House Committee on Agriculture
Subcommittee on Livestock, Dairy and Poultry
Formulation of the 2012 Farm Bill: Dairy Programs
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Testimony of:
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I'd like to thank Chairman Rooney, Ranking Member Cardoza and Members of the Subcommittee for inviting me here today to discuss federal dairy policy from a producer perspective. My name is Tom Barcellos, owner/operator of T-Bar Dairy for 23 years. We milk about 800 cows in Tulare County, the number one dairy county in the country. For 36 years I have also owned and operated Barcellos Farms, a diversified farming, custom harvesting and trucking business dealing mostly in hay, grain and silage feed for my own and other local dairies. I am a third generation dairy farmer milking in the facility built by my grandfather and his sons. My wife, Felomena, and three daughters have all worked on the dairy and farm, helping with the haying and harvesting when needed. Two sons-in-law joined the business and now my grandsons already describe to their friends the proper steps in the haying process.

The pending expiration of the current farm bill on September 30th offers that once-in-every-five-years chance to make a change to the federal economic safety net for the nation's dairy farm families like mine. I add my personal thanks to the Members of this Committee and to the hardworking men and women at National Milk Producers Federation, my co-op Land O'Lakes, Western United Dairymen and others in the dairy industry who have spent the better part of the last two years developing a safety net that recognizes that we can no longer rely on milk price alone as a target. To anyone listening today who has been a part of that effort, and you know who you are, I say thank you.

California's dairy families, and I can't think of a farm in the state that isn't owned and operated by a family, continue to face challenges from low, flat and sometimes even negative margins on milk production. Dairymen everywhere are still trying to recover from the devastation of 2009. Equity carried in from previous years was all but wiped out in one year. That equity is no longer there to offset future losses. The bleeding stopped in the second half of 2010 and we made up a little ground during most of 2011 but here in early 2012 our input costs remain very high and the milk price is headed in the wrong direction.

While it is well known that California dairy producers face some unique challenges, input costs remain the most significant barrier to profitability that can be addressed in a farm bill. More profitable crops limit the amount of corn and forages grown in California so dairymen in the state are subject to the whims of the international oil market and the impact those forces have on what it costs to transport the concentrates we feed our cows. Fuel and energy costs continue to escalate along with regulatory costs that impede our road to recovery as well. In just the last month alone, 17 local dairies shipping to my co-op went out of business and several others sold their dairies ahead of bankruptcy. Three filed for bankruptcy protection in just the last two weeks.

Our industry has been very aggressive in developing and expanding export markets. Nationwide we're up to 13% of production going to the export market and California will continue to be a leader in supplying customers throughout the Pacific Rim. Our ability to continue growing in the future will depend on the export market. But surviving the short term as those markets develop provides another layer of risk. We learned that all too well in late 2008 and through 2009 as the worldwide financial crisis sent our exports tumbling. In just a few weeks we lost five percent of the market for U.S. milk. Not five percent of our exports, five percent of our market.

The economic disaster that began for dairy farmers late in 2008 unfolded just a few short months after the current farm bill was enacted. The dairy safety net in that farm bill consisted of a price support program with a target roughly half what many farmers need to break even and a discriminatory payment program that picked winners and losers and, according to one government study, actually lowered farm milk prices. The inside-the-beltway Washington, D.C. political process that led to that program failed the industry that year and America's dairy farm families paid the price. The only conclusion possible is that the current dairy economic safety net is ineffective and needs to be retired and replaced, not tweaked or adjusted.

There is a lot to like about the plan that led to the introduction of the Dairy Security Act last September. A considerable amount of work went into that plan and as a dairy farmer I'm pleased to have it as the base of discussions going forward for the next generation safety net. The proposal moves from a price-based model with volume-limited countercyclical payments to a plan based on margin insurance that is available to every farmer on 80% of their milk.

There have been several improvements made to the plan during its development including the scaling-back of government involvement in market stabilization, making the program more responsive to the export market and allowing market stabilization to transition from mandatory to voluntary. Later versions of the bill have also eliminated legislative changes to milk marketing orders. Those changes are best handled by the regulatory agencies. California producers support the current industry practice of dairy farmers everywhere having the choice of how to be regulated or whether to be regulated at all.

The proposal does continue to evolve as the Congress moves ahead on consideration of the next farm bill. I am happy to express my support for those changes and would like to offer up another. This change would recognize the fact that feed costs are different in the areas of the country where most of the milk is produced than in the areas of the country where most of the feed is produced. It would be helpful for dairy farmers everywhere to have the option of choosing a market-based margin plan that values feed where it is used rather than a production-based plan that prices it where it is grown.

The way the Dairy Security Act and its later versions are written, dairy farmers have two options on a safety net: no program or one that uses a national feed cost calculation. The proposal that has been developed by Western United Dairymen is offered as a third choice that would be available to producers. The proposal is for a margin program with a feed cost calculation using an average of the costs from the ten states with the highest milk production volume. With budget constraints in mind, this program could be written so that premiums paid by farmers would cover the costs.

Recognizing this is a House Agriculture Committee hearing, I do want to raise a concern about the elimination of a payment limits exemption for the program in HR 3062, "The Dairy Security Act," from the language under consideration in the Senate. This program was negotiated in the industry to be neutral with regard to operation size. Restrictions on how much a producer can benefit from coverage, in either the basic or purchased supplemental form, will erode political support for legislation and would surely reduce participation in any program ultimately implemented.

Recent events in California raise another issue the must be discussed as the farm bill moves forward. Voluntary production cutbacks undertaken by cooperatives like mine due to processing capacity constraints must not be held against producers in a safety net that uses a production history, as does the DSA. The basic margin plan allows the highest of the last three years' production to be the base while the supplemental plan relies on the most recent year's volume only. That could be a major impediment to California producers' participation in the program if this issue goes unaddressed.

I'd like to take some time now to thank the Committee for its work on other aspects of the farm bill. The Conservation Title is very important to dairy producers everywhere. Many California dairymen have EQIP contracts and I thank the Committee for maintaining the integrity of that program. It's especially difficult to continue programs like this, let alone strengthen them, in a down economy and dairymen appreciate the work you are doing.

Nutrition Title programs are also important to the dairy industry as a whole. Those assistance programs provide critical dairy nutrition to millions of people in this country, many of them children. Studies show families with kids are more likely to need assistance and they account for nearly half of the families currently participating in the Supplemental Nutrition Assistance Program (SNAP), better known as the Food Stamp Program.

This Committee does not have jurisdiction over Immigration Reform, but I want to take this opportunity to reinforce the fact that nothing we are talking about here today outweighs the need for agriculture to have access to a legal workforce. Please encourage your colleagues to find a solution to that need, and be sure that they include a program that offers current experienced workers a chance to be here legally and to fill year-round jobs like those on dairies.

Farmers everywhere are also watching what the Congress does on reform of the Estate Tax. This is a critical issue for us as we look to have options for passing along the land and the operation that we have built as a family to the next generation. Farm families need certainty on the Estate Tax and I encourage this Committee to be at the table working with your colleagues on our behalf.

This Committee has been very helpful on trying to limit unnecessary environmental regulation of agriculture by the federal government. These regulations are often costly and only serve to duplicate what state regulatory agencies are already doing. In addition, the EPA must demonstrate that they have the ability to protect the privacy of farmers who submit information and to have policies in place to make that happen.

Agriculture trade policy is critical to us as the U.S. dairy industry looks increasingly at offshore markets for growth. My Congressman, Devin Nunes, sits on the Trade Subcommittee of the Ways and Means Committee and I want to thank him for the active role he takes in working on trade agreements on behalf of dairy farmers. We have supported negotiation and passage of the recent Free Trade Agreements with South Korea, Colombia and Panama and we look forward to working with the Congress on future opportunities for growth. We also look to our elected officials, however, when it is clear an agreement would put us at a disadvantage. Dairy farmers are very concerned that we're about to be forced into open access to our market for New Zealand, a trade competitor with an industry that operates as what has been called a functional monopoly. U.S. dairy producers will compete with their counterparts anywhere in the world as long as the playing field is level.

Thank you again for holding this hearing and for the invitation to testify. I look forward to answering questions the Members may have.