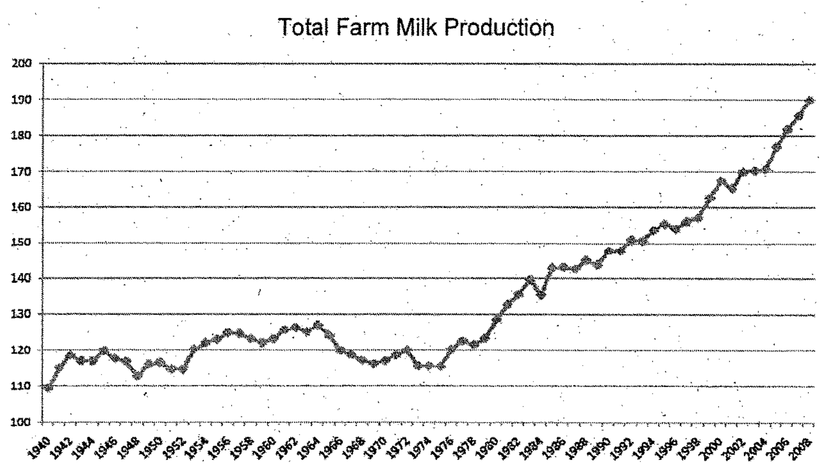
- The number of dairy farms has decreased dramatically over the last several decades. When federal dairy programs were first established some 70 years ago, there were over 4.6 million dairy farms and 22,000 dairy plants to serve our population of 132 million people (1940 data). We now have around 67,000 dairy farms, and about 1,200 dairy plants to support nearly 300 million people. Most states have witnessed a constant and steady decline in the number of dairy farms and dairy plants over several decades.

- The majority of milk production has moved from small dairy farms to large ones. In 2008, almost 59 percent of farm milk production came from only 5 percent of our dairy farms, those with over 500 cows. In 1940, less than 1 percent of farms had 30 or more dairy cows, and over 90 percent of milk production came from farms with fewer than 30 cows. The rapid growth of the nation's dairy industry over the past few decades, especially in the Western states but a trend everywhere in the country, is almost entirely due to the development of very large dairy farms of 5,000, 10,000 or even 15,000 cows.



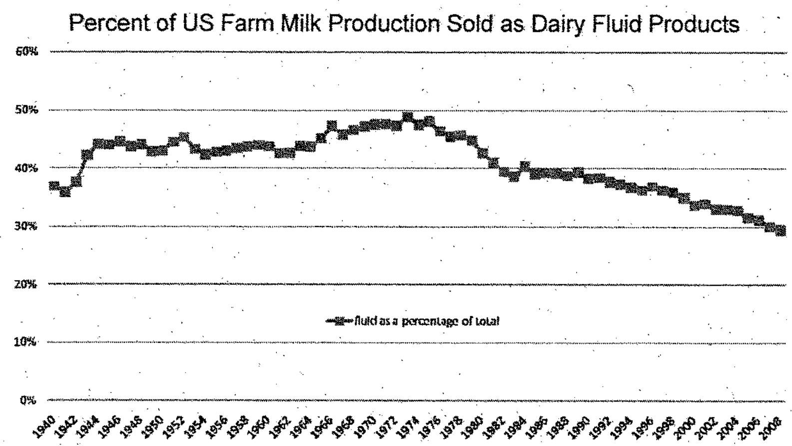
Source: USDA, NASS

- For decades, these changes in the dairy farm sector, combined with an overall decline in per capita consumption of all milk and dairy products, limited overall growth in the industry. Total U.S. milk production was held to around 120 billion pounds between 1940 and 1975. Since then, milk production has soared and continues to grow annually.



Source: USDA, NASS

- While farm milk production has increased dramatically, the percent used in fluid dairy products fell from nearly 49 percent in 1973 to below 30 percent in 2008. Annual fluid milk consumption has fallen from 30 gallons per person in the early 1970s to barely 20 gallons per person today. With population growth, this means that total fluid milk sales in the United States have been stagnant for decades.



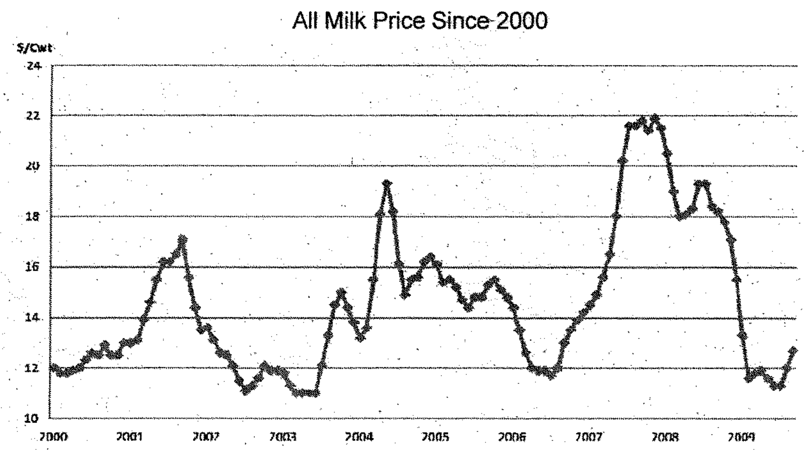
Source: USDA, NASS

- As for other dairy products, cheese sales have significantly increased and account for nearly all of the growth in total dairy sales over the past few decades. Of particular interest to my company, per capita frozen dairy product production has declined over the past 25 years, from 25 quarts in 1985 to less than 20 quarts today, but total production has remained relatively steady in recent years thanks to population growth.

Dairy Lacks Risk Management Tools: Other U.S. Commodities Manage Greater Price Volatility

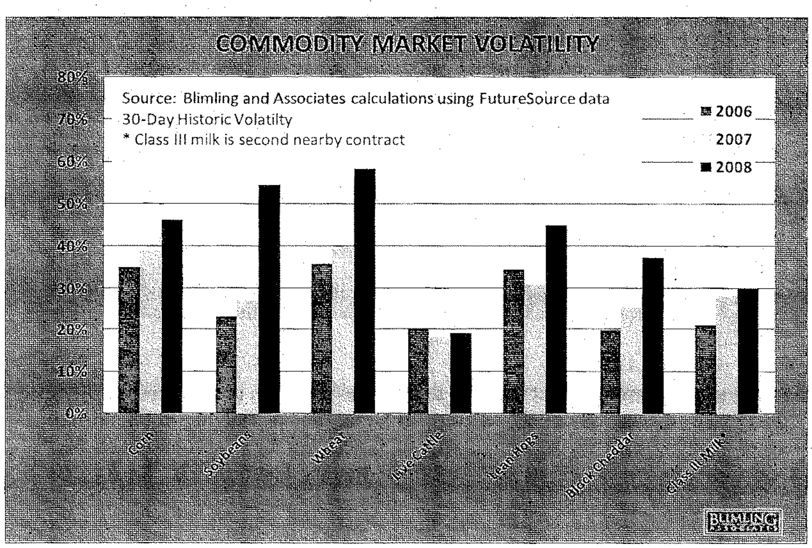
Milk price cycles are not unexpected. In fact, the U.S. dairy industry has a long history of price cycles.

Just five years ago, farm milk and dairy product prices soared to then record-high levels where they stayed throughout 2004 and 2005. But that two-year period of high prices was followed by low prices in 2006. Starting in 2007, the pattern repeated itself. The record high prices in 2007-2008 have been followed by the low farm milk prices seen so far this year.



Source: USDA, NASS

Of course, price swings are nothing new for any farm commodity. But what most people do not realize is that, as shown by the graph below, other agriculture commodities have even wider price swings than dairy. So, why isn't Congress hearing as much from those other farm sectors than they are from dairy? The answer is that our dairy industry remains burdened by policies created over a half century ago.

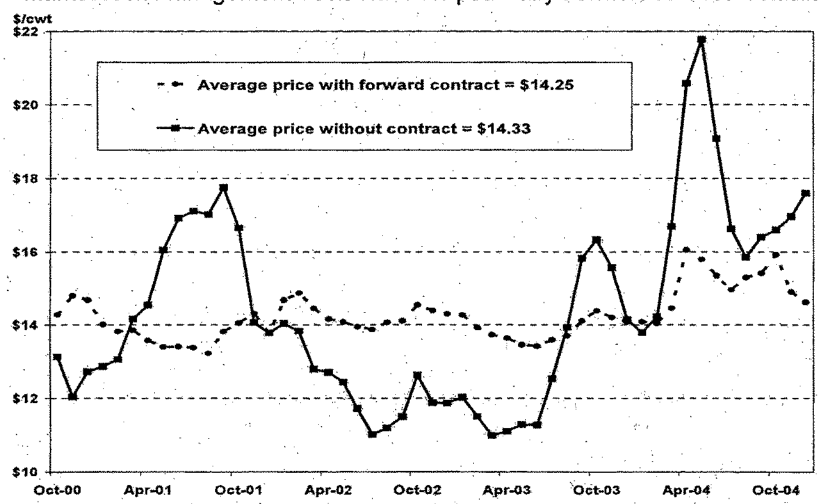


Our complicated milk price regulations make it much more difficult for dairy farmers, processers and end users to understand how existing dairy futures contracts relate to the milk price on their farm or the dairy product they make or buy. In addition, there are eight different dairy futures contracts to choose from, which means trading activity is spread thinly across those eight contracts. Compare this for example with corn, where there is only one futures contract and no regulations that price parts of each farmer's crop based on whether it is used to make ethanol, high fructose corn syrup, breakfast cereal or fed to cattle.

Milk price volatility is a serious problem for everyone in the dairy industry. Without adequate price discovery and risk management tools, every segment of our industry suffers through the price swings, especially the small producers and small processors. Price volatility makes it very difficult to plan for long term industry infrastructure investments, to capture and keep new markets for dairy products, and to compete with other commodities and foods that have less volatility.

We salute the Obama Administration expanding insurance programs like the "Livestock Gross Margin Insurance Program". And we congratulate Congress for providing dairy farmers with risk management tools such as the forward contracting program that was reinstated for some of the dairy sector through the term of the 2008 Farm Bill. Forward contracting is one of the most important tools that dairy farmers, processors and manufacturers can use to mitigate price swings. This chart, which uses data that the United States Department of Agriculture collected during the forward contracting pilot program, illustrates how risk management tools can be effectively used.

Market Risk Management Tools Have Helped Dairy Farmers Reduce Volatility

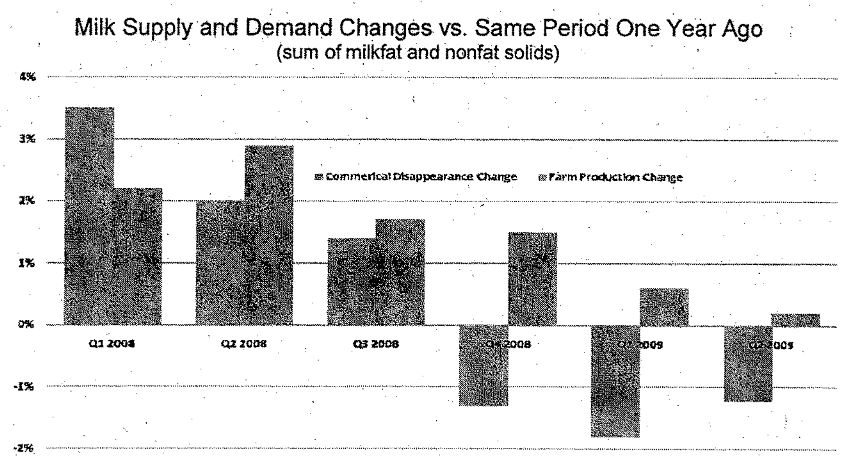


Source: USDA, AMS Dairy Forward Pricing Pilot Program: Information for the Complete Program Periods, September 2000 through December 2004

However, much more could be done. Simplifying the complex milk price regulations is becoming a cry across the dairy industry. This would allow fewer and more useful futures contracts to emerge. Providing greater education to dairy producers and processors about the need for using risk management and the tools available is important, as is providing the right insurance products and helping educate dairy farmers about their use as has been done with other commodities for many years.

Consumers Are Buying Less Dairy, Export Sales Are Off

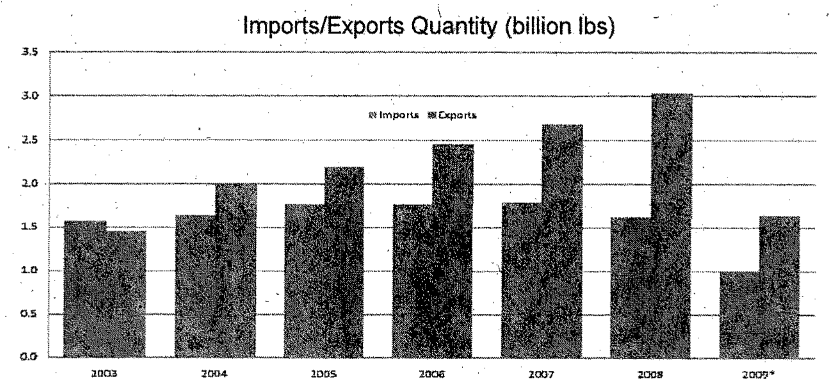
Although too much supply has been tagged by many as the root of our current low farm milk prices woes, it is more complicated than that. The current economic downturn has greatly affected domestic and global demand for dairy products. The chart below shows that demand for dairy products started to slow down in 2008 and actually decreased in the fourth quarter compared to the same period a year earlier. This decrease has continued so far in 2009.



Source: USDA, Economic Research Service

The same negative economic forces we see in our domestic markets have led to the decline this year for both U.S. dairy product exports and dairy imports. Our dairy exports increased to record levels in recent years, but are lower so far this year. Imports have declined as well. The volatile and complicated pricing system, and the standards of identity that are outdated and not in sync with international demand, will continue to stymie our ability to retain and capture even larger segments of the growing international market.

In 2003, the United States imported a greater quantity of dairy products than we exported, and much of those exports were only possible due to subsidies under the Dairy Export Incentive Program. By 2008, the total quantity of U.S. dairy product exports had more than doubled, without any export subsidies. The U.S. Dairy Export Council estimated that in 2008 the United States exported more than 10 percent of its milk production as dairy products, while imports have remained around 5 percent of domestic dairy product demand in recent years.



Source: USDA, FAS

Potential for Growth – But Not with Supply Management

There is good news on the horizon. Milk prices have been steadily climbing over the past few months. Domestic demand for dairy products is increasing. And, as the world's economy continues to rebound, expanding middle-class populations in many nations, particularly in Asia, will help to increase worldwide demand for dairy products.

The United States, which already produces more cow milk than any other country, is uniquely positioned to capture these rapidly growing markets. Other major dairy exporting areas, such as the European Union, New Zealand and Australia, are held back in some way. Relatively new entrants to the world's dairy markets, such as Brazil, Ukraine and Belarus, are still in the early stages of growing their industries.

Yet, there are proposals, being considered by some in the producer community, that will result in turning our backs to this opportunity for expansion. The basic idea behind these proposals is that our government, or even worse an industry appointed board, must manage the supply of milk so that milk prices are guaranteed to cover the cost of production. For example, one plan calls for a cap on the supply of farm milk by applying a tax on milk produced above a level set to meet a calculated average cost of producing milk. However, doing so means that larger and lower cost producers make even more profit at the expense of consumers and the loss of export markets. In the Canadian system, which tries to do this, we have seen efficient dairy producers pay $27,000 per cow for the marketing quota to sell milk. Canadian processors, unable to source Canadian milk, are investing and expanding in the U.S.

The public policy implications of such proposals are profound and the inequities they would create are mindboggling. Programs that manage supply or limit milk production would raise milk and dairy product prices for our nation's consumers and would encourage them to purchase less costly and often less nutritious foods. Propping up domestic milk prices to levels above world market prices surely would cause the U.S. dairy industry to lose enormous opportunities for export growth and to open our markets to increased imports. Jobs that could be created here in the United States would be going elsewhere.

Dairy processors are particularly concerned that taxing new milk production to manage milk supply will limit the industry's ability to innovate and grow. Innovative new products need to tap new milk production, but no one can predict the pace of innovation or the size of markets for such products other than the marketplace itself. It is easy to foresee a supply-managed future where new consumer products are formulated so that no dairy is used to avoid the complications of pleading with a government agency or industry board for more farm milk. Taxing increased milk production will limit growth in both farm production and new plant investments where the market suggests they be made. Instead of rising to the challenge of capturing new domestic and international markets, a federal policy of mandatory quotas or taxes on increased supply would penalize areas of the country that are increasing production, such as Wisconsin, and those states that are attempting to revitalize their dairy sectors, such as New York, Pennsylvania and Vermont.

Current Dairy Programs are Failing

Our outdated dairy programs stand in the way of our industry's ability to manage price volatility. They are limiting our ability to expand demand for dairy both domestically and internationally. They significantly distort the market for dairy products and limit our industry's ability to fully take advantage of our trading opportunities and to respond to our competition for new food products here in the United States.

Innovative dairy companies around the world have developed new dairy ingredients that are increasingly used in popular products, such as protein enhanced waters, sports drinks, power bars, coffee drinks, cake mixes and crackers, to name a few. Even traditional dairy products are diversifying to meet consumer demand for non-traditional attributes, such as new sizes, flavoring, shelf stability and functionality. But our U.S. industry lags behind other countries in new product development and lags behind in innovation.

Why? First, our Dairy Product Price Support program encourages the production of nonfat dry milk, even as few food processors want to use that product. On the other hand, there is growing demand for products like milk protein concentrates which many food processors now source from other countries because the United States does not produce near enough. Simply put, our policies encourage investment in plants to produce nonfat dry milk and not the specialized milk proteins demanded by today's marketplace. Our problem is not that our domestic industry can't compete with imports but that our government encourages the production of other products.

Federal Milk Marketing Orders also limit new investments into the dairy industry by creating unnecessary financial risks for many dairy manufacturing plants. Current government price formulas limit returns on investment which in turn has a major impact on investment decisions. It's the pricing formulas, believe it or not, that influence the type of dairy products to be manufactured and often the location of plant infrastructure. There is a built-in disincentive to manufacture high-value dairy protein ingredients, such as whey protein isolates and milk protein concentrates, because the value of these products are not captured in the formulas. But these are the very products that are increasingly being used in cutting-edge domestic consumer products like energy bars and sports drinks.

Avenues for Growth and Innovation or Managed Supply and Price?

Our dairy industry needs to make a fundamental decision about its future. Where do we want to go? Do we want an insulated, domestic oriented industry with even greater government intervention in pricing, product inventory management, and now farm milk supply controls? Or do we want to proceed down the path of greater opportunity and growth, for dairy farmers and dairy processors, large and small. The majority of milk and dairy product manufacturers in this country would like to see Congress assist the industry by providing the necessary tools to let the dairy industry respond to and meet the demands of a growing domestic and international dairy marketplace. This won't guarantee that all dairy farmers will be profitable but it will give everyone an opportunity to succeed.

The way to start is to stop treating dairy as different from other commodities. We need to help dairy farmers by giving them the ability to manage the unavoidable swings in market prices. Our system must not only allow but encourage the use of market-based risk management tools that allow dairy farms, processors and end users of dairy products (restaurant chains, supermarkets, further food processors) to manage variability in market prices. Every other agricultural sector can and does use such tools as a regular part of business and marketing plans. The federal government can help by providing more programs to manage risk and provide more funding to encourage their use.

Then, we need to fundamentally reform many of our other dairy programs to enable the industry to move forward. We need to simplify our Federal Milk Marketing Order system by reducing the number of classes and by eliminating the complex price formulas that are used to establish class prices. And, we need a system that will allow and encourage farm milk to move to what the market determines is its highest and best use, whatever product that is or wherever that plant is. Federal policy should be regionally neutral and not tilt production or investment decisions.

If as an industry we choose to have the government limit the milk supply in vain attempts to try and guarantee stable and higher farm milk prices, our dairy industry will not only stop growing but slowly decline as domestic and world markets are captured by our competitors. To see how this works out, we only have to look north of our border to

Canada, where total milk production is lower now than before supply controls began 30 years ago, where exports have fallen and imports increased, and where the dairy trade deficit is growing larger over time. On the other hand, with the right policies and programs in place, our U.S. dairy industry will be able to retain and gain customers, both here and abroad, by providing traditional and innovative products that address nutritional needs, meet changing consumer lifestyles and plumb new purchasing power. To us, the choice is clear.

Agriculture Committee Testimony
October 27, 2009
Mr. Doug Nuttelman, Dairy Producer
Stromsburg, Nebraska

Chairwoman Gillibrand, Chairman Casey, Ranking Members Johanns and Roberts, other distinguished Senators: thank you for the opportunity to testify on the critical state of America's dairy industry. My name is Doug Nuttelman and I am a dairy farmer from Stromsburg, Nebraska. My three sons and I own and operate Nuttelman Dairy. We milk 185 cows and farm a total of 2,000 acres, which includes corn, soybeans and alfalfa.

I am on the Board of Directors for my cooperative, Dairy Farmers of America (DFA), a national milk marketing cooperative that not only works to pay me a competitive price for my milk but also brings programs and services designed to increase my profit margins. I also serve on the Board of Directors of the National Milk Producers Federation (NMPF). As a national organization, NMPF develops and carries out policies that advance the well being of dairy producers and the cooperatives they own.

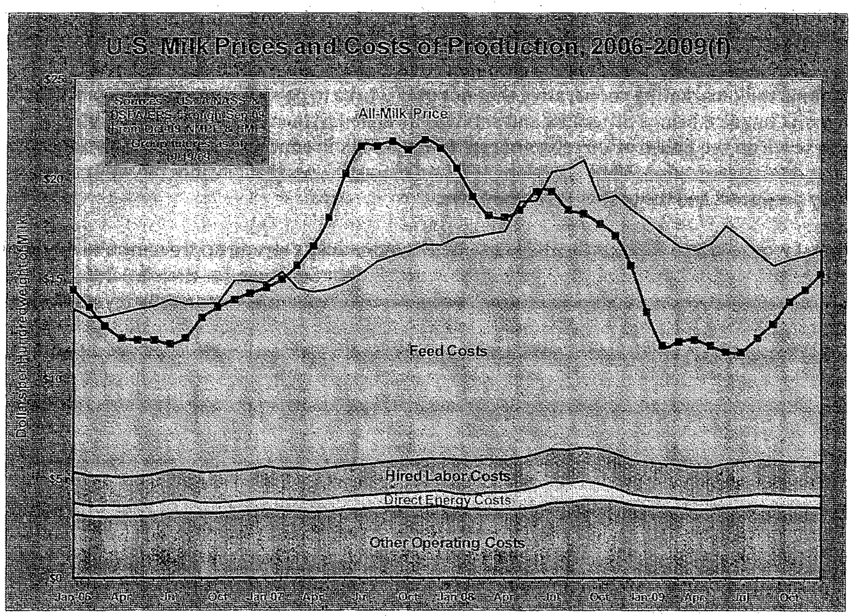
First, I would like to express the dairy producer community's strong appreciation to many of the Senators of this Committee, as well as several other Senators, for their relentless efforts to help dairy producers in these difficult times. During this historically trying time for our industry, we have been fortunate to have a good working partnership with Congress and USDA Secretary Tom Vilsack as we have all worked together to try to find ways to best utilize the 2008 Farm Bill and other programs. These very useful tools have helped to blunt the impact of the crisis currently facing U.S. dairy farmers, but none of these policies alone can resolve the current crisis.

U.S. dairy producers are currently still experiencing unprecedented financial stress caused by historically high input costs. Chief among the basic economic realities now facing the U.S. dairy industry is the transition from being a nearly-exclusive supplier to a relatively mature domestic market into being a major supplier to the growing and increasingly vibrant world markets. Although some may protest this shift, it is a natural evolution in our global economy and one that our industry would do better to embrace than to deny the reality of the world we face today.

This transition will continue to cause larger swings in accessible demand than have been previously experienced, causing significant price movements in an industry where prices are sensitive to even small changes in demand. The traditional instruments for stabilizing prices to dairy farmers, the price support and federal milk marketing order programs, were not designed for, nor are they suited to operate in, this environment. This reduces their effectiveness and exacerbates their negative side-effects on producer income.

Economic Crisis:

U.S. dairy farmers are currently experiencing an unprecedented financial catastrophe. The sudden loss in late 2008 of export market demand equaled about three percent of domestic milk production. This translates into a loss of over 25% of U.S. dairy exports. During January through August this year, the U.S. average all-milk price was $5.10 per cwt. below the U.S. average cash cost to produce milk, as reported by USDA/ERS. As a result, approximately $6.5 billion dollars of dairy producer equity has been lost during these eight months. The chart below demonstrates visually just how extreme the discrepancy between milk prices and input costs is currently and in comparison to recent years.

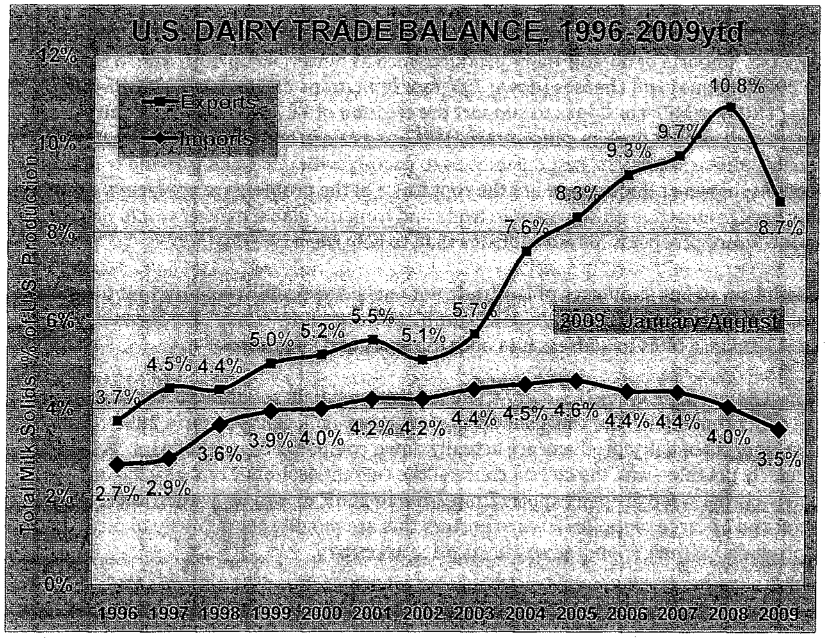


The primary cause for the severely challenging situation facing America's dairy producers is the abrupt decline in export market demand beginning last fall. That was brought on due to an ill-fated combination of the onset of the global economic crisis, combined with a resurgence of milk supplies in Oceania once New Zealand's and Australia's recent drought problems abated. This combination of events contributed to a sudden imbalance whereby global demand fell significantly below the available supplies. Because the U.S. market had gradually increased production to respond to the international market signals being sent in recent years that indicated higher demand for U.S. dairy products, U.S. producers found the rug pulled out from under them when such a significant portion of the market for U.S. milk evaporated in the latter part of 2008.

Some have claimed that the problems we face are a result of a surge in unrestricted imports. The truth is that we have not seen a significant surge in imported dairy products into the U.S. Imports of notable dairy products such as butterfat (up 40% from a relatively small 2008 volume) and cheeses (down 7%) face limitations due to existing tariff-rate quotas (TRQs). NMPF continues to support the creation of TRQs for loop-hole dairy products such as milk protein concentrate (MPC) and casein and it is essential that we zealously enforce importers' responsibilities to comply with U.S. standards and trade obligations; however imports are not the root cause of the problem we are facing. Stepping blindly back from active engagement in trade and from the global market would do more to harm the future prospects for our industry than to help them.

Although I am strong supporter of fair trade not one-sided-trade, it is important to set the record straight regarding the cause of the problem we are now facing in order to develop the best response tools to address it in both the short and long term.

The chart below depicts the U.S. dairy trade balance on a milk solids basis as a percentage of U.S. milk production. The chart shows that on a total milk solids basis in 2009 through August, imports of dairy products are actually down compared to recent years. What is particularly notable – and the largest cause of the current economic crisis facing our industry – is the steep drop in exports from 2008 to 2009, driven by a much lower global demand and by larger supplies from exporters that are moving aggressively to push their own products off their shores at whatever price necessary.



Current Situation

Thanks to the tremendous efforts of Congress, USDA, and the dairy producer community contributing to NMPF's Cooperatives Working Together (CWT) program, the dairy industry is currently poised on the brink of recovery from this disastrous year. Dairy product prices have risen substantially from their previous support levels. There are over 200,000 fewer cows in the national dairy herd than there were at the peak in 2008 - more than a two percent drop. The voluntary, producer-funded CWT program can claim a leading share of the credit for this accomplishment. On October 1, 2009 the third herd retirement program of the year was announced. This is the fifth herd retirement that CWT has conducted in the past 18 months. The two herd retirements in the second half of 2008, plus the two herd retirements so far in 2009, have removed nearly 230,000 cows from the nation's dairy herds and a total of almost 5 billion pounds of milk, helping bring the supply of milk more in line with demand.

In addition, despite the deep recession, demand for dairy products in the domestic market has grown this year, thanks to new product development and a number of industry supported programs, and export demand is slowly returning. The additional measures that Congress encouraged USDA to pursue such as use of the Dairy Export Incentive Program, temporarily raising the dairy product price support, and commitment of dairy products to domestic feeding programs have all contributed importantly to the incremental efforts that have been required to try to address the crisis in the dairy industry this year.

However, it's critically important to understand that it will still take time for dairy farmers to feel significant relief from these positive developments. Higher dairy product prices take time to be translated into higher milk prices. And although they are on the rise, milk prices are still not projected to reach breakeven levels until early next year. Furthermore, reaching breakeven levels will only stop the bleeding. It will take much longer, years in some cases, for dairy farmers to recover the equity that they have lost this year.

Foundation for the Future – Avoiding a Crisis:

What is widely acknowledged within the dairy producer community is that the current situation has redefined dairying. Current dairy pricing programs allow for increased volatility in the industry and don't work for anyone. We need to find ways to bring about stability in markets.

To address the underlying problems that caused this crisis and the many industry factors that have contributed to its depth and protracted nature, we need to focus on solutions that avoid recurrences of the present milk pricing dilemma in the future. We need a combination of approaches when looking at an effective dairy producer safety net.

In addition, we need to work together on these solutions. NMPF, as the national organization representing dairy producers throughout America, can lead in this endeavor and will ensure that we spend our industry's and our government's valuable time and energy pursuing proposals that would appropriately address the situation we are now facing and the environment in which we must operate.

Toward that end, NMPF's member dairy producer cooperatives have built a consensus to analyze and develop a long-term strategic plan for consideration by the NMPF Board of Directors. This multifaceted plan will have a positive impact on the various factors influencing both supply and demand for milk and dairy products and is designed to foster a climate of growth for the industry, while protecting dairy farmers.

A new approach to dairy programs, including seriously reviewing most current federal dairy programs, is necessary to foster a climate of growth for the industry, while protecting dairy farmers.

The Plan:

The key components of this new approach to federal dairy programs are:

1. **Dairy Producer Income Protection (Insurance) Program – Risk Management Tools**

   The purpose of an income protection (i.e. insurance) program is to help dairy farmers survive financially difficult times by paying them an insurance indemnity (payout) when losses occur in their dairy operations. To be successful, the program will need to follow a few important principles:

- Losses caused by either low milk prices or high feed costs need to be covered.
- Producer-paid insurance premiums must be kept low or nonexistent for a historical base of production.
- Coverage should be flexible, and producers may opt to pay for higher or additional coverage.
- The program should be voluntary, national in scope, and open to all dairy farmers, regardless of size.
- The program should not provide incentives to create artificial over-production.
- The program must be easy to access by all producers through a simple application process or through the assistance of their cooperative.

In addition to the Income Protection Program, producers must have available as many subsidized risk management tools as possible to combat future declines in income such as forward contracting with producer protections and supported hedging opportunities.

2. Revamping the Federal Price Support Program

Existing Federal dairy programs intended to serve as a collective safety net to maintain producer viability are seen as inadequate, at best, and detrimental to future industry growth and profitability, at worst. The Dairy Product Price Support (DPPS) program serves to provide a floor under specific dairy product prices and the Milk Income Loss Contract (MILC) program supplements dairy producer income up to a certain threshold when prices fall below a pre-determined benchmark price on fluid milk. Both of these programs have fallen short of expectations during the recent dairy price collapse.

The U.S. dairy industry experiences a structural surplus of nonfat milk solids at prevailing domestic prices, which must either be exported or sold to CCC in the form of nonfat dry milk (NFDM). Under current dairy programs, the U.S. market for imported milk proteins is effectively a part of the world market and hence relatively inaccessible to U.S. suppliers. Accordingly, the DPPSP plays a much larger role for NFDM than for butter or cheese.

Discontinuing the DPPSP offer to purchase nonfat dry milk will require – and allow – the U.S. to market commercially its current excess nonfat solids production every month in the form of products desired by international buyers as well as milk protein products that will reclaim the domestic market currently supplied by imports. In the context of the current surplus situation, this would have placed an additional supply equivalent to 20 percent of domestic production, corresponding to the CCC purchases, on the world commercial markets for NFDM, SMP and milk proteins.

The domestic and world markets are closely linked. Since June 2005, world prices, f.o.b. U.S., have been below the CCC purchase price only about 20 percent of the time, and have averaged just $0.07 a pound below support during those months. The additional volumes of U.S. product that would need to be exported commercially in the absence of CCC purchases would amount to about 15 percent of total world trade. This would likely have the effect of lowering world prices, and U.S. prices, for a temporary period.

However, these lower prices would also be transmitted into lower producer prices for many dairy farmers outside the U.S. For example, Argentine dairy farmers export about 20 percent of their nonfat solids, Australian dairy farmers about 50 percent and New Zealand farmers about 90 percent, compared with about 12 percent for the U.S. These overseas farmers would experience significant price reductions and thereby contribute a substantial portion of the necessary reduction in production and exports needed to bring the world market for nonfat solids, and thus milk production, back into balance. Prices would recover more quickly, U.S. producers would increase total demand by being continuous suppliers and producing commercially demanded products, and there would be no CCC stocks to overhang the market during price recovery. The entire market for U.S. nonfat solids and milk protein products would operate as successfully as the whey protein portion of it currently does.

Discontinuing the CCC offer to purchase component of the DPPSP would increase domestic nonfat solids prices, increase domestic cheese prices modestly and possibly result in a modest decrease in domestic butter prices. The net effect would be higher milk prices received for U.S. dairy farmers. Market prices would be more volatile, but the effect of this volatility on producer incomes would be addressed through income insurance programs, with additional market stability, if desired, provided through industry-funded and operated export assistance for butterfat and additional USDA purchases of fresh cheese for distribution through food assistance programs.

In addition, discontinuing the Dairy Product Price Support Program (DPPSP) would allow greater flexibility in the industry to meet greater demand on various products as well as shortening the periods of low prices by reducing foreign competition domestically (imports) and internationally (exports).

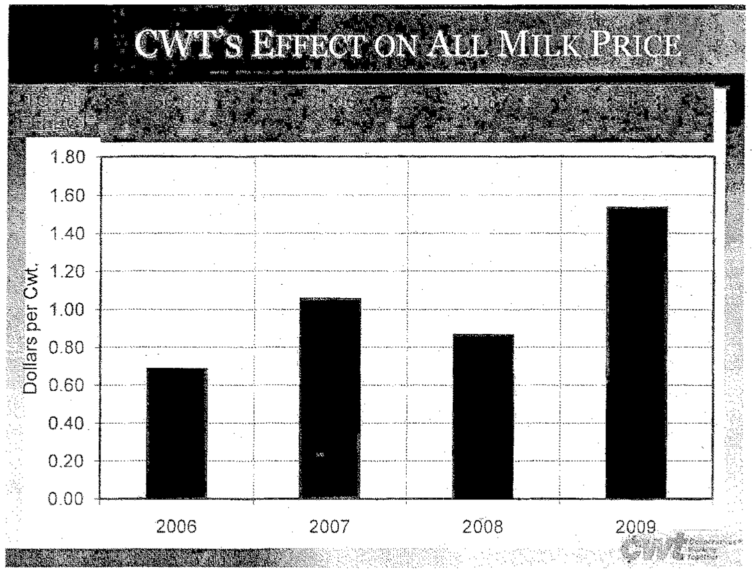
3. Federal Milk Marketing Orders (FMMO) Reform

The Federal Milk Marketing Order (FMMO) Program establishes minimum prices paid to producers in all FMMO-regulated areas through a set of formula-based prices calculated from the market prices of dairy commodity products such as cheddar cheese, dry whey and nonfat dry milk and butter. However, these commodity prices are subject to substantial swings based on relatively minor movement of product in thinly-traded markets; and these swings are transmitted directly to milk prices through the price formulas. This increased price volatility is also reflective of the inelastic demand for dairy products and the ever greater swings in quantities demanded in overseas markets.

FMMO reform must be part of any new direction for the industry. The final outcome of that process must take into consideration various concerns by different regions of the country as well as different roles that the cooperatives play in balancing supply and demand in the United States. The present make allowance system creates a winners and losers scenario that must be corrected going forward, as well as examination of a new price discovery mechanism that is transparent and substantial.

4. CWT: A New Beginning

To assist in maintaining a reasonable supply-demand balance, the industry continues to operate CWT, a voluntary production management program designed to eliminate milk production capacity through the accelerated culling of milking cows and by providing bonuses for shipping manufactured dairy products to overseas markets (thereby reducing the domestic inventory of these products). This program has been highly effective in delivering strong returns for the investment provided by producers, as demonstrated by an independent analysis performed by University of Missouri economist Scott Brown. A chart depicting his analysis of the impact of recent years' CWT programs' effect on the All Milk price is included below.



However, while the CWT program has provided support to producers and to the Federal programs by assisting in maintaining supply-demand equilibrium, it was not designed to be a substitute for a government safety net. The CWT program is also subject to several concerns including "free ridership," and lack of adequate funding because of its voluntary nature. Therefore it is imperative that we evaluate every option to improve the CWT program. At this stage, potential options include the following:

- Evaluate ways to accomplish full participation of all dairy producers
- Partial Herd Retirement or diversion programs
- Bred Heifer Program
- Replacement Heifer Reduction Program
- Export Assistance Program
- Domestic Product Diversification Initiative
- Export Marketing Agency in Common (EMAC)
- Food Bank Assistance

Also, through a program called the Dairy Growth Management Initiative, DFA is evaluating the merits, mechanisms and governance of a congressionally mandated CWT-like program, which we feel may give the dairy sector flexibility in addressing supply issues. This program will be evaluated in upcoming NMPF meetings.

In Closing

We continue to work with industry initiatives such as CWT, in the hopes that in cooperation with USDA and Congress, we can bolster the effectiveness of current programs. Together, it is our hope that these joint actions will help alleviate the economic issues facing us as dairy farmers.

I respectfully ask the Senate Agriculture Committee to be thoughtful in your approach as you consider recommendations to reform or reshape dairy policy in the future. It would be far worse than the current crisis if we put policies in place that would hurt our ability to fulfill the opportunities that we may encounter in the domestic market, as well as the international market. Producers, like me, agree that the more than 70 year-old safety net programs need revamping. It needs to be made more relevant for the future to avoid the conditions we are now experiencing. We are willing to experience some short-term growing pains in order to have a more viable long-term future.

In closing, National Milk Producers Federation, Dairy Farmers of America and I stand ready and willing to assist Congress as you prepare to move forward with restructuring dairy policy in hopes that we will have a sustainable, reliable program for decades to come.

Thank you again for the opportunity to testify and submit my written testimony.

Statement of the

New York Farm Bureau

To the Senate Committee on Agriculture, Nutrition and Forestry

Subcommittee on Domestic and Foreign Marketing,

Inspection, and Plant and Animal Health

"Responding to Low Dairy Prices: Exploring Avenues for Federal Action"

Presented by Eric Ooms, Vice President; New York Farm Bureau

Tuesday, October 27, 2009

159 Wolf Road | P.O. Box 5330 | Albany, NY 12205 | p. 518.436.8495 | www.nyfb.org

Good afternoon, my name is Eric Ooms. I am the Vice President of New York Farm Bureau which represents nearly 30,000 farm families in the nation's third largest dairy state. My father, two brothers and I milk 425 cows in Chatham, NY. My family's lineage in the dairy industry traces back to at least 1525 in the Netherlands. It is part of who we are and we are very proud of this. Many generations of my family have had the awesome opportunity to follow our dad to the barn and learn the lessons that he has taught us. Part of my goal in life is that my son, Arend, and daughter, Grace, have the same opportunities that I have enjoyed so much. As my father imparted to me, if I choose to do something in life, it is imperative that I choose something I enjoy. I can with great certainty tell you that I have made the right choice to be a dairy farmer.

In addition to being a great place to raise a family, a dairy farm is a business. If the business is not successful, this is all academic and the theory of raising kids on a farm becomes some relic of a Norman Rockwell painting of days gone by. Northeast Farm Credit estimates that dairy farm income will be down over $700 million in New York State alone in 2009. This coupled with recent increased costs of production is presenting us with a dilemma that my father assures me he has never seen in his 60 years in the dairy industry. I am actually surprised that there have not been more farms exiting the industry. I believe that the reason for this is the fact that the cows, land and just about everything else is undervalued, so a farmer's only choice is to proceed forward and hope for the best.

I would like to thank you for having this hearing today because we are here to address these issues that are driving our farmers to financial desperation. Rather than spending more time outlining the obvious economic challenges we are facing, I will outline some of the things that can help remedy the situation.

First and foremost, we need to keep in mind that we are in an all-encompassing economic downturn that has not only left the U.S. economy staggering, but has also brought the global economy to its knees. If global and domestic economic conditions were stronger, dairy product demand would be greater and we would not be facing such a historic dairy crisis.

Price Discovery/Federal Enhancement Programs

Essentially, the price of milk is set by the price of cheese on the Chicago Mercantile Exchange (CME). With so little milk trading on the CME, we feel very strongly that another method of price discovery must be devised. Unfortunately, I do not have a great remedy for the fiscal inequity presented by this price discovery method at this time, but this issue needs to be studied. We strongly support de-coupling the price of Class 1 or beverage class milk from the

CME, as fluid milk consumption is fairly inelastic and should not be tied to consumption of cheese or any other milk product for that matter. The Northeast Dairy Compact did this effectively for over three years; however, if there is another way to achieve this end, we would be supportive of that as well.

We fully support USDA Secretary Tom Vilsack's development of a Dairy Industry Advisory Committee and hope that it will come up with some positive ways to revamp the Federal Milk Marketing Orders. ANY plans that recommend eliminating or lowering the Class 1 differentials should be viewed very skeptically, if not outrightly opposed. With growing emphasis on the importance of regional food systems and local foods, it seems obvious to me that to steer federal policy away from Class 1 differentials is counterproductive. Industry-wide, there is support for a "national" pricing solution but when the ulterior motive of individuals or organizations is to eliminate differentials - that is not an acceptable federal policy move we can or will support.

We strongly support and appreciate the Milk Income Loss Contract Program and appreciate any and all efforts to increase the rate of payment and the production cap to accommodate multi-family farms. In addition, we greatly appreciate the addition of $350 million to the FY 2010 Agricultural Appropriations Bill of which $290 million is dedicated to direct payments for dairy farmers. We strongly urge that those payments be expedited. It is important to note that while these programs have not been enough to fill in the gulf that exists between farmers' paychecks and their bills this year, every penny of assistance has been spent in rural America and has helped prevent things from being worse.

Imports/Exports

Looking forward, we need to be certain that imported milk products are on a level playing field with domestic products. Imported products should be paying the same $.15 per cwt promotion fee that every U.S. dairy farmer is paying. This is something that should not be delayed. We urge USDA Secretary Tom Vilsack to implement the rule that would allow the assessment of $.075 per cwt on imported dairy products and ask that individual members of Congress demand this action be taken as it was mandated in the 2008 Farm Bill. In addition, we support S.1542 which would assure that imported Milk Protein Concentrates are paying tariffs that are consistent with our World Trade Organization commitments. There may be more that can and should be done, but let's stand and walk before we try to run.

Conversely, part of the favorable farm milk price we received in 2007 and 2008 was due to robust export opportunities for our products. We commend USDA Secretary Tom Vilsack for utilizing the Dairy Export Incentive Program (DEIP) earlier this year and encourage you to be certain that this policy continues into the future as well, not just when we are facing a crisis. We need to continue to aggressively pursue export opportunities for our products as we are, for better or worse, in a global economy.

Being a successful player in the global economy requires that we not create an economic climate here that puts our producers at a competitive disadvantage. Farm Bureau is particularly concerned about some of the impacts that climate change and other environmental legislation will have on our ability to compete. I urge that Congress proceeds cautiously on these fronts and be certain that sound science is used when considering such legislation.

Competition

We support the U.S. Department of Justice investigating business concentrations in the dairy industry as we need to be certain that dairy farmers are able to compete in an equitable environment. However, it is important to note that we need to continue to maintain the Capper-Volstead Law as it empowers farmers to work together and improve economic situations we face. I mentioned the need for better price discovery earlier in my comments. I hope that if there are any anti-trust activities happening which are putting dairy farmers at a disadvantage, it will come to light and allow for more confidence in the entire market system.

Increasing Nutrients in Milk

For many years, California has had a level of non-fat milk solids that has been higher (8.7%) than the national requirement (8.25%). To meet this higher solids standard would require that milk be fortified with powdered milk or condensed milk to raise the protein and calcium levels of milk we consume. While some estimates show that this augmentation would require an additional 3.5 billion pounds of producer milk, that is not the primary benefit of doing this.

California reduced fat milk (2%) and lowfat milk (1%) have a 14% and 25% advantage in protein and calcium content. This type of fortified milk would better serve our nutrient deficient populations, particularly in underserved urban and rural areas. Results from a national study released this Monday by the American Academy of Pediatrics states that 90% of African American children and 80% of Hispanic children between the ages of 1 to 11 don't get enough vitamin D. Providing nutrient fortified milk which meets the higher solids standard to children in schools and families in their home communities is a practical and cost effective way to improve public health. In my immediate area, Stewart's shops have an award winning milk that is fortified similar to California milk, so it can and should be done nationally.

Supply Management

Currently, American Farm Bureau Federation has policy that opposes government run, mandatory supply management. This is probably consistent with industry feelings on the issue for quite some time. However, there is a great deal of dialogue in the dairy industry about this issue right now. The next few months will dictate if there is enough impetus to change our longstanding opposition to mandatory supply management.

Farm Bureau has been supportive of the voluntary Cooperatives Working Together (CWT) program and I suspect will continue to do so. CWT, in its current voluntary form, has removed over 200,000 cows from our national herd this year and is slated to remove an additional 100,000 cows shortly. I am proud to report that my family has been supporting this worthwhile program financially and will continue to do so.

Conclusion

Thank you again for having this hearing and inviting me to speak today. We are in an uncertain time and there is a great deal of trepidation throughout our industry. I remain optimistic that we have an industry that is worth fighting for and I look forward to partnering with you on all these endeavors.

Thank you.

Testimony
Presented to:
Committee on Agriculture, Nutrition and Forestry, Subcommittees on Production, Income Protection and Price Support and Domestic & Foreign Marketing, Inspection, & Plant & Animal Health

Presented by:

Russell C. Redding, Acting Secretary
Pennsylvania Department of Agriculture

October 27, 2009

Senator Casey and Senator Gillibrand, distinguished members of the Committee on Agriculture, Nutrition and Forestry, Subcommittees on Production, Income Protection and Price Support and Domestic & Foreign Marketing, Inspection, & Plant & Animal Health, thank you for inviting the Commonwealth of Pennsylvania to be a part of this important hearing assessing the national dairy crisis. On behalf of Governor Edward G. Rendell it is my honor to testify before you today. As you know, Governor Rendell has been a strong leader in seeking new and innovative tools, programs and policies to help our state's dairy industry grow and become more profitable. We appreciate your interest in the dairy industry, and we look forward to working with you and the Committee to find common sense solutions to help make the industry stronger.

On behalf of PA's 7,600 dairy farm families, Thank you for your support of the recently $350 million enacted supplemental support for dairy. This will help address the immediate pain and buy some breathing room at the farm level.

We never want to waste a crisis and we have one in dairy. It is both a crisis in confidence and a crisis in income. We must use this rare moment to reform our pricing system, better understand the dairy market dynamic's and most importantly, change our approach to managing risk at the farm level.

Regarding reform, we must improve the systems of price discovery; the U.S. dairy industry would benefit from a reliable and transparent method of price discovery for dairy commodities. It is questionable whether that exists today. The CME market for cheese and butter is thinly traded and is the market of last resort for both sellers and buyers. Yet, it is these transactions and only these that send the signal to USDA/NASS for prices of dairy products which the Federal Milk Marketing Order System depends on for market prices of dairy commodities. The problem with the latter is that the NASS survey creates a lag in pricing information (1-2 weeks). What is needed are improvements in the NASS surveys; eliminate the lag, apply it to all dairy products sold including inventories in cold storage facilities, and make reporting on a daily basis mandatory in the same way other protein commodities report. We believe this important change represents a major step forward by our industry, could be implemented by NASS or AMS and would represent a minimal investment.

We would also suggest improving the integrity of the marketplace by creating an alternative to the CME market or consider using a collection of price discovery tools that, collectively, would more accurately reflect current market conditions of supply and demand. These tools could include the futures market prices, reporting's of actual prices paid from mandatory pricing surveys, and CPI numbers which represent input costs of corn, energy, and other input costs to farmers. Each factor would be assigned an appropriate weighting and would have numerous benefits to dairy farmers. By using a collection of discovery tools for price like cash and futures markets, pricing surveys, and input cost calculations, the integrity of the marketplace is improved, and extreme price fluctuations are abated.

My most important recommendation here today would be that USDA and Congress work together to provide dairy producers with additional workable, affordable and meaningful risk management tools like Dairy-LGM insurance and a Dairy Options Programs. These tools build on current programs and represent the next generation of dairy margin protection; USDA should consider providing funds to offset the costs associated with producer participation in LGM and funding for a Dairy Options Pilot program. Dairy-LGM is based on milk income over feed costs, which the program calls a "gross margin". The insurance program covers the difference between the expected gross margin (insurance guarantee) and the actual gross margin for the producer's selected months, based on a targeted amount of milk. Future prices from the CME are used to determine value, Class III milk, and corn and soybean meal. Future prices result in uniform commodity prices for all producers.

In Pennsylvania there has been a large learning curve with Dairy-LGM for the crop insurance agents, educators and producers. From what we can see it would have performed exceptionally well this past year for the producers who purchased it. The new changes allowing producers to use default feed values has had a positive response. Changing the sales closing to a slightly longer period has also been helpful. There are still some issues that cause some reluctance in acceptance and administrative difficulty. For instance, the entire premium is due up front—and as you know the dairy industry operates on a cash basis—something they are extremely short on right now. It would be a significant help if producers could pay the premium incrementally out of their milk check. This could possibly be worked out via an agreement with the milk buyer. Secondly, a federal subsidy would go along way in helping with the sticker shock. Other crop insurance products have a federal subsidy and it goes a long way in helping producers better afford crop insurance and to afford more meaningful coverage levels. Most dairy farmers do not dabble in the commodity markets either because of insufficient milk quantities, lack of knowledge, or not enough time. From my perspective, I believe USDA and Congress must move away from product price support programs to a risk management based system for providing support to the US dairy industry as, without true dairy pricing reform, we are likely to continue in this cruel system of extreme highs and lows of dairy prices.

Next, I would recommend studying the economic benefits to the producer of establishing two classes of milk; Fluid and manufactured classes with prices for each class being determined using fat, protein, and other dairy solids. Several years ago when Pennsylvania originally recommended this concept during the 2008 Farm Bill debate, it was met with little interest. However, now more and more producers, cooperatives and others are willing to explore this concept. I also believe the U.S. is in a good position to become a significant player in the global export markets for dairy ingredients and for this opportunity to continue to grow. The changes that are needed include: changes to the Dairy Price Support Program which is a deterrent to producing products for export markets and should be thoroughly reviewed, eliminated, or adjusted to become more flexible as to not inhibit the manufacture of Nonfat Dry Milk for export but to provide incentives for new product development domestically. In addition to the price support program, I believe the Federal Order system needs to be thoroughly evaluated to determine relevance to today's market opportunities. Included in this review would be a reevaluation of the Make Allowance system being paid to dairy processors and manufactures. This system is clearly a disincentive for product development and puts the United States in an uncompetitive position in the world market. Rather than using dairy components (fat, protein and others) for the most marketable "highest and best" use, the incentive is to produce milk powder, add to our inventories, and lose ground in areas of product innovation. As a result, the US finds ourselves relying on foreign innovation and the subsequent importation of innovative dairy products. I also feel Congress needs to revisit standards of identity for products being used for dairy manufacturing but not being considered dairy ingredients. We must apply the same standards to domestically produced products as well as imported products and would urge Congress to conduct a comprehensive review of all trade agreements to determine their impact on the domestic dairy industry.

Pennsylvania has nearly 8,000 dairy farms; surpassed only by Wisconsin. My fear is that we could lose 1,500 Pennsylvania family dairy farms in the next 12 months. Our existing farms produce 10.6 billion pounds of milk annually, which represents 5.6 percent of the US milk production. These farms spend most of their money locally to produce milk, thus supporting local businesses and the tax base. Because dairy farms spend money locally, they have a multiplier effect of about 2.5. In other words, for every $1.00 spent by a dairy farm about $2.50 in wages and related business activity is pumped into the local economy. It is estimated that dairy production and its associated businesses added on average over $4.2 billion dollars per year in activity to Pennsylvania's economy from 1998 to 2002.

It is because of the magnitude of the Dairy Industry in the Commonwealth, our Pennsylvania Dairy Task Force and Center for Dairy Excellence were created. The Task Force is a group of 100 dairy producers and industry professionals who meet routinely throughout the year to evaluate opportunities to improve the profitability of our industry. The Center for Dairy Excellence provides leadership to this process and activates the initiatives that result from these discussions. This focused approach has worked extremely well and has resulted in a reversed trend of declining milk production. It has also become a model for resource coordination and leadership used in other states in numerous sectors of agriculture. Business Planning tools, Dairy Farm Boards of Directors called "Profit Teams", Risk Management resources, dairy mentors, and educational programs are examples of work done by the center.

As a result of the focused work done in Pennsylvania, the Northeast Dairy Leadership Team was formed. This regional effort is based on a Memorandum of Understanding signed in 2006 between the Secretary's and Commissioner of Agriculture from New York, Vermont, and Pennsylvania. The NEDLT consists of approximately 10-20 industry leaders from each of these 3 states and meets routinely throughout the year. The work of the NEDLT has resulted in a regional approach to discussion and collaboration and has been an effective vehicle as we evaluate programs and opportunities to both sustain and grow our regional industry. The NEDLT discussions include areas around farm profitability, dairy legislation, regional milk production, and consumer outreach.

In addition to these vehicles for dairy industry support, the Commonwealth has a Pennsylvania Milk Marketing Board which sets minimum retail prices for milk and establishes dairy farmer premiums for fluid milk produced, processed, and sold in Pennsylvania. The PMMB was established in 1937 to regulate and ensure a sufficient supply of milk by keeping each segment of the industry economically healthy. Last month, Governor Edward Rendell asked the PMMB to explore all avenues available to address the price collapse.

As we approach the 11th month of these low prices and subsequent erosion of equity on farms, the breaking point is near for many dairy businesses. We would request expanded availability of guaranteed and direct loans through FSA. This would provide additional capacity for commercial banks and the farm credit system to work with dairy customers and the Farm Service Agency. As a result, dairy operations would have additional interim funding as supply and demand find equilibrium. These additional loans and guarantees will not change equity positions but will provide necessary operating funds for both farms and supporting infrastructure.

Throughout the Governor's travels, he has come upon countless Pennsylvania dairy farm families who are struggling to pay increasing feed, fuel, fertilizer and other bills. Many dairy farmers worry that if economic conditions do not improve within the dairy industry, they will be forced to sell their cows and look for other occupations in order to make a living. The dire economic situation which confronts the dairy industry in the Northeast and elsewhere prompted Governor Rendell to explore new directions in dairy policy. The Governor recognizes that there are some problems associated with the current structure of the Federal Milk Marketing System, specifically the high volatility of prices, the gap between cost of production and the price paid to farmers, and the overall complexity of the system.

U.S. dairy policy is too complex and limits market creativity and dairy product innovation. With slow growth in domestic consumption of dairy products, dairy policy changes need to stimulate new product development to meet the growing export market. This would have the added benefit of removing some farm gate price volatility, which has consistently been an extreme hardship on Pennsylvania producers. Pennsylvania farmers have voiced the need for dairy reform loud and clear to me.

The dairy industry is critically important to our economy and quality of life and therefore must be nurtured and supported. Having the right state and federal dairy policies in place will be critical to improving farm income, capturing international markets, and encouraging investments at all levels of the industry – from the farm to processors. For these reasons, I would ask for your support to encourage dialogue among policymakers and the dairy community. It is our goal, in the final analysis, that the U.S. dairy industry be stronger – both here at home and around the globe.

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Testimony of Lucas S. Sjostrom
Government Relations Specialist and Communications Assistant
Holstein Association USA, Inc.

Submitted to the Senate Committee on Agriculture
Subcommittees on
Domestic & Foreign Marketing, Inspection, & Plant & Animal Health
and
Production, Income Protection and Price Support

For a hearing to discuss
"Issues Facing the American Dairy Industry"

October 27, 2009

Room 328A Russell Senate Office Building
Washington, D.C.

Thank you to Chairs Gillibrand and Casey, and Ranking Members Johanns and Roberts, for inviting me to testify before you today.

I am the Government Relations Specialist and Communications Assistant for Holstein Association USA, Inc., a non-profit dairy organization that is headquartered in Brattleboro, Vermont, with 30,000 members nationwide. I am here to talk to you today about a program we have proposed, called the Dairy Price Stabilization Program, which will stabilize the peaks and valleys of milk prices which make it so difficult for those in the dairy industry to manage.

As you all know, for almost an entire year virtually all of America's dairy farmers have risen every morning to find that they will be selling milk for less than the amount it costs to produce it. Obviously there are many factors that add into what the milk price will be, and what the cost to produce milk is.

In a typical commodity market, there's room for some volatility. You can have ups and downs, and hedge against future losses. Milk is not a typical commodity; it is perishable. While we can forward contract milk, there is no way to hang onto it for a few months until the prices go up again, like farmers can in other commodity markets, such as corn, soybeans, rice, cotton, and others.

In the dairy market, an oversupply of milk leads to lower prices. As dairy farmers are paid per hundredweight for their milk, the only incentive they have to generate more income when milk prices are down is to produce more milk. This is precisely why we have seen the roller coaster ride of milk prices over the years. Bottom line, in order to improve the plight of the American dairy farmer, there needs to be some incentive, either a penalty or a premium, to keep supply and demand closer together. The Holstein Association's Dairy Price Stabilization Program accomplishes this.

The Dairy Price Stabilization Program is NOT a quota system. Unlike supply management programs in other countries, you can still produce as much milk as you choose, and there are no large barriers to growth. Ultimately the Program rewards producers for making good decisions for the betterment of their industry. Instead of financial incentives directing farmers to produce more milk, the direction received at each farm will help the farmer decide, based on his goals, what he wants to do.

The basic objectives of the Holstein Association's Dairy Price Stabilization Program are:

- To prevent severely depressed producer milk prices that result in low and negative returns over feed costs to dairy producers.
- To reduce the volatility of milk prices to dairy producers and thereby reduce the price risk to dairy producers, dairy processors, and consumers of milk and dairy products.

- To complement, and not replace, other existing dairy programs such as the federal dairy product price support program and the Milk Income Loss Contract Program. In fact, our program may reduce the federal government cost of both of these two programs.

Here is an overview of the program, and further details have been submitted to the Committee in writing:

The Dairy Price Stabilization Program removes the incentive to produce milk beyond the levels our market demands. It rewards producers who stay in line with market needs.

The U.S. Secretary of Agriculture would administer the program with an Advisory Board. The Board will forecast the 12-month domestic and export market demands for fluid milk and manufactured dairy products. With consideration of the current level of milk production, a determination will be made to the needed change in milk production to fulfill the market needs for each quarter of the next 12 months and return a profitable price to dairymen. This is referred to as the "allowable milk marketings".

Dairy farmers who maintain their milk marketings by quarter within the allowable milk marketings will not have to pay market access fees.

Dairy farmers who expand their operation and exceed their allowable milk marketings will be accessed a market access fee per hundredweight on their additional milk marketings. The fee would be determined by the U.S. Secretary of Agriculture and the Board on a quarterly basis. The fees collected from producers paying the market access fee would be distributed as a bonus to the dairy producers who stayed within their allowable milk marketings.

Producers will receive their base by filing their history of milk production and monthly marketings to their area USDA Farm Service Agency (FSA) office. The FSA office will notify the producer's milk plant or dairy cooperative to deduct the market access fee, if the producer exceeded their allowable milk marketings.

The cost of the program to taxpayers is nothing. We would expect an assessment of less than two cents per hundredweight to producers on all milk marketings to cover administrative costs of the program.

Dairy farmers are very thankful to our representatives in Washington, D.C., for putting dairy and agriculture as priorities. We would like to especially thank Senator Sanders and all the other Senators who aided in adding some short-term help for dairy farmers to the agricultural appropriations bill the President signed just days ago.

With the Dairy Price Stabilization Program, we have a long-term solution that can have an impact almost immediately, with no cost to taxpayers. The DPSP was developed for dairy producers, by dairy producers. The key to this program is that dairy farmers now have an incentive to produce milk for the market instead of producing all the milk they can and finding out what they are paid after it is sold. The program will be beneficial to dairy farmers, milk cooperatives, processors and consumers.

In closing, I would like to emphasize three points:

1. The Dairy Price Stabilization Program could be put into place without affecting any current dairy programs.

2. Implementing the DPSP does not require opening the Farm Bill.

3. The Dairy Price Stabilization Program is the only new, detailed program available that can have a positive effect on mailbox milk prices now and in the future.

On behalf of the Holstein Association USA's 30,000 members across the country, thank you for the attention you are giving to the volatile position America's dairy farmers are in.

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Holstein Association USA, Inc.
Dairy Price Stabilization Program

September 2, 2009

The volatility in dairy product prices and dairy producer milk prices is extremely difficult for dairy producers, milk processors and end users of milk and dairy products to manage. The U.S. All Milk price averaged $15.13 for 2005, just $12.88 for 2006, a record high of $19.13 for 2007 and $18.32 for 2008, the second highest on record. But, the U.S. All Milk price was a record monthly high of $21.90 November of 2007, started 2008 with a January price of $20.50 only to fall to $15.60 by December and down to $11.50 for February 2009. Such volatility creates major problems for dairy producers to manage cash flow and make capital investment decisions. When prices are at their lows returns over feed costs become unfavorable and even negative. These unfavorable returns have a negative impact beyond the dairy producer level. Farm input suppliers are negatively impacted as dairy producers reduce their purchases of feed, seed, fertilizer, crop chemicals, machinery and other inputs. These lower input purchases negatively impact local businesses and communities.

Program objectives:

- To prevent severely depressed producer milk prices that result in low and negative returns over feed costs to dairy producers.
- To reduce the volatility of dairy product prices and producer milk prices and thereby reduce the price risk to dairy producers, dairy processors and end users of milk and dairy products.
- Provide flexibility in allowing dairy producers who wish to expand their dairy operations as well as providing for new producers who wish to enter dairying.
- To complement and not replace other existing dairy programs such as the federal dairy price support program and the Milk Income Loss Contract Program. In fact, this program would reduce the federal government cost of both of these two programs.
- Provide for a long run dairy program for seven years with a five year review for continuation and/or modifications based on past performance.

Program provisions:

- The program is mandatory in that all states will be included. However, it is flexible in that individual producers may decide to expand their dairy operation and new producers are allowed to enter the dairy industry. States having programs to grow their dairy industry will still be able to implement such programs.
- For the purpose of this legislation, the term "new producer" shall be defined as any individual or group of individuals entering the dairy business, none of whom have any interest in milk producing cows at the time of this bill's enactment.
- Upon implementation of the program, each dairy producer will be assigned an initial base of raw milk marketings using an average of the calendar years 2007, 2008, and 2009.
- There will be a committee setup to review individual appeals.
- For those producers with less than a 3-year history, calendar year 2009 will be their initial allowable milk marketings base. Each producer's base will be divided into their quarterly historical milk marketings. Bases are a moving base whereby at the beginning of the next 12-month period, a producer's base will be the recent past 12 months. The base is assigned to the producer owning the producer license for the dairy operation.
- Bases can be transferred by filing the exchange with the Farm Service Agency.

Holstein Association USA, Inc.
Dairy Price Stabilization Program

- Multiple dairy producers can combine their bases from two or more facilities into one dairy facility provided each producer holding one of the bases to be combined remains engaged in milk production of the operation in the combined facility.
- In all other instances a producer's base evaporates once the owner of the producer license no longer is actively producing and marketing milk.
- The program will be administered by the U.S. Secretary of Agriculture with an advisory Board, hereafter referred to as Board, appointed by the Secretary from nominations. The Board will include two dairy producers from each of 6 regions—the West, South, Southeast, Central, Midwest and Northeast; one consumer representative, one representative of dairy product firms (cheese, butter, milk powder or other manufactured products), one representative of a fluid milk bottler, and a dairy economist advisor to the Board.
- The U.S. Secretary of Agriculture in consultation with the Board will forecast the market for fluid milk and manufactured dairy products (total commercial disappearance) that includes both the domestic market, any foreseen government purchases, and exports for each quarter of the next 12 months. Taking into consideration the current level of milk production, a determination will be made as to the needed change in U.S. milk production to fulfill the market needs for each quarter of the next 12 months allowing for a producer raw milk price that is positive over operating costs as determined by the Board. The Board will meet quarterly with the U.S. Secretary of Agriculture to revise forecasts and to forecast out by quarter for the next 12 month period. The market needs by quarter is referred to as "allowable milk marketings".
- Dairy producers who maintain their milk marketings by quarter within the "allowable milk marketings" are not directly impacted by the program. Recognizing that milk production is affected by weather, feed quality, herd health, etc., a producer who exceeds the "allowable milk marketings" for a given quarter will not be impacted provided that their milk marketings for the entire 12 month period are within the "allowable milk marketings" and if so, any "market access fees" collected will be refunded.
- Dairy producers who produce at or below their "allowable milk marketings" will not be impacted with a reduction in base in the future marketing period/s.
- Dairy producers who wish to expand their dairy operation and exceed the "allowable milk marektings" will be assessed a "market access fee" per hundredweight on milk marketings that exceed their "allowable milk marketings" level. This "market access fee" will initially be determined by the U.S. Secretary and the Board, but we expect it will be in the range of \$6.00 to \$9.00 per hundredweight on this "new" milk. Based on historical performance of the program, this market access fee may be increased or decreased, but cannot be increased for dairy producers currently being assessed the "market access fee" for the current 12-month marketing period. If the market access fee would drop while a producer is expanding, the fee could go down (because we need more milk), but a fee would never go up once locked in for 12 months.
- For dairy facilities who expand marketings beyond the "allowable milk marketings" and pay a "market access fee", their fees would be collected and redistributed back to the dairy producers who held their milk marketings within the "allowable milk marketings". Redistribution of "market access fees" will be done annually at the anniversary date of the inception of this program.
- Once it is determined that a dairy producer has expanded milk marketings beyond the "allowable milk marketings" for a given quarter, the dairy producer will have the "market access fee" deducted for the proportional amount of "new" milk from their milk check in the following quarter and for the next three quarters. The dairy producer's higher milk marketings

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during the first quarter and following three quarters having a "market access fee" becomes the new and higher historical base to which milk marketings for the quarters for the next 12 months will be compared to.

- For new producers without a full year of milk marketings or those entering after the implementation date, their base will begin being established with their first full quarter of milk marketings and for the next three quarters. A new producer who begins producing milk on January 10, 2010 will begin establishing his or her base and paying any fees on "new milk" (which may be all of their milk if they are not the transferee of existing allowable milk marketings) on April 1, 2010 through March 31, 2011.
- Half of the new producers' market access fees will be deferred to the corresponding quarter during their second year of operation. Then, consistent with how the program is written for existing producers, the new producer is eligible for market access fee dividends if they stay under their allowable milk marketings, even though they will be paying market access fees on year one's milk marketings.
- New producers lose the ability to defer market access fees after their first full four quarters of operation. This includes a new producer who pays no market access fees during any time during their first four quarters.
- As with Milk Income Loss Contract payments dairy producers will file their milk production history and monthly milk marketings with their area USDA Farm Service Agency (FSA) office to establish a milk base. Dairy producers will authorize their milk plant or dairy cooperative to submit their milk marketings directly to the FSA office. If a dairy producer's milk marketings exceed the "allowable milk marketings" for a given quarter, the FSA office will notify the dairy producer's milk plant or dairy cooperative to deduct the "market access fee" starting the following quarter and for the next three quarters and submit the fees to the FSA office. Area FSA offices will submit "market access fees" collected to the national FSA office where they will be pooled and a value per hundredweight will be calculated for distribution to all dairy producers who had not exceeded the "allowable milk marketings".
- The Federal Milk Market Administrator or State Market Administrator, will, if solicited, provide information to use to verify reported producer milk marketings from dairy plants.

Administrative costs:

- An assessment of no more than two cents per hundredweight will be assessed against all milk marketings to cover administrative costs of the program. Milk plants are to submit these assessments directly to the national FSA office.

For more information, please contact:

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United States Senate
Agriculture Committee
Subcommittee on Domestic and Foreign Marketing, Inspection, and Plant and Animal Health
Subcommittee on Production, Income Protection, and Price Support
Hearing on Responding to Low Dairy Prices:
Exploring Avenues for Federal Action
October 27, 2009

Testimony of:

Ray Souza
Turlock, California
On behalf of:
Western United Dairymen
California Dairies, Inc.

Good morning. Thank you Chairman Gillibrand, Ranking Member Johanns, Chairman Casey, Ranking Member Roberts, and other Members of both Subcommittees for holding this hearing. I appreciate the opportunity to provide testimony regarding the current state of the economy for dairy producers and to add some thoughts on potential short- and long-term solutions for our industry.

My name is Ray Souza, and my wife Lynette and I have operated Mel-Delin Dairy outside Turlock, California for more than 40 years. I started as a teenager with a 4-H cow I purchased at the local auction, and my family and I have made our living milking cows ever since. The milking herd today is roughly the average size for the state of California at about 900 head.

I currently serve as President of the Board of Directors of Western United Dairymen. Western United represents 1,100 of the 1,700 dairy farm families in the state of California. And I want to emphasize that word family. Even though we are known as a large-herd state, I can't think of a dairy that isn't owned and operated by a family.

We are members of the second-largest milk marketing cooperative in the country, California Dairies, Inc., and with our emphasis on purebred cattle I have been a member of the Holstein Association of America for more years than I care to think about, going back to that original 4-H cow. We have been fortunate to have some success in breeding registered Holsteins and merchandising genetics that have been in demand in the breed.

Today's economic situation in the dairy industry in California is, in a word, dire. In fact, I'll go back to that point about dairy families. A fifth-generation dairy farm family, my neighbors the Linhares, sold their cows this past summer in a CWT herd retirement round. One day in June, three generations were operating that farm. Today, after cows have been milked on that farm for 112 years, that family has left the business saying there is simply no way they could justify continuing to erode the equity they have built through five generations of caring for cows and working the land.

I. An economic snapshot of the California dairy industry.

A. Ruinous negative operating margins.

- Farm milk prices and feed commodity prices tend to be cyclical in nature. However, producers have never witnessed such dramatically low milk prices combined with skyrocketing production costs. The milk price/feed cost ratio is the lowest in history.
- The price paid producers for milk has been just over half what it costs to produce the milk for a large portion of the year. Dairy families are losing what took them years and even generations to build.

- The industry has experienced periods of low prices before. However, production costs have been on a steady upward climb – up 26% in California in just the last three years.

- The following chart, compiled with data from the California Department of Food and Agriculture, compares net operating margins from 2001 through 2008 and year-to-date for this year. While the last really bad year on the dairy farm, 2006, showed margins resulting in a loss of $3.30 per hundredweight, the negative margins year-to-date in 2009 are nearly two and one-half times larger.

(per hundredweight)	CA Overbase Price	CA Statewide Cost of Production	Margin
2001	$13.11	$12.24	**$0.87**
2002	$10.24	$12.61	**-$2.37**
2003	$10.70	$12.44	**-$1.74**
2004	$13.89	$12.75	**$1.14**
2005	$13.17	$13.43	**-$0.26**
2006	$10.87	$14.17	**-$3.30**
2007	$17.27	$15.77	**$1.50**
2008	$16.03	$18.54	**-$2.51**
2009 YTD	$10.19	$17.82	**-$7.62**

Source: CDFA

- These numbers are hardly unique to California. All U.S. producers will be higher-cost producers in the years to come as a result of the additional debt load taken on to survive these negative net operating margins. Productivity gains on U.S. dairy farms are nothing short of astonishing. Previous low price cycles have taken their predictable toll on operations that failed to control costs relative to their competing farmers serving the same markets. This cycle, however, is different. These ruinously negative margins are hurting everybody, including the most efficient.

B. Monthly milk price v. input costs 2008 – 2009 and near-term projections.

(per hundredweight)	CA Overbase Price[1]	CA Statewide Cost of Production[2]	Margin (OB less COP)	CA Mailbox (plus marketing costs)	Margin (Mailbox less COP)
Jan-08	$17.44	$17.31	$0.13	$18.50	$1.19
Feb-08	$16.72	$17.31	-$0.59	$17.58	$0.27
Mar-08	$16.01	$17.31	-$1.30	$16.57	-$0.74
Apr-08	$15.86	$18.04	-$2.18	$16.43	-$1.61
May-08	$16.77	$18.04	-$1.27	$17.34	-$0.70
Jun-08	$17.42	$18.04	-$0.62	$17.90	-$0.14
Jul-08	$17.35	$19.21	-$1.86	$17.75	-$1.46
Aug-08	$16.31	$19.21	-$2.90	$16.81	-$2.40
Sep-08	$16.22	$19.21	-$2.99	$16.85	-$2.36
Oct-08	$15.44	$19.58	-$4.14	$16.30	-$3.28
Nov-08	$14.27	$19.58	-$5.31	$15.22	-$4.36
Dec-08	$12.41	$19.58	-$7.17	$12.83	-$6.75
Jan-09	$10.40	$18.51	-$8.11	$11.09	-$7.42
Feb-09	$9.58	$18.51	-$8.93	$10.32	-$8.19
Mar-09	$9.84	$18.51	-$8.67	$10.44	-$8.07
Apr-09	$9.87	$17.12	-$7.25	$10.40	-$6.72
May-09	$9.76	$17.12	-$7.36	$10.22	-$6.90
Jun-09	$9.62	$17.12	-$7.50	$10.15	-$6.97
Jul-09	$9.60	*$17.12*	*-$7.52*	$10.12	-$7.00
Aug-09	$10.48	*$17.12*	*-$6.64*		
Sep-09	*$11.00*	*$17.12*	*-$6.12*		
Oct-09	*$11.80*	*$17.12*	*-$5.32*		

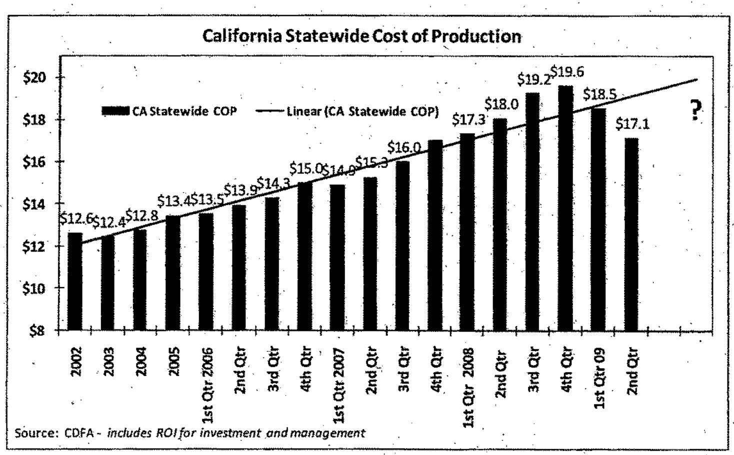
1 Actual through Aug and estimates for Sep and Oct 2009 (based on prices through October 22, 2009)
2 Actual through 2nd quarter 2009

Source: CDFA

- The dramatic increase in feed prices has propelled dairy production costs to record levels. Though feed costs have come down a bit, we expect this general upward trend to continue as the cost of doing business in California continues to rise.
- Production costs posted a slight decrease from 4th qtr 2008 to 1st qtr 2009, and then again into the 2nd qtr of 2009 due to slight decreases in feed costs. However, COP figures are not expected to decline by any significant amount as we move forward. Feed commodity prices that declined a bit over the summer have now risen sharply again, despite the projected record harvest of soybeans and near-

record corn harvest. The cash cost of production has returned to a record high for dairy farmers.

- California producers typically do not grow all their feed and have to pay additional transportation costs to haul in feed for their cows.
- At the same time, all other costs of doing business in California have increased. Additional environmental costs are mounting each year as producers work to meet new waste discharge requirements, for example.



C. The crash came earlier to California.

- The California milk pricing system responds more quickly to current market conditions because it corresponds to the Chicago Mercantile Exchange. In contrast, price reporting procedures for the Federal Milk Marketing Orders usually result in a one- or two-month delay.

D. Outlook for the remainder of 2009 and into 2010.

- Market prices are moving upward but profitability remains a distant prospect for dairy farmers.
- The downward adjustment in milk production, made necessary by the disappearance of export markets caused by the global financial crisis, has finally kicked in nationwide. California producers, who felt the impact of lower prices two months before the rest of the country, also reduced production earlier. In fact, California milk production has been down year-over-year for 14 out of the last 15 months. September 2009 production in the state was down another 6.4% compared to September of 2008.
- Though prices are expected to increase in 2010, forecasts do not suggest a return to profitability for dairy farmers in 2010 – only smaller losses. Producers will continue to go out of business as it becomes clear that equity is gone and lenders reevaluate operating loans for next year with the looming likelihood of continuing negative margins.
- Those left standing will have a huge debt load to work through. It may take years of higher prices for the industry to recover.

E. The dairy economic safety net is stretched flat on the ground.

- The Dairy Product Price Support Program (DPSP) is a long-standing program that is intended to benefit both producers when prices are declining and consumers when prices are rising. It also benefits all producers in the country equally without regard to herd size or farm location. Yet, at its current product purchase price levels the program is wholly inadequate considering the dramatic rise in input costs for farmers over the past three years. Prices have also fallen below support due to a lack of flexibility in the program. USDA must be provided the authority to increase prices at least temporarily to cover the initial costs associated with processing to Commodity Credit Corporation (CCC) standards. For example, cheese was below support on and off for much of this year yet not a pound of cheese has been sold to the CCC. Manufacturers participating in the California industry working group have pointed to inspection and grading standards as the major obstacle. This committee could help by asking USDA to align their product standards with those of the commercial market where possible.

- I do want to take this opportunity to thank Secretary Vilsack for the temporary product purchase price increases announced at the end of July. That move has helped strengthen market prices at very little cost to the federal government and it now makes sense that the increased prices be extended through the end of the current DEIP fiscal year of June 30, 2010. This will help maintain market strength that has just recently developed, particularly in the powder market.
- **Milk Income Loss Contract (MILC) Program** – while the payment helps pay some bills, the program continues to delay the supply reduction that must come. Unfortunately, the annual production cap of 2.985 million pounds of milk eligible for payment results in a program with only regional benefits. And the duration of this milk price crisis has turned what is intended to be a temporary life jacket for producers in rough economic waters into a long-term program with market-distorting effects that continue to delay the recovery that is so desperately needed by all dairy producers in all regions of the country.

- **Dairy Export Incentive Program (DEIP)** – I'd like to thank the many Members of the Senate Agriculture Committee for their help in securing implementation of DEIP by USDA. I would also like to point out the DEIP program is a good deal for the federal treasury. A 10-cent bonus to move a pound of nonfat dry milk to a foreign customer sure beats a 92-cents-per-pound CCC purchase. As of late July, for instance, 20,000 metric tons of U.S. dairy products had been sold to overseas markets with the help of DEIP bonuses totaling just $4 million.

II. Steps the industry has taken to address the crisis.

A. Western United Dairymen organized and hosted three industry listening sessions earlier this year. The purpose was to identify both short- and long-term solutions to the economic conditions in the industry. All producers in the state were invited and more than 200 took advantage of the opportunity at each meeting to provide input on issues such as supply management, federal and state milk marketing regulatory policy, and global markets and industry innovation.

B. At the conclusion of the series of three meetings, an industry working group was formed to analyze the ideas presented and provide recommendations going forward. Two meetings have already been held, with the working group taking the lead on requesting economic analysis of a supply management plan and agreement on recommendations for additional ways to address the milk price crisis.

C. Since early January, California dairy producers and their organizations have worked hard and have had the support of nearly every other dairy producer group in the country, as well as both Senators Dianne Feinstein and Barbara Boxer, in helping to persuade USDA to implement DEIP. Again, we say thank you to all industry partners in that successful effort, and to the Secretary as well as many Members of the Senate Agriculture Committee for your help.

D. We have supported the industry push to have the new Agriculture Secretary use all existing authority to increase demand for dairy products. That effort has shown some success, as well, as donations to domestic and international feeding programs were announced very quickly after the crisis began. This also helped in committing the over 200 million pounds of nonfat dry milk purchased by USDA. This product will no longer overhang the market.

E. **Cooperatives Working Together (CWT)** – California dairy producers have been early and consistent supporters of the industry-directed and -funded supply balancing program managed by National Milk Producers Federation. California Dairies, Inc., is a funding organization in CWT on behalf of its entire membership, and Western United Dairymen continues promoting the program to individual dairy producers whose milk marketing organizations are not members. The high percentage of milk produced in California that is covered by contributions to CWT demonstrates the commitment of our producers to the concept of a progressive industry supply-balancing self-help program. Much more remains to be done, however. Support for CWT remains at only two-thirds of the milk in the country. California producers have stepped up to the plate and are strong supporters of farmer self-help, including both the promotion and research checkoff and CWT.

III. Potential Committee Action for Short-term Relief.

A. **Product purchases and donations to food banks** – In July, Western United Dairymen sent a request to Agriculture Secretary Vilsack for the purchase and donation of 100 million pounds of cheese. That request resulted from an analysis of cheese inventories that showed much higher volumes in storage than usual. It was clear to us then that those inventories were overhanging the cheese market and keeping farm milk prices down. Several other producer organizations and industry economists have since concurred with that conclusion. What was true then is still true today. A sizeable cheese purchase and donation would help food banks keep up with record demand, provide real assistance to dairy farmers in the form of a price increase on all of their milk instead of a direct payment on some of their milk, and reduce outlays from the federal treasury for the dairy farmer economic safety net. I come from an area where some counties have 15% to 16% unemployment. The food banks there sure could use that cheese.

B. **Full use of DEIP this fiscal year** – The Secretary has announced allocations and invitations for offers for the new program fiscal year in amounts equal to the unused allocations from 2008-2009. That is a helpful start and for that we say thank you again to the Secretary and to all those who helped make the case. The loss of export markets that hangs like a cloud over this milk price crisis remains a problem, however, and the remaining allocations for the current DEIP fiscal year will be a big help in rebuilding those international customer relationships. Western United Dairymen looks forward to working with this committee and the Secretary to make this valuable tool fully available to dairy exporters as the Congress has intended in every farm bill since 1985.

C. **Keep operating capital available** – Dairy farmers find themselves in a no-win situation in which they are unable to do the very thing that usually helps reverse a period of negative operating margins – they need to cull cows. But their lenders are operating in a new day as well, and there isn't the flexibility the banker once had to stick with even their best customers during a period of losses. The fact is that cows are worth about one-third less than they were a year ago, and that erodes a financial statement in a hurry. And if a dairyman culls cows in order to pay bills, that action could have a negative effect on the ability to borrow operating capital. Cows, facilities, and land are a dairy farmer's 401-k plan. The value of cows on dairy farms has dropped by more than one-third. Cows and bred heifers are worth $1,000 less than just 10 months ago. Newborn calves have dropped in value by $400 per head. The decline in the value of cattle amounts to a significant drop in dairy farmer equity totaling $2.6 billion dollars in California alone. The farmers who do survive must borrow against their remaining equity. That additional debt load will reduce the competitiveness of U.S. dairy farmers in global markets for the next several years.

IV. Potential long-term solutions.

A. **Supply Management Proposals** – The industry task force that was appointed to examine producer input from the three listening sessions held earlier this year has received and reviewed a proposal for a legislated supply management proposal known as the Holstein Association Dairy Price Stabilization Plan. The task force acknowledged the significant producer interest in a supply management plan and listed some questions to be addressed. The Western United Dairymen Board of Directors extended an invitation for, and received, a briefing on the plan from leading proponents. The Western United board has endorsed the concept and joins the task force members in posing some questions that must be addressed if producers are to be brought together to pursue legislation. WUD also formed a special committee of producer members to fully analyze the list of supply management and other policy proposals currently on the table. The committee (after two meetings) recommended to the board and the board approved and recently submitted comments and suggestions on draft language for the Dairy Price Stabilization plan.

B. **Fluid Milk Standards** – Several organizations offered a proposal during the last Farm Bill debate to raise nutrition standards in fluid milk nationwide. Interest in that proposal remains, due to the potential impact it could have on the need to balance supply and demand. This would benefit consumers by helping to alleviate the calcium crisis, it would reduce CCC expenditures in the DPSP, and the improved price stability would benefit farmers. The decades-long requirement for higher fluid milk standards in California is one of the most successful programs ever conducted in the U.S. dairy industry and it would be a big help to farmers and consumers alike if it were expanded nationwide.

C. **Industry Self-Help** – California dairy producers look forward to continuing to participate in a nationwide effort to identify long-term solutions to the current economic crisis. There is much more that could be done in producer-funded and -directed efforts at demand building, market balancing, and producer revenue assurance, for example.

Again, I thank the leadership of these two subcommittees for holding this hearing and for extending an invitation to hear from a California farmer. I look forward to answering your questions.

Testimony of Paul Toft
Dairy Producer
Rice Lake, Wis.

Submitted to the
Senate Agriculture Committee
Subcommittees on
Domestic and Foreign Marketing, Inspection, and Plant and Animal Health
Production, Income Protection and Price Support

Oct. 27, 2009

Washington, D.C.

Chairwoman Gillibrand and Chairman Casey, Ranking Members Johanns and Roberts, and members of the subcommittees:

Thank you for holding this hearing to discuss the current dairy crisis. I am Paul Toft, a dairy producer from Rice Lake, Wis. Together with my wife Shirley, our son and his wife, Mark and Missy Toft, we operate what many would call a classic Wisconsin dairy farm. With two generations working side-by-side, we milk 70 cows and grow the forage and grain to feed our herd.

We market our milk through Associated Milk Producers Inc. (AMPI), a dairy marketing cooperative with 3,500 member farms, 5.8 billion pounds of milk and $1.7 billion in annual sales. Members operate dairy farms located throughout the upper Midwest states of Wisconsin, Minnesota, Iowa, Nebraska, South Dakota and North Dakota. Together, we own 14 manufacturing plants and market a full line of consumer-packaged dairy products.

For the past nine years I have been honored to serve as chairman of the AMPI board of directors. I have also participated in the dairy policy groups to which AMPI belongs: the

National Milk Producers Federation (NMPF) and the Midwest Dairy Coalition. As a national organization, NMPF develops and carries out policies that advance the well being of dairy producers and the cooperatives they own. The Midwest Dairy Coalition is an alliance of dairy cooperatives, associations and state agencies working together to provide an upper Midwest voice on federal dairy policy issues.

The perspective I provide today is one of an upper Midwest dairy farmer, dairy cooperative member and one who is active in the formation of dairy policy.

The past year has been the most difficult since I began farming in 1973. Some say these times rival those of the Great Depression. Milk prices have fallen farther than expected, and the recovery has been slower than anticipated. In June 2008, the Class III milk price was $20.25 per hundredweight. One year later, the June 2009 Class III price was $9.97 per hundredweight. The milk-price crash between 2008 and 2009 was caused by supply outstripping demand. But it's not that simple.

The low value of the U.S. dollar, coupled with drought in both New Zealand and Australia, contributed to record dairy exports in 2007 and the first half of 2008. Global customers could more easily afford our dairy products. That growing global demand sparked domestic production and increased dairy prices and sales throughout much of 2008. It also caused domestic customers of dried milk proteins—whey, casein and nonfat dry milk—to reformulate their products with lower-cost, non-dairy ingredients.

Then the dollar value rebounded, rain fell in New Zealand and Australia, global demand waned—but domestic dairy production kept climbing. And as prices for products such as dried milk proteins returned to historical levels, we couldn't win back risk-averse domestic customers. All of these factors contributed to the current dairy crisis.

In 2009, dairy product prices repeatedly dipped below support-price levels through the first half of the year. With milk prices paid to farmers about half of what they were a year ago, the economic stress in dairy-dependent regions like the upper Midwest is severe. Consistent anecdotal evidence suggests dairy farmers have been losing about $100 per cow each month. When this happens, we rapidly lose equity.

It is with this background that the following short- and long-term solutions are reviewed.

Short-term solutions

The temporary hike in the Dairy Product Price Support Program (DPPSP) is a good example of a short-term fix. The support price for 40-pound blocks of Cheddar cheese, for example, increased from $1.13 to $1.31 for August through October markets. Following the USDA's support-price announcement the market moved past $1.31—without the Commodity Credit Corporation (CCC) buying a pound of cheese.

The DPPSP at $1.31 served as an invisible floor. Cheese buyers were not interested in having the government hold inventory at that price. They want it in their warehouses.

Though the bump in the DPPSP for cheese and nonfat dry milk will expire this week, it resulted in dairy farmers receiving about $2 more per hundredweight of milk marketed. In times like these, I must underscore the importance of those dollars to my family farm.

The next short-term fix is the $350 million Congress added to the annual agricultural spending bill. On behalf of my fellow upper Midwest dairy farmers, thank you. I now urge the USDA to expedite the use of those dollars, given the severity of this dairy crisis. Quickly spend the $60 million to purchase cheese that will be distributed through the nation's food banks and use the remaining $290 million for direct assistance to dairy producers. When assisting producers, consider implementing a reasonable milk volume cap to maximize the program's benefits.

Now let's consider more long-term solutions to dairy reform. These must include current programs that work and due diligence on proposed policies.

Long-term solutions: What works?

What works? The Milk Income Loss Contract (MILC) and the previously discussed Dairy Product Price Support Program. Without a doubt, the economic safety net provided by these two programs must be maintained. When the 2008 Farm Bill passed more than one year ago amidst $20 per hundredweight milk, many didn't think these programs were relevant. I am glad they are in place today.

The MILC has provided significant financial assistance to dairy farmers nationwide during times of low prices. The direct assistance provided by the program has community-wide benefits as the dollars multiply throughout dairy-dependent economies.

The MILC program was first authorized in the 2002 Farm Bill. The modifications made in the 2008 Farm Bill to add a feed-cost adjuster and restore the original 45 percent payment rate have provided meaningful enhancements to the program. AMPI and the Midwest Dairy Coalition strongly supported the MILC program in both the 2002 and 2008 Farm Bill deliberations.

Unfortunately, the MILC program by itself is not sufficient. The price dairy farmers are receiving for their milk is still below the cost of production. They have been losing thousands of dollars a month, even with the MILC program assistance.

As originally envisioned, the MILC program was intended to be a partner to the Milk Price Support Program, which was modified by the 2008 Farm Bill to become the DPPSP. The two programs working together, in theory, would provide assistance and stability to allow viable dairy producers to weather the storm of low-price cycles. But the theory remains untested, because the DPPSP is not fully functioning, leaving the MILC program to do all of the heavy lifting by itself—a burden it is not able, nor was it designed, to bear.

We continue to urge the U.S. Secretary of Agriculture to implement a long-term increase in the CCC purchase price for butter, powder and cheese. The 2008 Farm Bill sets minimum CCC purchase price levels for butter, powder and cheese, but provides flexibility for those prices to be raised above those levels when necessary. The recent increase has proven how cost effective this can be, as illustrated earlier in this testimony. Following the USDA's support-price announcement the market moved past $1.31—without the CCC buying a pound of cheese.

Support for the existing programs that work, however, doesn't negate the need to reform the dairy industry. Clearly, I don't want to operate my family farm under the current conditions.

Long-term solutions: Due diligence

Due diligence is needed on proposed policies aimed at solving this dairy crisis. Let's make the 2012 Farm Bill our goal as we review plans introduced by groups such as NMPF and Holstein Association USA. These proposed policies all have merit, but must be analyzed with the following in mind:

- We must seek ways to reduce volatility in dairy farmer income.
- Proposals must not discriminate against manufacturing milk; by providing artificial enhancement of Class I (fluid) milk prices.
- Proposals must seek to eliminate or reduce the regional discrimination of the current federal milk marketing order system.
- Proposals must be sensitive to the fact small- and medium-sized dairy farms make up the overwhelming majority of dairy farms in the nation, and the unique needs of these farmers must be reflected in U.S. dairy policy. There are only 55,000 dairy farmers supplying this nation with wholesome milk. Our rural communities can't afford to lose one of them.

With these objectives in mind, AMPI is supporting the concept of dairy price stabilization. The program developed by the Holstein Association aims to stabilize prices by managing production. The program recommends a market access fee for expanding milk production—not a quota system. This pricing approach has long been part of AMPI's core policy resolutions which support managed, incremental expansion in our industry.

Such a plan, however, would only be effective if paired with import controls. There have been times in the last decade when dairy product imports have significantly affected domestic price levels. There continue to be dairy product import categories— milk protein concentrate (MPC), casein and products containing butterfat—for which there are no limits. Whenever U.S. dairy prices start to recover, our market is vulnerable to these lower-priced imports from competitors. We must establish tariff-rate quotas on imported products such as MPC, casein and products containing butterfat. This would be consistent with import rules in place for other dairy products and close loopholes that have encouraged circumvention of those rules.

Summary
In closing, let's revisit a unique period in dairy history—2007 to 2008. The low dollar value, coupled with a drought in New Zealand and Australia, enabled the U.S. to export dairy products at profitable prices. World dairy market prices, however, are often below the U.S. cost of production. So, should we look for ways to expand our export opportunities if long-term world markets are unsustainable to U.S. dairy farmers? That may be the question to focus on as this industry undergoes due diligence on long-term dairy policies.

I strongly urge these subcommittees and the U.S. Secretary of Agriculture to help the industry analyze and develop options for the long-term viability of dairy farming in this country. While doing so, build upon the effective policies—MILC and DPPSP—and consider ways to stabilize domestic dairy markets.

Thank you for the opportunity to submit this testimony.

DOCUMENTS SUBMITTED FOR THE RECORD

OCTOBER 27, 2009

Dairy Farmers of America

TESTIMONY
SUBMITTED BY JAMES P. (TOM) CAMERLO
DAIRY PRODUCER, FLORENCE, CO
CHAIRMAN, DAIRY FARMERS OF AMERICA, INC.
TO THE SENATE SUBCOMMITTEES ON
DOMESTIC & FOREIGN MARKETING, INSPECTION & PLANT & ANIMAL HEALTH
AND PRODUCTION, INCOME PROTECTION & PRICE SUPPORT
OF THE SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE
OCTOBER 27, 2009

I commend Chairpersons Gillibrand and Casey, Ranking Members Johanns and Roberts and other distinguished members of the committee for holding this hearing on the current status of the dairy industry and possible opportunities for Federal action.

Before I begin, let me thank the committee members, and other leaders in the House and Senate for their assistance during this trying time. Your actions, combined with those of U.S. Department of Agriculture Secretary Tom Vilsack have demonstrated your unwavering support for the dairy sector. We appreciate all your efforts. Thank you.

I have operated Camerlo Dairy in Florence, Colorado since 1963. There, my wife Barb and I, along with my daughter, Patti, who runs the office, have weathered through many low price cycles and we have always survived, as have most of our neighbors. However, this price cycle is different. The volatility we producers are used to has changed. The highs are higher and the lows are lower and any predictability seems to be gone. We need some stability in this industry.

In addition to dairying, I serve on various dairy industry boards, including that of Dairy Management Inc, and of the National Milk Producers Federation (NMPF), where I also once served as Chairman.

I am also chairman of Dairy Farmers of America, Inc. (DFA), a national milk marketing cooperative that not only works to pay me a competitive price for my milk but also brings programs and services designed to increase my profit margins. DFA is located in 48 states and has nearly 18,000 member-owners on 10,000 family farms. Our farm families are diverse, ranging from the 40 cow Amish dairy in Pennsylvania to the 5,000 cow dairy in New Mexico with the capacity to produce bio-energy on the operation. I am proud to serve as DFA's Chairman, a position I have held since 2003.

Through these difficult times, I have been inspired by the hard work and dedication of the people in the dairy sector as they work together to weather this storm. I am also proud that DFA is providing leadership in policy development – engaging with other dairy leaders and other cooperatives to identify policies and program changes that would help dairy producers through this low price cycle and into the future. It is because of DFA's leadership that I feel it necessary to provide comment today.

The cause of this latest crisis is clear. Decreased worldwide demand, increased production overseas and the global financial collapse have led to lower prices and painful times on most farms. The severe imbalance in supply and demand has resulted in historically low prices. These low prices come at a time when costs are at historical highs. This has resulted in catastrophe for many dairy farmers.

I would like to focus my comments not on what has happened, but on what I feel needs to happen. The dairy sector needs change in policy – something that can better respond to the needs of producers during times of crisis and that can address issues of extreme price volatility.

DFA is an active member of NMPF, a national organization that develops and carries out policies that advance the well-being of dairy producers and the cooperatives they own. As a member of NMPF's Board, I am part of the current ongoing policy discussions.

Recently, the NMPF Strategic Planning Task Force, which is examining possible policy reform recommendations put forth by a number of industry associations and cooperatives, announced that they are pursuing a plan that incorporates four initiatives that would assist dairy producers and revise the national milk pricing system. This plan includes:

- Revamping the Dairy Product Price Support and Milk Income Loss Contract programs
- Creating a new dairy producer income insurance program
- Reforming the Federal Milk Marketing Order program
- Improving participation the Cooperatives Working Together (CWT) program

DFA supports NMPF's plan directionally but recognizes that much analysis and work needs to be done. Three of the four components of NMPF's plan focus on policy and pricing changes that, if adopted, would not be done in the near term. The fourth initiative, improving participation in the CWT program, is something we believe needs immediate consideration to more effectively manage supply and demand and thereby minimize volatility.

DFA's Board, made up of a diverse group of producer-leaders, has also been considering programs that can bring about change. To guide us, a newly created Price Stabilization Study Committee established base guidelines in order to develop policy that we feel will maintain and grow a healthy, sustainable U.S. dairy industry. Any policy recommendations we support should:

- **Be market oriented to allow for growth both domestically and internationally:** In spite of the recent reduction in exports, dairy consumption, both domestically and internationally, is growing over the long term. In order for our industry to remain healthy, we must have a program that allows U.S. dairy farmers to get their share of future worldwide growth.

- **Be responsive to quickly changing market conditions:** A responsive system will keep supply and demand more closely aligned. This will moderate market price highs and lows. Reduced price volatility results in more consistent consumer demand and producer margins. The system needs to anticipate changing market conditions and respond before they happen.
- **Have 100 percent enrollment-with voluntary participation:** To maximize effectiveness, all dairy farms must participate. The program must be producer/industry managed.
- **Be global in nature to consider the impact of imports and exports:** The world is getting smaller. The U.S. dairy industry needs a program that recognizes changes in supply and demand on an international basis.
- **Be national in scope with the ability to implement regionally**

Using these guidelines, the DFA Board recently adopted a growth management concept called the Dairy Growth Management Initiative (DGMI). Among other things, DGMI would replace the current CWT program and serve as a more effective tool to minimize volatility, allow for growth, help stabilize the milk price in the long term and enable the industry to quickly respond to changing market conditions.

CWT has been a great tool for the industry. However, its full success and potential has been hampered by its voluntary nature, its limited participation and inadequate funds. Additionally, the tactic of using whole-herd retirements to manage supply has largely run its course.

To implement a mandatory CWT-like program, DGMI requires legislative support. Still in development, DFA envisions DGMI would be a producer-funded, producer-governed program that would allow for growth in the industry while providing a variety of mechanisms to quickly adapt to changing market forces and stabilize milk prices. However, in order to provide adequate funding and to address the "free-rider" issue we struggle with in the current CWT program, Congress would need to mandate producer participation and empower the governing board to levy an assessment of up to 25 cents per hundredweight, which would replace the current 10 cents per hundredweight currently collected by the CWT program.

The governing board, as currently drafted, would consist of 30 members, of which 20 would be dairy producers or representatives from the industry appointed by the current CWT committee, and 10 others would appointed by the Secretary of Agriculture and might likely represent other interested industries, including the beef cattle industry. This committee would meet quarterly to determine what future actions are necessary to manage supply and demand, and it would have the authority to implement a broad range of initiatives to address milk supply in the United States, including, but not limited to, a cow and milk reduction program, regional and national base programs, export assistance, dairy commodity production incentives and programs to enhance risk management tools, and opportunities among producers, cooperatives and customers.

DFA is collaborating with other cooperatives and industry groups on the DGMI and working with NMPF to advance this proposal through its committee structure. We hope that Congress will support this effort – an effort of the industry supporting itself – and ask for your consideration of the DGMI as a piece of the puzzle in decreasing such volatility in the dairy market.

In closing, we at DFA believe that we must do something now to decrease erratic price swings in the dairy sector in the future. We do not yet fully understand how many dairymen and women have left the industry over the course of these last nine months. Many more are on the edge. Nearly all who survive will have lost significant equity in their operations which will take years to rebuild. The DGMI gives power to dairy farmers to help themselves, to manage supply and to better determine their own destiny. I urge your immediate consideration of this policy option.

I appreciate the opportunity to submit comments.

CSG ERC

Executive Committee Meeting
Burlington, Vermont
August, 5, 2009

RESOLUTION URGING FEDERAL RESPONSE TO THE ECONOMIC CRISIS OF THE DAIRY INDUSTRY

WHEREAS, the dairy industry is a keystone industry in the Northeast region, providing open space for recreation, sports, tourism, water recharge and wildlife areas; and

WHEREAS, the dairy industry provides a direct economic impact of an estimated $14,000 per cow per year, serving as an economic anchor for all Northeastern agriculture, rural communities and economies; and

WHEREAS, the lack of stable prices and concentration of processing capacity are creating a crisis in the industry; and

WHEREAS, a significant loss of dairy farmers would create a dependence on imported milk and other dairy products and reduce our region and nation's food security; and

WHEREAS, there is broad public concern in the assurance of stable supplies of locally produced fluid milk for all of the Northeast; and

WHEREAS, the U.S. Department of Agriculture in 2000 changed the historical basis for pricing milk to one that uses Chicago Mercantile Exchange prices and National Agricultural Statistics Service surveys, neither of which is free market nor acceptable to processors or farmers from the Northeast; and

WHEREAS, there are essentially only two cooperatives operating in the region and the milk processing industry is dominated by two companies, creating unhealthy concentration in the processing of milk in the Northeast; and

WHEREAS, the Northeast has lost more than 30% of its dairy farmers in the last decade; and

WHEREAS, the farm gate price for milk has collapsed by more than 50% from one year ago; and

WHEREAS, farmers now face prices that are less than half the cost of production; and

WHEREAS, assumptions that the milk price collapse is related to a surplus of milk in the market are not supported by data that show the U.S. importing record amounts of product and increased commercial disappearance; and

WHEREAS, Northeast states have been innovative and active in responding to the continuing volatility in the pricing of milk with programs providing direct producer support, farmland preservation, business planning assistance; and

WHEREAS, many of these efforts have been hampered by downturns in state budgets and continuing flaws in federal milk policy;

NOW, THEREFORE BE IT RESOLVED that The Council of State Governments' Eastern Regional Conference (CSG/ERC), and its affiliate the Northeast States Association for Agricultural Stewardship (NSAAS), urge the congressional and executive branches of the federal government to recognize their primary responsibility to sustain the viability of dairy farming in all regions of the United States and thereby assure consumers of an adequate, local supply of fluid milk through the economic sustainability of our nation's dairy farmers; and

BE IT FURTHER RESOLVED, that CSG/ERC and NSAAS urge Congress and the Executive Branch to ensure that all dairy producers receive, with reasonable advance notice, the information related to any referendum on the Federal Milk Marketing Orders and have the opportunity to cast individual ballots on such referendum; and

BE IT FURTHER RESOLVED, that CSG/ERC and NSAAS urge Congress and the Executive Branch to require Milk Protein Concentrates (powdered milk products), regardless of their country of origin, to meet and document the same quality, animal health, inspection and production standards as U.S. product; and

BE IT FURTHER RESOLVED, that CSG/ERC and NSAAS urge Congress and the Executive Branch to cooperatively address changes to the Federal Milk Marketing Order that returns consideration of regional costs of production in the federal milk pricing formula as provided by the 1937 Agricultural Marketing Agreement Act section 608 (c) as well as the actual consumer price of milk, acknowledging that this policy change would be at no cost to consumers and save taxpayers money on MILC payments, and

BE IT FURTHER RESOLVED, that CSG/ERC and NSAAS urge the Department of Justice and the Commodity Futures Trading Commission to pursue renewed inquiry into the concentration in the milk processing sectors of the Northeast industry and to determine whether anti-competitive conduct is working to the detriment of producers and consumers, and

BE IT FURTHER RESOLVED, that CSG/ERC and NSAAS urge the Attorneys General of the Northeastern states to review the concentration in the dairy industry within their state borders for possible antitrust action and provide such information to the U.S. Department of Justice, and

BE IT FURTHER RESOLVED, that a copy of this resolution be forwarded to the U.S. Department of Justice, and

BE IT FURTHER RESOLVED, that a copy of this resolution be forwarded to the Commodity Futures Exchange Commission; and

BE IT FURTHER RESOLVED, that a copy of this resolution be forwarded to the chairs of the Northeast states Senate and House committees that oversee agriculture and rural communities.

BE IT FURTHER RESOLVED, that a copy of this resolution be forwarded to each member of the U.S. Senate and House that represent the states that comprise the CSG/ERC and

BE IT FURTHER RESOLVED, that a copy of this resolution be forwarded to the Attorneys General that represent the states that comprise the CSG/ERC.

QUESTIONS AND ANSWERS

OCTOBER 27, 2009

SENATOR THUNE'S QUESTIONS:

Lucas, Holestein Association: How can we be certain that the advisory board will be able to accurately predict the 12-month domestic and export markets? How would the Board determine what is a profitable price for dairy? Operating costs vary from region to region and by the size of the producer. How will the Board account for these discrepancies?

Lucas, Holestein Association and Kruse: South Dakota has a growing dairy industry. Milk production in our state was up 8 percent from 2008 to 2009. Over the past several years, South Dakota has seen millions of dollars of new investment in new and existing dairies. The proposed Dairy Price Stabilization Program seems to cap growth in the dairy industry and put states with a growing dairy industry at a significant disadvantage relative to states with a mature dairy industry that has been producing relatively constant amounts of milk year in and year out. Would you agree with this assessment? Why or why not?

Lucas, Holestein Association: If I am a new young, new producer in the dairy industry with no historical production baseline, would I be assessed a market access fee on the milk that I produce? Do you think it is feasible for a new producer to enter the market if he or she is forced to pay market access fees for a full year's worth of milk production?

Nuttleman, NMPF: What is the primary cause of low milk prices in today's market? If Congress and the Administration were able to lower trade barriers, expand foreign markets, and increase demand, what impact would that have on milk prices and the profitability of our dairy producers?

Nuttleman, NMPF: In terms of herd size and milk production, is the dairy industry responding to lower milk prices? How have these action impacted the price of milk? Is that trend expected to continue? (In other words, producers are responding to low prices and the market is working.)

Nuttleman, NMPF: Would expand on the National Milk Producers Federation's proposal for creating a risk management tool for dairy producers? How would this differ from the federal crop insurance program?

Kruse, IDFA: Producers of other commodities such as corn, soybeans and wheat have successfully adopted forward contracting practices to weather cyclical price trends. Can dairy producers use the same concepts of forward contracting to achieve a similar success? How would simplifying federal milk programs help resolve this situation?

Senate Committee on Agriculture, Nutrition & Forestry
Subcommittee on Domestic & Foreign Marketing, Inspection, & Plant & Animal Health
Subcommittee on Production, Income Protection & Price Support
Responding to Low Dairy Prices: Exploring Avenues for Federal Action
Mr. Paul Kruse
October 27, 2009

Senator John Thune

1) South Dakota has a growing dairy industry. Milk production in our state was up 8 percent from 2008 to 2009. Over the past several years, South Dakota has seen millions of dollars of new investment in new and existing dairies. The proposed Dairy Price Stabilization Program seems to cap growth in the dairy industry and put states with a growing dairy industry at a significant disadvantage relative to states with a mature dairy industry that has been producing relatively constant amounts of milk year in and year out. Would you agree with this assessment? Why or why not?

   Under the Dairy Price Stabilization Program, the only way a dairy producer could increase milk production would be by receiving a lower price for their increased production, likely less than their cost of production. This would make it very difficult for any farmer, or any state's dairy industry, to increase milk production. This is a severe handicap in an industry where new processing plants are often being built in partnership with new dairy farms to supply the milk necessary to justify the plant investment. In an area like South Dakota, where current farm milk production is already finding a processing plant home, it is unlikely that any large plant expansions or new plant investment will be made without similar expansions of existing dairy farms or new farms. However, finding farms to expand or new dairy farmers in South Dakota willing to accept prices below their cost of production is unlikely.

2) Producers of other commodities such as corn, soybeans and wheat have successfully adopted forward contracting practices to weather cyclical price trends. Can dairy producers use the same concepts of forward contracting to achieve a similar success? How would simplifying federal milk programs help resolve this situation?

   The U.S. dairy marketplace is unfortunately encumbered by numerous dairy policies which hinder the use of forward contracting practices like those practiced in the markets for other commodities. One key issue is that the price individual processing plants pay for farm milk is not the same as the price farmers receive. The Federal Milk Marketing Order program requires that processors pay different prices for the same farm milk based on what product is made from that milk; no other agricultural commodity has such regulations. In addition, these minimum prices are directly linked to the products made from farm milk. For example, when the wholesale price a processor receives for cheese falls, the minimum milk price that processor must pay for farm milk used to make cheese falls in lock step. This means that processors have no incentive to forward price their product - they know that whatever the price they receive for their product, the cost of *their primary input, farm milk, will be directly related to it. Reducing the complexity of this pricing system would not only make it easier for all parties, producers, processors and end users, to use forward contracting, but our dairy futures markets would become more robustly traded, providing greater confidence in dairy price discovery.*

RESPONSES TO FOLLOW-UP QUESTIONS
Mr. Doug Nuttelman, Producer
National Milk Producers Federation

Question 1: What is the primary cause of low milk prices in today's market? If Congress and the Administration were able to lower trade barriers, expand foreign markets, and increase demand, what impact would that have on milk prices and the profitability of our dairy producers?

Answer 1: *The primary cause of low milk prices is the sudden loss last fall of a large share of our export market, when production from New Zealand recovered and recaptured part of the overseas market share that they had lost to U.S. supplies. Our exports continue to be well above historical levels, to the benefit of farmers, and they have been rising since early this year. Domestic demand has remained relatively stable throughout; so recovery of export sales, together with the reduction of the milking herd, is key to a milk price recovery. The domestic market is mature; so export growth is also key to long-term growth of the dairy industry.*

Question 2: In terms of herd size and milk production, is the dairy industry responding to lower milk prices? How have these actions impacted the price of milk? Is that trend expected to continue? (In other words, producers are responding to low prices and the market is working.)

Answer 2: *Dairy supply usually only responds to low prices in one way: farm exits. It is very difficult for a dairy farm to reduce its production, since it is has a lot of overhead that must be paid for. Exit has been eased for many farmers by the CWT program, which pays farmers to retire their whole herds; but many have been forced out of business. This does, eventually, contribute to higher prices, but only at the cost of many farmers going bust. This is why NMPF is seeking programs that can smooth out net income over time, like the proposed producer risk management program.*

Question 3: Would expand on the National Milk Producers Federation's proposal for creating a risk management tool for dairy producers? How would this differ from the federal crop insurance program?

Answer 3: *The NMPF risk management proposal is in early draft form, but it begins with something very similar to the existing livestock gross margin insurance program for dairy. This insures the difference between feed costs and milk prices, rather than milk prices alone. However, the current program is limited to 30 states and can be expensive; this discourages participation, just as an unsubsidized premium in the crop insurance program would discourage participation. We are looking to potentially replace all or part of the price support and MILC programs with a tiered subsidy for a revised margin or income insurance program. This would allow prices to clear the market, but also provide a market-based safety net for dairy farmers.*

Senate Committee on Agriculture, Nutrition & Forestry
Subcommittee on Domestic & Foreign Marketing, Inspection, & Plant & Animal Health
Subcommittee on Production, Income Protection & Price Support
Responding to Low Dairy Prices: Exploring Avenues for Federal Action
Mr. Lucas Sjostrom
October 27, 2009

Senator John Thune

1) How can we be certain that the advisory board will be able to accurately predict the 12-month domestic and export markets? How would the Board determine what is a profitable price for dairy? Operating costs vary from region to region and by the size of the producer. How will the Board account for these discrepancies?

From 1993 to 2007, NASS data shows that the average commercial disappearance was a 1.56 percent increase, year after year. While there are obviously up and down years during that period, many of those swings can be attributed to the bust and boom cycles that the on-farm milk price has been following during that time. We see no reason that future predictions should be outside of the range of negative 1% to positive 3% growth each year. After the initial marketings are distributed, the "allowed marketings" for the country will only need to be shifted up or down slightly, and our plan will likely curb the extremes of national dairy herd growth and reductions.

We have been very opportunistic marketers in the export market, rather than long-term partners with other countries. When the latest crisis hit, we were the last ones in, and now the first ones out of many other countries. If dairy producers increased at a steadier rate as an industry, processors would have a better opportunity for long-term contracts in the export market. With the board meeting every three months, we believe any new export opportunities will be able to be captured under the Dairy Price Stabilization Program.

You indicated that a profitable price for dairymen is not the same for every dairy farmer. This is true; a profitable price can vary some, but generally the variances are not large. Currently, no matter in what part of the country a dairy farmer milks cows, basically nobody is covering

the costs of production. We believe our plan would eliminate such a scenario in the future. However, our goal is not to set the price of milk for the nation, but instead make industry expansion more fair and equitable to every dairy farmer.

2) South Dakota has a growing dairy industry. Milk production in our state was up 8 percent from 2008 to 2009. Over the past several years, South Dakota has seen millions of dollars of new investment in new and existing dairies. The proposed Dairy Price Stabilization Program seems to cap growth in the dairy industry and put states with a growing dairy industry at a significant disadvantage relative to states with a mature dairy industry that has been producing relatively constant amounts of milk year in and year out. Would you agree with this assessment? Why or why not?

   We would disagree with that assessment. The biggest problem the dairy industry has faced over the last 20 years is that the industry out produces itself until enough farmers and cows leave the industry. Then the industry is so constrained that prices rise to a level where our customers look for alternative products, further complicating the next price crash.

   The Dairy Price Stabilization Program is not meant to cap growth, but instead better align growth with demand. If it were in place today, states like South Dakota would likely still have all the advantages they currently have. There would just be one more item to pay attention to when expanding. Rather than forcing people out of business, the Dairy Price Stabilization Program keeps the market share constant which will keep them in business.

   Dairy laws today are in their current form because milk is perishable, leaving the door open for price manipulation on a product that is sold every day. With the Dairy Price Stabilization Program, we do not change the current laws, but instead send the real market signals back to the farm. Instead of making all the milk we can produce and hoping we can market it, the Dairy Price Stabilization Program encourages us to produce milk we can market. The question dairymen need to ask is, do we need 8 percent growth in every state, every year, when our demand only grows 1 to 2 percent per year? Today the goal of every nutritionist, researcher, and farmer is to find a better way to make

more milk, on every farm. We would like to instead put the focus on making milk for the market.

3) If I am a new young, new producer in the dairy industry with no historical production baseline, would I be assessed a market access fee on the milk that I produce? Do you think it is feasible for a new producer to enter the market if he or she is forced to pay market access fees for a full year's worth of milk production?

In our program you would be a "new producer" only if the cows you own were not already accounted for as "allowable milk". New producers that take over an existing operation or have milk marketings transferred to them by a current dairy producer would not be paying market access fees on that milk.

Any producer, new or existing, would need to pay market access fees when adding milk to the market. New producers do have an advantage because they can defer half of their first year's market access fees to year two. Today new producers face market access fees too, for example a cut of $8 per hundredweight in just over 6 months in many regions of the country. The Dairy Price Stabilization Program will give new dairy farmers and their potential lenders a clearer picture of what their projected revenues will actually be which in turn should enhance lending opportunities for young dairymen which today are scarce due to the volatility of milk prices.

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