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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.