

Testimony of Rob Wonderlich
House Agriculture Committee Hearing
Washington, D.C.
March 8, 2007

I am Rob Wonderlich, a dairy farmer from Ollie, Iowa. My wife, Corinna, and I operate a 270-cow dairy that produces more than 6.5 million pounds annually (or 760,000 gallons). In addition, we farm 520 acres of cropland. We have been in the dairy business for 27 years. I serve on the board of directors of Dairy Farmers of America, Inc. (DFA), a national milk-marketing cooperative based in Kansas City, Missouri, with dairy farmer-member owners in 49 states. I also serve as a director on DFA's Central Area Council.

In addition to my roles with DFA, I represent my fellow local dairymen by serving on the Iowa Dairy Nutrition Advisory Committee, which is a branch of the Midwest Dairy Association. Also, my wife and I served as the secretary couple on National Milk Producer Federation's Young Cooperator (YC) Committee in 1991. Finally, in 1989 we received the Outstanding YC Farm award for the Upper Midwest region of Mid-American Dairymen.

I appreciate the opportunity to testify at this hearing today.

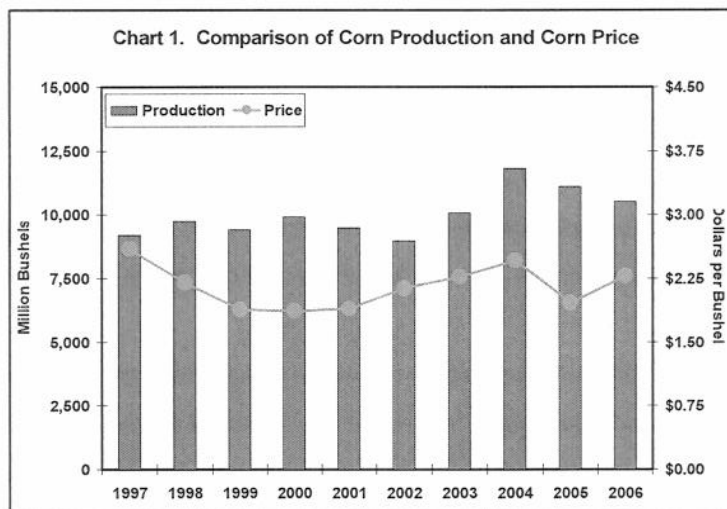
Today, I am here before all of you to express my concerns about the effect of increased costs associated with dairy operations. Specifically, I will speak to you about increased feed and fuel costs and how these two items have negatively impacted not only my operation, but also the other 62,000 dairy farms¹ across the United States.

- 1) As many of you are well aware, commodity grain prices, particularly corn, have dramatically increased over the past seven months to price levels not seen since the mid 1990s. Many economists are attributing this phenomenon to a growing demand from the ethanol industry, which uses corn as its primary feedstock. While this is great for U.S. grain farmers that have experienced several consecutive years of depressed prices, it is tragically affecting the financial viability of dairy farmers. Feed costs are the greatest cost for most dairies and an increase to feed costs directly impacts farm finances. On my personal farm, I have calculated that the recent increase in grain prices has increased my cost of production by \$1.90 per hundredweight (+45 percent), which is extremely close to the U.S. average feed cost increase of \$1.89 per hundredweight². I would like to note before proceeding, that on my operation I purchase only 50 percent of my feed. Many other dairies, however, are extremely dependent on purchasing feed from outside entities and are even more susceptible to increased feed costs.

¹ Actual U.S. dairy farm number for 2006, according to USDA's February 2007 *Milk Production* report, is 61,990 farms.

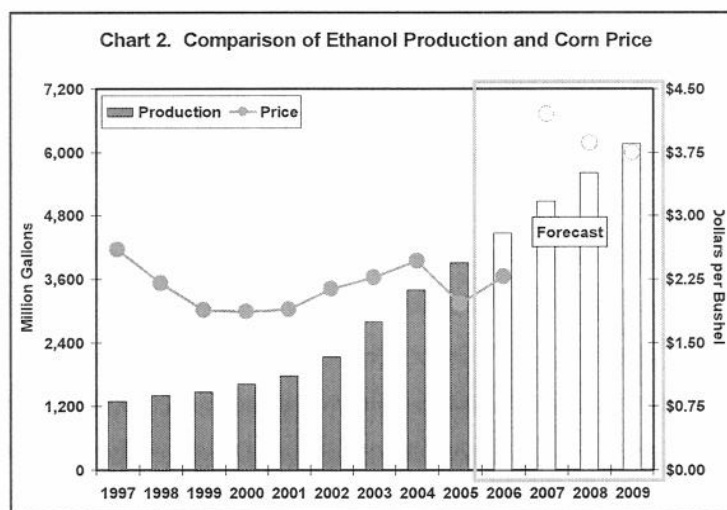
² Source: USDA Economic Research Service. *Farm Income and Costs* report. <http://www.ers.usda.gov/Briefing/FarmIncome/>. 27 February 2007.

Looking at Chart 1, you will see a comparison of U.S. corn production and the annual average U.S. corn price. This chart represents a typical supply and demand relationship within the corn market.



Source: USDA National Agricultural Statistics Service. *Crop Production and Agricultural Prices* reports.

Over the previous 10 years, the annual average corn price has not been above \$2.60 per bushel; however, as seen in Chart 2, the Chicago Board of Trade³ futures market is valuing corn no less than \$3.75 over the next three years, which will greatly damage the profitability of dairy operations.



Sources: USDA National Agricultural Statistics Service. *Agricultural Prices* Report.
Renewable Fuels Association. *Industry Statistics*.

Chicago Board of Trade. *Corn Futures Prices* (December contracts closing prices as of February 28, 2007)

³ Source: Chicago Board of Trade. December 2007, 2008 and 2009 closing prices as of February 28, 2007.

As previously stated and as depicted in Chart 2, the futures market is primarily being driven by increased ethanol demand⁴. Although the ethanol production forecast is built on the most recent five-year trend, the forecast seems to be aligned with price expectations according to corn futures prices on the Chicago Board of Trade, therefore showing the significance of the ethanol industry on corn and feed prices.

- 2) Increased operating costs are not the only factor of my profit equation that is being affected by higher feed costs. My farm revenues are being stressed as the value of bull calves born from my dairy cows has been drastically reduced by almost half. As bull calves require higher grain diets that typically require large quantities of corn in preparation for slaughter, the calves' value has dropped due to calf feeders' unwillingness to buy corn-hungry calves. Therefore, my personal revenue from bull calf sales has declined \$100 per bull calf (-50 percent).
- 3) Not only have feed costs been burdensome to dairy farm profit margins, but increased energy costs have been as well. Based on my farm's financial reports, my energy costs have doubled since 2004, which on a hundredweight basis is an operating cost increase of \$0.40 to \$0.50 per hundredweight. USDA reported a similar finding, as the average energy increase for a U.S. dairy farm has increased \$0.30 per hundredweight since 2004⁵.
- 4) Partially due to increased operating costs from feed and energy, the value of milk has started to increase after being substantially lower for the past 12 months. However, the gains in milk prices have not fully offset the increased operating costs. According to USDA, the all milk price received in Iowa during January 2007 was \$14.40 per hundredweight, \$1.90 higher than June 2006⁶. Of note, I would like to add that milk prices in June 2006 were not good prices for dairy farmers⁷. The milk-feed ratio (a statistic that is the price of a hundredweight of milk divided by the price of a hundredweight of feed) for February 2007 shows a ratio of 2.32, the lowest since June 2003. In June 2003, this ratio was higher due to a MILC payment, which was not available in February 2007 because the milk price was too high. The increase in milk price is returning me to average revenue. From 2003-2006 the average all milk price received in Iowa was \$14.62 per hundredweight⁸; the current milk price is just under the state's average price receipt. As you can see, higher operating costs are strangling opportunities for my

⁴ Renewable Fuels Association. Industry Statistics. <http://www.ethanolrfa.org/>. 28 February 2007.

⁵ Source: USDA Economic Research Service. *Farm Income and Costs* report. <http://www.ers.usda.gov/Briefing/FarmIncome/>. 27 February 2007.

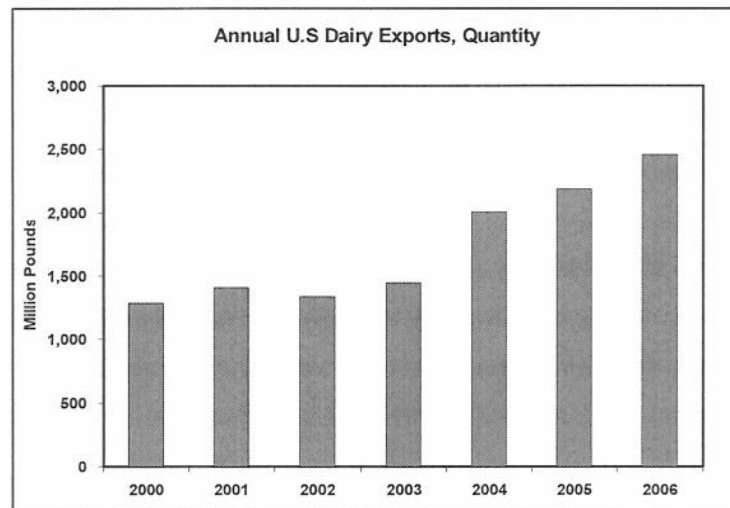
⁶ Source: USDA National Agricultural Statistics Service. *Agricultural Prices* report. <http://www.ers.usda.gov/Briefing/FarmIncome/>. 27 February 2007.

⁷ The Iowa all milk prices from May 2006 through July 2006 were the lowest prices received by dairy farmers over the past 38 months. Source: USDA National Agricultural Statistics Service. *Agricultural Prices* report.

⁸ Source: USDA National Agricultural Statistics Service. *Agricultural Prices* report. <http://www.ers.usda.gov/Briefing/FarmIncome/>. 27 February 2007.

farm to produce a reasonable profit. And it does not only have an effect on my farm, it also is affecting 62,000 other dairy farms in the U.S.

A main factor that has increased milk prices over the past months has been strong global demand for domestically produced dried milk powders and dairy proteins. Chart 3 shows the annual export volume for dairy products since 2000.



Source: USDA Foreign Agricultural Service. U.S. Trade Exports.

Growth in U.S. dairy exports is a huge accomplishment that has taken a considerable amount of effort between dairy-oriented organizations and the national government to complete. However, if milk prices continue to increase, so that dairy operations can cover operating costs, the work that has been put into growing global demand for U.S.-produced dairy products may have been for nothing as higher valued U.S. dairy products will not be competitive with other global products. Therefore, foreign countries will be unwilling to purchase our dairy foods and hurt our export market.

As we look at the balance between domestic energy and food policies, we need to be sure to consider all potential benefits or consequences. If our domestic energy policies cause an increase in the cost of food, we may create a scenario where we are subsidizing one group (those who can spend higher amounts of their disposable income on transportation) at the expense of other groups (those who have to spend higher amounts of their disposable income on food). If feed costs for livestock and dairy producers continue to increase, the higher costs will eventually lead to higher food costs. During the last three years when milk prices were at higher levels (2001, 2004 and 2005), the farm price of 100 pounds of milk was approximately \$10.50 higher than the cost of 100

pounds of feed⁹. Based on where futures markets¹⁰ anticipate feed costs being in the next two to three years, farm milk prices would likely rise to record highs in order to attract enough production to meet demand. While I am not opposed to high milk prices, consumers may be. We have to be careful of how high farm level milk prices impact consumers. If farm milk prices reach record highs, the retail prices of fluid milk, butter and cheese will follow. We do not want an unintended consequence of a domestic energy policy to be higher retail food prices that drive consumers away from healthy, nutritious products, such as dairy.

In closing, ladies and gentlemen, I want to thank Chairman Boswell and the House Subcommittee on Livestock, Dairy, and Poultry of the Committee on Agriculture for hearing my testimony. Despite any perception formulated from my comments today, I am a firm believer in renewable fuels derived from agriculture commodities, and further, I applaud the U.S. in trying to decrease its dependence on foreign oil. However, this biofuel revolution occurred very quickly and did not allow for farmers, such as myself, in the various livestock industries to properly adapt, which has sent a shock across the industries in the form of increased operating costs. Again, I appreciate your time. Thank you.

⁹ Source: USDA National Agricultural Statistics Service. *Agricultural Prices* report. <http://www.ers.usda.gov/Briefing/FarmIncome/>. 27 February 2007.

¹⁰ Source: Chicago Board of Trade. 27 February 2007.

Biography

Rob Wonderlich Ollie, IA

Born November 29, 1962 in Fairfield, IA

Raised on a farm that he now operates outside Ollie, IA

Wife: Corinna (Clubb) Wonderlich

Two children: Jacob (age 14) and Rachel (age 11)

Timeline

- 1980 – Began management responsibilities for farm milking 45 cows because of father's health
- 1981 – Graduated Pekin Community Schools, formed partnership with father Robert Wonderlich
- 1984 – Selected Star Farmer of Southeast Iowa FFA
- 1988 – Formed Hillview Dairy, Inc. with parents Robert and Norma Gene Wonderlich
- 1989 – Married Corinna Clubb, Selected Outstanding Young Cooperator Couple for the Upper Midwest Division of Mid-American Dairymen
- 1990 – Expanded operation to 100 cows
- 1991 – Elected as Secretary Couple of National Milk Producer Federation's Young Cooperator Steering Committee
- 1994 – Elected as director of Iowa/Southwest Wisconsin Division of Mid-American Dairymen
- 2000 – Expanded operation to 200 cows
- 2001 – Elected to Dairy Farmers of America, Inc.(DFA) Corporate Board; currently serving on Budget and Finance, International Trade Policy and Credentials Committees
- 2005 – Dairy herd is listed in top 50 milk producing herds of the Iowa Dairy Herd Improvement Association
- 2006 - Dairy herd is listed in top 50 milk producing herds of the Iowa Dairy Herd Improvement Association

Service Positions

Moderator and Deacon – Ollie, IA Baptist Church

Vice President of Pekin Schools Dollars for Scholars

Iowa Dairy Nutrition Advisory Committee, a branch of the Midwest Dairy Association

Corporate Board Director for DFA

DFA Central Area Council Board Director

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Robert E. Wonderlich
Address: 25969 295th St, Ollie, IA 52576
Telephone: (641) 667-3801
Organization you represent (if any): Dairy Farmers of America, Inc.

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: _____ Amount: _____

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: _____ Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you:

Signature: Robert E. Wonderlich

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.