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

Statement of Jon Davis
President and CEO
Davisco Foods International, Inc.
on behalf of
International Dairy Foods Association

Before the Subcommittee on Livestock, Dairy and Poultry
Committee on Agriculture
United States House of Representatives

Formulation of the 2012 Farm Bill: Dairy Programs

April 26, 2012

Thank you for the invitation to testify today on behalf of the International Dairy Foods Association. IDFA has over 230 dairy food company members and represents over 85% of the ice cream, cheese and bottled milk that is processed and marketed in the United States. IDFA members employ over 120,000 employees at hundreds of production plants across the country. IDFA represents large well-known food companies like Nestle and Kraft but also small businesses like the Ice Cream Club located in Boynton Beach, Florida.

Around the world, governments are making notable changes to domestic and trade policies affecting their dairy industries. The European Union is in the final phase in its effort to reform dairy policy, which will include phasing out farm-milk quotas by the end of 2014. Australia ended federal dairy-support programs and eliminated its classified pricing scheme in 2000. New Zealand became the fastest growing dairy exporting country during the past 30 years after eliminating dairy supports.

The combination of these policy reform efforts and increased international demand for dairy products has allowed the United States to become a major dairy exporter. Less than 10 years ago, the United States exported about 5% of U.S. milk production in the form of dairy products, mostly the result of government export subsidies under the Dairy Export Incentive Program. In recent years, exports have grown to be over 13% of U.S. milk production, without significant government export assistance.

Dairy processors, including Davisco, have invested hundreds of millions of dollars in the last few years in order to take advantage of these new markets. This has been a remarkable success story and dairy is clearly helping our nation’s economy recover from the recent downturn. Last year, we had a dairy trade surplus of $2.4 billion. According to USDA, every $1 billion of trade surplus creates over 8,000 jobs in this country.

Export demand is growing at a much faster rate than domestic demand for dairy products. Last year, total fluid milk sales were down 1.7% as the economic pressure on consumers has led them to purchase fewer gallons of milk and move to cheaper milk alternatives. In fact, fluid milk sales are facing an extended and unprecedented decline in year-over-year sales. This is unfortunate, because milk is one of the few beverages containing nine essential nutrients.

Demand for raw milk has continued to increase over the last few years. But, let’s be clear on what is driving that increased demand. Between 2003 and 2011, only 37% of that increase was due to domestic demand. Increased export sales, due to our dairy industry’s successful and somewhat newfound ability to compete in international markets, has been driving the majority of our industry’s growth for dairy farmers and processors over the last few years.

There is general agreement that our current dairy policies need to be reformed.

The Federal Milk Marketing Order system needs to be phased out. The rigid, complex formulas used to determine minimum milk prices are the source of a long list of egregious problems, such as keeping fluid milk prices artificially high and discouraging innovation in dairy ingredients that are not recognized in the government's price formulas. If our industry was freed from these artificial formulas to respond to consumer demand, we would be more competitive. IDFA has worked diligently to get industry wide consensus on reforming the FMMO system; however the FMMO positions proposed in the Dairy Security Act move in the wrong direction.

The Dairy Product Price Support Program (DPPSP) has also been harmful to the industry because when it operates U.S. domestic dairy product prices remain above the level necessary for us to be competitive in world markets. The Dairy Export Incentive Program (DEIP) uses government subsidies to underwrite exports sales - a policy that is inconsistent with our growing U.S. export platform. Both DPPSP and DEIP should be repealed and the available funding put to better use. But before we replace them, we need to consider which direction to take, as different policy reforms will lead in different directions.

We should adopt policies that position us to continue to compete in markets and to develop new products for an increasingly competitive marketplace here at home and abroad. This path requires less government regulation and new policies that will not provide an advantage to our competitors or encourage imports. If we choose this path, policy reform must address dairy farmers' need for risk management tools or insurance that allows them to succeed during periods of low net income.

Another approach would be to adopt policies that call on the federal government to intervene in dairy markets to balance supply with demand in an attempt to control price volatility. Under this approach, we concede competitiveness and growth for status quo and stability.

The Dairy Security Act offers the illusion of going both directions at once. In reality, it takes us down the second path. The centerpiece of that proposal is called the Dairy Market Stabilization program. The stated purpose of the program is the “balancing of the supply of milk with demand.”

For anyone who supports and believes in the power of open markets, it is difficult, if not impossible, to support a program like Dairy Market Stabilization. The stabilization program is no less than a direct government intervention into commercial transactions in dairy markets. The program will periodically impose penalties on dairy farmers in order to limit milk supplies. The regulatory and enforcement mechanism will require new government regulations that will impact fundamental market negotiations between buyers and sellers of raw milk.

Increased input costs for dairy food manufacturers will mean increased prices on our grocery shelves for bottled milk and other dairy products. Consumers have a price threshold for milk. As prices increase, consumption of milk decreases. Bottled milk in particular is in a highly competitive marketplace for beverages. While milk offers more nutrient value, price matters and programs that increase prices will hurt milk sales and, in turn, decrease demand for milk production from dairy farmers.

This program is an unnecessary and costly intrusion into my business. By periodically raising prices, decoupling them from international prices, it will negatively impact our industry's ability to compete for international business. It will also impact our ability to maintain an adequate milk supply and make us an unreliable supplier. Our international competitors are delighted that we may help them, and undercut our own dairy industry, with a supply management program. They win and we lose.

Instead of making a policy choice between helping dairy farmers manage their business or having government manage prices for them, the Dairy Security Act attempts to do both. You can't have it both ways. On its own, the margin protection plan in the bill makes sense, until you look at the details that reveal that the reason for the stabilization program is to limit the usefulness of the margin protection program. If the dairy farm prices and margins are less volatile, as the proponents insist will be the case with Dairy Market Stabilization, then the need for dairy producers to enroll in the margin insurance program will be less or maybe even non-existent.

And, the programs will often work in opposition to each other with the margin protection program subsidizing farmers even as the stabilization program is reducing their milk checks and sending the difference to the government.

Everyone has heard that the solution is to make the program voluntary so no one needs to participate if they do not want to do so. That is incorrect. The stabilization program requires dairy processors to be responsible for tracking production and withholding payments from dairy farmers. If a dairy farmer participates in the program, the processor's participation is not voluntary. Dairy processors, who already must comply with safety and health regulations, not to mention existing milk pricing regulations, will have an entirely new set of government regulations to learn and manage.

We have also heard that the negative impacts on trade can be fixed by a provision that triggers the program off when it starts to impact prices. This provision is a frank admission that, contrary to claims of proponents, this program is a real threat to the competitiveness of the U.S. dairy industry in global markets. No government formula, or trigger adjustment, is going to change the fact that this new enforceable government policy on markets increases our business risk exponentially and will negatively impact all future decisions to invest into more U.S. facilities. There are U.S. capital investment decisions "on hold" because of the looming threat of supply management being in the upcoming Farm Bill.

Dr. Scott Brown's economic modeling says that dairy exports will not significantly decline under the stabilization program. Yet, how can he effectively model or predict how the bill would impact investment decisions by international companies like Davisco, Leprino or Hilmar? Triggering the program on and off will not fix the fundamental uncertainty of whether the United States will remain a competitive location for future production of our dairy exports. IDFA wants to export dairy products, instead of exporting jobs.

In the past few years, Dr. Brown has reported on several analyses of the Cooperatives Working Together (CWT) program that has operated without government intervention in our markets. A few years ago, Dr. Brown conducted an analysis that showed that the voluntary CWT program increased farm milk prices on average 47 cents per hundredweight of milk. Why are we talking about a new intrusive government program that Dr. Brown's new analysis shows only increases the price of farm milk by 5 cents?

Members of this committee are also being told that there is not any legitimate alternative to government control over milk supplies and government manipulation of milk prices. But, margin insurance, also proposed in the Dairy Security Act, can easily be provided without imposing a supply management program on the dairy industry. Just this week, Senator Bennet of Colorado proposed such a stand-alone insurance program funded with modest producer premiums like other crop insurance. IDFA believes that providing additional risk management tools to dairy farmers without supply management should be the goal and we support the Bennet proposal as one way to achieve this.

We are aware of the budgetary pressures on Congress to limit spending, but before imposing a supply management program on my industry, the committee should consider rebalancing the support it provides to each agriculture sector. The dairy "baseline" averages about $43 million over the next 10 years and this year only $7 million was allocated to subsidize dairy insurance programs. Yet, crop insurance alone is expected to cost taxpayers over $10 billion this year and somehow the agriculture committees are still finding available funds for "shallow losses" and other Title I support for feed grains and the rest of agriculture. Dairy producers account for nearly 10% of all farm receipts, yet clearly they are not getting a fair allocation of farm safety net resources for catastrophic revenue protection because this committee has decided to make funding decisions based upon historical precedent instead of need.

Although programs like stabilization may be new concepts to some of the members of the committee, it is an old idea that has been rejected not only around the world but in our country as well. Efforts to have government manage milk supplies, such as the whole herd buyout and assessments on dairy farmers, were tried in the 1980s and were quickly abandoned. Acreage set asides were abandoned decades ago as were peanut and tobacco quotas. Of the major commodities, only sugar is managed by the government, but our sugar industry is protected by high tariffs and we don't export it.

There are many producers, and several producer groups, that oppose dairy supply management and the stabilization program. They deserve to be heard by this committee. Dairy supply management would be a major new policy direction for our industry and is highly controversial. Our nation's second largest dairy coop, California Dairies, is opposed to the stabilization program. Other progressive producer organizations like the Wisconsin Dairy Business Association, Minnesota Milk Producers

Association, the Northeast Dairy Producers Association and the Dairy Policy Action Coalition are opposed.

IDFA is constantly told that it is not enough to oppose proposals, but that we must develop our own. In fact, we adopted a lengthy policy proposal approximately a year ago which has since been widely available on our website. Although it may have been advantageous to posture that our government should eliminate all dairy programs, we have instead tried to identify and support responsible, middle-ground compromise positions that help dairy farmers. IDFA supports the Bennet amendment and will gladly work with members of this committee to develop programs that help dairy farmers through difficult times.

Conclusion

IDFA's members believe that a healthy and growing U.S. dairy industry benefits farmers as well as processors, and does not penalize consumers of dairy products. 2009 was indeed a bad year for many dairy farmers but it was also a bad year for many dairy food companies, and millions of Americans, as well.

Dairy policy reform should not include a supply management program which purports to help dairy farmers but places a heavy burden on dairy product consumers in a year like 2009 when they were also in need. Dairy producers should have catastrophic margin insurance and other risk management tools available to them to be ready for the next down turn in milk prices and an increase in feed costs.

The Dairy Security Act will harm a growing dairy export business and will discourage investment into more domestic processing facilities. It will decrease domestic demand for milk and will ultimately harm dairy farmers as much as it does dairy food companies.

IDFA believes it is time to decrease regulations in a highly regulated industry. We support policy initiatives that will help the industry grow, not only through increased consumption and product innovation here in the United States, but by taking advantage of new and growing export opportunities.

There are clear and better alternatives to the Dairy Security Act that offer a positive path forward for the U.S. dairy industry. Margin protection, without being tied to limits on milk production, would help dairy farmers without the negative consequences of supply management. This committee should offer dairy farmers the tools they need to manage volatility but should not attempt to manage that volatility for them.

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Jon Davis
President and CEO
Davisco Foods International
Le Sueur, MN

Jon Davis was recently named CEO of Davisco Foods International after having served as its chief operating officer for the past 12 years. Davis follows his father, Mark Davis, and grandfather, Stan Davis, and is the third CEO of the 70 year-old company. Davisco processes 4 billion pounds of milk annually and exports dairy products to 43 countries throughout the world. Davis has spent the past 30 years working for Davisco, including throughout high school and college.

He graduated from the University of St. Thomas in St. Paul, Minnesota in 1992 with degrees in finance and marketing. Davis is currently the chair of the National Cheese Institute; an industry advisor to the board of Dairy Management Inc.; and a co-chair of the Jackrabbit Council for South Dakota State University.

Davisco Foods International, Inc. is a privately held, family-owned, international cheese and food ingredient company, headquartered in Le Sueur, Minnesota. Davisco is the recognized world leader in whey protein research, technology, and production, serving as the global standard in the industry for whey protein purity and functionality.

Davisco is the leader in ion-exchange processing and one of the largest manufacturers worldwide of whey protein isolates. Davisco has facilities in Lake Norden, South Dakota (Lake Norden Cheese Company), Le Sueur, Minnesota (Le Sueur Cheese Company), Jerome, Idaho (Jerome Cheese Company) and Nicollet, Minnesota (Nicollet Food Ingredient Company).

Davisco produces more than one million pounds of cheese each day, processes 4 billion pounds of milk annually and exports dairy products to 43 countries throughout the world. The company is an industry leader in environmental stewardship and sustainability; exemplified by the pristine wetland created from purified wastewater at its South Dakota facility. Davisco also owns and operates two 3,000 head dairy farms in Southern Minnesota.

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, 2008.

Name: Jon Davis

Organization you represent (if any): International Dairy Foods Association

1. **Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2008, 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: None **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, 2008, as well as the source and the amount of each grant or contract:**

Source: None **Amount:**

Source: **Amount:**

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

Signature:

* 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.*

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