

# HEARING TO REVIEW DAIRY POLICY

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## HEARING BEFORE THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

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## HEARING TO REVIEW DAIRY POLICY

TUESDAY, APRIL 20, 2010

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON AGRICULTURE,  
*Harrisburg, PA.*

The Committee met, pursuant to call, at 9:26 a.m., at the Farm Show Complex and Expo Center, 2300 North Cameron Street, VIP Room, Harrisburg, Pennsylvania, Hon. Collin C. Peterson [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Holden, Boswell, Scott, Dahlkemper, Neugebauer, and Thompson.

Staff present: Mary Knigge, Dean Goeldner, Nona Darrell, Alejandra Gonzalez-Arias, April Slayton, John Konya, Debbie Smith, John Goldberg, and Sangina Wright.

### **OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA**

The CHAIRMAN. Welcome to today's hearing of the House Agriculture Committee and we are happy to be here in central Pennsylvania, the home of our esteemed Vice Chairman of the Committee, one of our outstanding Members who has been a great ally of mine and a great help to the Committee bringing his expertise and the views of people from this area to the Agriculture Committee. We are here to talk about the future of dairy policy because I know that this issue is very important to this state and the people of this community.

The crisis that dairy farmers continue to face is an ongoing concern of the Members of the Agriculture Committee and other Members of Congress who represent dairy-producing areas. Last year in July, we held a series of three hearings to address the economic conditions facing the dairy industry and the message we received was loud and clear that the current present dairy programs are not providing an adequate safety net for dairy farmers.

Between 2003 and 2007 the price of milk has fluctuated from a low of \$11 to as high as \$20 per hundredweight. Something needs to change in order to prevent this roller coaster ride that farmers face on a regular basis, and we have been through this a little bit, but this last year was the worst I have ever seen, and it is just not tolerable. We are still not out of all of the effects that happened because of what happened last year.

To complicate matters, less than one percent of Americans today are involved in the production of agriculture and few of our friends in the cities and suburbs understand what a critical piece of the economy the dairy industry represents. Most Americans do not un-

derstand the volatility, the long hours and the many challenges faced by dairy farmers. The challenges facing the dairy industry are longstanding and solving these problems is not going to be easy. As long as I have been in Congress, I have studied the dairy industry and I guess I know enough now to be dangerous. It is complicated. It is regional and the situation we are facing has been made worse by trade agreements that have tied our hands, and in some cases, preventing us from doing what is best for our dairy producers.

We recognize that the need to have an effective dairy safety net to prevent the kind of crisis we are seeing. I have asked all the stakeholders to come together and start a long-term list to the current programs that could be included in the next farm bill to provide better support for this essential industry. Today I hope our witnesses will help us continue the conversation about the reality facing the industry right now and what we can do to fix things. I want to thank all of you for joining us today to talk about this important issue. I look forward to your testimony.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN  
CONGRESS FROM MINNESOTA

Good morning and welcome to today's hearing of the House Agriculture Committee. We are happy to be here in central Pennsylvania to talk about the future of dairy policy because I know that this is an issue that is very important to this state and the people of this community.

The crisis that dairy farmers continue to face is an ongoing concern for Members of the House Agriculture Committee and other Members of Congress who represent dairy producing areas. Last year in July, we held a series of three hearings to address the economic conditions facing the dairy industry, and the message we received was loud and clear—the current Federal dairy programs are not providing an adequate safety net for dairy farmers.

Between 2003 and 2007, the price of milk has fluctuated from as low as \$11 and as high as \$20 per hundredweight. Something needs to change in order to prevent this roller coaster ride that farmers face on a regular basis.

Complicating matters, less than one percent of Americans today are involved in production agriculture, and few of our friends in the cities and suburbs understand what a critical piece of the economy the dairy industry represents. Most Americans do not understand the volatility, the long hours and the many challenges faced by dairy farmers.

The challenges facing the dairy industry are long standing, and solving these problems is not easy. As long as I have been in Congress, I have been studying the dairy industry. It is complicated and very regional, and the situation we're facing has been made worse by trade agreements that have tied our hands and, in some cases, are preventing us from doing what is best for our dairy producers.

Recognizing the need to have an effective dairy safety net to prevent the kind of crisis we're seeing, I have asked all of the stakeholders to come together and start looking for alternatives to the current programs that could be included in the next farm bill to provide better support for this essential industry.

Today, I hope our witnesses will help us continue the conversation about the reality facing the dairy industry right now and what we can do to fix things. Thank you all for joining us today to talk about this important issue, and I look forward to the testimony.

The CHAIRMAN. I would like to recognize the Vice Chairman for an opening statement. I will recognize, as well, Mr. Neugebauer and the others will have their statements made a part of the record.

**OPENING STATEMENT OF HON. TIM HOLDEN, A  
REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA**

Mr. HOLDEN. Thank you, Mr. Chairman, for your leadership and then thank you for having this hearing here in Harrisburg, Pennsylvania. To all of my colleagues on the Committee thank you so much for your participation today.

We are here today because we are committed to a strong and prosperous future for the dairy industry. This hearing presents an opportunity for Members of the Committee to gain a better understanding of the state of the dairy industry in Pennsylvania and across the Northeast. In 2009, Pennsylvania ranked fifth in the nation in total milk production behind only California, Wisconsin, New York, and Idaho. Agriculture is our number one industry and dairy is the top economic driver contributing 42 percent of the agricultural receipts. It is estimated that nearly 85 percent of the dairy farm's income is spent locally and recycles 2.5 times through the community. As a result, the dairy industry contributes more than \$4.2 billion into the Pennsylvania economy.

Additionally, the area generates over 40,000 jobs across the Commonwealth. Despite its strength, 2009 also presented challenges for the industry. Record low milk prices decreased milk margins by more than 40 percent, causing the average farm to lose \$1,000 per cow in equity during the year. The number of dairy farm operations in the state dropped more than five percent, while the number of cows dropped by nearly two percent. Taking steps to correct these challenges is critical not only for the future of our family farmer but for the entire Commonwealth of Pennsylvania.

Today's hearing will include testimony from witnesses representing a broad cross-section of the local dairy community who will provide information and perspective on issues of particular importance to Pennsylvania as we continue our look at the dairy policy for the next farm bill. Pennsylvania farmers deserve the strongest advocacy possible in Washington, and I am committed to working with Chairman Peterson and the other Members of this Committee to bring home the best deal possible to a family dairy farmer in Pennsylvania and across the nation. A Pennsylvania-based hearing is a great step toward assuring an even stronger Pennsylvania voice in this process. I look forward to today's expert testimony and to the opportunity to listen, learn and question those at the forefront of this issue.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Holden follows:]

PREPARED STATEMENT OF HON. TIM HOLDEN, A REPRESENTATIVE IN CONGRESS FROM  
PENNSYLVANIA

Thank you, Chairman Peterson. I'd like to welcome you and all my colleagues on the House Agriculture Committee to the Commonwealth of Pennsylvania. I would also like to thank our witnesses and guests for coming today.

We are here today because we are committed to a strong and prosperous future for the dairy industry. This hearing presents an opportunity for Members of the Committee to gain a better understanding of the state of the dairy industry in Pennsylvania and across the Northeast.

In 2009, Pennsylvania ranked 5th in the nation in total milk production, behind only California, Wisconsin, New York, and Idaho. Agriculture is our number one industry and dairy is the top economic driver contributing 42 percent of the agricultural receipts. It is estimated that nearly 85 percent of a dairy farm's income is

spent locally and recycles 2.5 times through the community. As a result, the dairy industry contributes more than \$4.2 billion into the Pennsylvania economy. Additionally, dairy generates over 40,000 jobs across the Commonwealth.

Despite its strengths, 2009 also presented challenges for the industry. Record low milk prices decreased milk margins by more than 40 percent causing the average farm to lose \$1,000 per cow in equity during the year. The number of dairy farm operations in the state dropped more than five percent while the number of cows dropped by nearly two percent.

Taking steps to correct for these challenges is critical not only for the future of our family farmer but for the entire Commonwealth of Pennsylvania. Today's hearing will include testimony from witnesses representing a broad cross section of the local dairy community who will provide information and perspective on issues of particular importance to Pennsylvania as we continue our look at dairy policy for the next farm bill.

Pennsylvania farmers deserve the strongest advocacy possible in Washington. I am committed to working hard with Chairman Peterson to bring home the best deal possible for family dairy farmers in PA and across the nation. A Pennsylvania-based hearing is a great step toward assuring an even stronger Pennsylvania voice in this process. I look forward to today's expert testimony and the opportunity to listen, learn and question those on the forefront of this issue.

The CHAIRMAN. I thank the gentleman and I want to recognize, we have Mr. David Scott from Georgia with us, who is the Chairman of the Subcommittee that deals with livestock and dairy, and Mr. Scott has been gracious to allow Mr. Holden to make an opening statement and we appreciate his leadership and being with us today. I now recognize the Ranking Member of the Livestock, Dairy, and Poultry Subcommittee, Mr. Neugebauer, for a statement.

**OPENING STATEMENT OF HON. RANDY NEUGEBAUER, A  
REPRESENTATIVE IN CONGRESS FROM TEXAS**

Mr. NEUGEBAUER. Well, thank you, Mr. Chairman. I am Randy Neugebauer from the great State of Texas. It is great to be here in Pennsylvania. We want to thank Representatives Holden, Thompson, and Dahlkemper for hosting us. It is good to be here and thanks for all of your great hospitality.

Mr. Chairman, the dairy industry has faced an enormous challenge over the last 18 months. While the industry has had past experiences with price swings, this particular downturn has been exacerbated by an unusual spike in feed prices that have negatively affected the margin of dairymen. It has become clear to me from talking with dairy producers from my district in the panhandle of Texas that existing Federal dairy policies do not adequately empower producers to manage the increasing volatility that threatens their survival.

While it is difficult in these circumstances to talk about the upside, I do believe that the current situation we find ourselves in represents the best opportunity in many years to bring an industry plagued with internal divisions together behind a new comprehensive policy approach. I am aware that numerous groups have developed internal approaches to attacking these problems, and I am thankful for all their hard work that they have already done.

As we begin today the process of developing the next farm bill, I don't expect at this stage that any proposal will have all the i's dotted and the t's crossed, but I would like to hear from the individuals and organizations regarding the process that they are undertaking and the direction that they are heading. Dairy policy in our country has long suffered from a band-aid approach and each



time Congress has tackled this issue the end product is simply to be added onto the new measures that in many cases are contradictory to the programs that are already in place. I think and I hope that we can all come together and we can do better for this industry.

I look forward to hearing what producers in Pennsylvania have to say about the future direction of our national dairy policy. I am confident that their contribution will greatly inform our coming debate.

Thank you, Mr. Chairman, and thank you to all the producers who have taken their time to participate in this process today.

The CHAIRMAN. I thank the gentleman. The chair would request that other Members submit their opening statements for the record so that the witnesses may begin their testimony and make sure that we have ample time for questions.

So we will call up this panel. First we have the Honorable Russell Redding, the Secretary of the Pennsylvania Department of Agriculture. Mr. Secretary, welcome to the Committee, and Jim Dunn, Ph.D., Professor of Agricultural Economics at Penn State University, welcome gentlemen. We appreciate your being with us today and look forward to your testimony and your full statements will be made part of the record. Feel free to summarize and we are on the 5 minute rule, I guess. Oh, Mr. Secretary, I understand you have as much time as you want so you talk at your peril.

Mr. REDDING. I will still try to honor the 5 minutes.

**STATEMENT OF HON. RUSSELL C. REDDING, SECRETARY,  
PENNSYLVANIA DEPARTMENT OF AGRICULTURE,  
HARRISBURG, PA**

Mr. REDDING. Mr. Chairman, Vice Chairman and distinguished Members of the Committee, welcome to Pennsylvania and thank you very much for coming to PA.

The CHAIRMAN. I think you need to get the microphone a little closer. You may have to raise it.

Mr. REDDING. Okay, got it. Thank you for coming to Pennsylvania to talk about the dairy industry. We are very proud to have three Members on your Committee from Pennsylvania, Congresswoman Dahlkemper, Congressman Thompson and of course the Vice Chairman. I am very pleased to have all of you here today. I also want to say thank you to your staff. We have a lot of contact with them over time on a lot of different issues and many of them are here today. I just want to thank you for the excellent work that the Committee and the staff do.

On behalf of the governor, welcome and it is a pleasure to have you here. I will certainly try to abbreviate the comments. You have the written testimony in front of you, but I just want to have a couple of opening statements and then get to some near term actions and some longer term actions that we would like to have some consideration on by the Committee. We appreciate your interest in the Committee and particularly this industry of dairy. We look forward to working with you and the Committee on both short- and long-term actions.

We cannot allow this moment to pass without some aggressive action on dairy policy reform, pricing transparency, risk manage-

ment tools, and adequate financing mechanisms. The industry cannot hit pause and wait for the next farm bill negotiations to actively address the dairy policy and price reform. We must use this time at hand to explore and experiment on some of the critical dairy issues, and then use these experiences to inform the debate for the next farm bill.

I would be remiss if I didn't mention clearly as we have talked about in the opening statements of the Committee that each time we do dairy policy we add onto that. Sometimes we forget to say thank you for what was done, and the recent farm bill is a good example. There was a lot of good work done by the Committee, the Senate, and Members of the delegation here so we thank you very much for that. Certainly, the reporting requirements, the feed adjustment factors, they are just a couple of examples and a thank you to Secretary Vilsack for the work that he is doing presently with the Dairy Industry Advisory Committee. I want to say thank you to him and the work that he is doing, as well.

So these things combined are real time. They are making a real difference. Unfortunately, this economy is upside down financially, and is having a toll on the dairy industry and the rest of the agricultural economy, as well. But the actions you have taken as a Committee, both in terms of the appropriation for the Dairy Loss Assistance Program and also the farm bill and the work of the USDA, are encouraging to the farm families of Pennsylvania. It is a signal that you understand the issues and are trying and prepared to work with them so thank you for that.

Today we face a crisis in our dairy industry, not just for price but of confidence. Confidence in the markets, confidence in the prices going back to our farmers, and confidence in our ability to continue to manage and have viable dairy operations. It is a confidence crisis and confidence in crisis for price, as well, but just a couple of things to focus in on.

One is the issue of price discovery. We hear a lot about that. There was discussion in the last farm bill. I put that at the top of the list as one of the issues we have to address that really doesn't take any additional authority of Congress. It simply takes the implementation of the 2008 Farm Bill provision. We have had discussions with Secretary Vilsack at the USDA. We think that is one of the most important items that can be done. Actually this could be done right now because you have to at some point address this issue of what triggers the price of milk. Right now, a very thinly traded Chicago Mercantile is really the primary indicator. We believe that there needs to be a more robust system of price discovery, so that is number one.

Two, and probably the most important thing I will say today is really about creating a new outlook on income protection for farmers. Many, again, have worked for years, Mr. Chairman, in particular, the Vice Chairman on the issue of risk management and crop insurance. We believe with our lessons learned on the crop side of the business that I can borrow for the benefit of dairy. It is the only major commodity where there is not a workable, meaningful, affordable crop insurance equivalent for the industry. We think the time is right, given what we have learned over the years with the crop insurance, is that if you have a meaningful and af-

fordable and workable product, producers will participate. So I put that on the table as one of those important items today. As we look at the future of the dairy industry and all the complications of finding some way for balancing supply and demand and regions, *et cetera*, this is the one thing that is a common denominator from the Susquehanna Valley to the San Joaquin Valley is that you have to be able to manage the margin right and insure that margin. The Livestock Gross Margin product that we have worked with the private developer producer and the USDA on, we think holds great potential. It is called LGM Dairy and as the name implies, it is really about insuring that margin so we think that is one item that, again, is an actual item for the Committee to consider. I believe we can look at both the LGM Dairy and maybe there are other better options, but this one—we don't say believe—but we hope that the next year or 2 we can use this time to really explore and experiment with other risk management tools.

On the LGM Dairy, just to note, there are a couple of things that we would appreciate the support of the Committee on. One is that there is no subsidy at this point for the LGM Dairy crop. It is 100 percent of the producers' cost and we all know that if that was the case on the crop side, how difficult it would be to sell those policies to producers. At this moment, it is not a subsidized product. It is an available product to the industry. We are seeing steady but slow growth in number of policies. The fundamentals are right. It really is about insuring that margin and that is what the product is designed to do, but there needs to be some subsidy on that.

Second, we would appreciate flexibility in the use of the product, meaning at this point the sales closing dates are pretty narrow and we are requiring the producer to pay 100 percent of the premium up-front. It is all front-loaded, so you know how difficult it is when there aren't many dollars available, so another one of those changes is what we suggest, as well.

My final point would be just on the credit side. The other two recommendations are more dairy specific, but as a general comment, we believe that there are a lot of producers just given the collapse of the industry and the eroding price that they have been historically good investments for lenders, both Farm Credit and private sector. The challenge, of course, is what happens with equity, and the equity I have been told that in the last year that these folks have lost 3 years of equity. So given the loan status we would ask the Committee to take a look at the availability of credit, both in terms of the USDA's Farm Service Agency.

Just as an example, in the last year the Farm Service Agency in Pennsylvania has grown by \$150 million, 65 percent of that is dairy. The concern, of course, is the credit quality and whether they are really in a position to continue to be viable borrowers for the future. We believe the credit discussion is really the bridge to the better year, right. If we can get this dairy turned in a way, it is still going to take some time to work out what the right policies are long-term, so we need the cooperation of the lenders to really work with us. We believe they want to work with us but we have been told that in this post-TARP environment, where the regulations are much more stringent in terms of how they have to handle particularly those loans that are termed troubled assets which are

loans that were 90 days past due. So that is going to put them in a very awkward spot. Even if they want to work with the farm community, they may not be able to so that is one of those regulatory pieces that I would ask the Committee to take a look at.

There is a good example in the testimony about a borrower from Lancaster County, Pennsylvania and the challenges that he has had, and the family has had, of building that business. A great operator and he is doing okay but the question remains, can they withstand some extended period of time.

So there is much we could talk about and I will end where I began with a simple thank you to the Committee for the good work that has been done. For the full cooperation, the Committee should really try to explore and look in-depth at whether the policy is good for the dairy industry in Pennsylvania and America so, Mr. Chairman, thank you.

[The prepared statement of Mr. Redding follows:]

PREPARED STATEMENT OF HON. RUSSELL C. REDDING, SECRETARY, PENNSYLVANIA  
DEPARTMENT OF AGRICULTURE, HARRISBURG, PA

Chairman Peterson, Vice Chairman Holden and distinguished Members of the Committee, welcome and thank you for inviting the Commonwealth of Pennsylvania to be part of this important hearing to explore potential actions to strengthen our dairy industry.

On behalf of Governor Edward G. Rendell, it is my honor to testify before you today. The Governor has been a strong advocate in seeking new and innovative tools, programs and policies at the state and Federal level to help our state's dairy industry address the current economic struggle as well the future of Pennsylvania agriculture's largest sector. We appreciate your interest in the dairy industry, and we look forward to working with you and the Committee to find both short-term and long-term solutions to the current financial challenges that our dairy farms face. We can not allow this moment to pass without aggressive action on dairy policy reform, pricing transparency, risk management tools, and adequate financing mechanisms. The industry simply cannot hit pause and wait until the start of farm bill negotiations to actively address dairy policy and price reform. We must use the time at hand to explore and experiment on some of the critical dairy issues—and then use these experiences to inform the work that we do in the next farm bill. In addition to looking to the future, we must also utilize every ounce of authority available to us today to have a positive impact on the farmers' margins since milk prices continue to erode.

We are very appreciative of Congress for the Dairy Loss Assistance Program and the efforts of USDA Secretary Vilsack, including the creation of the Dairy Industry Advisory Committee, the purchase of dairy products for nutrition programs and the steps taken to increase the support price. All of these actions are helpful and have provided much-needed encouragement to our dairy farm families that we value their work and we are prepared to work together to find solutions.

The last 12 to 18 months have caused considerable debate—and rightly so—about our existing U.S. dairy policy and to what extent it serves the needs of dairy farmers, milk processors and consumers. As painful as this period has been, it is important to not lose sight of what has happened to U.S. dairy production over the past 30 years: production has risen from 129 billion pounds in 1980 to 189 billion pounds in 2008. We have also enjoyed increasing exports of dairy products during this same timeframe, reaching a peak in 2008 when 11.5% of our domestic product was shipped and marketed outside of the U.S. Looking forward, the United Nations Food and Agriculture Organization has called for a 100 percent increase in food production by the year 2050, prompting the U.S. Dairy Export Council to conclude that the U.S. will have a significant opportunity to continue growing exports to help meet the increased expectation for food worldwide. This is positive news, and should help shape a U.S. strategy for dairy that sees our industry as the source for growing demand, creating the opportunity for dairy farms to incorporate additional family members, welcome the next generation of producers back to profitable operations, and grow dairy-related businesses.

Having stated the above, we know that this scenario does not occur simply because we wish it to. Today we face a crisis in our dairy industry not just of price,

but of confidence—confidence in the market; confidence in the prices going back to our farmers; confidence in our ability to continue to manage viable dairy operations. The current systems used to discover prices, manage risk and protect farm income, and secure financing/bolster farm equity must be revisited before we can truly move past this crisis.

Understanding that price discovery has an important place in smoothing the peaks and valleys impacting the dairy industry, Pennsylvania developed (in cooperation with dairy economists from the Land-Grant institutions in Pennsylvania, New York and Wisconsin) dairy policy recommendations in 2007 that we believe hold true today. There has been growing concern for some time that the amount of dairy product being bought and sold on the Chicago Mercantile Exchange (CME) is a very small sample in relationship to the overall quantity of milk products produced in the U.S. This “small sample” has huge economic implications for dairy farmers, as it effectively sets the price they receive for their milk. This is an issue that deserves immediate attention.

We must improve the systems of price discovery; the dairy industry would benefit from a reliable and transparent method of price discovery for the commodities produced. Many individuals in the room today worked hard to get language in the 2008 Farm Bill that mandates greater transparency. We need to have the reporting provision activated so we can have an informed discussion about the value of milk—which is required before we can honestly redesign the milk pricing system. Presently, the CME market for cheese and butter is thinly traded and is the market of last resort for both buyers and sellers. Yet these are the transactions that send the signal to USDA’s National Agricultural Statistics Service (NASS) for prices of dairy products, which the Federal Milk Marketing Order system depends on for market prices of dairy commodities. The challenge in this system is that the NASS survey creates a lag in pricing information (typically 1 to 2 weeks). Understanding that the NASS work is the foundation for the dairy pricing system, the NASS survey must be improved. This should include the elimination of lag time, applying the survey to all dairy products sold (including inventories in cold storage facilities), and mandatory daily reporting as required by other protein commodities. We believe this change—which could be implemented by NASS or USDA’s Agricultural Marketing Service (AMS)—would represent a major step forward by the industry and would require a minimal investment.

We would also like to improve the integrity of the marketplace—again addressing the crisis of confidence—by creating an alternative to the CME or using a collection of price discovery tools that would more accurately reflect current market conditions of supply and demand. These tools could include the futures market prices, reportings of actual prices paid from mandatory pricing surveys, and Consumer Price Index (CPI) numbers which reflect the costs of corn, energy and other input costs realized by 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 such as cash and futures markets, pricing surveys and input cost calculations, the integrity of the marketplace is improved and extreme price fluctuations are abated.

In addition to addressing what we believe is a flawed pricing system, we must use this time to create a new outlook on income protection by farmers and allied industry partners. The most important recommendation I can share here today is that we borrow a lesson from the crop side of our business, where risk management has been used to help protect the income of farmers and transfer this learning to the dairy industry. The time is right to make workable, meaningful and affordable voluntary dairy risk management products available to producers.

August of 2008 saw the launch of a new risk management program for dairy producers. Livestock Gross Margin for Dairy, or LGM Dairy, is a federally reinsured dairy insurance program now included with USDA’s crop insurance offerings. The program provides protection against unexpected declines in gross margins on targeted quantities of milk, without forfeiting increased profits. The program is based on milk income over feed costs, which are termed the “gross margin.” The insurance policy 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. Futures prices from the CME and Chicago Board of Trade (CBOT) are used to determine the values of Class III milk, corn and soybean meal. Futures prices result in uniform commodity prices for all producers, however the program offers flexibility in the margin insured by individual producers and the months covered by the policy. There is a maximum enrollment limit of 240,000 hundredweights of milk per year.

There is no doubt that a risk management tool for dairy producers is required. This option is available for all other major agricultural commodities, and risk man-

agement has been used quite effectively in Pennsylvania since the state was severely impacted by a disastrous drought in 1999. As we have promoted LGM Dairy in Pennsylvania and worked with the crop insurance industry and producers alike to encourage participation, we have received valuable feedback on how to speed the adoption of this critical tool. We would request your support for flexibility for the producers to pay the premium costs for policies incrementally *versus* one flat, upfront fee, which would better reflect the standard business operations of the dairy industry. As most dairy farmers operate on a cash flow basis, this change would be a significant help in aligning this product with standard financial management protocols. An extension of the sales closing period for LGM Dairy would also encourage more producers to take advantage of this new risk management option.

We believe that LGM Dairy has great potential to help dairy producers better manage their risk, but at this point it is cost-prohibitive and needs premium subsidy. In addition, since this is a new concept for the industry, we must have an aggressive and sustained education campaign—for producers as well as the insurance industry.

While we have provided the insight we have gleaned throughout the process of helping to launch LGM Dairy, we know that this is just one tool available to the dairy industry. Perhaps there are other approaches to managing risk. Now is the time to experiment and learn, allowing us to take the best ideas forward in the 2012 Farm Bill.

The support of the Committee is requested to address the need for risk management in the dairy industry, including assistance with funding producer-paid premiums and industry education.

In Pennsylvania, many of our dairy producers have gone months without a paycheck. This diminished income has had a severe impact on cash-flow and farm equity. Credit, equity loss, and existing banking and USDA Farm Service Agency (FSA) regulations require attention at this time to provide producers with a bridge to a better year. There are two key terms to keep in mind when discussing the current agricultural credit situation—risk and uncertainty.

We increasingly hear of producers seeking loans from the USDA Farm Service Agency, and we have shared recommendations with Secretary Vilsack on options to extend the support provided by the state FSA teams. We know that many of the producers turning to FSA have not worked with this group before, raising both the number of borrowers and the dollars being borrowed. According to the Pennsylvania FSA office, the loan portfolio for the state has grown from \$350 million less than a year ago to more than \$425 million today—and 65% of this portfolio is tied to the dairy industry. While we deeply appreciate this support and the breathing room the FSA funds provide to producers, we worry that this rate of increase is not sustainable and that FSA funds may be depleted, compounding existing credit issues.

Dairy producers are not unaccustomed to a fluctuating market or the associated spikes and drops reflected in the wholesale price of milk. Historically, producers have been able to manage these cycles by implementing best management practices, developing sound business plans and establishing cost-saving measures in their operations to create a reserve in good times and counteract decreases in cash flow when milk prices drop. This dynamic has prompted producers to develop strong relationships with their lenders and creditors to manage debt, and has helped highlight dairy farmers among the most reliable borrowers in a lender's portfolio.

The challenge, then, is not fiscal management. It is—to a certain extent—the nature of the industry itself. Dairies are not like many other businesses, as they cannot shut down a production line during downturns. Milking must continue, multiple times each and every day. The option to sell cows does not hold a strong appeal, as this further reduces equity and cash flow on the farm. Additionally, cow prices track with the movement of the market, meaning producers receive lower prices for animals they sell during downturns in the market and then must pay increased prices as they look to increase their herd size and production levels—a lose/lose proposition in any industry.

Agricultural lenders are keenly aware of these unique market situations and experience has shown that this group works diligently to help their customers through downturns. Despite solid business plans and sound management to build financial cushions to support the dairy during periods of low prices, this most recent downturn was far deeper and much longer than we could have predicted. The overall loss of cash-flow, coupled with losses in real estate values has diminished or nearly eliminated equity on some of our most progressive and forward-looking farms.

History has shown us that another downturn will occur. Should this take place in the near-term, lenders will be forced to assess how many of their customers will have the cash reserves required to survive, further exacerbating the risk being as-

sumed by both lenders and borrowers—and greatly impacting the available credit that will be required to sustain the dairy industry.

We do not live or work in a vacuum. Collapses in the real estate market coupled with those in the larger lending sector have had an impact on the dairy industry. Today, lenders are under more scrutiny than ever by stockholders as well as regulators. Even in instances where lenders are willing to extend forbearance to dairy producer clients, regulations are having an impact that hampers this action and, in some instances, prevents it. Post-TARP changes in how troubled assets (those accounts greater than 90 days past due) are accounted for on lenders' books have forced a higher standard of risk assessment on loans and has resulted in the reduction of availability of credit for many existing and new borrowers.

Perhaps the best way to describe the effects of these confluence of trends is through examples of dairies in Pennsylvania. A dairy farm in Lancaster County provides a great illustration: Approximately 3 years ago, a progressive 150 cow operation with an updated business plan and sound best management practices decided to bring their two children into the farm business as partners and managers. These two new partners each had families of their own and were excited to represent the next generation making a living on the home farm.

The business plan was revisited and the decision was made to add an additional 125 cows, raising the herd total to 275. This expansion required expanded manure and feed storage, as well as the rental of an extra 250 acres to meet feed and best management practice needs.

At the time, milk prices were strong and cow costs were in the \$1,400/cow range—meaning their planned herd expansion had a price tag of \$175,000. Their additional infrastructure needs were calculated at \$2,000/cow, resulting in a \$250,000 expense. At the time expected income over feed costs on the farm would have provided for a milk margin on \$13.00/hundredweight (cwt). Based on this information, expected additional debt load, and projected energy and family living costs, it was determined that the business plan showed sufficient equity and cash flow to make this plan a reality.

Fast forward to 2009—just 2 years into the additional debt load and expenses—and the income over feed costs milk margin that was at \$13.00/cwt had plummeted to \$6.50/cwt, about 50 percent of what had been projected. Coupled with increased energy and family living costs, the farm was struggling to keep up with expenses.

As this milk price drama unfolded, the real estate crisis drove down land values, reducing the equity built up over generations. In addition, cow prices were declining, meaning the herd the family had on hand was worth less—regardless of milk production. The farm's debt now exceeded existing equity.

The family was aware and took advantage of programs designed to assist them, restructuring operating expenses to a lower percentage term loan through the USDA Farm Service Agency and working with their other lenders who held the infrastructure debt.

While this family was able to survive the downturn in 2009, they are still facing its challenges and realities. Cash reserves are low and cash flow is only now in 2010 starting to meet their operating expense needs. They have additional term debt through the restructuring of 2009 operating expenses, and equity on the farm—while increasing—will likely not allow for further infrastructure investments or emergency actions should a building or equipment need replacing. Consequently, their operating expense lines of credit with their lenders have been reduced, creating more risk and uncertainty as the children of the new farm partners evaluate the potential for them to continue on this family operation when they complete college. This story is not unique to the family in question and is, in fact, playing out on numerous farms in Pennsylvania—with much more dire results in many cases.

Assistance for agriculture and especially the dairy industry exists at many levels of government. However, we must not become complacent in what exists and we must look at bolstering existing programs and exploring new ways to maintain a vibrant dairy industry. Most of the dairies that have survived to-date will find it difficult to say the least to make it through another downturn, especially one as protracted as the crisis we are still working through.

I share this example to emphasize the important role our financial institutions play in supporting the dairy industry. Agriculture is a business without walls, but it is every bit a business and we must take strides to ensure that our farmers have access to the capital and resources needed to survive today so they can thrive tomorrow.

While we are exploring all options with Congress and the USDA, let me assure you we are doing the same right here in Pennsylvania. We are fortunate to be one of a small number of states that have a state pricing mechanism to assist dairy farmers. The Milk Marketing Law was first enacted in 1937. The Pennsylvania Milk

Marketing Board (PMMB) has exercised its authority under the statute in various ways since then in an effort to be responsive to changing market conditions. The Governor and the Department continue to work with the Board to ensure farmers are receiving the full benefit of the over-order premium, as we know well the value of this additional income.

I have said often that you never want to waste a crisis. We didn't want this challenge, but there is no better time for good thinking than when you are under fire. It is imperative that we listen, learn and lead during this time of crisis. We do this through sessions like today's hearing where we can engage in discussions about the industry and its future. We also meet this prompt by evaluating the tools at our disposal to support the industry and investigating new ways to price our products, protect farm-level margins and income, and secure financial resources for dairy operations.

Our actions here today do far more than bolster the leading sector of Pennsylvania agriculture. Our voices, our actions and our leadership recognize that the dairy industry is an important part of our nation's heritage—and set the path for this industry to be a vibrant part of our future.

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 farms to the processors. For these reasons, I want to thank you for your continued good work and willingness to challenge all of us to think creatively about possible solutions both short- and long-term. It is our goal to see from this crisis a dairy industry that is stronger, both here in the U.S. and around the world.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Secretary. It was great, very much on-point testimony and we probably have some back-and-forth to do.

We appreciate you being with us, Dr. Dunn, and we appreciate you being with the Committee and welcome to the Committee. We look forward to your testimony.

**STATEMENT OF JAMES W. DUNN, Ph.D., PROFESSOR OF  
AGRICULTURAL ECONOMICS, PENNSYLVANIA STATE  
UNIVERSITY, UNIVERSITY PARK, PA**

Dr. DUNN. Thank you, Mr. Chairman, and thank you for the invitation to participate. My job, apparently, is to provide a little background of what has been going on.

Two thousand-nine, was a very bad year for dairy farms. The previous 2 years we had conditions internationally, in particular, the severe drought in New Zealand and Australia which are two of the major dairy exporting countries, and the weak dollar made our exports very competitive and we exported a lot more product than we had traditionally. Our milk prices soared and many dairy farmers across the country expanded their herds. This is important because unlike most agricultural products in the United States, we are proximately self-sufficient. We export about ten percent of the world's dairy products and we import about ten percent of the world's dairy products. But the demand for dairy products is not very sensitive to the price in the United States and so if we have more milk, the price really goes down sharply which, of course, is what we saw last year.

The European Union is also a very important exporter of heavily subsidized exports, I might add, unlike Australia and New Zealand. Since 2009 began, the world economy collapsed and the dollar went up very sharply in value and it began to rain in Australia and New Zealand and our exports were no longer competitive. However, now we had more cows than we had had in the past, our domestic econ-



omy was weak and in order to get rid of the milk the price went down very sharply.

Pennsylvania all-milk price was at \$23.90 per hundredweight in 2007, and averaged \$20 for 2008, and averaged \$14.38 in 2009 and was as low as \$12.90, so essentially half of what it had been 2 years before, a very big shock for everybody. The market started to come back in the fall but many farmers lost \$500 a cow. Some lost \$1,000 per cow. One of my friends who is in the banking business said his clients lost \$332 per cow or \$1.36 per hundredweight. I believe that portfolio is a little bit better than the typical portfolio in losses were generally worse than that. So as a result, farmers were having trouble paying their bills, servicing their debt and feeding their families. The prices had been that low early in the decade, but in 2009, the feed costs were very high and the cost of other goods, such as petroleum products and things like that were also very expensive. The purchasing power of the dollar had eroded in the meantime so that \$13 milk in 2009 doesn't do as much for you as the \$13 milk did in the year 2000. In 2006, we essentially had the same prices as we did in 2009, but because of the feed cost in particular, 2009 was much worse.

As the year went on, the national dairy herd decreased and so what happened is that the price went up and then there was a bearish calf report at the beginning of this year. The price started to come down again but the average milk price for the year, based on the work that I have been doing, is going to end up for the Pennsylvania all-milk price to be about \$17.50. This would be a very reasonable price within the context of the past decade were it not for what had just happened, and essentially, most farms now have a lot of debt on their balance sheet. Planting is coming up. They are going to have to go out for more borrowing, perhaps the third time they have done so in the last 15 months considering the situation now is much worse. If they had \$4,000 to invest per cow 15 months ago, it is \$5,000 now and they are running out of collateral. They are running out of borrowing capacity and the ability to service debt, and although all farmers are not the same, in some cases their survival is very much in doubt, especially people who didn't really take advantage of the high price system, cut their debt in the past. And so the net effect of all of this, of course, in the industry as the Secretary said has many participants who are on very thin ice and when they go back to their borrowers, the borrowers are not going to be universally enthusiastic about coming up with more money given their situation.

[The prepared statement of Dr. Dunn follows:]

PREPARED STATEMENT OF JAMES W. DUNN, PH.D., PROFESSOR OF AGRICULTURAL ECONOMICS, PENNSYLVANIA STATE UNIVERSITY, UNIVERSITY PARK, PA

Two thousand-nine, was a very bad year for dairy farms. In 2007 and 2008 conditions internationally, including severe drought in New Zealand and Australia and a weak dollar, made the United States a much bigger dairy exporter than had been true before. Milk prices soared and many dairy farmers expanded their herds. Unlike most U.S. agricultural products, the U.S. dairy industry serves primarily the domestic market. We sell about 10% of the world's dairy exports and buy about the same. The European Union is the biggest exporter, followed by New Zealand, the U.S., and Australia. As the world economy collapsed and it began to rain in the Antipodes, our exports were no longer as competitive. However, we had more cows producing and our domestic economy was weak, hurting domestic demand as well.

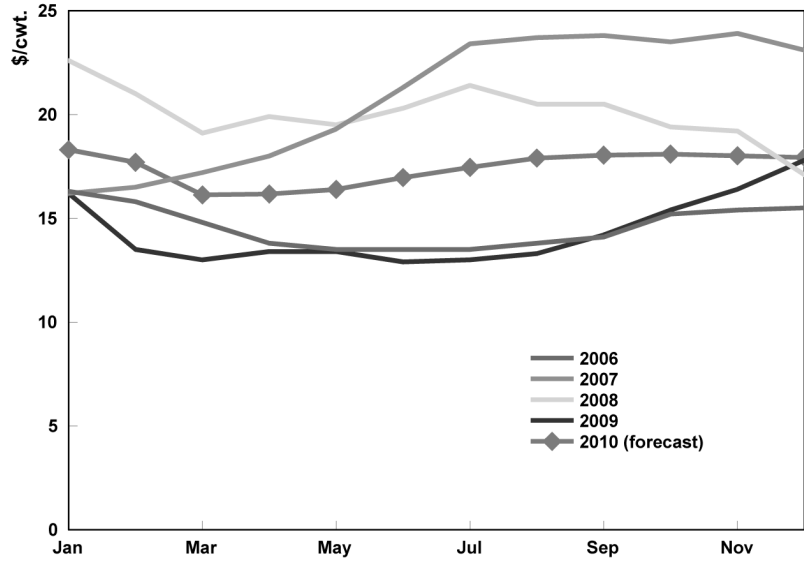
Prices dropped sharply. The Pennsylvania all-milk price, which had hit \$23.90/cwt. in 2007, fell to the \$13/cwt. range for several months, with a low of \$12.90 in June 2009. For all of 2009, this price was \$14.38/cwt., compare to \$20.04 for all of 2008. The market came back in the fall, but many farmers lost \$500/cow and some \$1,000/cow. One source told me that based on his analysis of his clients they lost \$332/cow or \$1.36/cwt. Farmers had trouble paying their bills, servicing their debt, and supporting their families. Prices had been that low earlier in the decade, but in 2009 feed costs were much higher and the costs of other inputs were more expensive, and of course, the purchasing power of the dollar has eroded with inflation. The profits from \$13 milk in 2009 are less than \$13 milk in 2000. *Figures 1 and 2* illustrate these points. The milk price in 2009 was about the same as in 2006, however the amount available to pay the bills after paying for feed (income over feed costs) was much less.

A national reduction in cow numbers drove a late-year price increase in 2009, but prices fell after a bearish calf report in late January, 2010. The latest value is \$17.30/cwt. This value is a bit higher than the average for the last 10 years. However, most farms now have more debt on their balance sheets and with planting coming soon, farmers may need to borrow additional funds. For many, this is the third time they have needed more money in a year. Depending on their financial situation in December 2008, farmers now are in a somewhat worse situation or a much worse situation than they were then. If they had \$4,000 debt/cow Jan. 1, 2009, they may now have \$5,000. Many needed a new loan last spring and another in late summer. They now need to make this debt manageable by restructuring. Some are running out of collateral, borrowing capacity, and the ability to service debt. For everyone, the break-even milk price is now higher than it was 15 months ago.

All farmers are not the same, but for some, the farm's survival is in doubt. Many farms that recently expanded are now on thin ice. Many small farms are struggling. A lot depends on what the debt load was 2 years ago and how focused the farm is on controlling costs. I might add that some of the big farms in California and other western states were hit very hard by 2009. Cow numbers dropped 4.2% in California in 2009 and by 1.9% in Pennsylvania.

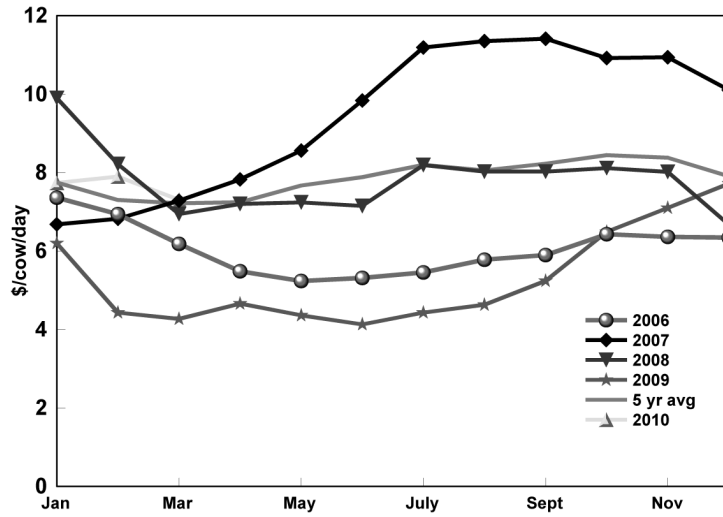
The expected prices for 2010 are okay, but not great. They will probably be a bit above the average values for the past decade. In a different year they would not be notable, but after last year dairy farmers could really benefit from higher prices.

Figure 1: Pennsylvania All-Milk Price



Source: USDA.

Figure 2: Pennsylvania Dairy Income Over Feed Costs



The CHAIRMAN. Thank you very much, both of you, for that great testimony and we will now move to questions. I will first yield to the Vice Chairman for questions.

Mr. HOLDEN. Well, thank you, Mr. Chairman.

Secretary Redding, you and your predecessor, Secretary Wolff, I take it is here today, did an excellent job in increasing on the crop side participation in the Commonwealth of Pennsylvania and you talked a little bit about it in your opening remarks. Can you elaborate on what you learned from that experience and how you think that it could be applied to the dairy program?

Mr. REDDING. Congressman, thank you. The work over the last 10 or 15 years has taught us a couple of things. There is a three-legged stool when we talk about insurance. One, you have to have a product that actually is real. You have to have something that is really workable that the producers find value in. So you need to have a workable product. Two, it has to be affordable. You have to use the best product. You have to be able to afford it. And three, is education, and all three of those legs of that stool need to be imported to the dairy conversation and at this point we don't have that.

As I mentioned in my testimony, we have the LGM Dairy which is a new product, 2008 was its introduction. As you know, when we proffer legislation, new product development is a role of the private sector and this is a private sector product owned by a firm out of Iowa and that we can partner on, that is the Department of Agriculture. But it is a private product so we are at their wishes in terms of how they want to move forward with that, but we need to sort of focus in on the risk management tool. I think it is really the piece that while some of the other pricing mechanisms will require some additional thought and work while international trade comes back into balance on dairy, while some of the Federal reform is to talk about habits, the one thing we can do today is really to use the authority of the Risk Management Agency. So I would just look at that and say we have a product that is in its infancy, but it needs support from both Congress and the USDA.

We believe the LGM Dairy has great potential if we can put some subsidy under it to really incentivize participation. We need to do a very active education campaign just because the producers—we have not thought about how you can manage risk through an insurance policy in the dairy industry. We just haven't done that, so it is going to take some work to really make sure that producers understand what they are doing. I would add that the crop insurance industry is a full participant in that. We have a lot of crop insurance agents who look great on the economic side but when you start talking about livestock products, particularly dairy, that is not something that is universal, right. So I just put that on the table as the Committee is considering the standard insurance agreement and those issues of insurance. That is one of those we need a full participant in the private insurance industry. So the long answer is to say we have taken a step. We have some lessons learned that we think are invaluable to moving us forward. We think long-term that the answer for the industry, one of the critical tools at least, is risk management. We just need the support to

subsidize, educate and some flexibility in terms of how to approach it.

Mr. HOLDEN. What would be the result if the entire Commonwealth were added to the Federal Order?

Mr. REDDING. Instead of what we have today?

Mr. HOLDEN. Yes.

Mr. REDDING. Oh, how much time do you have? I mean I hate to give you an answer. This may be a better question for the economists to talk about. I would just say that really at this point you have Federal Order and non-Federal Order pockets. I think there is some benefit to having some uniformity of a particular state in a Federal Order *versus* the pockets that we have right now.

Dr. DUNN. It is my understanding there are only four or five non-Order plants so within the context of Pennsylvania it is not a particularly big problem. But, symbolically, it is probably more important that it is otherwise the fact that we do have one set of rules for almost everybody and there is another set of rules for a few people.

Mr. HOLDEN. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. I thank the gentleman.

The gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. Secretary, a couple of things you mentioned in your testimony. One is that you mentioned that price discovery still continues to be a problem and you mentioned that you had some conversations with Secretary Vilsack. Where are those discussions and where do you think the Secretary is on that? And what are some of the suggestions that you put forward to the Secretary?

Mr. REDDING. Yes, a couple points. Thank you, Congressman, for the question.

First of all, the conversations with the Secretary have been fruitful and productive and desired by the Secretary to implement the provisions of the 2008 Farm Bill. The limitation is money. We understand that there is a cost to do the price discovery and just to build the IT systems or to do the compilation of the information. I don't know the exact number on that, but another thing we are looking at need for some additional monies, several million dollars over several years to actually do that implementation on a 2 year timeline. The other part of the discussion is really then what are the different points for you to collect. Our general sense has been we have to look at something more than the Chicago Mercantile, right. The difficulty we have today, part of the difficulty is we really don't know the value of the product. We know the price but we don't know the value of the product. So the discovery ought to be what is the product worth in the marketplace, a full-range of products, right, from manufactured products to fresh products of all these different product lines that we have for the dairy industry. We really ought to use all of those to form what the price ought to be, and then the second part of that is to what extent the other economic indicators might be, the price index and some of those econometric pieces ought to be used as the price and formula. So we have had a general conversation with them that I would characterize as very supportive. I am encouraged all we need are some

additional resources to implement and the discussion of what the sort of bucket of indicators are and certainly be taken.

Mr. NEUGEBAUER. And also, Mr. Secretary, I agree with you that our risk management is not just due to the fact that our costs need some fine tuning. I have been kind of leading that charge on the Agriculture Committee, and I know Chairman Peterson is interested in seeing if there is a way we can make that better. I want to go back to something that Dr. Dunn said though is that, "prices soared and producers expanded their herds," and one of the things that we will be looking at policy-wise here is we need to make sure that we are not a part of the problem here. And so I guess one of the things that I would ask you is when we are looking at a risk management policy, how do we make sure that the government is not increasing, encouraging excessive production. When I talk to some folks in, I have one of the fastest growing dairy areas in the country, what people say about this is all the way from do nothing, just leave us alone and let the supply and demand make the markets equalize, to people saying we need some safety nets and some other things. But how do we design a safety net that doesn't manipulate the normal supply and demand that should happen in the marketplace?

Dr. DUNN. Well, clearly the scene we have up until now has been not very supportive, the century since 1888 the price occasionally hits us but it really doesn't amount to anything within the context of the last 200 years but a risk management tool is tied to the market prices. So, to the extent it is designed effectively and used then something such as the dairy loss gives us the opportunity to do that in the same context as other risk management tools, but it doesn't encourage risky behavior as such.

Mr. NEUGEBAUER. Mr. Secretary, do you want to comment on that?

Mr. REDDING. It is a great question, and I have thought a lot about this trying to figure out what is the right answer because you send signals. Even the dairy loss and payments in December sent a signal, right. The product purchases of the USDA sent a signal and so I don't know how you balance all the signals and reform, right. In a certain light we focused in on the risk management piece. You know, there comes a point in the industry where we have to make a decision about what is the perfect role for government. As I have looked at it personally, we have this Dairy Price Support Program which is buying excess product. I just think we are not sending the right signals in terms of technology, innovation and creativity when you have a buyer call the government who is prepared to take whatever product coming out of the plant that is not absorbed in the marketplace, right. That is not a good signal and that is unfortunately one of the signals, historical signals in the industry that are creating part of our challenge today. Building a topside signal of Congress providing some dairy product support instead of payments, loss payments, so you have sort of the book-ends covered. What do you do with the center, right? That ought to be sort of the marketplace decision, but the one area that I think we can agree that no matter what size dairy you are and no matter where you are in this country is that we really ought to have a product that will catch your margin and that is a decision we

should have with them to make that decision is to what is your margin. Right now we are trying to have a policy that is going to fit small herds and large herds, and East and West. Kind of the philosophy, the one place that we can really be helpful to producers is to give them a product that they then decide I will take product by the way that they decide to what extent they want to protect their margin and it is their margin. It is not the government's margin and it is not the, somebody else's margin. It is their margin. So to your question, the signals, if we had a product that is really available and workable and affordable is that you could point to folks, the producer, you make the decision about your margin and as a government we are prepared to sort of work with you as we do with crop insurance. That is a personal decision to make and then transition out of the Dairy Price Support Payment. Use those dollars to really pay for the insurance program, right. So I mean that is where I would be on that just to make sure that long-term you get some alternative to coming back to the Congress on a continual basis and asking for resources or simply buying product off of the bottom where you don't have a viable market for it, right. So I mean if we did the insurance piece, the signal would be that that is where we want you to go to buy your protection *versus* expecting it to come from either product purchases or on an appropriation request to Congress.

The CHAIRMAN. I thank the gentleman and I will just weigh in on this point. I fully agree that we have to develop a risk management tool for dairy, I think you are on the right line and I would go beyond that. I would say that we need to expand insurance so that it covers all agriculture products and livestock. The long-term reality is that that is going to be what we have left at the end of the day, 10 years from now, 20, whenever we get there, that is going to be probably what is left in terms of government support or government help in managing the risk in agriculture.

In regard to the price discovery, we examined that whole bit in the 2008 Farm Bill and my sense at that time was the dairy industry wasn't ready completely at that point. But, people may not be aware but the mandatory price warning has to be reauthorized before September. One of my goals is to address this issue in dairy like we have done in some of the other areas. Last Friday I had a meeting with AMS going over one of the provisions I put in the farm bill to make the price authority more useable for the average people out there. They have contracted and gave me an overview of what this is going to look like, and I think they are on the right track and it is very useful the way that this is presented. You know, if you are a big guy and you have all these folks that work for you that can work on this stuff everyday, you could take that information and figure out what is going on. If you are an average guy out there, a farmer, and you log onto the Internet and see all this information, it is pretty hard to put together.

So we are going to try to pull that stuff together and apparently that is going to be ready to roll-out at the end of July, so we have to figure out some way to get this dairy stuff into that system and available to producers. I think it would be a big step to get that, to get some of the issues that are out there.

I have been dealing with this for a long time. Way back when the Green Bay Cheese Exchange was the bogeyman 10 years ago or whenever it was that was the problem. We just had to get rid of the Green Bay Cheese Exchange because it was not giving us the right information. I looked into it quite a bit. I thought it was a mistake to move to get rid of the Green Bay Cheese Exchange. I think it was working fine. It cost about \$600,000, and it was run on a private basis. I felt at the time we went to the CME and we had a thinly traded market that would not be acceptable, but everybody was wanting change and here we are. I think what I was afraid of at the time turned out to be correct, and I don't think we can go back to the Green Bay Cheese Exchange but we do have to have some way to do a better job with this.

We are committed to working with you and would appreciate your ideas as we go forward with that but I am encouraged by what is going on within the industry. I think there is consensus building across the country. I think the only good thing that came out of this problem that we have been through is that everybody now understands that we have to change, I think that is it. I am hopeful that we are going to come out of this with a much better program that is more market-oriented and gives the tools to the producers that they want.

All right, I recognize the gentleman from Iowa, the Chairman of the Subcommittee that deals with crop insurance and we will leave it to him to fine tune this and make it work at the end of the day. So the gentleman is recognized.

Mr. BOSWELL. Thank you, Mr. Chairman, and thank all of you for being here today and, Mr. Secretary and Doctor, I appreciate your testimony. We appreciate it very much and I am not going to ask a lot of questions. I appreciate what you had to share. I really think you are right on the uniformity and accessibility, and I agree with the Chairman that the price is certainly something that all across the board on agriculture we have to have. Our leading producers have one, so it is very much needed, and I also say, particularly, with having just been on the road that on the livestock and dairy that we have to have a smooth flow from the producer with the processor. There are not very many provisions out there that make sense and they have to have reliability and uniformity as well. I think that we need to look at this whole thing and how does that farmer out there have protections for his entire operation whether it is a different varieties we all get involved in sometimes. I think we are at that state where we need to do something like that, so we will be looking forward to continuing to hear from you and in our Committee so that we will hear what is going on here. We appreciate that very much and the rest of your delegation and it is just good to be here.

I thank you and I am going to yield back, Mr. Chairman.

Mr. REDDING. Congressman and Mr. Chairman, let me pick up with your comments about the whole farm. You know, the USDA and the Risk Management Agency developed the Adjusted Gross Revenue, AGR Program several years ago. The Department of Agriculture in Pennsylvania was the only State Department of Agriculture in the nation to sort of take the AGR and develop our own whole farm insurance product called AGR Light. That was bor-



rowing sort of the best of the AGR and by putting it into a little more of a Pennsylvania agriculture setting which had a lot of livestock in it. And I can tell you that from the USDA and the RMA, our challenge has been how the agency sort of manages livestock, right, and it is really an interesting discussion. It is not wrong. They just are not sure what to do with it, right, and the Committee has dealt with this issue as well. We agree wholeheartedly though that the model is to have a whole farm policy, right, and that way you are wrapping all of those things into your operation that are part of your income strength. So if you are a specialty crop producer or a dairy producer with some diversified portfolio of enterprises, all of that should be included as part of protection of your operation, right. Our job should be protecting your paycheck but not wondering about whether one particular segment of the operation has more value than another. Let's insure it all. Long-term, I think that is where we have to get to, but it will take some additional work on the mechanics of managing livestock within those whole farm policies. But, we agree that absolutely that is the answer long-term. Thank you.

The CHAIRMAN. Thank you. I recognize the gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Well, thank you, Chairman, and thank you so much for bringing this hearing to the Keystone State. It is greatly appreciated. Agriculture is our number one industry here. It is a tremendous part of our heritage, our history and what it does today to feed and provide food security. This hearing is important because we need it to be part of our future too and especially when it comes to dairy. Thank you to Secretary Redding for your vision and your leadership for Pennsylvania and agriculture which is greatly appreciated. And, Dr. Dunn, we talked before and I look forward to reading your white papers every time they come to my desk. I was so proud to have a resource like you right in my back yard at Penn State.

So we, actually my first question is from your comments, Secretary Redding, I really appreciate all the testimony today. Your testimony really, both yours kind of looked to the future, looking forward to the next farm bill which will be, hopefully will be 2012. But, you had mentioned about credit and called it a bridge to a better year because we do need the short-term too. You know, we have lost I don't know how many farm operations we have lost in Pennsylvania, dairy specifically just this past 15 months—2 years. When we lose them they turn into malls and housing developments and we don't get them back and that is just bleeding our agriculture to death. So I was really curious to just follow-up a little bit with your bridge to the future credit and needing the cooperation of the lenders and understanding that troubled assets is anything defined as more than 90 days, and that means there are a whole bunch of troubled assets on most farms. And you had mentioned about certainty with regulatory changes, are there any specific recommendations that you had to make, to be able to allow our lenders to meet the needs of our farmers today?

Mr. REDDING. Congressman, thank you, that is a good question. I appreciate the focus on the credit issues. It is one of those issues that have come to us recently as these farmers have gone back to

secure their operating loans for this crop season. This issue is now starting to appear where you have the conversation occurring between the borrower and the lender saying I am not so sure that we can make that loan or its condition. So we have had in the last 10 days, conversations with the Bankers Association have raised this issue saying, we really want to work with these customers. They have been good customers for this long and in some cases, customers for generations, but we are going to be forced, given the new regulatory environment we are living and working in to place those loans if they are in accounts that go 90 days past due, are going to have to be forced to put them in. It is not a discretionary point that we have. We are simply going to have to place them into this troubled assets account and that will mean certain things in terms of whether we can work with that producer or borrower.

So I don't have a specific request for you yet. We have just started to talk this through. We understand the words, *troubled assets*, and what that means to our nation and our state and how those words brought us to where we are, so we are very cautious of about that. We believe in this industry of agriculture where seasons are important, cycles are important, that when you are dealing with a food system it has multiple benefits to both sustain in that maybe it requires a different level of review and management then simply placing them into a 90 day past due account. So it may be a conversation between the committees, the Agriculture and Banking to really look at is there any way for us to manage those assets past the 90 day period so we don't have to place them into a troubled asset category, right. Not a simple thing to do but we think that is the bridge to a better year. We may not be able to change the price, but at least if we can ensure that the farm families are secure in their ability to work with the lenders who want to work with them to get them to the next year, right to the next season, we think that may be from our standpoint the best thing that we can do. It buys us time too to get some of these policy pieces right, but you need to be able to work with somebody who is in a difficult financial circumstance. We know that is an FSA issue in part with the USDA, but there are a lot of private lenders in the Bankers Association who are living by the larger credit quality issues of banking.

Mr. THOMPSON. Thank you, sounds like we need to allow them to keep that discretion.

Dr. Dunn, from your perspective what are the full impacts from a supply management system and is it possible for the U.S. to remain competitive in the world market with a supply management system?

Dr. DUNN. I am not really much of a fan of supply management. The places that we have it, it works okay for a little while and then it kind of runs away. It makes it difficult for farmers to adjust to changing conditions and things like that. I spent a year in Australia and a year in Ireland and kind of saw the worst of it in both cases because what happens is to the extent that the policy succeeds, it ends up being capitalized in the prices of the cows in the case of dairy and things like that where the farmer has more wealth but not more income. So, in my opinion, supply management will not work over a very long period of time. Certainly, if you

look back on the PEDDA Program there is pretty strong evidence of that.

Mr. THOMPSON. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

I now recognize the Chairman of the Livestock, Dairy, and Poultry Subcommittee, Mr. Scott from Georgia.

Mr. SCOTT. Thank you very much.

Good morning, everyone. It certainly is good to be here. Thank you, Mr. Chairman. It is good to be here with my distinguished friends from Pennsylvania, Congressman Holden, Congress Lady Dahlkemper and Congressman Thompson, all fine representatives of Pennsylvania. Please do your utmost to send them back because they do such a great job for us there, and I also feel that I am a Pennsylvanian, grown up in Scranton, a little to the north of here with elementary school and eventually my education at the University of Pennsylvania's Wharton School in Philadelphia. So while I am from Georgia, once a Pennsylvanian, always a Pennsylvanian is the way I look at it. But, I really have deep affection for the people of Pennsylvania, and I certainly appreciated coming back to one of my home states.

Certainly, Secretary Redding and Dr. Dunn, thank you very much. We have had a number of hearings in our Subcommittee on Livestock, Dairy, and Poultry and it seems to me that the paramount issue is very complex, complicated. It is the most significant and troublesome issue facing all of agriculture, in my opinion and this sort of stemming on about four major concerns of pricing, supply, profitability and stability. And so I would like to ask you, each of you to just comment, first of all on stability and how we can bring some stability to this issue and with that would you think that moving to a single nationwide market Order, would that bring stability, more stability in each of your opinions?

Dr. DUNN. They tested me right away. That is interesting. A nationwide marketing Order is a very controversial issue in dairy because some parts of the country would be beneficiaries of some of the news. However, I don't think that it is the regional marketing Orders that are really the source of the instability, but rather some of the other issues. The biggest problem of course is the farmers can't turn on and off the milk supply. It is relatively small amounts of changes in the milk supply that send the prices going all over the place. So to the extent that you are going to affect the stability it is not really going to come from a single nationwide marketing Order. There may be some things that you can do to the marketing Orders to introduce more stability. An example might be for example to have the Class I milk price not be a single month's average, but maybe a moving average of several months. So, at least that portion of the milk check would not be moving around as much, and so that the farmers' price would have a little bit more stability. A farmer can't adjust to the month to month changes in prices irrespective of what they are. To have them move as fast as the market price for the cheese and the other products is counter-productive, in my opinion.

Mr. SCOTT. So you come down on the side of no on that?

Dr. DUNN. No, as in the nationwide marketing Order?

Mr. SCOTT. Yes.

Dr. DUNN. I don't know that I am necessarily opposed to it philosophically. I don't think it really solves the problem. Other places have a single marketing Order. Not countries as big as this one, but the reason we have the market interest we have now may have not been changed as transportation systems and things make a nationwide marketing or make more sense.

Mr. SCOTT. And you mentioned that some regions will lose, some regions will win under a nationwide marketing Order. Which regions win? Which regions lose?

Dr. DUNN. Well, for example, your region, that loses because you have a very high proportion of Class I drinking milk usage of your total milk supply. Regions such as the upper Midwest where they have a lot of manufactured products they would win. Pennsylvania would lose but it has been a very thorny issue. When I worked on the 1995 Farm Bill, that was one of the issues that essentially kept dairy out of the first draft of the farm bill, the industry couldn't decide.

Mr. SCOTT. Do you concur, Mr. Secretary, with his idea?

Mr. REDDING. With the nationwide marketing Order? Yes, I would concur. I mean there are other things that are probably more beneficial to providing some sustainability and predictability and profitability that we probably should put our efforts into *versus* worrying about the one nationwide marketing Order.

Mr. SCOTT. And I have one more point I want to just ask you at this point too about pricing and profitability. Do you think that as we consider our new foreign policies that we should begin to emphasize more profitability over pricing? Now it seems that we have a greater emphasis on final pricing for the product as opposed to the overall profitability of the farm.

Mr. REDDING. That is a great question. I would say that the emphasis really ought to be on sort of the profitability and how do we help ensure that. I guess that is to both ensure and insure through the risk management, is our ability to help ensure that. I mean you have so many moving parts. It is very difficult for us to guarantee someone is going to be profitable. I think we can help facilitate that by our right market policies or trade policies or credit policies in providing the opportunities for producers, but we ought to in all of that make sure that we have some way for that producer to manage the risk that they are exhibiting—encountering every day. I think that is one piece that really can help us. The insurance program sort of helps to guarantee a payday, right, and right now up in the dairy industry we don't have that. On the crop side we do. You could argue whether it really gives the full guarantee of a payday, but compared to what we are experiencing with dairy, that you have this wild ride, up and down with no ability to really give some stability, but the income is going to be for the family. I think that is the one area that I would really come back to and focus on long-term to the four points you talked about in terms of pricing, supply, profitability and sustainability. It is our ability to manage risk long-term is probably the single most important policy decision we can make, and the best indicator whether we really are going to be able to sustain these operations is the ability to manage that risk.

But yes, I want to pick up on the first question you talked about sustainability and some of the indicators. I mention in the testimony and it is probably worth noting here that part of the rapid increase that we experienced in 2007 and 2008, came out of the national marketplace, right. And 11½ percent of our production is exported and so as we look to the changes occurring around the globe, we are moving from a six billion population to a nine billion population. I would argue that that is a piece of our future, right. It is a huge piece, three billion people over the course of the next 40 years are going to be added to this planet. So we are going to want protein and we are in that business. We really don't want to short-circuit as we talk about what the right policies are, going forward, is let's not lose sight of the best benefit to an up market has been the international marketplace.

Number two, this risk management needs to be really focusing on finding some good tools for that. And the final point, I mentioned in this sort of rebuilding of some of the infrastructure and the process inside. We don't necessarily have that today. I know that folks will argue that point, but if we are looking long-term at where the growth is in certain product categories and then you overlay that with where we are with the processing infrastructure in this country, you come up with this list of things we need to do. We need to reinvest again in some of the product processing. Somebody needs to do that, inherently expensive plants to build, but it is going to be a part of both finding the domestic markets but also allowing us to feed this international market. So I put that on the third piece of sustainability is reinvesting in the processing capacity of our industry and our nation from a dairy product standpoint. That is really a key part.

The CHAIRMAN. I thank the gentleman.

Oh, we have, oh I missed Kathleen as well. I now recognize another outstanding Member of the delegation, the Pennsylvania Delegation from the great Pennsylvania area, Mrs. Dahlkemper.

Mrs. DAHLKEMPER. Thank you, Mr. Chairman. I appreciate you coming to Pennsylvania because it is a beautiful state and bringing this hearing to the Harrisburg area. I certainly want to thank Secretary Redding, who is a wonderful asset to this state. I had numerous chances to meet with you and talk with you, and you bring a lot of knowledge and insight into this issue. Dr. Dunn, obviously a wonderful asset also at Penn State University, a great facility that we have here, a great educational facility to help us in our agricultural policy, going forward. And I want to thank the other Members of the Committee for joining us here today, particularly those who came from other states and get a chance to see our beautiful Commonwealth of Pennsylvania.

I want to actually touch on a couple of issues that you just brought up, Mr. Secretary. And I guess first I want to talk about imports a little bit and maybe, Dr. Dunn, you can address this question first. Talking about imports and exports, they are obviously when I go around my district there are a number of people who bring up this discussion with me and are concerned regarding some of the other markets internationally. Can you tell us now exactly where and what type of imports you are seeing come into the United States, and where we are exporting, and where you see that

in terms of some of the trade agreements that we are currently investigating on a Federal level?

Dr. DUNN. We have, as I said, about ten percent of the dairy industry. We import about ten percent of the world's exports and we export about ten percent so we have a balance on imports and exports. We tend to bring in a lot of high-value products, cheeses and things like that. We also bring in a variety of other things, some of which are quite controversial in the industry in particular, milk protein concentrates. The issue with imports is kind of a hot-button issue for the industry. Having said that I think it really misses the point because unless we start to satisfy the worldwide community that the Secretary referred to, we are going to have a domestic industry continue to shrink as far as numbers of farms. Farms decrease anyway but we essentially have fewer cows every year over time because of productivity on the farm increases faster than the domestic demand for milk and unless we export, we are not going to maintain the herd size and things like that grow as we have with the other products that we export which is essentially most of our domestic agriculture. But trade is a very important issue and we buy and we sell approximately in demand in loss years.

Mrs. DAHLKEMPER. Where do you see the market moving in terms of our exports? Where would you see potential and maybe this also could be answered, Secretary Redding, because I know you talked about new innovative products, some of the things that we are probably not looking at. Not everyone is eating cheddar cheese any longer or there are new products, milk products that I think we need to be looking at, but where do you see the potential for growth in this area?

Dr. DUNN. Well first, the most valuable things you could export are high-value products which we produce some of them in the United States but we import a lot of them for various reasons. But if you think about the growth in the rest of the world's demand for dairy products, almost the opposite is true that the most of these new people in the world are going to be poor people, and they are not going to be buying brie or expensive cheeses. Rather, they are going to be buying storable dairy products, which we already produce in large numbers, but we are a little bit out of line with the world prices at this point.

Mrs. DAHLKEMPER. Do you see any particular places where the market could increase? I am looking I guess for specifics. Are there certain regions of the world where we should be looking at?

Dr. DUNN. Well, obviously the places that have the most people and the least food, Africa is a good example. Unfortunately, most of those countries also have the least money so the talking about it is a lot easier then the actually finding the market there.

Mrs. DAHLKEMPER. So you don't really see a change in what is currently happening with ten percent import and ten percent export in the near future?

Dr. DUNN. Well, actually we are starting. We are a net exporter right now on a small scale and it looks like based on what is happening in the world right now we are going to be doing more of that. The big question is whether it is going to disappear quickly as it did 15 months ago or whether we are going to be hanging in there continuing to have our exports grow. That depends on world

supply and demand, and weather in various places, and things like that.

Mrs. DAHLKEMPER. I have one other question and then both of you may answer this. As you look at the increased price transparency, what do you see as the effects on not the producer but also the processor of the entire industry?

Mr. REDDING. I think transparency is good. The sunlight is helpful. You know, that is part of our challenge is we really don't know, again to the point earlier, that we don't know the value of the products. It is difficult then to construct a pricing system that gives the producer the right price and a fair price without knowing what the value of the product is. I think that is part of what the Chairman mentioned about in these difficult times, the crisis, there is nothing better than a crisis to bring things into focus, right. This is one of those moments when we look at it and said we really have some issues with the import piece, Congresswoman, to your point, and then folks start to ask questions about where is the product coming from. I mean who are we doing business with? What products are coming into the marketplace? All of those are fair questions but unfortunately we are doing our thinking under crisis when we really ought to be doing that in a everyday, transparent way, and that is a challenge for us to then comprehend the impact of the importance of that course. But to the point of—I don't see a downside to transparency. It is really tough when you are talking about an industry that has to accommodate producers, and processors and consumers. It has to have all of us in that conversation, but we ought to at least understand who we are doing business with and what the value of our product is, and use that to inform what the right construction of the pricing mechanism moving forward would look like.

Just on the import side, I just want to mention a couple of points. When we look at the issue of imports, I know we have had many, many conversations about this. I mean there are folks who want to sort of close the borders, right, and it is so difficult. If you look at American agriculture and say okay, we are just going to lock this down until the economy improves, the impact of that is that you can just have an entire production system that is in a pause mode, right, and you can't make decisions, going forward. We have to commit ourselves. I think as an industry we have, but in this environment when folks are calling for us to be restrictive in our trade policies, we need to go find the consumers, right, and the United States of America is five percent of the available stomachs on any given day. So 95 percent of your market is somewhere other than the borders of the United States of America. So I don't know of any industry that can grow and say I don't want to access 95 percent of the market and that is what we are up against right there, and that this conversation is playing out right now is important. We can't expect to be a reliable supplier in the world market and at the same time restrict access. Now, that is not saying we do that haphazardly. I think we have to do it in a constructive way, but I would hope that as we move forward with our dairy policy, whatever that looks like in the coming months and years, is that we build in a significant part of an export development program, and really take a look at both in terms of a committed supplier to

the world market providing products that the world wants. Not what we are wanting to buy, right, but what the world wants, and that is a very different conversation than the one that we have been having. And that is to the point of the opening statement about reinvesting in the infrastructure of our processing is we have to change the mind-set if we want to have products available on the world market, but we have a changing consumer around the world. They don't necessarily want the products we have in inventory, so it is just a general comment that exports are important. Imports are a part of the conversation about how do we generally support agriculture, and on general commerce we need to be understanding that is a two-way street. But most important is for us as an industry to just say if we are going to be in the world market then we have to commit ourselves to provide a product that the world market wants.

Mrs. DAHLKEMPER. Thank you. I yield back, Mr. Chairman.

The CHAIRMAN. I thank the gentlelady and again, thank you to the panel. Your testimony was very helpful to the Committee and your answers to the questions, and I look forward to working with both of you as we move through this process.

Mr. REDDING. All right, thank you.

The CHAIRMAN. So the panel will be dismissed and we will call the second panel to the witness table. Mr. John Frey, Executive Director of the Center for Dairy Excellence in Harrisburg, Pennsylvania; Mr. Rod Hisson, dairy producer, Mercer Vu Farms, Mercersburg, Pennsylvania; Ms. Lauren Mosemann, dairy producer, Misty Mountain Dairy, Warfordsburg, Pennsylvania; Mr. Kent Heffner, dairy producer from Pine Grove, Pennsylvania; Mr. Daniel Brandt, dairy producer from Brandt View Farms in Annville, Pennsylvania; and Mr. Todd Rutter, President of Rutter's Dairy in York, Pennsylvania, so welcome to the Committee. We appreciate all of you making the time to be with us today and, Mr. Frey, I understand you have a time commitment problem at 11:30 so we will try to recognize that and so all of your statements will be made a part of the record in their entirety. We would like to have you summarize and try to stay within the 5 minute timeframe and so welcome to the Committee. Mr. Frey, you are recognized.

**STATEMENT OF JOHN FREY, EXECUTIVE DIRECTOR, CENTER FOR DAIRY EXCELLENCE, HARRISBURG, PA**

Mr. FREY. Thank you, Chairman Peterson, Vice Chairman Holden and distinguished Members of the Committee on Agriculture. Thank you for inviting the Center for Dairy Excellence to participate in this important discussion today.

Our industry is changing very rapidly. In 1975, there were 84,000 dairy farms in the United States. Today in 2010, there are about 55,000 dairies and about 84 percent of the U.S. milk production is actually produced on slightly under 16,000 dairy farms, so clearly the industry is changing. It is that supply that meets domestic needs and also that supply that is helping us to become a major supplier to the world.

So how do we lead and create policy in what clearly is a new era in the U.S. dairy industry? This is something we at the Center for Dairy Excellence have been thinking about very often over the past



year. I have a few things I would like to share relative to that today.

Our profitability crisis in this industry is clearly progressing in severity. According to Ag Choice, a Farm Credit System here in Pennsylvania, based on about 150,000 cows on their annual profitability summary, there is an average negative margin on Pennsylvania dairy farm of \$2.60 in 2009. So how did dairy farms survive last year? On average, according to that summary, dairy farms incurred about \$600 new debt per cow and they decreased variable expenses about \$500 per cow. Of course, that is repair, supplies, re-investment, things greatly impacted from a negative standpoint the infrastructure here in Pennsylvania.

A dairy farmer here in Pennsylvania by the name of Erick Cooledge who serves on the USDA Dairy Advisory Committee made a comment to me just the other day. He said while we are having discussions about long-term dairy policy, it is critical that we don't lose sight of the short-term needs impacting all dairy farmers as we go to the fields to plant here in the spring and then prepare for summer and fall harvest. And to that end I would strongly recommend that this Committee encourage the FSA organization through USDA to make additional guaranteed operating loans available and any potential for short-term loan funding to get us through the next 6 months.

I would like to change my direction a little bit to talk about a roundtable discussion that happened here in the Commonwealth in 2006, led by former Secretary of Agriculture, Dennis Wolff and current Secretary, Russell Redding. There was a document developed called, *Growth and Opportunity for the U.S. Dairy Industry*. That document was not only relevant then but it is critical today. There were six points that were included in that document and I would like to comment on two of those. In particular, the first one listed the need for improved systems of price discovery and market transparency. As you are well aware, we have based many of the prices for dairy on a scant number of trades that happen on the Chicago Mercantile Exchange. It has been called numerous times the market of last resort if you are a milk buyer. What is needed is daily reporting of sales and inventories of multiple products. Certainly, this would greatly improve the integrity and quality of the information from which to base management, risk management and investment decisions on.

I would like to draw your attention to the bottom of page two and the top of page three of my formal testimony where I reference what the beef industry did through the USDA Packers and Stockyards Act. This Act was implemented to assure fair competition and fair trade practices, to safeguard farmers and ranchers, to protect consumers, and to protect members of the livestock industry from unfair and deceptive practices. This appears to be a model for consideration for the dairy industry. And reading on, I know of no other industry which can be successful and make objective business management or investment decisions based on incomplete data, and certainly the dairy industry shouldn't be in a position to do that as well.

That leads me to my second point relative to that document that was built here in Pennsylvania where we talked about the impor-

tance of new and meaningful risk management tools. And clearly since then we have really experienced the next generation of risk management tools like the livestock gross margin for dairy which we think is a great step forward. And yet, it is estimated only about five percent of U.S. dairy producers use fundamental risk management tools, and in part it goes back to the lack of comprehensive information from which to base risk management decisions on, but it also goes to the reality of today's tools are very costly and we lack education. So we certainly encourage any additional funding for subsidies and education around those tools.

I would like to end by talking about the Center's involvement in what is called the Northeast Dairy Leadership Team. The Center coordinates the efforts of that group which is comprised of the three largest dairy states in the Northeast Agriculture secretaries and then about 40 other stakeholders, including many dairy producers. That group spent much of 2009 reviewing different dairy policy proposals that were being circulated across the country.

Now, drawing your attention to the bottom of page three in my formal testimony where we talk about what the NEDLT believes any form of pricing or policy structure should include. Number one and first and foremost it should be market-oriented. It should be responsive to quickly changing market conditions. It should be global in nature. It should be national in scope and have minimal government involvement. And to that end there was a policy proposal that was presented to the NEDLT late last year called the Dairy Growth Management Initiative which essentially establishes a dairy board which would have at its disposal a number of tools from which to use to attempt to mitigate price volatility.

I will draw your attention to the middle of my fourth and final page of my written testimony where it talks about it would also have at its disposal something called a marginal milk program. This would be a program that would be used to manage unbridled growth in milk supplies during times of extremely low milk prices relative to feed costs. This concept is intended to only price that extreme surplus milk according to its marginal value only during those times when prices fall below a preset level.

I would like to end my testimony by saying thank you to this Committee for the opportunity to represent the Pennsylvania dairy industry.

[The prepared statement of Mr. Frey follows:]

PREPARED STATEMENT OF JOHN FREY, EXECUTIVE DIRECTOR, CENTER FOR DAIRY EXCELLENCE, HARRISBURG, PA

Chairman Peterson, Vice Chairman Holden, and distinguished Members of the Committee on Agriculture, thank you for inviting the Center for Dairy Excellence to be a part of this important hearing reviewing dairy policy. Since 2004 the Center for Dairy Excellence has been the organization in Pennsylvania which has served as the central office for dairy and have had as our mission to coordinate resources, create initiatives and partnerships, and grow both the size and profitability of our industry. One of the primary functions of the center is to coordinate the Pennsylvania Dairy Task Force which is comprised of over 100 producers and industry stakeholders.

Just 10 years ago in 2000, there were 83,000 dairy farms in the U.S.; today there are 55,000. 84% of the nation's milk supply comes from 15,800 farms. Pennsylvania, while still the 5th largest dairy state, is generally comprised of smaller dairy farms. While we may not have the efficiency advantages of some of our western counterpart states, access to water supplies and forages for feed and access to the vast

northeast and southeast population and markets make Pennsylvania a viable and critical state for future dairy production.

The core priorities of the center have included making resources available to dairy farm families to help them be more competitive. Resources like dairy profit teams and succession planning teams have enabled producers to assemble resources around the kitchen or office table and work through key decisions impacting the business. Dairy Decision Consultants and Practical Dairy Advisors are available for one on one consultation through the center. Hundreds of Pennsylvania dairy farms have used these resource programs to help guide them and chart a course for business direction. Educational programs like our annual Dairy Profitability Forums, Summer Dairy Tours, Mastering the Dairy Business Learning Series, and DAIRY PRO's seminars have helped thousands of dairy farm owners, employees, and industry support professionals navigate this increasingly volatile and challenging industry. The center has become a weekly source of information through our Markets and Management Report and Dairy Week in Review. In addition, dairy producers across Pennsylvania leverage the expertise of the center in helping understand the important resources available like LGM for dairy and other tools designed to protect margins and aid in marketing plans. Last, resources like on line business planning templates and costs of production calculators are valuable tools for dairy business management available through the center.

The center is optimistic about the future opportunities we see to support a growing and dynamic dairy industry. Our strategic plan includes a focus on modernization, technology, and innovation in dairy. Renewable energy systems and beneficial environmental practices pose tremendous opportunities for the region. However, the situation our dairy industry finds its self in has progressed in severity as margins remain significantly below break even for a majority of producers. To put this in perspective, I'd like to reference financial summary data from 2009. One such study which represented over 150,000 cows on dairy operations in the northeast reflects a "break-even milk price" of \$17.08; according to the CDE Pennsylvania Dairy Industry Scorecard, the average monthly all-milk price for 2009 was \$14.45. This reflects a negative margin of \$2.63 per hundred lbs. of milk (cwt) on these farms. According to Scott Owens of Ag Choice Farm Credit, "to cash flow these losses, new debt per cow increased an average of \$600.00 and average farm expenses were cut \$500.00 per cow, which represents a nearly 20% reduction in variable expenses like feed, labor, needed repairs, family living, reinvestment, *etc.*" Not only can these "expense efficiencies" not be sustained long term, some of the added daily operating debt has been amortized longer term and has added in excess of \$1.00/CWT to annual Cost of Production (COP). The short term debt incurred is reliant on significantly improved margins which, even after 15 months, simply are not being realized. Mike Evanish from MSC Business Services commented, "our preliminary business performance data from 288 dairy farms suggests 16% showed positive net earnings in Pennsylvania." Clearly, we find ourselves as an industry in waters uncharted that could forever change the landscape of dairy farming. For short term immediate relief, I strongly recommend congress explore opportunities for low interest and additional guaranteed funds made available through the Farm Service Agency to support this new debt.

Long term needs are as complex for our industry. In 2006, the center participated in the roundtable discussion which led to the document entitled "Growth and Opportunity for the U.S. Dairy Industry." This document developed by former PA Secretary of Agriculture Dennis Wolff, highlights key priorities for dairy policy and addressed changes needed to maintain a viable dairy industry in the U.S. The priorities identified then, remain critical to the long term viability of our U.S. dairy industry. I would like to comment on two of these here today.

1. In this report, improved systems of price discovery and market transparency were identified as being fundamental to any new dairy policy. Transparency in pricing is vital as markets need to both understand and have confidence in how prices are arrived at. This is the foundation for all critical marketing decisions. It has been my observation that U.S. dairy producers are eagerly anticipating improvements in a system which lacks transparency and the ability to deliver real time reflections of product value. Successful commodity markets have access to information from heavily traded markets. Livestock markets have cash market prices reported every day. Earlier this year, at the request of U.S. Senator Arlen Specter's office, we submitted a paper entitled "The Case for Mandatory Daily Reporting of Dairy Products." In it we referenced the U.S. beef industry, and the USDA Packers and Stockyards Act. This Act was implemented "to assure fair competition and fair trade practices, to safeguard farmers and ranchers . . . to protect consumers . . . and to protect members of the livestock,

meat, and poultry industries from unfair, deceptive, unjustly discriminatory and monopolistic practices.” This appears to be a model for consideration for our industry. In dairy, the Federal Milk Marketing Order’s depend on NASS surveys 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 more dairy products sold, and make reporting on a daily basis mandatory in the same way other protein commodities report. The current system results in producer skepticism, and perhaps worst of all is an inadequate source from which to base risk management and investment decisions on. I know of no other industry which can be successful and make objective business management or investment decisions based on incomplete data—and dairy shouldn’t have to either.

2. The 2nd area, from this report, I would like to discuss is the need to explore whether our current tools for Dairy Risk Management are adequate, accessible, and affordable. Currently, it is estimated that less than 5% of U.S. dairy producers utilize fundamental risk management tools. In part, I believe this is due to the lack of comprehensive and transparent data from which to base risk management decisions on. It is also based on a system which is more complex than need be. As Secretary Redding indicated in his testimony, progress has been made with tools like LGM for dairy. Improving this resource, providing subsidies as is done with other commodity protection programs and re-launching the Dairy Options Pilot Program would increase usage of this important aspect of dairy business management.

The Center for Dairy Excellence is involved in other discussions involving changes in dairy policy. We provide coordination for the Northeast Dairy leadership Team (NEDLT) which is comprised of the Secretaries and Commissioner of Agriculture from Pennsylvania, Vermont, and New York as well as approximately 50 producers and industry stakeholders from throughout the Northeast. This group has been meeting and working through issues impacting our regional dairy industry. As the economic recession has unfolded and has had a severe impact on our regions dairy industry, the NEDLT has intensified discussions and developed policy points of agreement.

Based on these discussions, the NEDLT developed a position paper last year outlining what we believe revised dairy policy needs to include; this document was updated in February to include the following.

The NEDLT believes any dairy policy or pricing structure should:

- Be market oriented to allow for growth both domestically & internationally.
- Be responsive to quickly changing market conditions.
- Have 100 percent financial participation by producers.
- Be global in nature to consider the impact of imports and exports.
- Be national in scope with the ability to implement regionally.
- Have minimal government involvement.

The NEDLT has been reviewing policy and pricing proposals from across the U.S. to evaluate how each proposal would align with these objectives. Last month, the NEDLT committed to fund a comprehensive analysis of specific program options intended to reduce dairy price volatility. This analysis is to be completed by Dr. Chuck Nicholson of Cal Poly San Luis Obispo and Dr. Mark Stephenson of Cornell University by June 1st.

The analysis will include, as part of the study, a Dairy Growth Management Initiative concept proposed by a U.S. coalition including cooperatives, breed associations, and other stakeholder organizations. This initiative would include the establishment of a new dairy board made up largely of dairy producers, which would have at its disposal several tools to use to reduce extreme volatility. Some of those tools include:

- Herd reduction programs.
- Export assistance.
- Dairy commodity production incentives that allow for the displacement of imported dairy products, such as casein.
- Programs to enhance risk management tools and opportunities among producers, cooperatives, and customers.
- Managing inventories of dairy commodities to limit price volatility.

In addition, the Board would have authority to implement a program to manage unbridled growth in milk supplies during times of low milk prices relative to feed

costs. An example of this is the Marginal Milk Pricing plan proposed by Agri Mark Cooperative. This concept is intended to price "surplus milk" according to its marginal value only during those times when prices fall below a pre-set level.

In their analysis, Stephenson and Nicholson will look at the impact on volatility, exports, and revenue for producers and processors. The NEDLT will be reviewing the findings of this analysis and communicating them with our Northeast Congressional delegation.

I'll conclude my testimony by relating a conversation I had last week with a very successful young dairy producer here in Pennsylvania, who said, "so far this year I have had three neighbors sell their herds; we are losing jobs and critical mass infrastructure and it is looking more and more like a lonely business to be in." In summary, the U.S. dairy industry has been based on incentive, growth, and opportunity. Farmers have been fortunate to be able to begin each day with incentive to compete and to improve their dairy business and reap rewards for their effort. Communities have benefited from infrastructure established in large part, to serve agriculture and in particular the dairy industry. However, the situation we face today will not remedy itself on its own; and change is not optional. The viability of this industry is at stake. Thank you for this opportunity to speak on behalf of the Pennsylvania dairy industry and for your ongoing support of the U.S. dairy industry.

The CHAIRMAN. Thank you, Mr. Frey.  
Mr. Hissong, welcome to the Committee.

**STATEMENT OF ROD HISSONG, CO-OWNER, MERCER VU FARMS INC.; PAST PRESIDENT, PROFESSIONAL DAIRY MANAGERS OF PENNSYLVANIA, MERCERSBURG, PA**

Mr. HISSONG. Thank you, Chairman Peterson and the rest of the Committee on Agriculture.

My name is Rod Hissong. I appreciate the opportunity to visit with you this morning about dairy policy. My family and I own and operate Mercer Vu Farms in Mercersburg, Pennsylvania. On our dairy in Franklin County we milk 1,600 cows, raise 1,400 heifers, farm 1,800 acres and haul over 42 million pounds of milk a year from our dairy with our own trucks to Land O' Lakes. We have 26 full-time employees that are dedicated to producing high-quality milk, efficiently, safely, and profitability as to benefit management, employees, cows, the environment and the community in which we live. Our dairy supports over 170 agricultural jobs and provides over \$22 million of economic stimulus to our region.

While I am here to speak on behalf of my own operation and my own views, I am also here to speak to you as past President of the Professional Dairy Managers of Pennsylvania. PDMP is a professional dairy organization that has a positive, can-do attitude about the dairy industry in Pennsylvania. We like to look at the long-term solutions instead of short-term band-aids, and while these are tough times in the dairy industry, we focus on things that we can change instead of complaining about the things we can't.

After the last 12 to 14 months, issues related to and concerning milk pricing seem to be at the forefront of dairy policy issues. Attached to my testimony is a 2009 position paper published by PDMP that concisely relays our message and organization's thoughts on what needs to be done to ensure the long-term viability of the dairy industry as it relates to dairy pricing. It states the PDMP believes that in general, the dairy industry would be best served if the government stopped purchasing excess dairy products, many of which are not made to world specifications. These products need to be replaced by products that can be sold on the world marketplace. As long as the government continues to purchase our

products like butter, cheese and powder that are not made to world specifications, the dairy industry will remain complacent and not change what it makes. Manufacturers will keep making what they always make because they know eventually their products will be bought by the government at a profit. It would be better for the long-term prosperity of our industry to make products that strengthen our ability to compete in the international markets that have a growing need for dairy products.

PDMP believes that there needs to be an overhaul to the Federal Order System. Currently, our milk is priced using the CME, a mechanism on which only one percent of the nation's milk production is sold. This market is thinly traded and has very few buyers and sellers, yet this mechanism is allowed to price all of our milk, is being viewed by many as the future of how we price milk and how we either lock-in profits or losses. The industry will be better in the long-term if we stop reliance on the CME and develop a more transparent pricing system that pays producers for what they produce and take into consideration the cost of producing it. We need a Federal Order System that is easier to understand, has greater transparency and is more reliable at pricing milk.

PDMP believes that the industry should be focused on economic growth rather than supply management. It is essential for our industry to operate under a growth model. Growth is a key business concept to our dairy producers and industry infrastructure because a business that is not growing tends to be moving backwards. We need to encourage our system to be developing new products and models that allow growth in the industry. We believe in letting the marketplace decide who has cows and who doesn't. Given the honest opportunity to compete in the world marketplace, the dairymen in the industry that can adapt and manage effectively will succeed.

PDMP believes that direct government payments are short-term solutions to long-term problems. Continuation of programs that provide direct payments to farmers do not provide for any long-term relief. Direct payments are viewed as welfare for the dairymen that do not reflect well on the industry. These funds would be better used to help provide long-term solutions and plans that help our industry compete in the world marketplace.

Personally, I believe that the lowering of the somatic cell limit to 400,000 is a win-win for everyone, including farmers, processors and the consumers. It aligns us with international standards of milk quality, eliminates the lower quality milk for the market and is a positive move for our industry. International markets and more recently the European Union demand it and it is time that we deliver.

I believe that calls for increased accuracy in pricing and inventory reporting is just. The call to enforce policy like electronic NASS reporting and auditing and import assessments to dairy promotion, which are already part of the last farm bill, seems to make sense.

While milk pricing and milk-related issues are at the forefront of the dairy issues at the moment, there is one other important issue I would like you to indulge me with for a little bit, but it relates to dairy policy, and it has the potential to be just as harmful to dairy farm families such as mine. Dairymen are desperately in

need of a workable guest worker program for agriculture. Many Americans are unwilling to work the jobs that dairy farms have to offer. This has caused many dairies large and small to look to foreign workers to fill that void. In our case, the Hispanic community has been a source of hardworking, reliable and trustworthy labor. They are good with animals and help to ease the demand of a 24 hours a day, 365 days a year business. On our dairy, many of our foreign workers are paid quite well and many have moved beyond entry-level positions to become integral management caliber employees. Without them, the work of feeding our nation would come to a screeching halt. We need a guest worker program that secures our borders, allows foreign workers to pay their fair share of the tax burden, allows workers to stay for a reasonable length of time, cuts through all the red tape, is fast and efficient to obtain, is economical to obtain, and simplifies the documentation process.

Like it or not, foreign born workers have become an integral part of our workforce and play a vital role in our food supply chain. While a comprehensive guest worker program may seem like a steep hill to climb, I would urge you to consider a guest worker program for agriculture and dairy that would ease the burden on the food supply chain.

Many farm families such as my own have suffered financial hardships like never before. We own a business that is demanding and requires a complete, total commitment. Why else would we crawl out of bed this winter to milk the cows or deliver a calf? All that we have are in our dairy operations. Many of us feel we are left to the mercy of a broken system. I look at dairy policy like an old, tattered barn. Do you remodel or do you tear it down and start from scratch? With dairy policy we have been remodeling for decades and I feel that we have reached a crossroads where, in many cases, we need to tear down and start from scratch.

I am not here for a handout. I am here to ask you to do the difficult work that needs to be done to fix a broken system. You have started by taking the time to do what you are doing today. I commend you for listening to all of us and for allowing me to participate. Thank you.

[The prepared statement of Mr. Hissong follows:]

PREPARED STATEMENT OF ROD HISSONG, CO-OWNER, MERCER VU FARMS INC.; PAST PRESIDENT, PROFESSIONAL DAIRY MANAGERS OF PENNSYLVANIA, MERCERSBURG, PA

Good morning Chairman Peterson and the rest of the Committee on Agriculture. My name is Rod Hissong. I appreciate the opportunity to visit with you this morning about dairy policy. My family and I own and operate Mercer Vu Farms Inc. in Mercersburg, Pennsylvania. On our dairy in Franklin County we milk 1,600 cows, raise 1,400 heifers, farm 1800 acres and haul over 42 million pounds of milk a year from the dairy with our own trucks to Land O' Lakes. We have 26 full time employees that are dedicated to producing high quality milk, efficiently, safely, and profitably as to benefit management, employees, cows, the environment and the community in which we live. Our dairy supports over 170 agricultural jobs and provides over \$22 million of economic stimulus to our region.

While I am here to speak on behalf of my own dairy operation and my own views I am also here to speak to you as past President of the Professional Dairy Managers of Pennsylvania. PDMP is a professional dairy producer organization that has a positive, can-do attitude about the dairy industry in Pennsylvania. We like to look at long term solutions instead of short term band-aids and while these are tough times in the dairy industry, we focus on things we can change instead of complaining about the things we can't.

After the last 12–14 months issues related to and concerning milk pricing seem to be at the forefront of dairy policy issues. Attached to my testimony is a 2009 position paper published by PDMP that concisely relays our organization's thoughts on what needs to be done to ensure the long-term viability of the dairy industry as it relates to milk pricing.

It states that PDMP believes, in general, that the dairy industry would be best served if the government stopped purchasing excess dairy products, many of which are not made to world specifications. These products need to be replaced by products that can be sold on the world marketplace. As long as the government continues to purchase our products, like butter, cheese, and powder that are not made to world specifications, the dairy industry will remain complacent and not change what it makes. Manufacturers will keep making what they always make because they know eventually their products will be bought by the government at a profit. It would be better for the long-term prosperity of our industry to make products that strengthen our ability to compete in international markets that have a growing need for dairy products.

PDMP believes there needs to be an overhaul of the Federal Order System. Currently our milk is priced using the Chicago Mercantile Exchange (CME), a mechanism through which only 1% of the nation's milk production is sold. This market is thinly traded and has very few buyers and sellers. Yet, this mechanism is allowed to price all of our milk and it is being viewed by many as the future of how we price milk and how we either lock in our profits or loses. The industry will be better in the long-term if we stop reliance on the CME and develop a more transparent pricing system that pays producers for what they produce and takes into consideration the cost of producing it. We need a Federal Order system that is easier to understand, has greater transparency and is more reliable at pricing milk.

PDMP believes that the industry should be focused on economic growth rather than supply management. It's essential for our industry to be operating under a growth model. Growth is a key business concept for our dairy producers and industry infrastructure because a business that is not growing tends to be moving backwards. We need to encourage our system to be developing new products and models that allow growth in the industry. We believe in letting the marketplace decide who has cows and who doesn't. Given the honest opportunity to compete on the world marketplace, the dairymen in the industry that can adapt and manage effectively will succeed.

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Personally I believe that lowering of the somatic cell (SCC) limit to 400,000 is a win-win for everyone including farmers, processors and the consumer. It aligns us with international standards of milk quality, eliminates the lower quality milk from the market and is a positive move for our industry. International markets demand it and it is time we deliver.

I believe the calls for increased accuracy in price and inventory reporting is just. The call to enforce policy like electronic NASS reporting and auditing and import assessments to dairy promotion which are already a part of the last farm bill seems to make sense.

While milk pricing and milk relates issues are at the forefront of dairy issues at the moment there is one other important issue related to dairy policy that has the potential to be just as harmful to dairy farm families such as mine.

Dairymen are desperately in need of a workable guest worker program for agriculture. Many Americans are unwilling to work the jobs that dairy farms have to offer. This has caused many dairies, large and small, to look to foreign workers to fill that void. In our case the Hispanic community has been a source of hard working, reliable and trustworthy labor. They are good with animals and help ease the demand of a 24 hour a day, 365 days a year business. On our dairy many of our foreign workers are paid quite well and many have moved beyond entry level positions to become integral management caliber employees. Without them the work of feeding our nation would come to a screeching halt. We need a guest worker program that secures our borders, allows foreign workers to pay their fair share of the tax burden, allows workers to stay for a reasonable length of time, cuts through all the red tape, is fast and efficient to obtain, is economical to obtain and simplifies the documentation process. Like it or not foreign born workers have become an integral part of our workforce and play a vital role in our food supply chain. While a comprehensive guest worker program may seem like a steep hill to climb I would



urge you to consider a guest worker program for agriculture and dairy that would ease the burden on our food supply chain.

Many family farm dairies, my own included have suffered financial hardships like never before. We are in a business that is demanding and requires a complete and total commitment. Why else would we have crawled out of bed this winter to milk the cows or deliver a calf? All that we have are in our dairy operations. Many of us feel we are left to the mercy of a broken system. I look at dairy policy like an old tattered barn. Do you remodel or do you tear down and start from scratch? With dairy policy we have been remodeling for decades and I believe we have reached a crossroads where in many cases we just need to tear down and start from scratch. I am not here for a handout. I am here to ask for you to do the difficult work that needs to be done to fix a broken system. You have started by taking the time to do what you are doing today. I commend you for listening to all of us and thank you for allowing me to participate. Thank you.

#### ATTACHMENT

### Long-term Viability of the Dairy Industry

*A Position Paper from the Professional Dairy Managers of Pennsylvania*

The Professional Dairy Managers of Pennsylvania is driven by a very clear mission. It is on all PDMP documents and it is central to all that the organization does. **PDMP exists to advance the dairy industry in Pennsylvania through improved productivity and profitability.** Dairy producers who chose PDMP membership want to be in a position to be in the business for the long haul.

The industry is at a critical juncture. In the current economic climate and with the growing pressures on how dairy farms operate, the future of the industry is at stake. PDMP leadership believes it is this organization's responsibility to examine what it will take to ensure that our members can realize their dreams. The industry must act to guarantee that it will continue to be a leading force in the U.S. and World economies, and that consumers will continue to have access to a supply of dairy products produced within its own borders.

Many forces have come into play to create a situation where dairy producers are not able to make enough money on their production to support the basic costs of doing business.

In keeping with the positive, progressive-minded attitude of this association's membership, the Board of Directors is making recommendations on dairy policy.

Given these desperate times, many solutions are being proposed by various sectors of the industry. **Some of these solutions would provide immediate short-term relief from our current problems; however, they are not long-term solutions for the industry. The PDMP Board has been guided by the overall philosophy that it is in the best interests of the industry to make constructive changes based on a desire to create permanent, long-term solutions that will ultimately make the dairy industry stronger.**

In a meeting on September 24 the PDMP Board of Directors established the following four position statements that summarize our core beliefs:

- 1. PDMP believes that, in general, the dairy industry would be best served if the government stopped purchasing excess dairy products, many of which are not made to world specifications. These products need to be replaced by products that can be sold on the world marketplace.**

Government purchase of excess products in the past provided a safety net and allowed our industry to grow. Today this safety net continues to allow our industry to grow but it has caused manufacturers to become complacent in the products that they produce. Manufacturers are not producing products that meet the world demand, which has resulted in world markets looking to the United States as a last stop for what they need. As long as the government continues to purchase our products (*i.e.*, butter, cheese, & powder) that are not made to world specifications, the dairy industry will not change what it makes. Manufacturers will keep making what they always make because they know eventually their products will be bought by the government at a profit. It would be better for the long-term prosperity of our industry to make products that strengthen our ability to compete in international markets. While it is agreed that certain issues are best maintained as part of the government regulatory process, the dairy industry should be allowed to operate in a free market system just as other businesses do. If the government ceases to buy the products that no one wants, then manufacturers will stop making them. They will instead

produce products that everyone wants and that can be sold in the growing world marketplace that is in need of dairy products.

**2. PDMP believes that the Federal Pricing System needs to be overhauled.**

The \$350 million Dairy Assistance proposal is a short-term bandage with no long-term solutions. We believe funds should be earmarked for the overhaul of the Federal Order System. Currently our milk is priced using the Chicago Mercantile Exchange (CME), a mechanism through which only 1% of the nation's milk production is sold. This market is thinly traded and has very few buyers and sellers. Yet, this mechanism is allowed to price all of our milk and it is being viewed by many as the future of how we price milk and how we either lock in our profits or loses. The industry will be better in the long-term if we stop reliance on the CME and develop a more transparent pricing system that pays producers for what they produce and takes into consideration the cost of producing it.

**3. PDMP believes that the industry should be focused on economic growth rather than supply management.**

It's essential for our industry to be operating under a growth model. Growth is a key business concept for our dairy producers and industry infrastructure because a business that is not growing tends to be moving backwards. We need to encourage our system to be developing new products and models that allow growth in the industry. We may need to operate under a more controlled growth, and rely more on the world market *versus* the domestic market. Thus, PDMP's points 1 & 2 are essential to having growth occur. Supply management gives unfair advantages to certain geographical locations and certain size farms. We believe in letting the marketplace decide who has cows and who doesn't. Given the honest opportunity to compete on the world marketplace, the dairy-men in the industry that can adapt and manage effectively will succeed.

**4. PDMP believes that direct government payments are short-term solutions to long-term problems.**

Continuation of programs that provide direct payments to farmers does not provide for any long term relief. Direct payments are viewed as welfare for the dairymen and do not reflect well on the dairy industry. These funds would be better used to help provide long term solutions and plans that help our industry compete on the world marketplace.

The CHAIRMAN. Thank you, Mr. Hisson, I appreciate your testimony.

Ms. Mosemann, welcome to the Committee.

**STATEMENT OF LAUREN MOSEMAN, DAIRY PRODUCER, MISTY MOUNTAIN DAIRY LLC, WARFORDSBURG, PA; ON BEHALF OF MARYLAND & VIRGINIA MILK PRODUCERS COOPERATIVE ASSOCIATION, INC.; NATIONAL MILK PRODUCERS FEDERATION**

Ms. MOSEMAN. Chairman Peterson and most honored Committee Members, thank you for allowing me to testify today about dairy policy on behalf of my cooperative, Maryland & Virginia Milk Producers and the National Milk Producers Federation.

My name is Lauren Mosemann and I farm with my husband, Mark and his family in Warfordsburg, Pennsylvania. We have approximately 375 milking cows. My primary job is to manage the 300+ replacement heifers and calves. Mark and I have been active participants in our co-op, served as Outstanding YC Couple, have enjoyed participating in the YC visits to the Congress.

Mark is the third generation on his family's home farm and I was third generation on my farm which is, unfortunately, no longer in business. Although we both could have had other career opportunities, and today's dairy economy naturally creates us to have sec-

ond thoughts, we are thankful to be doing the work that we love and raising our children on the farm.

Two thousand-nine, presented an unprecedented financial catastrophe for our dairy producer community. U.S. dairy exports had grown strongly from the equivalent of about five percent of U.S. milk production in 2002, to about 11 percent in 2008. Exports collapsed as the recession deepened worldwide to a low of less than eight percent of production in January 2009.

What has become clear to the dairy producer community from this extraordinary strain is that we need a combination of approaches to deal with the current situation. Last year, NMPF created a Strategic Planning Task Force to seek consensus across the dairy producer community and create a solid "Foundation for the Future." Our co-op has been an integral part of this process. The goal of this task force has been to analyze and develop a long-term, strategic plan that will have a positive impact on both supply and demand for milk and dairy products.

Both the Dairy Product Price Support Program and the MILC Program are inadequate protections against not just periodic low milk prices, but also destructively low profit margins that occur when input costs, especially feed prices, shoot up. The Price Support Program, in particular, has outlived its usefulness and hinders the ability of U.S. and world markets to adjust to supply-demand signals. Neither was designed to function in a more globalized market where not just milk prices, but also feed costs and energy expenses are more volatile and trending higher. In the future, the solvency of dairy farms will depend more on the margins than just the milk price alone.

In order to address this dilemma, NMPF is proposing a new program called the Dairy Producer Income Protection Program that can help insure against the type of margin squeezes that farmers experienced in 2009. It would offer a combination of a base level of insurance coupled with voluntary supplemental coverage, and will allow farmers of all sizes in all regions to protect themselves from periodic margin squeezes caused both by both high input costs and low milk prices.

The base level of coverage subsidized by the government covers a portion but not all of a farms historical annual milk production, and protects against a modestly negative margin between milk prices and feed costs. The second level would be optional and allow a farmer to purchase a greater level of coverage with a portion of that insurance subsidized by the government.

The goal of this effort is to develop a pricing system that compensates producers fairly, reduces price volatility and creates a more dynamic dairy industry. The key in doing so is to establish a competitive pay price for milk that doesn't depend on the current milk pricing formulas that can distort signals sent both to producers and processors.

The Strategic Planning Task Force also proposes to revamp Federal Orders so we can encourage the movement of milk to its highest value uses. For the past 7 years, NMPF Cooperatives Working Together Program has voluntarily helped to address the supply side of the supply-demand equation that ultimately determines milk prices. We need to both revitalize CWT and evaluate other ap-

proaches that will address the extremes in price volatility impacting producer profit margins. The Foundation for the Future is focused on a program that will increase demand, and when necessary, send a signal that less supply is needed.

There are other issues that are very important to us in the dairy industry. The Child Nutrition reauthorization is critical to the funding of school and breakfast meal programs which provides our children with more opportunities to receive their drinking milk.

Comprehensive immigration reform is long overdue. For example, we have always tried to hire locally and at reasonable rate but unfortunately our last job ad resulted in four phone calls, one interview and no returns.

Estate tax laws must be reformed, too. As our family works out our partnership agreement this year, uncertainty about generational transfer of the farm assets is a major factor.

I thank you for the opportunity to testify today on the issue of dairy policies and I look forward to answering any questions the Committee may have. Thank you.

[The prepared statement of Ms. Mosemann follows:]

PREPARED STATEMENT OF LAUREN MOSEMANN, DAIRY PRODUCER, MISTY MOUNTAIN DAIRY LLC, WARFORDSBURG, PA; ON BEHALF OF MARYLAND & VIRGINIA MILK PRODUCERS COOPERATIVE ASSOCIATION, INC.; NATIONAL MILK PRODUCERS FEDERATION

Chairman Peterson, Ranking Member Lucas and House Agriculture Committee Members: thank you for allowing me to testify today about dairy policy on behalf of my cooperative, Maryland & Virginia Milk Producers, and the National Milk Producers Federation (NMPF). Maryland & Virginia markets milk for its 1,500 farmer owners from Pennsylvania to Georgia. Just over 700 of those farmer members dairy right here in the Commonwealth of Pennsylvania. NMPF develops and carries out policies that advance the well being of dairy producers and the cooperatives they own. The members of NMPF's 31 cooperatives produce the majority of the U.S. milk supply, making NMPF the voice of more than 40,000 dairy producers on Capitol Hill and with government agencies.

My name is Lauren Mosemann and I am from Warfordsburg, PA. My husband Mark and I farm with Mark's family in Misty Mountain Dairy. We milk approximately 375 cows and have about the same number of replacement animals. In fact, my primary job is the care of those replacement heifers and calves. Mark and I have been active participants in the Maryland & Virginia Young Cooperators Program and have also attended YC visits to the Congress coordinated by NMPF. Mark and I were honored to be the Maryland & Virginia Outstanding YC Couple in 2007-2008.

Mark and I have made a conscious decision to raise our children on the dairy farm and we do not rely on any outside income. We have also made a commitment to be involved in our community. Mark is on the local school board and I volunteer with the local Farm Bureau for their Mobile Ag Lab. I have also just signed up to help promote the "Fuel Up to Play 60" nutrition and physical activity program launched recently by the dairy promotion and research Check-Off and the National Football League.

Both Mark and I come from long lines of dairy farmers. Mark is the third generation of his family on the home farm and I was the third generation on my family farm that is, unfortunately, no longer in business. Looking back on our decision to dairy, we both had other career options. While today's dairy farm economy naturally creates a second thought or two, this is the decision we made about how we wanted to raise our children.

Mark and I have friends at church with a college age son who would like to return to the farm. That family is debating whether that is an economically viable decision for their son to make. Mark and I see ourselves in that same situation with our children in 15 years or so and we'd like to think that some of the policy decisions we're considering here today will improve that opportunity for our family.

As NMPF and others have testified before this Committee, 2009 presented an unprecedented financial catastrophe for the dairy producer community. Last year,

dairy farmers in the United States experienced their worst year financially in anyone's memory. U.S. dairy exports had grown strongly from the equivalent of about five percent of U.S. milk production in 2002 to about 11 percent of production in 2008, peaking, on a monthly basis, at almost 13 percent of production in August of 2008. Then, over the following 6 months, exports collapsed as the recession deepened worldwide, to a low of less than eight percent of production by January 2009.

Although exports recovered steadily, to average 9.3 percent of production for the year, and domestic dairy product sales were strong despite the economy, this could not counterbalance losing the equivalent of five percent of total commercial sales during the second half of 2008. Milk prices fell far below the costs of production for all dairy farmers, who incurred losses estimated at almost \$8 billion last year. Prices recovered gradually during the second half of 2009, as the cumulative effects of removing about 250,000 cows through the voluntary Cooperatives Working Together (CWT) program plus recovering exports slowly began to reestablish a supply-demand balance in the market. Milk prices rose briefly above break-even around the first of this year, but have subsequently retreated back below cost levels in the past 2 months, as residual dairy product stocks remain too large to sustain prices above costs at the percent time.

The current dairy and grain futures markets indicate that milk prices will rise again above costs around mid-year and remain there for the remainder of the year, but not to the extent that dairy farmers will make much headway in rebuilding the huge losses of equity in their dairy farms that they experienced last year. Financial recovery may likely prove impossible for many, while some farms are currently in receivership, with their lenders waiting only for the value of dairy cows and the land, their main sources of collateral, to recover equity before they proceed to liquidate them.

#### **A Way Forward:**

What has become clear to the dairy producer community from this extraordinary strain is that we need a combination of approaches to deal with the current situation. 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 this situation in the future.

Towards that end, last year NMPF created a Strategic Planning Task Force to seek consensus across the dairy producer community and create a solid "Foundation for the Future." My co-op, Maryland & Virginia Milk Producers, has been an integral part of this process. The goal of the Strategic Planning Task Force has been to analyze and develop a long-term strategic plan for consideration by the NMPF Board of Directors that will have a positive impact on the various factors influencing both supply and demand for milk and dairy products. It is extremely important to develop workable and realistic solutions that will garner broad support from dairy producers nationwide in order to unify behind an approach as this Committee begins to consider the next farm bill.

As Albert Einstein said, "We can't solve problems by using the same kind of thinking we used when we created them."

NMPF's new roadmap for U.S. dairy policy, called the Foundation for the Future, will drastically change many aspects of current policy, some of which have existed for decades. Our existing dairy policies and programs were designed in an earlier time to operate in a relatively closed domestic market. However, today's market for U.S. dairy farmers' milk is greatly influenced by global demand and supply, as the record prices of 2008—and their disastrous plunge in 2009—clearly demonstrated.

Rather than offering just one solution, the Foundation for the Future program is multi-faceted: it seeks to refocus existing farm-level safety nets; create a new program to protect farmers against low margins; revamp the Federal Order milk pricing system; and establish a way to better balance dairy supply and demand. I would like to touch on each aspect of this approach.

##### *1. Refocusing Current Safety Nets*

Both the Dairy Product Price Support Program and the MILC program are inadequate protections against not just periodic low milk prices, but also destructively low profit margins that occur when input costs, especially feed prices, shoot up. The Price Support Program, in particular, has outlived its usefulness and hinders the ability of U.S. and world markets to adjust to supply-demand signals.

Discontinuing the Dairy Product Price Support Program (DPPSP) would allow greater flexibility to meet increased global demand and shorten periods of low prices by reducing foreign competition. Additionally, shifting resources from the

DPPSP toward a new income protection program would provide farmers a more effective safety net.

As this Committee may recall, NMPF vigorously defended the importance of the price support program, albeit modified to make improvements in certain respects, in the 2008 Farm Bill process. But at the end of the day, it is clear at this point that the dairy product price support program is not the best use of Federal resources to establish a safety net to help farmers cope with periods of low prices and is not the most effective way of achieving this goal.

- **The DPPSP reduces total demand for U.S. dairy products and dampens our ability to export, while encouraging more foreign imports into the U.S.**

The price support program effectively reduces U.S. exports, by diverting some of our milk flow into government warehouses, rather than to commercial buyers in other nations. It creates a dynamic where it's harder for the U.S. to be a consistent supplier of many products, since sometimes we have products to export, and at other times, we just sell to the government.

- **The Program acts as a disincentive to product innovation.**

It distorts what we produce, *i.e.*, too much nonfat dry milk, and not enough protein-standardized skim milk powder, as well as specialty milk proteins such as milk protein concentrate, that are in demand both domestically and internationally. Because the price support program is a blunt instrument that will buy only nonfat dry milk—and because that's what some plants have been built to produce, as opposed to other forms of milk powder—it puts the U.S. at a competitive disadvantage to other global dairy vendors.

- **DPPSP supports dairy farmers all around the world and disadvantages U.S. dairy farmers.**

Further aggravating measures, the current program helps balance world supplies, by encouraging the periodic global surplus of milk products to be purchased by U.S. taxpayers. Dairy farmers in other countries, particularly the Oceania region, enjoy as much price protection from the DPPSP as our farmers. Without USDA's CCC buying up an occasional surplus of dairy proteins in the form of nonfat dry milk, a temporarily lower world price would affect our competitors—all of whom would be forced to adjust their production downward—and ultimately hasten a global recovery in prices.

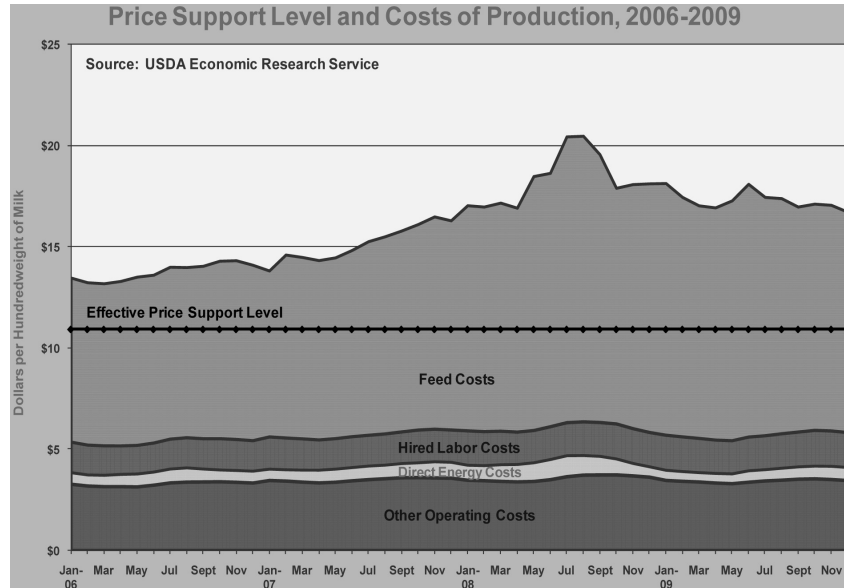
- **The DPPSP isn't effectively managed to fulfill its objectives.**

Although the DPPSP has a standing offer to purchase butter, cheese and nonfat dry milk, during the past 12 years, only the last of that trio has been sold to the USDA in any significant quantity. In essence, the product that the DPPSP really supports is nonfat dry milk. Even at times when the cheese price has sagged well beneath the price support target, cheese makers choose not to sell to the government for a variety of logistical and marketing-related reasons. We have tried to address these problems, but USDA has to date been unwilling to account for the additional costs required to sell to government specifications. Once purchased, powder returning back to the market from government storage also presents challenges, and can dampen the recovery of prices as government stocks are reduced.

- **The price levels it seeks to achieve aren't relevant to farmers in 2010.**

Even though the \$9.90 per hundredweight milk price target was eliminated in the last farm bill, the individual product price support targets: \$1.13/lb. for block cheese, \$0.85 for powder, and \$1.05 for butter—essentially will return Class III and IV prices around \$10/cwt. But in an era of higher cost of production, that minimal price isn't acceptable in any way, shape or form. The chart below depicts the U.S. average cost of production and the effective level of support the program provides for the average price dairy farmers receive for milk in the U.S. As is clear from this graph, this effective price support level is far below today's cost of production.

We believe that with the current funding constraints facing Congress, we are unlikely to see increased support prices. Even if it did, however, we would likely face the same barriers described in the prior point.



In summary, discontinuing the DPPSP would eventually result in higher milk prices for U.S. dairy farmers. By focusing on indemnifying against poor margins, rather than on a milk price target that is clearly inadequate, we can create a more relevant safety net that allows for quicker price adjustments, reduced imports and greater exports. As a result of our DPPSP, the U.S. has become the world's balancing plant. As time marches on, so, too, must our approach to helping farmers. It is because of this that NMPF is now focused upon a transitional process that shifts the resources previously invested in the dairy product price support program, to a new producer income protection program.

## 2. Dairy Producer Income Protection Program.

As mentioned above, existing safety net programs (the price support program, and the MILC program) were created in a different era. Neither was designed to function in a more globalized market, where not just milk prices, but also feed costs and energy expenses, are more volatile and trending higher. In the future, the solvency of dairy farms will depend more on margins (the difference between input costs and milk prices) than just the milk price alone. In order to address this dilemma, NMPF is proposing a revolutionary new program called the Dairy Producer Income Projection Program (DPIPP). It will help insure against the type of margin squeeze farmers experienced in 2009, and also at other points in the past when milk prices dropped, feed costs rose—or both conditions occurred in tandem.

In developing the Dairy Producer Income Protection Program, a few important principles are being followed:

- Losses caused by either low milk prices or high feed costs need to be covered.
- A farmer's cost for basic protection must be kept low or nonexistent.
- The level of protection available should be flexible, and producers should be able to purchase a higher level of protection if they choose.
- 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.

Essentially, the Dairy Producer Income Protection Program (DPIPP) is intended to be a farm-level safety net program focused on margins, rather than just on prices, in order to create a better tool to deal with global price volatility. DPIPP

would offer a combination of a base level of insurance, coupled with voluntary supplemental coverage, will allow farmers of all sizes in all regions to protect themselves from periodic margin squeezes caused both by high input costs and low milk prices.

As a substitute for the other two safety nets, DPIPP would involve two levels of insurance against negative margins. The first would be a base level of coverage, subsidized by the government that covers a portion (but not 100%) of a farm's historical annual milk production, and protects against a modestly negative margin between milk prices and feed costs. The second level would be optional, and allow a farmer to purchase a greater level of coverage, with a portion of that insurance subsidized by the government.

Key elements include:

- **Defining margin as the difference between the national all-milk price and key feed inputs.**

The all-milk price is the best proxy to define what an average nationwide price is for milk each month. Feed costs are represented by corn, soybean meal, and alfalfa hay, and the cost of those is also tracked monthly by USDA. The difference between the per hundredweight price of milk, and the cost of feeding cows, will establish this program's margin.

- **The government will invest to help defray the cost of a basic level of margin insurance for all farmers.**

A significant portion—but not 100%—of a farm's historic production base will be eligible for coverage. Indemnifying against part, but not all, of that farm's milk volume will ensure that the program does not stimulate overproduction. Once the numerical margin target is established, it will be fixed for the life of the farm bill. USDA will calculate actual margins on a monthly basis and make indemnity payments quarterly, as market conditions dictate.

- **Producers will have the option of purchasing an additional level of coverage.**

For a fee, farmers who wish to insure a higher level of margin protection will have that option, with the premium partially subsidized by the government. The premium will be calculated by the probability or frequency of payments of the specific level of coverage selected. Producers will have a year after implementation of the farm bill to sign up for additional coverage.

- **The DPIPP will be equitable and national.**

This program is designed to have no payment limitations, or production caps, thus ensuring that dairy farms of all sizes will be covered proportionately. The DPIPP will allow for new entrants, i.e. new farming options, but only under strict parameters so the system can't be gamed. The program will be administered by the USDA through the Farm Service Agency (FSA) or the Risk Management Agency (RMA).

This approach is really no different than the concept of private property or auto insurance, where premiums adjust to the coverage desired. But under the DPIPP, the base level of coverage would be the government's obligation to fund, while the supplemental coverage would be a combination of farmer and government cost. And nowhere in here is there a price assurance; the goal is margin insurance, an important distinction. We believe this would provide a much more effective safety net for dairy producers.

### 3. *Federal Milk Market Order Reform*

The goal of this effort is to develop a pricing system that compensates producers fairly, reduces price volatility, and creates a more dynamic dairy industry. The key in doing so is to establish a competitive pay price for milk that doesn't depend on the current milk pricing formulas that can distort signals sent both to producers and processors. By revamping Federal Orders, we can encourage the movement of milk to its highest-value uses.

### 4. *Production Management*

For the past 7 years, NMPF's Cooperatives Working Together (CWT) program has voluntarily helped to address the supply side of the supply-demand equation that ultimately determines milk prices. We need to both revitalize Cooperatives Working Together, and evaluate other approaches that will address the extremes in price volatility impacting producer profit margins. The Foundation for the Future is focused on a program that will trigger, when necessary, a signal to farmers that less supply is needed. This can be blended with elements of the CWT programs. NMPF recognizes that there is considerable interest in action



on this point and will be happy to provide greater details on this element to the Committee once it is further developed.

All of these potential changes will ultimately require a new way of thinking about dairy economics. NMPF is not underestimating the size of the shift in attitude necessary on the part of producers to give these proposed programs a fair evaluation. The dairy farmers I know recognize something has to be done before all the farms are gone and if there is one lesson to be learned from the past year, it's that change is needed.

**Other Critical Elements Impacting the Dairy Industry:**

I have focused the bulk of my testimony on the primary dairy-specific Federal policies and particularly those aspects that will most likely be part of the 2012 Farm Bill consideration process. However, there are other issues with significant impact on the dairy industry and I would like to take the time here to touch on each of those key areas.

*1. Importance of Dairy in Nutrition Programs*

Milk contains a complete nutrient package of nine essential nutrients. In addition to being an excellent source of calcium and vitamin D, it is a good source of Vitamin A, protein and potassium. In fact, milk is the top contributor in our diet for calcium, potassium and magnesium. (All milks—whole, low-fat, fat-free, flavored and lactose-free—contain the same amount of calcium) Bones continue to grow in density and strength until about age 35. After that, drinking milk and eating milk products help prevent further bone loss. Milk provides all five of the five nutrients of concern for children and adolescents: calcium, potassium, fiber, magnesium, and vitamin E.

The Child Nutrition Act, which is scheduled to be reauthorized this year, accounts for more than 5% of the total milk consumed in the United States through the school meal programs. The Healthy, Hunger-Free Kids Act of 2010, approved March 24, by the Senate Agriculture Committee, invests an additional \$4.5 billion in child nutrition programs over the next 10 years. The bill both protects milk's current position in several critical child nutrition programs and offers significant opportunities to increase milk consumption by school-age children nationwide. The House Education and Labor Committee should be releasing their draft of the child nutrition bill soon and we are hoping to see a similar positive outcome.

The child nutrition programs play a vital role in helping children, especially those in low-income families, achieve access to quality nutrition, child care, and educational and enrichment activities while improving their overall health, development, and school achievement. These programs are proven to work, but too many children continue to miss out on their benefits because of low participation rates and unnecessary access barriers.

NMPF supports the efforts by the Food Research and Action Center (FRAC), School Nutrition Association (SNA) and the Center for Science in the Public Interest (CSPI) to:

- Expand the Afterschool Meal Program to all 50 states.
- Improve the area eligibility test so more communities can operate afterschool, summer, and family child care food programs.
- Provide funds for grants to support the start-up and expansion of universal and in-classroom school breakfast programs in low-income schools and provide breakfast commodity support.
- Invest in Summer Nutrition Programs by providing funding for start-up, outreach, and transportation grants.
- Allow child care centers and homes the option of serving a third meal.
- Eliminate unnecessary paperwork that is a barrier to participation through data-based eligibility systems in schools in high-poverty areas and through improved direct certification systems.
- Streamline afterschool nutrition rules to allow community-based and local governments in all states the ability to provide meals and snacks year-round through the rules and paperwork of the Summer Food Service Program.

NMPF also supports increasing the Special Milk Program and increasing the reimbursement rate for the school meal program. As has been stated over and over, hungry, under-nourished children have difficulty learning.

*2. Immigration Reform*

Now, more than ever, dairy producers urgently need Congress to act on agricultural immigration reform. Immigrant labor plays a very important role in contributing to the success of America's dairy industry; a large percentage of the hired workers on dairy farms are immigrants. This is true for a great number of dairy farmers across this country, both large and small. NMPF strongly supports the type of broad immigration reform for the agriculture sector that AgJOBS (H.R. 2414) contains and the visa program proposed by H.R. 1660, the Dairy and Sheep H-2A Visa Enhancement Act.

Dairy farmers share the concerns of all Americans about securing our borders & protecting this country and they are not willing to sacrifice its security. However, failing to provide for orderly flows of greatly needed workers is creating enormous economic consequences for our industry and do very little to enhance our border protection. We urge Members of Congress to join as cosponsors of H.R. 2414 and H.R. 1660 to once and for all address the endemic labor shortage in the dairy farming sector and allow for dairy producers to work within the agricultural visa system.

It is a common misperception in our community and others that immigrant workers take jobs from local workers. It is our experience on my family's farm that this is simply not the case. We've tried to hire local workers and jobs on our farm pay well above minimum wage. Our last job ad resulted in four phone calls. Just one person showed up for an interview but never came back.

### *3. Estate Tax reform*

NMPF supports permanent and meaningful estate tax relief. If estate taxes are allowed to be reinstated at the beginning of 2011 with only a \$1 million exemption and top rate of 55 percent, the negative impact on our industry will be significant. We support permanently raising the exemption to no less than \$5 million per person and reducing the top rate to no more than 35 percent. It is also imperative that the exemption be indexed to inflation, provide for spousal transfers and include the stepped-up basis.

Family farmers and ranchers are not only the caretakers of our nation's rural lands but they are small businesses too. The 2011 change to the estate tax law does a disservice to agriculture because we are a land-based capital intensive industry with few options for paying estate taxes when they come due. The current state of our economy, coupled with the uncertain nature of estate tax liabilities make it difficult for family-owned farm and ranches to make sound business decisions. We urge Congress to pass permanent estate tax reform now.

As our family works out the partnership agreement, uncertainty about generational transfer of the farm assets is a major factor we must deal with. We strongly support estate tax relief as outlined above, which provides the greatest relief and certainty for agriculture.

### *4. Climate Change Legislation and Regulation*

I thank Chairman Peterson for introducing H.J. Resolution 76 disapproving the EPA rule that uses an endangerment finding to regulate six greenhouse gases under the Clean Air Act. Regulation of GHG emissions should be done only at the direction of the Congress and NMPF supports this attempt to reassert that authority. Agriculture will be one of the industries most affected by climate change regulation and that issue deserves to be fully debated and decided by our elected representatives.

### *5. Trade*

NMPF has been a strong supporter of balanced trade agreements that present net benefits for America's dairy producers. Good examples of agreements that fit this bill are the three pending free trade agreements with South Korea, Colombia and Panama. Of those three, the FTA with Korea offers the greatest prospects for increased U.S. dairy exports, but the latter two agreements would also provide useful new opportunities. As a result, NMPF has strongly supported the passage of all three.

Another good opportunity to expand the market for U.S. dairy products is Chairman Peterson and Representative Moran's Travel Restriction Reform and Export Enhancement Act, H.R. 4645, which NMPF testified in support of before this Committee last month. NMPF believes that efforts to help regain the exports we lost last year are essential to helping farmers and putting the U.S. dairy industry on a firmer footing going forward and H.R. 4645 represents one such positive step in the right direction to increase demand for U.S. dairy products.

A critical threat to the future health of the dairy industry also exists, however, in the prospect of open dairy trade with New Zealand as part of the Trans-Pacific Partnership FTA. Expanded dairy trade with New Zealand offers an entirely one-way street since the FTA would open up no effective new opportunity for the U.S. dairy industry in New Zealand and even the prospect of increasing access to other markets within the TPP is limited. Because of this, producers everywhere throughout the U.S., as well as many leading dairy processors, are seeking the full exclusion of U.S.-New Zealand dairy trade from the TPP.

*6. Additional Useful Near-Term Measures*

Some measures exist that could be taken prior to the next farm bill that are of concern to dairy producers in Pennsylvania and throughout the country. NMPF and most other dairy producers have been supportive of legislation to apply tariff rate quotas (TRQs) to imported milk protein concentrates, casein and caseinates in order to close a major loophole that currently exists in our trade structure. We support H.R. 3674 which would create a path to achieve this important goal.

Additionally, those of us engaged in selling safe and wholesome milk to the marketplace would like to see stronger efforts to discourage the sale of unpasteurized milk. Pasteurization is widely used in the U.S. and around the world because it helps ensure that the final dairy product sold to consumers will be safe. Raw/unpasteurized milk is currently permitted to be sold in many states under certain conditions, but this creates the possibility for consumers to get sick from these unpasteurized products for which appropriate safety measures have not been taken. The last thing the dairy industry needs at this point is a food safety scare.

**Closing:**

Thank you for the opportunity to testify on the issue of dairy policies here today. My family and I, Maryland & Virginia Milk Producers and NMPF look forward to working with the Members of this Committee on issues of critical importance to the dairy industry. I look forward to answering questions from the Committee.

The CHAIRMAN. Thank you very much.  
Mr. Heffner, welcome to the Committee.

**STATEMENT OF KENT HEFFNER, PRESIDENT, SCHUYLKILL/  
CARBON COUNTY FARM BUREAU; DAIRY PRODUCER, PINE  
GROVE, PA**

Mr. HEFFNER. Good morning, Chairman Peterson, Vice Chairman Holden and Members of the full House Committee on Agriculture.

My name is Kent Heffner. I milk 160 Jersey cows with my brother in Pine Grove, Schuylkill County. We grow our own forage crops on approximately 700 acres, part of which is rented. It is a pleasure to offer testimony today based upon my experiences as an individual producer. I also serve as President of the Schuylkill/Carbon County Farm Bureau.

As I mentioned, my family milks Jersey cows. We sell our milk to a small, independent dairy that is not in a Federal Milk Marketing Order. The milk we ship is highly desirable because it is five percent butter-fat content. While the prices I receive are generally higher than that of other producers, the milk alone does not tell the entire story. My farm still lost money.

My farm is not just a dairy. We also have a roadside market and winery. These direct-market opportunities add diversity to our operation and certainly keep things interesting. However, diversification was not enough to mitigate our risk. Across the entire operation, the farm still experienced a net loss in 2009, despite what would normally be a good year for the winery and roadside market.

On my farm I have seen an average increase of 20 percent in the price of alfalfa hay, feed concentrate and roasted soybeans per ton when comparing prices between 2007 and 2009. During the same period, seed prices increased by an average of 30 percent, fertilizers and chemicals by as much as 125 percent. Those increases are even more troubling when considering the gross value of my milk check decreased by 41 percent from July of 2008 to August of 2009.

I appreciate the House Agriculture Committee examining this issue as a starting point for the next farm bill debate. I also recognize that dairy policy is largely complex, divisive and regionally charged. While discussing the critical issues of milk price volatility and dairy farm profitability, I encourage Congress to consider the following: the Federal Order structure, formulas and price classes used to compute milk prices must better reflect current market conditions and enhance transparency, as well as take into account regional differences in the cost of milk production. Changes are needed to ensure long-term market development of value-added products that can encourage the domestic production of milk protein concentrates mitigating concerns of these products being imported. The development of a price discovery method that utilizes more milk and expands mandatory reporting and auditing of prices and inventories including penalties for inaccurate reporting, the California standards for solids-non-fat in fluid milk should be implemented at a national level. From the current 8.25 percent raise it to 8.75 percent. This I feel would give the consumer the higher quality product and help keep excess milk off our market.

Farmers are entrepreneurs who believe that dairy policy should be market-oriented and consistent with worldwide trade. After all, global demand and exports contributed to the 2008 prices. In order to see better prices, American dairy farmers and processors need to be able to move products around the globe. Dairy policy is no longer confined to the dairy farm. Agriculture also operates within a global economy.

While seeking changes to the Federal Order to reduce price volatility, Congress must ensure that producer safeguards remain in place. Continuation of a countercyclical program like the Milk Income Loss Contract should be key components to any future farm bill discussion.

Current promotion mechanisms, such as the industry funded "Got Milk" campaign should continue and be complemented by an expanded national dairy product promotion program. Current self-help programs show promise such as the Cooperatives Working Together and is an industry driven program privately funded that culls cows when the supply-demand imbalance needs to be corrected.

On the other hand, the risk management tool such as the Live-stock Gross Margin for Dairy, a crop insurance tool shows great promise. Unfortunately, the Federal premium subsidy does not apply to this very costly price tag. Additionally, the crop insurance sticker shock goes up when producers learn the entire premium for the covered time period is due up-front in one lump sum payment. Congress could direct changes to this product to make it more affordable and user-friendly.

In closing, farmers are not looking for handouts. Producers in this industry choose to be dairymen because of a love of the work, the independence, the satisfaction of participating in the lifecycle of cattle, and putting food on the table in homes across the nation. Dairy farmers simply want the ability to continue to make an honest living. It would be silly of me to ask for an economic climate within dairy that did not have volatility, but I do respectfully ask Congress to help lessen the volatility and help mitigate large swings between market highs and lows.

Thank you again for the opportunity to testify today. I would welcome any questions.

[The prepared statement of Mr. Heffner follows:]

PREPARED STATEMENT OF KENT HEFFNER, PRESIDENT, SCHUYLKILL/CARBON COUNTY FARM BUREAU; DAIRY PRODUCER, PINE GROVE, PA

Good morning Chairman Peterson, Ranking Member Lucas and Members of the full House Committee on Agriculture. My name is Kent Heffner and I milk 160 Jersey cows with my brother in Pine Grove, Schuylkill County, only 35 miles from today's hearing in Pennsylvania. We grow our own forage crops on approximately 700 acres, part of which is rented land. It is a pleasure to offer testimony today based upon my experience as an individual producer. I also serve as President of the Schuylkill/Carbon County Farm Bureau.

As you will hear during today's proceedings, dairy farmers have struggled through one of the worst periods of dairy prices in memory, but the volatility of the market is certainly not behind us. Some economists are projecting another dip in prices in the near future. In late 2008 and throughout 2009 reduced demand for exports, excess milk and dairy product supply, and high feed and energy costs created a perfect storm within the dairy industry, driving prices so low that the very survival of dairy farmers was (and still is) threatened.

I think it is important to give you a bit of perspective on how the last few years have affected dairy farmers. In 2006, milk prices were extremely low, straining dairy farmers' budgets to the limit and forcing us to make difficult decisions around the farm. For example, we might consider how much we could reduce our fertilizer usage without a significant reduction in our crop output. As milk prices climbed in 2007 and much of 2008, we tried to get caught up on bills, and where possible, make improvements around the farm. However, higher input costs offset the gains from strong milk prices and we were again facing hard decisions.

In 2009, dairy prices plummeted beyond the levels seen in 2006. Across the industry, producers worked diligently to cut costs and increase efficiency. However the global price dip was beyond the influence of any individual practices a farmer can implement with his cows. Frankly, the efforts of dairy farmers across the nation to keep their own head above water—by increasing efficiency or producing more milk—contributed to the supply-demand imbalance.

As I mentioned earlier, my family milks Jersey cows. We sell our milk to a small, independent dairy that is not in a Federal Milk Marketing Order. The milk we ship for processing is highly desirable because of its 5% butter-fat content. While the price I receive is generally higher than that of other producers, the milk price alone does not tell the entire story. My farm still lost money.

My farm is not just a dairy. We also have a road-side stand and a winery. These direct-market opportunities add diversity to our operation and certainly keep things interesting on the farm. However, diversification was not enough to mitigate our risk. Across the entire operation, the farm still experienced a net loss in 2009, despite what would normally be a "good year" for the winery and road-side stand.

The margin between price received and input costs is critical. One does not need an economics degree to understand that milk prices must be higher than input costs for farmers to see positive returns. During 2009, as margins were seriously in the red, we saw farmers increasing their debt to pay for monthly operating costs—hoping their credit worthiness would last long enough to experience significantly higher milk prices and actually see profit margins.

Today, milk prices are higher than 2009. However we are seeing farmers think about selling off their cows, their land and going out of business. This not only has consequences on the farmer and his family, but also on the local economy and the agricultural infrastructure. The Pennsylvania Farm Bureau has data showing a 100 cow dairy farm has a local economic impact of \$1.3 million. Farmers do business

locally. Keeping dairy farms profitable and in operation keeps the local economy moving. In my world, cows equal jobs—cows create jobs—cows keep jobs.

On my farm, I have seen an average increase of 20 percent in price of alfalfa hay, feed concentrate and roasted soybeans per ton when comparing prices between 2007 and 2009. During the same period, seed prices increased by average of 30 percent, fertilizers and chemicals by as much as 125 percent.

Those increases are even more troubling when considering that the gross value of my milk check decreased by 41 percent from July 2008 to August 2009.

I truly believe that the worst may be yet to come for the dairy industry, unless we see some relief in significantly higher milk prices. I've read estimates that say dairy farmers have lost between \$100 and \$300 per cow per month in 2009. Based on Pennsylvania's average sized herd of 68 cows, at \$100, that's \$6,800 a month for a yearly loss of more than \$80,000. And at \$300, it's over \$228,000 a year.

2010 is showing a slight improvement in milk prices, but the futures market indicates a significant amount of volatility. Recent projections by Penn State University indicate that the price *may* continue a very slow rise throughout the rest of the year. However, the profit margin is not likely to be near enough for dairy farmers to pay-off the debt incurred last year.

I appreciate the House Agriculture Committee examining this issue as a starting point for the next farm bill debate, and I also recognize that dairy policy is largely complex, divisive and regionally charged. There has been much discussion regarding what should be done to help dairy farmers weather this economic downturn. Some people have joked that if there are two dairy farmers in the same room, you'll hear three different opinions on national dairy policy.

While discussing the critical issues of milk price volatility and dairy farmer profitability, I would encourage the Congress to consider the following:

- The Federal Order structure, formulas and prices classes used to compute milk prices must better reflect current market conditions and enhance transparency, as well as take into account the regional differences in the cost of milk production.
- Changes are needed to ensure the long-term market development of value-added products, and encourage the domestic production of MPCs—mitigating concerns of these products being imported.
- The development of a price discovery method that utilizes more milk and expands mandatory reporting and auditing of prices and inventories, including penalties for inaccurate reporting.
- The California standards for solids-non-fat in fluid milk should be implemented at a national level.
- Farmers are entrepreneurs who believe that dairy policy should be market oriented and consistent with worldwide trade—afterall, global demand and exports contributed to the 2008 prices. In order to see better prices American dairy farmers and processors need to be able to move dairy products around the globe. Dairy policy is no longer confined to the dairy farm—agriculture also operates within a global economy.
- While seeking changes to the Federal Order to reduce price volatility, Congress must also ensure that producer safeguards remain in place. Continuation of a countercyclical program like MILC, should be a key components to any future farm bill discussion.
- Current promotion mechanisms—such as the industry funded “Got Milk” campaign—should continue, and be complemented by an expanded national dairy product promotion program.

Current self-help programs for dairy producers show promise, but also have their limitations. The Cooperative Working Together (CWT) program is an industry driven (privately-funded) program that culls cows when the supply-demand imbalance needs to be corrected. CWT has done a tremendous job in reducing the national herd size; however, it is limited in resources as it has about 80% participation by producers. The program would be more effective if more producers were part of the program. However, I don't believe that the dairy industry is at a point to ask for—even welcome—government intervention in the CWT program.

On the other hand, a risk management tool is available to dairy farmers, but few people use it. Livestock Gross Margin (LGM) for Dairy is a crop insurance tool that shows great promise. Unfortunately, the Federal premium subsidy does not apply to the very costly price tag. Additionally, the crop insurance “sticker-shock” grows exponentially when producers learn that the entire premium for the covered time

period is due up front, in one-lump sum payment. Congress could and should direct changes to this product to make it more affordable and user friendly for producers.

In closing, dairy farmers are not looking for handouts. Producers in this industry choose to be dairymen because of a love of the work, the independence, the satisfaction of participating in the life cycle of cattle and putting food on the table in homes across the nation. Dairy farmers simply want the ability to continue making an honest living. It would be silly of me to ask for an economic climate within dairy that did not have volatility, but I do respectfully ask Congress to help lessen the volatility and help mitigate large swings between market highs and lows.

Thank you again for the opportunity to testify today. I would welcome any questions.

The CHAIRMAN. Thank you, Mr. Heffner  
Mr. Brandt.

**STATEMENT OF DANIEL BRANDT, VICE CHAIR, CHARTER BOARD, DAIRY POLICY ACTION COALITION; PARTNER, BRANDT VIEW FARMS, ANNVILLE, PA**

Mr. BRANDT. Good morning. I would like to thank Chairman Peterson and Congressman Holden for the opportunity to address our concerns regarding Federal dairy policy.

My name is Daniel Brandt and I am a partner in Brandt View Farms with my brother, Karl, my father, David, my son, Mark, and nephew, Nathan will now be the fourth generation. They are just graduated and they are the fourth generation to work on our family farm there. We currently have about 370 registered Holsteins and market the offspring and embryos worldwide from some of the top pedigreed cows in our herd, and we have consistently been fortunate enough to have a top ten herd average in the Commonwealth of Pennsylvania, and we also raise all of our own forage on about 155 acres cropland. I am also state director with the Pennsylvania Holstein Association, and a board member of the Lebanon County Farm Bureau, and vice chair of the DPAC charter board, which is a grassroots coalition of dairy producers in 23 states.

The past 14 months have been the most challenging of my career as a dairy farmer. All farms, regardless of size, have suffered significant losses and show significant decrease in net worth because of low milk prices and high input costs. Like most dairy farmers, not only is dairy farming my occupation, but my way of life. The vast number of skills needed to be a dairy farmer today include being an expert in animal husbandry, agronomy, genetics, a mechanic and accountant, and this doesn't even include the knowledge required for the regulations we farm under today to ensure we are farming in an environmentally responsible way and producing a safe and wholesome product for the consuming public.

There are many opinions on how to improve our Federal dairy policy and make it a better system. The suggestions range from supply management, to formula changes and revenue insurance, and the industry is divided on many of these issues, and we know the frustration this creates in Congress. There is, however, one issue all dairy producers agree on, the need for improved price discovery and market transparency. I know our Secretary has touched on that and others, and the repetition, going back to that issue, helps us solidify the need for it.

You know, in trying to understand how we are paid for our milk is like navigating rapids in muddy water. You know, we can feel all the currents taking us but we can't see what is under the water.

Today's milk pricing is a bit like the wizard behind the curtain. You know, you pull the lever and that lever keeps the people of Oz from seeing what was really on the other side, just as an example. But, when we pull that back, we can see what value, the true value of the products in the marketplace and how is the value of so many dairy products being passed back through the system to the farm. Dairy farmers are absolutely united on one major point, pull away the curtain and introduce price discovery that is simple and transparent so we can be fully informed participants in the market of our products.

On a Federal level, price discovery should include more products reported more frequently and without the lag times that are signs of an old system long past due for an update. For example, wholesale cheese prices reported on the USDA NASS Survey for the first 2 weeks of the month are used as a starting point for announcing the Federal minimum Class I price for fluid milk sales for the entire month. The NASS Survey includes reported sales transactions that were priced up to 30 days before that and now you have a 2 week lag turning into a 6 week lag. We are seeing this right now when you compare the world price for cheese and powder which is much higher than the current USDA NASS Survey prices on which our milk prices are based. The cheese sales reported on the NASS Survey are priced off the Chicago Mercantile Exchange where only one percent of the cheese is even traded by a few buyers and sellers, and that drives our farm milk prices. The announced Federal minimum fluid drinking milk price for all of May will be based on wholesale cheese and powder sales negotiated back as far as early March.

The 2007 Farm Bill allows us to move forward with this critical change and improve price discovery and market transparency. We need to fund section 1510 of the 2007 Farm Bill. This section was included because of the leadership of Congressman Holden and others who realized this basic change must take place before we consider any other changes. We, especially, would like to thank Congressman Holden for pursuing funding and also appreciate the support we received from Congressman Thompson and Congresswoman Dahlkemper. Section 1510 needs to be a priority of the Congress as the 2011 Agriculture Appropriations Bill is written. USDA estimates the cost at \$600,000 to adapt software already used for daily reporting written, daily reporting, excuse me, in the livestock and meat industry, along with some additional dollars to educate manufacturers on the process and to do the quarterly audits that are part of section 1510. This is a very reasonable expense and a first big step toward improving price discovery and market transparency in the dairy industry and can make it a reality.

Once electronic reporting is implemented, we want to see it expanded to include more products. Fresh Italian cheeses, for example, are 40 percent of the cheese market, but this value is not reported or considered in the present pricing formula. Another part of price discovery is to implement mandatory reporting of inventory with auditing. Every effort must be made to reduce the influence of the thinly traded CME which the GAO has determined is vulnerable to manipulation and where only storable commodities are traded.



In addition, there are other areas of Federal dairy policy that should be addressed. The Dairy Price Support Program could be replaced with a recourse loan program to encourage processors to update their facilities and processes to produce products currently in demand in the U.S. and the world and that are not currently being manufactured in the U.S. Other areas to look at are the benefits of the two class system for pricing milk, the relationship of fluid milk to manufacturing use, the function and level of Class I differentials, and the effect of set make allowances on industry decisions to produce more storable commodities that can be sold to the government instead of targeting new product development for increased use of dairy products.

The negative margins and equity losses on our dairy farms throughout 2009 are a stark backdrop to the record profits in the processing sector and comparatively high prices for dairy products paid by consumers at the retail level. This has caused a loss of faith in the value and effectiveness of traditional safety nets, as dairy farmers see the dollars are there in the marketplace, but they are not reaching back to the farm. These are important discussions however, it is imperative that an effective price discovery and improved market transparency be the top priority. When a few players have the opportunity to move the CME and then that price is considered the market factor for determining contracts throughout the supply chain, and those contracts are then validated by a weekly NASS Survey for use in Federal Order milk pricing, the consensus is that something other than supply and demand often dictates the value of milk back to the original producer in the supply chain. Otherwise, there would be a more direct correlation to what farmers are paid for their milk and what consumers pay for the many dairy products made from our milk.

I would like to thank all the Committee Members for their time. Thank you.

[The prepared statement of Mr. Brandt follows:]

PREPARED STATEMENT OF DANIEL BRANDT, VICE CHAIR, CHARTER BOARD, DAIRY POLICY ACTION COALITION; PARTNER, BRANDT VIEW FARMS, ANNVILLE, PA

Good morning, I want to thank Chairman Collin Peterson and Congressman Tim Holden for the opportunity to address our concerns regarding Federal dairy policy.

My name is Daniel Brandt and I am a partner in Brandt View Farms with my brother Karl and father David. My son Mark and my nephew Nathan are the fourth generation in our family to work on this farm. We currently have 370 registered Holsteins and market the offspring and embryos worldwide from top pedigreed cows. We have consistently rated in the top ten herd averages in Pennsylvania and we raise all of our own forages on 155 acres of cropland. I am also the state director of the Pennsylvania Holstein Association, a board member of the Lebanon County Farm Bureau and vice chair of the DPAC charter board, a grassroots coalition of dairy producers in 23 states.

The past 14 months have been the most challenging of my career as a dairy farmer. All farms, regardless of size, have suffered significant losses and show a significant decrease in net worth because of low milk prices and high input costs. Like most dairy farmers, not only is dairy farming my occupation, but a way of life. The vast number of skills needed to be a dairy farmer today includes being an expert in animal husbandry, agronomy, genetics, a mechanic and an accountant. This does not include the knowledge required for the regulations we farm under today to insure we are farming in an environmentally responsible way and producing safe and wholesome food for the consuming public.

There are many opinions on how to improve our Federal dairy policy and make it a better system. The suggestions range from supply management to formula

changes and revenue insurance. The industry is divided on many of these issues, and we know the frustration this creates in Congress. There is, however, one issue all dairy producers agree on: The need for improved price discovery and market transparency.

Trying to understand how we are paid for our milk is like navigating the rapids in muddy water. We can feel which way the current is taking us but we sure can't see what's under the water. Today's milk pricing system is a bit like the "wizard behind the curtain," pulling this lever and that lever to keep the people of "Oz" from seeing what's really on the other side: What is the true value of our product in the marketplace? And how is the value of so many dairy products being passed back through the system to the farm? Dairy farmers are absolutely united on this one major point: Pull away the curtain and introduce price discovery that is simple and transparent so we can be fully informed participants in the market for our products.

On the Federal level, price discovery should include more products reported more frequently and without the lag times that are signs of an old system long past due for an update. For example, wholesale cheese prices reported on the USDA NASS Survey for the first 2 weeks of the month are used as the starting point for announcing the Federal minimum Class I price for fluid milk sales for the entire next month. The NASS Survey includes reported sales transactions that were priced up to 30 days before that and now you have a 2 week lag turning into a 6 week lag. We are seeing this right now when you compare the world price for cheese and powder, which is much higher than current USDA NASS Survey prices on which our milk prices are based. The cheese sales reported on the NASS Survey are priced off the Chicago Mercantile Exchange, where only 1% of the cheese is even traded by a few buyers and sellers, and that drives our farm milk prices. The announced Federal minimum fluid drinking milk price for all of May will be based on wholesale cheese and powder sales negotiated back as far as early March.

The 2007 farm bill allows us to move forward with this critical change and improve price discovery and market transparency. We need to fund section 1510 of the 2007 farm bill (see attached). This section was included because of the leadership of Congressman Holden, and others, who realized this basic change must take place before we consider any other changes. Section 1510 needs to be a priority of Congress as the 2011 Agriculture Appropriations bill is written. USDA estimates the costs at \$600,000 to adapt software already used for daily reporting in the livestock and meat industry, along with some additional dollars to educate manufacturers on the process and to do the quarterly audits that are part of section 1510. For this very reasonable expense a first big step toward improving price discovery and market transparency in the dairy industry can become a reality.

Once electronic reporting is implemented we want to see it expanded to include more products. Fresh Italian cheeses, for example, are 40% of the cheese market but this value is not reported or considered in the present pricing formula. Another part of price discovery is to implement mandatory reporting of inventory, with auditing. Every effort must be made to reduce the influence of the thinly traded Chicago Mercantile Exchange, which the GAO has determined is vulnerable to manipulation and where only storable commodities are traded.

In addition, there are other areas of Federal dairy policy that should be addressed. The Dairy Price Support Program could be replaced with a recourse loan program to encourage processors to update their facilities and processes to produce products currently in demand in the U.S. and the world that are not currently being manufactured in the U.S. Other areas to look at are the benefits of a two class system for pricing milk, the relationship of fluid milk to manufacturing use, the function and level of Class I differentials, and the effect of "set" make allowances on industry decisions to produce more storable commodities that can be sold to the government instead of targeting new product development for increased use of dairy products.

The negative margins and equity losses on our dairy farms throughout 2009 are a stark backdrop to the record profits in the processing sector and comparatively high prices for dairy products paid by consumers at the retail level. This has caused a loss of faith in the value and effectiveness of traditional safety nets, as dairy farmers see the dollars are there in the marketplace, but they are not reaching back to the farm. These are important discussions; however, it is imperative that an effective method of price discovery and improved market transparency be the top priority. When a few players have the opportunity to move the CME, and then that price is considered the "market factor" for determining contracts throughout the supply chain, and those contracts are then validated by a weekly NASS Survey for use in Federal Order milk pricing . . . the consensus is that something other than supply and demand often dictates the value of milk back to the original producer in the supply chain. Otherwise there would be a more direct correlation to what

farmers are paid for their milk and what consumers pay for the many dairy products made from our milk.

I would like to thank the House Agriculture Committee for coming to Pennsylvania and hope that the information presented here today will be valuable as you tackle this complex and important issue.

ATTACHMENT

**Sec. 1510. Mandatory Reporting of Dairy Commodities.**

(a) *ELECTRONIC REPORTING.*—Section 273 of the Agricultural Marketing Act of 1946 (7 U.S.C. 1637b) is amended—

- (1) by redesignating subsection (d) as subsection (e); and  
 (2) by inserting after subsection (c) the following:

“(d) *ELECTRONIC REPORTING.*—

“(1) *IN GENERAL.*—Subject to the availability of funds under paragraph (3), the Secretary shall establish an electronic reporting system to carry out this section.

“(2) *FREQUENCY OF REPORTS.*—After the establishment of the electronic reporting system in accordance with paragraph (1), the Secretary shall increase the frequency of the reports required under this section.

“(3) *AUTHORIZATION OF APPROPRIATIONS.*—There are authorized to be appropriated such sums as are necessary to carry out this subsection.”.

(b) *QUARTERLY AUDITS.*—Section 273(c) of the Agricultural Marketing Act of 1946 (7 U.S.C. 1637b(c)) is amended by striking paragraph (3) and inserting the following:

“(3) *VERIFICATION.*—

“(A) *IN GENERAL.*—The Secretary shall take such actions as the Secretary considers necessary to verify the accuracy of the information submitted or reported under this subtitle.

“(B) *QUARTERLY AUDITS.*—The Secretary shall quarterly conduct an audit of information submitted or reported under this subtitle and compare such information with other related dairy market statistics.”.

The CHAIRMAN. Thank you, Mr. Brandt.  
 Mr. Rutter.

**STATEMENT OF TODD M. RUTTER, PRESIDENT, RUTTER'S DAIRY, YORK, PA**

Mr. RUTTER. Mr. Chairman, Congressman Holden and Members of the House Committee on Agriculture, thank you for the opportunity to appear before you today.

My name is Todd Rutter and I am the President of Rutter's Dairy, a family-owned, small to mid-sized processor located in York, Pennsylvania. We sell products into four states and next year my family will celebrate 90 years of being in the dairy industry.

I am here today as a representative of my company and of our industry as an individual member of it. I am not here today on behalf of any organizational group, therefore, my answers and opinions are purely those of my own beliefs.

Rutter's gets the majority of its raw milk from family operated farms in Pennsylvania and Maryland and the balancing supply comes from a co-op that also buys milk from family farms in our region. To my knowledge, the largest farm we get milk from milks about 250 cows, but the average farm milks about 110 cows. Most of our farms are in the second and third, and some fourth generations of family farms working with us as suppliers. We have not had any farms go out of business in the last year, but I know several of them were very close to the brink had the prices not started to turn around.

I like to think that the constant coaching we gave them throughout the end of 2007 and 2008 when prices were record high helped them. We preached loud and often then that during those record high prices they needed to pay off debt, avoid new debt and put money in the bank because historical patterns made it very clear that the prices were headed for a nosedive. This planning ahead for price cycles is what people in the business would refer to as risk management, and in dairy we need programs that will help small farmers manage this risk.

I cannot sit here today and tell you that I have a full understanding of all the current Federal dairy policies, or even how all the current regulations and programs work. I would like to share the experiences I have gained working with local farmers and consumers of milk and dairy. Hopefully, these insights can be of some help in your decision making process.

I believe that American family-owned agricultural businesses are very important to our country. I would like the future of dairy policy to help ensure the survival of family-owned businesses in the dairy industry to the greatest extent practical, farmers, haulers, processors, and distributors and all other businesses that revolve around these core groups. Most times processors are made out to always be at odds with milk producers, but from my perspective, the family farmer and the family processor face and deal with a lot of similar issues. Mostly, it is just when the farmer is not happy with his milk check, the only person he has to yell at is the person that wrote him the check so inherently there is always possible friction in that relationship. At least in our case there is just a lack of understanding on the farm of how little control the processor has over the amount of the milk check, and how often we are audited to ensure we are paying properly. We pay what we are mandated to pay by state and Federal Programs and we pay premiums that are necessary to attract a milk supply. We must balance that against our need to keep raw milk cost competitive relative to our other processors with whom we compete.

I do not have a magical solution to the issues, but the fundamentals need to be based on the ability to somehow help stabilize the farmers' income so that they do not have these peaks and valleys with their income stream. At the same time, it is critical that the Congress recognize that the burden of helping the dairy farmer cannot be borne by the Class I processor alone. We have to make sure that any policy change is studied to determine what the impact would be on consumers. Everyone in dairy has the same end consumer, that being the person in the store picking up the items off the shelf. Consumers are very fickle in today's world and we know that they are price-sensitive based on our experience with the last period of record high prices. We also know that consumers have choices and that they can and will choose alternatives to dairy when the prices cross their mental threshold of value.

I am not here today to support any specific legislation nor any specific policy proposals because I have been busy running my family business, and thus haven't been putting my energy into studying the different ideas that are on the table. But, I very much appreciate that you have taken the time to come to Pennsylvania to hear the issues facing members of our dairy industry from Pennsyl-

vania. Since I operate at the interface between the farmers and consumers, and I value both my suppliers and my customers, I hope you will consider both when you evaluate future policies.

One last point and another area of concern I have within the dairy industry is the aging infrastructure and access to credit. From the farm all the way through to the delivery channels, our industry is not investing back into itself, especially at the family-owned business level. Even before the current banking mess, it was extremely difficult to talk to bankers about the dairy industry. When your sales income fluctuates up and down by as much as 20 percent per year with the price of milk, it is very hard for bankers to understand that you still have a stable business. So loans at competitive rates and without unreasonable collateral requests are very challenging to get for our industry. I respectfully suggest that additional loan money be made available to create loans for family businesses across all sectors of the dairy industry to reinvest, upgrade or expand their businesses. This will increase our demand for raw milk, help us serve more customers, and if the industry as a whole waits too much longer, the cost of upgrading will be so steep that it will be unrealistic and small family businesses will be forced to close or sell out.

This is my first time ever participating in something like this and I hope that I am able to be a meaningful contributor. I thank you for the invitation to participate. I am happy to answer any questions you may have. Thank you.

[The prepared statement of Mr. Rutter follows:]

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I like to think that the constant coaching we gave them through the end of 2007 and 2008 when prices were at record highs helped them. We preached loud and often during those record high prices that they needed to pay off debt, avoid new debt, and put money in the bank because historical patterns made it very clear that the prices were headed for a nose dive. This planning ahead for price cycles is what people in the business world refer to as "risk management" and I think in dairy we need programs that will help small farmers manage this risk.

I can not sit here today and tell you that I have a full understanding of the current Federal dairy policy or even how all the current regulations and programs work, but I would like to share the experience I have gained working with local farmers and consumers of milk and dairy; hopefully these insights can be of some help in your decisions.

I believe that American, family owned agricultural businesses are very important to our country. I would like future dairy policy to help ensure the survival of family owned business in the dairy industry to the greatest extent practical including: farmers, haulers, processors, distributors, and all other businesses that revolve

around those core groups. Most times processors are made out to always be at odds with milk producers. But from my perspective the family farmer and the family processor face and deal with lots of similar issues. Mostly, I think when the farmer is not happy with his milk check, the only person he has to yell at is the person that wrote him the check. So inherently, there is always possible friction in that relationship. At least in our case there is a lack of understanding on the farm of how little control the processor has over the amount of the milk check and how often we are audited to ensure we are paying properly. We pay what we are mandated to pay by state and Federal programs and we pay premiums that are necessary to attract a milk supply. We must balance that against our need to keep our raw milk cost competitive relative to other processors with whom we compete.

I do not have a magical solution to the issues but the fundamentals need to be based on the ability to somehow help stabilize the farmers' income so that they do not have these peaks and valleys with their income stream. At the same time, it is critical that Congress recognize that the burden of helping the dairy farmer cannot be borne by the Class I processor alone. We have to make sure that any policy change is studied to determine what the impact would be on consumers. Everyone in dairy has the same end consumer; that being the person in the store picking the items off of the shelf. Consumers are very fickle in today's world and we know that they are price sensitive based on our experience with the last period of record high prices. We also know that consumers have choices, and that they can and will choose alternatives to dairy when the prices cross their mental threshold of value.

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One last point, and another area of concern I have within the dairy industry is the aging infrastructure and access to credit. From the farm all the way through to the delivery channels our industry is not investing back into itself, especially at the family owned business level. Even before the current banking mess it was extremely difficult to talk to bankers about the dairy industry. When your sales income fluctuates up and down per year by as much as 20% with the price of milk, it is very hard for bankers to understand how you still have a stable business. So loans, at competitive rates and without unreasonable collateral requests, are very challenging to get for our industry. I respectfully suggest that additional loan money should be made available to create loans for family businesses across all sectors of the dairy industry to re-invest, up-grade, or expand their businesses. This will increase our demand for raw milk, and help us serve more customers. If the industry as a whole waits too much longer the cost of up grading will be so steep that it will be un-realistic and family business will be forced to close or sell out.

This is my first time ever participating in something like this. I hope that I am able to be a meaningful contributor and I thank you for the invitation to participate. I am happy to try to answer any questions you may have for me. Thank you.

The CHAIRMAN. Thank you very much and I thank all the panel for your testimony.

I recognize the Vice Chairman for questions.

Mr. HOLDEN. Well, thank you, Mr. Chairman.

Following up on Mr. Rutter's comments and comments of the Secretary, I would like to ask our producers about the credit situation. Are the banks lending or are we depending upon farm credit or FSA and it is not just your personal situation just other producers that you have conversations with, anybody.

Mr. HISSONG. Yes, no, the credit is definitely an issue, equity tends to be the big one. It has definitely changed the standards and they are against Federal mandates as well, and they are trying to protect themselves. So, you understand where they are coming from, but we are all kind of in one big mess so I will stand down.

Mr. BRANDT. Yes, one comment on that is I know some of the lenders, what they are doing is that since it is a farmer they have had a little bit more on credit then the next farm, maybe using

newer equipment or something. They are working with you on extending some credit but then they want to make the decision on whatever your purchases are. It really limits your management ability where if you sign on well, we will give you more credit but then they want you to come through them on any major purchases that you are going to make, and they will say whether you can make it or not. So this kind of dictates your farming practice which is certainly not what you want to do as a producer.

Ms. MOSEMANN. I also have a concern that there are less creditors that are familiar with the dairy industry, less that understand how the business works, and as a result many of them don't even want to touch dairy just because of the volatility.

Mr. HOLDEN. Mr. Rutter, do you feel processors could increase their reporting to NASS and how would increased reporting impact your business?

Mr. RUTTER. In Pennsylvania, we report just about everything there is to report already to the Pennsylvania Milk Marketing Board so I don't know that we could report anymore knowledge than we already do. I know the rest of the country probably does not report as much as we are but in our world, I don't know that there is much more data that we could report.

Mr. HOLDEN. Mr. Brandt, in your testimony you mentioned replacing the Dairy Price Support Program with a Recourse Loan Program to encourage processors to update their facilities to produce products currently in demand in the U.S. but not currently manufactured here. Can you explain further why you believe a recourse loan would be better than the existing Price Support Program?

Mr. BRANDT. Well, it was mentioned earlier by the Secretary, and some different people, but what the Price Support Program does, it doesn't encourage any kind of new product development because the processor then realizes, "Well, if I produce a little extra of this product, I have that safety net to go back on a product that is not moving in the market." The government is going to buy it up and then that is still in inventory and that doesn't do anything necessarily to move product. Unless of course they are giving it to a third world country, maybe in Haiti, a situation or something like that. But if we replace it with something that is an incentive program like they develop a new product or something like that, that will come back. They will be funded in that through this program by the government to help them build facility or research new product. I mean the MPC is one thing that you can always fall back on. We are fussing about it being an import but why couldn't we have developed it here in the U.S. earlier. It is because there was no incentive really to go after new product and by doing this, it not only helps the processor and the farmer, but it also helps us as producers because it moves our product and can also help exports.

Mr. HOLDEN. Thank you. How many do you milk?

Mr. HEFFNER. We milk 160.

Mr. HOLDEN. What do you think the average herd size is in Schuylkill County?

Mr. HEFFNER. In Schuylkill County, the average herd would be around 70 cows.

Mr. HOLDEN. And what about Lebanon?

Mr. BRANDT. I think it is probably similar, 70–80 cows.

Mr. HOLDEN. Is Berks a little larger?

Mr. BRANDT. I don't think there is a whole lot of change between the three counties, now. Then towards Lancaster County it is going to get less. There are a lot of smaller farms down there.

Mr. HOLDEN. In Dauphin and Perry it would be about the same?

Mr. BRANDT. I would think.

Mr. HOLDEN. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. HISSONG, you mentioned in your testimony that basically, "It would be best served if the government just stopped purchasing excess dairy products, many of which are not made to the world's specifications." So if we had the program change to only buy products that meet the world's specifications so that they would be marketable from an export standpoint, I think I heard some of the witnesses say that there is not the capacity to process that? Would that create a problem?

Mr. HISSONG. Well, somewhat of the MPCs are a big thing that people are upset about and it is about the fact that MPCs are not the problem. The problem is that we don't produce many of them in the United States. They are produced in other countries that rely on their export markets so they invested money in that infrastructure and they produce MPCs. So, U.S. companies, Kraft and such have found that, "Well, I need this product so I will get it from New Zealand or whomever." We just haven't seen, and you have heard that theme a few times, that there just hasn't been that investment in innovative products. And so it is not the fact that MPCs are out there, it is the fact that if they can produce them in New Zealand we can certainly produce them here. I think that is the kind of thing that we are talking about, products like that that we need to, we produce a lot of powder that is non-fat. We produce salted butter and the world wants unsalted butter. Just things that seem to me to be fairly simple to say let's shift a few things around here and produce it. It can be easy, as complicated as MPCs and as simple as producing unsalted butter. It seems pretty logical to me.

Mr. NEUGEBAUER. And the current policy encourages us to not produce those products is what you are saying?

Mr. HISSONG. Correct, yes, I mean they know that okay, we can hold onto this, prices go down, the government is going to buy it and they will deal with it. I can basically get rid of whatever I need to get rid of.

Mr. NEUGEBAUER. And, there has been a lot of talk about being able to manage your margins and of course margins consist of the revenue and the expenses and so the difference between that would be your margin. What are producers, obviously we have talked about the CME which does not provide a very good opportunity for price discovery and isn't an effective tool for the price side, but what about on the cost side? Are producers, are dairymen using futures for grain or other inputs to hedge or to manage the cost side?



Mr. HISSONG. I would say the average producer in Pennsylvania probably produces most of their own grain and so in a sense they are kind of doing that. In my case, we buy all of our grains so we do do that side where we will lock in corn, soybean meal, cotton seed, different commodities and try to play that. That is one thing that is a little bit more frustrating is those markets are a little bit more of a chore and I can lock in my bases and do different things that I can't do on the milk side. And so you look at that and say is there some lessons that we can learn there on the milk side to make it a reasonable tool. But, you talk about margins, the biggest frustration from dairymen, in general, is that we feel like we have taken the brunt of this economic downturn, whether it be on not necessarily all the processors. You look at lenders. You look at my semen company, I go to annually, this is the time of the year that you get annual reports and they don't make money. You know, everybody made money, but the dairymen took the brunt of it, so we buy everything retail and sell everything wholesale and that makes it tough and you definitely feel the squeeze.

Mr. NEUGEBAUER. Mr. Brandt, you brought up the discovery issue again. If you had one price that you wanted to know today, in other words all across the country, what is that one price that you would like to know?

Mr. BRANDT. Well, I guess one price, well, there is the cheese price rather than being less than one percent because cheese really is the greatest use of our dairy product with peaks and everything else. I would like to see a daily report on that cheese price where it more reflects what the actual market trade value is. You know, you like to see the processor make a little profit, but you see the cheese price today is our milk price that gets into our milk actual on-farm price is something that is priced 6 weeks ago on the Chicago Mercantile Exchange. That is not a good transfer of price and the other thing there is we are not saying that we don't want to make money, but like Rod said we like to see a little bit more of a balance between this. You can't have farmers having record losses, and the processor having record profits.

Mr. NEUGEBAUER. So you want to know what the cheese prices are today?

Mr. BRANDT. Yes, I would like to know how the cheese prices, especially the more popular cheeses are traded daily. It should be a daily report just like the beef or the pigs or whatever.

Mr. NEUGEBAUER. Thank you.

The CHAIRMAN. I thank the gentleman.

The gentleman from Iowa, Mr. Boswell.

Mr. BOSWELL. I thank you, Mr. Chairman.

Mr. Chairman, we have heard over and over the need for transparency and being able to see what the prices are and Mr. Brandt is kind of excited about it and I can understand why. What is the impact on, any of you, that if you don't access to it? I think I know, but I want you to have an opportunity to express it. What happens to you in your operation if you are not aware of the discovery of prices as you are trying to do your market buying and actually market? Why don't we start with you, anybody?

Mr. HISSONG. Well, I think one of the issues I brought up a little bit earlier was like on the grain side. I can lock in my bases which

is basically our PPD on milk pricing or our bases between our, which makes up our bases when you look at a Class III price *versus* my cash price. You know, we are talking about LGM and locking in milk and some of that and we had done that several years ago. We were burnt pretty bad because we thought we had locked in a certain price and our PPD went negative and basically our bases, normally which runs \$2.50 or so, shrunk to all but nothing. And so I thought, I locked in one price and I get my check and it is \$2 lower, and so how can I use that type of product to lock in a margin where I have to wait until I get my check, and low and behold it is \$2 lower. You know, I can feel like I am doing the right thing, but until I get that check, you don't know, and so that is where some of this transparency and some of these products need to be more effective. If I lock in a certain price, I need to be sure that when that check comes, I am receiving that price.

Mr. BOSWELL. Thank you. Anybody else? I want to ask you just down the line, the one thing that we can do to make your operation more viable and the entire industry don't answer it one side, just what is something that you think we could do in the farm bill where it could come back to you most and the best? One thing you are talking about. Anybody have half-a-dozen just give me your top one. Start right down the table. You don't have to answer. If you want to pass if what you want to.

Mr. FREY. I am not a producer but it would seem to me that the whole issue of price discovery would probably be number one right now.

Mr. HISSONG. Yes, I would have to agree with that. Just like I mentioned, it is hard to use some of these other tools when we don't know what makes up all of that and things change. It just makes it hard to use any of these other tools, so it does seem like we probably have to start there.

Ms. MOSEMANN. It is similar we just need a vehicle to deal with this price volatility. We are price takers and I don't know how that can change exactly but that is where it is hitting us the hardest.

Mr. HEFFNER. I would say the price discovery method, it would make us a lot, it would give us a lot more information when we go about our daily business and budgeting and just running everyday business.

Mr. BRANDT. Yes, definitely, it is the same down the line and it appears but yes, they do price discovery as the foundation on how everything is built. You know, the world dairy, one thing that shows how the world dairy pricing can help, the world dairy prices are consistently higher than the U.S. prices on the same products. One thing, just to use an example of how this daily reporting could help, in the past the powdered milk in this reporting that you might remember from 2007, the estimated cost to the American farmer is about over \$50 million. With daily reporting we would have discovered those errors much earlier, but they were so far behind with their reporting. They were 6 weeks past with a large error like that and it cost us as farmers a lot of money and it just would take out some of those errors or manipulations and stuff.

Mr. RUTTER. Without a good steady source of milk, my world pretty much goes away as well so assuming that the price volatility can be, the price visibility can be solved, I still think the small,

family farmers have an issue with the market-driven price. I am a firm believer of market-driven prices. I am not implying that I want to go away from a market price, but the peaks and valleys with their income checks is something that they are not all good at planning for it, and preparing for it and saving. The history of milk—forever always—is a roller-coaster, up and down, and just recently we have seen that roller-coaster go higher and go lower, and we always know the higher it goes, the lower it goes. So if there are tools to help mitigate the high and lows, or even voluntary funds that farmers can participate in that when their price is above a certain level that they pay into the fund, and kind of a voluntary savings account. Kind of like a Christmas club, so to speak, and then when the price goes below the fund pays them back. So, that they can have a reasonable level of certainty that for the next 3 years or however it is, I am going to be at least guaranteed this much of a hundredweight for my milk so that I can make a loan. I can expand my barn. I can buy more cows. Then I can go to the bank and give an intelligent business proposal that says here is what I am relatively assured that because I am in this program that my income is going to be. I am going to be able to pay you back for this loan because I am going to give in when it is high and I am going to take back when it is low, so that I have a cash flow every month that I can pay my bills with.

Mr. BOSWELL. Thank you very much. I understand and I agree with you, and I thank all of you for giving us your time today and just keep in touch and maybe together we can do something real good.

Thank you. I yield back.

The CHAIRMAN. I thank the gentleman.

The gentleman from Pennsylvania.

Mr. THOMPSON. Thank you, Chairman. Thanks to the panel for taking the time and coming in and on what is absolutely a critical issue.

I want to start with Mr. Frey. Thanks for your leadership at the Center for Dairy Excellence. We are just blessed to have that resource here in Pennsylvania. You said that the Northeast Dairy Leadership Team has been reviewing policy and pricing proposals across the United States to evaluate how each proposal would align with your objectives. Have you found any one proposal that would help reduce the volatility in the dairy market that your organization supports?

Mr. FREY. There isn't one that we have found that we would support at this point, however, there was a policy that was presented approximately 6 weeks ago to this group. It was called the Dairy Growth Management Initiative. I try to detail just a bit about in the back page and what we have done with that is we have supported a comprehensive analysis by Cornell and Cal Poly to study that particular proposal and evaluate what the impact would be on volatility.

Mr. THOMPSON. Okay, thank you.

Mr. Heffner we have heard a lot of discussions from milk protein concentrates, MPCs. I hear a lot of those from time to time at home as well and I actually have serious doubts about the effect imports have on milk prices. As one piece of evidence, I try to look at is

the imports are at a 5 year low, however, you suggested something does need to be done to encourage the domestic production. I think I take from some of the discussion I have heard here today the current safety net that price supports just really hinders innovation. It is safer it seems like to stay the course with what products are being supported by government. I don't know if that is your take, but my question is how would you suggest that we encourage domestic production of innovation such as milk protein concentrates?

Mr. HEFFNER. On that issue I am not real familiar with, however, I am more of a marketer since I deal with direct marketing on our farm, and I know people are complaining about the MPCs coming in and ruining our milk price. Well, if that is what they are doing maybe we should look into this and start producing them here. We have the milk. We have the best quality milk anywhere in the world. Why aren't we doing it here? Let's get out there and get in this market and compete, but that is all I can say about it.

Mr. THOMPSON. Anyone else from the panel have any thoughts in terms of why it is difficult to, I guess launch these new innovations, these new dairy products, opportunities to expand our markets?

Mr. BRANDT. Yes, I think one thing that it has to come through the processor. I mean as farmers we don't have our own processing plants. We can't develop any products and the processors have been protecting themselves and until recently most of the farmers have been content to farm at their farm and not speak up a little. The processors are making a nice profit so why shouldn't they, and then they are protected like you say in support prices if something does drop. Their margins haven't gotten worse. They actually were better in 2009, so I think that is probably one of the big things that does not help to develop new product in the United States. The processors have been content with the large profits. Why take a risk on something when you are already making a nice profit. That is why the program that I mentioned there where if we give some kind of incentive where if they develop a new product, half funded by the government and if this works they get rewarded for what they develop.

Mr. THOMPSON. Okay, thank you.

Ms. Mosemann, it is good to have another Nittany Lion alumni on the panel. I think there are a number of graduates from that fine land-grant university here today. Among the key elements that National Milk's proposal is to discontinue the Dairy Product Price Support Program and the Milk Income Loss Contract Program and instead use a new income protection approach. Is it your view that the MILC and the Price Support Program have outlived their usefulness and what are your thoughts in that area?

Ms. MOSEMANN. In today's dairy economy, I think it has passed. We have obviously stepped beyond that and I think it is holding us back now.

Mr. THOMPSON. Okay, thank you.

And, Mr. Hissong, the Professional Dairy Managers which I am proud to say are also located in the Fifth District, I believe up in the Bellefonte area. What do they think that the government should focus on, long-term or short-term in terms of dairy farmer assistance?

Mr. HISSONG. Well, our organization's views have always been more of a long-term-type approach, I think that the position paper states a lot of the short-term band-aids such as direct payments and such are not a good long-term solution, and I think that is what we have been doing for decades. And not just PDMP, but I think that is a general consensus we are hearing from every organization is, "Now is the time to look at long-term-type fixes to some of these problems."

Mr. THOMPSON. Thank you. I just want to say thank you to all of the panel for your contributions today.

The CHAIRMAN. I thank the gentleman.

The gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

In dealing with our desire in the next farm bill to put a greater emphasis on profitability as opposed to price, first of all, let me ask each of you are your operations profiting?

Mr. HISSONG. If you were to look at a 5 year average on our operations, we are profitable even despite last year, but anything that was made in the previous 2 or 3 years was definitely erased last year, but it's a very slim profit thanks to 2009.

Mr. SCOTT. Is that pretty much the situation facing each of you that you may have been profitable 5 years ago but you wouldn't say you are profitable now?

Mr. BRANDT. Yes, one thing I would say towards that is 2009 was definitely a challenge. I mean and this was kind of across the industry. The better managers naturally were making a profit there in the previous years and a nice profit, but most of us took on about \$1,000 a cow debt owed on our credit lines just to make ends meet due to 2009. We have started to be able to pay some of that back here at the beginning of the year and then the price took another hit here in April, so it is certainly a concern.

Mr. SCOTT. So would you say then that the price of milk is the determinate factor in profitability for you?

Ms. MOSEMANN. The factor but we really need to start looking at the variable input costs. I mean we have to look at fuel feeds. It is more emerging now. Now, I just feel like we need to look more at what we are long-term. You can't look at the milk price and say oh yes well, \$17 sounds good compared to a couple years ago until you look at the variable costs going into it.

Mr. SCOTT. So just going farther as we begin to look far and we are looking for new policies for the farm bill, what would be your one or two or three top recommendations for this Committee to look at that would increase your profitability if it is not the final price of milk? That is it? What can we do? What are those points that we should consider? What are your recommendations? That is you are the ones we are trying to help to become profitable. What are the things you would tell us to do?

Mr. HEFFNER. I would say whatever you can do to move more products. New product development, new markets overseas, anything that we can get more milk to the consumer, to the buyers, that in turn would increase our profits on the dairy farm. On the other hand, we do have the input costs, the fuel, the fertilizer and chemical seed prices all went up. A lot of that probably had something to do with the ethanol craze we had a couple of years ago

that those prices seem to be backing off a little bit. Other, well, as far as the prices of the inputs, we can't really do a whole lot about. We were just subject to the market. There was a run on the market. Hopefully, they will come down a little bit and stabilize. Other than that we have to just learn to be better business managers, I guess. But, as far I have always been a big proponent of getting out there and marketing your product and that is about all I can say. We need to push our product.

Mr. SCOTT. Well, let me ask you about the do you believe that the Federal Milk Marketing Orders, do you believe that they are serving their purpose bringing stability?

Mr. HEFFNER. Well, not being in a Federal Milk Marketing Order, I don't feel that I am qualified to answer that.

Mr. HISSONG. I am not an expert on it, but I feel a sense that they are. The Secretary and Dr. Dunn expressed that pretty well that it does, the people that are marketing to a fluid market are seeing a little bit of a premium. The ones that are having manufactured products are a little bit different. Should it be separated by state or region, I don't know. I think maybe the classes of milk, simplifying them and then not having so many and simplifying that a little bit would probably be a better move than the Federal Orders.

Mr. BRANDT. I kind of agree with him there. I think the Federal Orders kind of like you were saying, you are from Georgia, that area there has a lot higher consumption of fluid milk and you had mentioned earlier about just a one Order for the whole nation. I think that will definitely affect the farmers in your area. It is a little bit harder to produce the milk with the heat and humidity and everything like that. They need the price adjusted for the region or the area that you are in and also for demand in their area for fluid milk. And another thing with the two class system which I mentioned in my testimony where you would have a manufacturer class and a Class I would simplify being able to understand how the milk is priced, and that you won't have the processors which they can do now. They can say okay, this milk is Class IV and that is how they are paying you and they take it off your farm, and then they can move it to a Class II and they can get a better price, and that really isn't, they aren't regulated in any way in doing that. They might be paying you for Class IV and then selling it as a Class II and getting a little better price for their product and increasing their margin. That manipulation does happen and if they go to a two-price system that will take away that ability for them to manipulate that.

Mr. SCOTT. Yes, this, gentlemen, is the last one, I would like to find out if all of the other members of the panel agree with Mr. Brandt. In his testimony he mentioned that Dairy Price Support Program should be replaced with a Resource Loan Program. Is that a consensus with the group that?

Mr. HISSONG. I agree that the Dairy Support Price Program has had its time and it is time for something else. Whether it is replaced by something like that, I think that general thought that there needs to be a reinvention and new things out there, cutting-edge stuff to manufacture. Yes, there needs to be some sort—we talked about that earlier. I think one of the reasons, to be fair to

the processor, that technology is not cheap and it is expensive to reinvest in new capital machinery and things to produce different products. Part of some government help to do that and to support that innovative approach would certainly be helpful.

Mr. FREY. Our nation's Check-Off organization, DMI, recently championed a comprehensive review of what international export opportunities are for the next 20 years for the dairy industry, and to do that they commissioned what they called the Bing Study. And the Bing Study clearly indicated that the U.S. dairy industry when it comes to our export marketing opportunities has a very narrow window of opportunity to take advantage of. So your question about the Federal Order System, the Price Support Program, both of those to some extent come under attack, particularly the Price Support Program suggesting that we are not innovative. We are not in large part because of that support price not taking advantage of current and future marketing opportunities. So I would say that based on what I have heard from the Bing Report that yes, we need to do something differently than the Federal Price Support Program.

Ms. MOSEMANN. On your question about the insurance program, I think that is kind of outlined in my testimony, we decided to stand behind the National Milk Proposal. That is the worse problem we seem to have in the dairy industry is you put two farmers in the room and there are two different ideas on where to go forward. There are so many proposals out there and no one is going to be happy with every aspect of it. So we are looking at what we think is going to be the best opportunity for our farm to stay in business and hopefully be there for the next generations. I would say that is the program that would put us there.

Mr. SCOTT. Thank you.

The CHAIRMAN. I thank the gentleman.

The gentlelady from Pennsylvania, Mrs. Dahlkemper.

Mrs. DAHLKEMPER. Thank you, Mr. Chairman, and thank you to the panel, I appreciate your testimony today.

Mr. Frey, in your testimony in terms of the Center for Dairy Excellence, I know you have a number of resources to help our dairy farmers remain competitive and you talked a little bit about some of the tools that you have used. Let me ask you just what particular tools you were able to use prior to this past downturn that maybe helped some farmers stay more competitive, stay viable in their operations? What do you find is working well?

Mr. FREY. Thanks for the opportunity to answer that question. It would seem that the tool that we have used that has been the most impactful has been something we call Dairy Profit Team. Essentially, what that is, is in a formal way, pulling the resources that consult to a dairy farm family around the table in a formal way, provide some funding for that to happen and get that farm family in an ongoing mode of business and discussion and decision-making.

Mrs. DAHLKEMPER. Who would be on that team?

Mr. FREY. Typically, the professionals that serve the farm, the veterinarian, a nutritionist, potentially the accountant, potentially the consultant and/or lender, someone like those types of folks, they have been very impactful and we have had hundreds of farm

families take advantage of those. I would say in addition to that, educational programs particularly focusing on business management and risk management have had a big impact, I believe, here in the Commonwealth.

Mrs. DAHLKEMPER. And participation level, what would you say of that in terms of farmers turning to you for help in this area?

Mr. FREY. Farmers turning to us?

Mrs. DAHLKEMPER. Yes, farmers turning to you for help.

Mr. FREY. Yes, thank you, the Center has really become the organization. We have a number of employees that are dedicated full-time to providing resources and when I talk about the Profit Team Program, we have had hundreds, almost 300 farm families that have used that program. And our educational initiatives, I would like to think nearly half of the producers in the state and we have about 8,000 producers, have leveraged our educational programs at one time or another.

Mrs. DAHLKEMPER. Do you see a particular population, smaller farms, larger or just sort of across the board?

Mr. FREY. Yes, when I look at who has leveraged the Center it is those farm families that are interested in continuing their farm business into the coming years and that is, I have to believe,  $\frac{3}{4}$  of the farm families in the state.

Mrs. DAHLKEMPER. Okay, I appreciate that. Thank you.

Ms. Mosemann, I want to ask you a question. I am a dietician by training so and I believe dairy products and milk are an important part of a nutritious diet. In your testimony you talk a little bit about some barriers to access, and you talked about nutrition programs. So I was just wondering what you were saying, what you think those unnecessary access barriers are that was when you were talking about the Child Nutrition Programs.

Ms. MOSEMANN. Okay, oh, in my full testimony? I am sorry.

Mrs. DAHLKEMPER. Yes, in your full testimony, I am sorry. Yes, you talked about the Child Nutrition Programs and you were talking about too many children miss out on those benefits because of low participation and unnecessary access barriers. So I guess I was wondering what those access barriers are.

Ms. MOSEMANN. Obviously, I am not the pro on this.

Mrs. DAHLKEMPER. I am sorry. If you want to get back to me on that, you can. As we look at this program, I just want to have an idea of what that is so that we can address that.

Ms. MOSEMANN. She is talking about higher reimbursement rates that I am just now getting involved in the Fuel Up to Play, that kind of thing. I am just now starting to get involved in our school and getting interested in the Nutrition Program so I am honestly not familiar with that.

Mrs. DAHLKEMPER. Okay, well, if you know, if anybody has any information on that as we deal with this reauthorization I would like to know what kind of access barriers that might be needing to look at so I appreciate that. I am sure somebody can probably get back to me.

Ms. MOSEMANN. Okay, and we can get that to you.

Mrs. DAHLKEMPER. And then I guess my last question just for all of you, I know we have a supply and demand problem, and as you retire a part of your herd, what happens to that cow? Where does



that cow go to and is there any issue in terms of the beef markets regarding that?

Ms. MOSEMANN. She doesn't go to the pool.

Mrs. DAHLKEMPER. She what?

Ms. MOSEMANN. She doesn't go to beef or the pool.

Mrs. DAHLKEMPER. No, I figured not but I mean is there any problem though in terms of the beef markets? Is there any push back, I guess?

Ms. MOSEMANN. It is actually in a month's time, it is actually less than one percent of the beef that goes to slaughter so in the grand scheme of things over and how CWT has spread it out it really is not that huge of an impact on the beef industry.

Mr. BRANDT. And the beef price is rather strong right now for the cows. It is as good as it has been in the last 3 or 4 years.

Mrs. DAHLKEMPER. Okay, thank you. Thank you, all, very much. I yield back.

The CHAIRMAN. I thank the gentlelady and thank the panel for being with us today, and for your patience and answers that were very helpful, and so you are dismissed and we appreciate everybody being here today. I think we received some great information and we will take that back in our deliberations in what we do not only on the farm bill but in the long-term. We will be having many more discussions on this issue and other issues as we move toward the next farm bill.

I recognize the Ranking Member of the Livestock, Dairy, and Poultry Subcommittee, Mr. Neugebauer, for any closing remarks.

Mr. NEUGEBAUER. Well, Mr. Chairman, I just want to thank you for having this hearing and I want to thank the panel. I want to thank the people that came to this hearing, as well. This is very important. This is the way that this democracy is supposed to work, is that you the people and you have selected some of the folks on this dais to represent you. I think that it is very important that we get this right as we embark on a new farm bill. I think it is valuable input but I would also encourage you to keep thinking about it. We have heard some good ideas today, but if there are other good ideas out there, we certainly want to incorporate those into the farm bill because long-term what we are all trying to do is provide for a long-term, stable agricultural economy in this country, and try to avoid the zigs and the zags, and actually provide the forum where producers can plan, and make business plans, and execute those plans, and be profitable for the long-term, so I thank all of you for being here.

The CHAIRMAN. I thank the gentleman. I thank all the Members for their involvement here today, as well. Thank you, Mr. Holden, for helping us put it together and hosting us here in his district.

Mr. HOLDEN. Thank you all for being here.

The CHAIRMAN. And under the rules of the Committee, the record of today's hearing will remain open for 30 calendar days to receive additional material and supplementary responses from the witnesses to any questions posed by a Member. And this hearing of the Committee on Agriculture is adjourned.

[Whereupon, at 11:57 a.m., the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]



SUBMITTED STATEMENT BY GERALD CARLIN, DAIRY FARMER, MESHOPPEN, PA

### **Why We Need a New Milk Pricing System**

Since the early days of a commercial dairy industry in the United States, there has been a recognition that because milk is highly perishable and has to be marketed on a daily basis, that there was a need for government oversight to provide some sort of minimum pricing structure, in order to protect dairy farmers. Cost of Production is not a new concept. The only time that dairy farmers have thrived has been when cost of production or parity pricing was enforced.

For nearly 30 years, the "Free Market" has determined the milk price. The major problem with this concept is that competition has decreased in the marketplace with fewer players and collusion has increased, while at the same time it is illegal for dairy farmers to unionize. Dairy farmers have no power on their own to set a fair milk price. At the same time, the Chicago Mercantile Exchange (CME) trading on a thin speculative market, with no outside oversight has been setting the milk price for all U.S. dairy farmers. Secrecy, self-policing, and small volume of trading, as well as manipulation and corruption on the CME have rendered it completely unreliable as a means of establishing a real value for milk. The National Agricultural Statistics Survey (NASS) merely reflects the CME prices on a delayed basis. This does not constitute a Free Market. The resulting rural decay is self evident.

The Supply Management we have had under this system has been to run farmers out of business through low milk pricing. The result has been a financially anemic dairy farm sector with those who "survive" being virtually slaves to the dairy industry.

There are basically two entities that can set a fair milk price. One entity is the Co-op structure that was set up to work in the best interest of its membership. For the most part, this entity has long since departed from its original purpose and now works on behalf of the processors. The other entity that has the power to set a fair milk price is the Federal Government if it has the will to put America's farmers first and exercise food sovereignty which is well within the rights of a sovereign nation, trade agreements notwithstanding.

The Federal Government is faced with a clear choice to either put the needs of dairy farmers first by ensuring that they are justly compensated, from the marketplace, for their work and investment, or continue to pander to the interest of corporations and the global free traders at the expense and ultimate demise of U.S. dairy farmers.

Farmers don't need or want more schemes, scams, and band aids. We need cost of production and inventory management to make it work. The Federal Milk Marketing Improvement Act of 2009 (S. 1645) is the only legislation/proposal that provides real solutions to the very real crisis being experienced by dairy farmers today.

Included are reasons why the Federal Milk Marketing Improvement Act of 2009 would better serve dairy farmers and also answers to a National Milk Producers Federation (NMPF) questionnaire.

#### ATTACHMENT 1

### **Reasons Why the Federal Milk Marketing Improvement Act of 2009 (S. 1645) Would Better Serve U.S. Dairy Farmers if Passed by Congress**

Authored by LoriJayne M. Grahn, Pelican Rapids, MN and Gerald Carlin, Meshoppen, PA, 3/13/10

- S. 1645 **WILL** value manufactured milk based on 100% of the national average total economic cost of production as determined by the Economic Research Service (ERS) of the United States Department of Agriculture (USDA). This data has been collected for years. Class I differentials would remain the same in all Federal Orders. All manufactured dairy products would be classified as Class III. The milk pricing system would be greatly simplified. *This pricing system is superior to the target price to cover operating expenses as determined by the board in the Dairy Price Stabilization Program (DPSP) proposal which would continue to rely on the current flawed price discovery system. Supply management alone does not assure fair milk pricing as demonstrated in California in 2009.*
- S. 1645 **WILL** establish accountability in regard to the volume of dairy imports and exports and the amount of milk that they represent. This accountability extends to casein and Milk Protein Concentrate (MPC). No supply management program can be implemented unless U.S. dairy exports exceed imports by both milk displacement and dollar value. The purpose is to insure that dairy imports do not undercut our dairy farmers prices or their ability to provide for our do-

mestic markets. Imported dairy products will not be allowed to destroy domestic farm prices. *Neither the DPSP proposal nor the Dairy Producer Income Protection Program (DPIPP) addresses import issues.*

- S. 1645 provides for a guarantee of at least 97½% of the total economic cost of production for those who do not increase production. No farmer that maintains production at or below the previous years level will be assessed more than the possible 2½% from the national average total economic cost of production. *The DPSP and the DPIPP do not guarantee fair milk prices and still rely on the CME to determine the value of milk.*
- S. 1645's supply management program is funded by farmers. The funds would be used to remove excess product from the market. Hopefully this food would go to those who really need it. This program will work well if the government and industry want it to work and let it work. *The DPSP supply management program is also farmer funded with money going back to farmers. The DPSP does not address removing excess product from the market, thereby possibly leading to low milk prices and the need for CWT or MILC payments.*
- **S. 1645 would save taxpayers the most money** of the three ideas. S. 1645 uses existing entities including ERS, FSA, Foreign Agriculture Statistics (FAS) and Market Administrators to collect data. Little additional overhead expense should be required. The MILC and price support programs would be unnecessary.
- S. 1645 does not interfere with existing state or Federal Orders nor does the DPSP.
- S. 1645 could be implemented as stand alone legislation without opening the farm bill. *The DPSP and DPIPP have not been introduced as bills. The DPIPP is likely to pop up in the next farm bill and would only add another burden to dairy farmers without solving any problems.*
- If an amendment to a given Federal Milk Marketing Order (FMMO) receives a negative vote during the referendum process, S. 1645 protects the continuation of the FMMO and will not allow the negative vote to terminate the FMMO. *Neither the DPSP nor DPIPP address this issue.*
- S. 1645 **encourages** new producers by allowing new farmers to produce up to 3 million pounds of milk during the first year of operation without penalty. *The DPSP imposes penalties on up to all milk produced by a new farmer in the first year. This will make it even more difficult for new farmers to start up.*
- S. 1645 **eliminates** Make Allowances. *The DPSP and DPIPP do not.*
- S. 1645 **is not a government takeover.** It merely sets a reasonable price much like they did prior to 1981. No farmer will be told that he/she can not expand. However, if there is too much milk on the market, those who increase production could receive less money (maybe much less) for the portion of milk production that exceeds the previous years production. The integrity of the program would be maintained by those who have the responsibility of collecting cost data (ERS), production data (Market Administrators or FSA), and import/export data (FAS).

#### ATTACHMENT 2

#### Answers to NMPF Strategic Planning Task Force Advance Questionnaire

Prepared by Gerald Carlin at the request of Pennsylvania Farmers Union, 6/30/09

#### ***I. The Basics With Respect to the "Federal Milk Marketing Improvement Act of 2009" formerly S. 889 now re-introduced as S. 1645.***

S. 889 Objectives:

1. S. 889/S. 1645 would stabilize farm milk prices at a level that will provide dairy farmers with sufficient income to cover the national average total economic cost of production.
2. Create price stability for processors and consumers.
3. Create stability for lenders and revive a dying rural infrastructure.
4. Create official transparency in regard to the amount of milk represented by imports and exports and encourage domestic milk production sufficient to meet domestic demand.
5. Allow for dairy farmer-funded domestic supply management sufficient to maintain a supply and demand balance and maintain a fair price to farmers.

6. Create accountability in the Federal Order amendment process by allowing proposed amendments to fail without eliminating the Federal Orders.

How would it work?

The Economic Research Service (ERS) of the United States Department of Agriculture (USDA) already collects cost information for producing milk. The national average cost of production would become the minimum farm price for manufactured milk which would all be classified as Class II. This price would be in effect for all 48 contiguous states. The Secretary of Agriculture would announce the minimum Class II price by November 1st for the following year based on the national average cost of production from data collected by the ERS. The price would be adjusted quarterly. This price would include operating cost and allocated overhead. Class I differentials would remain the same. The Secretary would also be required to report on import/export volume, milk displacement and dollar value. The Secretary would be authorized to implement a supply management program only when dairy exports exceed dairy imports by both the amount of milk represented and by dollar value.

The first phase of supply management would affect all dairy producers by reducing the Class II price by up to 50 percent on up to five percent of production. This could be seen as a signal to hold production down.

Under the second phase when the Secretary would announce a reduced price on all-milk production that is in excess of the producer's preceding year's production. A 3,000,000 pound exemption would apply to new start-up producers for the first 12 months of operation. The funds collected from the supply management assessments would be transferred to the Commodity Credit Corporation (CCC) to be used to remove excess product from the market. Essentially, the Secretary would be using producer money to purchase dairy products at full market value. The support program would be superseded by the farmer-funded program. These funds may also be used to export product.

Would it require government authorization or would it operate without government oversight?

S. 889/S. 1645 would require government authorization.

Would participation be voluntary or would it be a mandatory program?

Participation would be mandatory.

How, and by whom (*e.g.*, producers, government, government-appointed body) would key operating decisions be made?

The Secretary of Agriculture would announce the minimum Class II price based on the national average cost of production data collected by the ERS. The Secretary would also be responsible for implementation of the supply management when proper criteria is met.

How would S. 889's/S. 1645's participation be maintained?

This is a mandatory program and all farmers would participate.

How would S. 889's/S. 1645's integrity be maintained?

The integrity of the program would be maintained by those who have the responsibility of collecting cost data (ERS), production data (Market Administrators or Farm Service Agency (FSA), and import/export data (Foreign Agriculture Service (FAS)).

How would the cost of S. 889/S. 1645 be determined?

The cost of S. 889/S. 1645 would be minimal since it would use existing entities such as ERS, Market Administrators, FSA and FAS. Much of the required data collection is already being done or could be done with little additional expense.

Who would pay for the cost of S. 889/S. 1645?

Farmers would pay for the cost of S. 889/S. 1645 through supply management provisions. Tax payer dollars would not be necessary for Milk Income Loss Contract (MILC) program or price support program.

## **II. The Impact of S. 889/S. 1645 on Producers**

Would it apply to all producers the same?

Yes, the program would apply to all existing producers the same. There is a provision for new producers to produce up to 3,000,000 pounds in the first year without penalty.

Would all farms of all sizes be treated the same or would S. 889/S. 1645 affect varying farm sizes differently?

All size farms would be treated equally as per the answer to the preceding question.

Would producers in different geographic regions be treated the same or would S. 889 affect various regions differently?

Producers in all geographic regions would be treated the same.

What limits, obligations, costs, or burdens would S. 889/S. 1645 impose on individual producers? Processors?

All farms would be affected by the first phase of supply management by a reduced price on up to five percent of their milk production. Any increase in production from the previous year may also be assessed if phase two of supply management is implemented. There are no production limits. Any cost of the program is offset by a fair base price for raw milk. Thus, we would not consider this plan to be a burden on producers.

Processors would be obligated to pay the announced Class II price plus any applicable Class I differentials. However, this price would be far more stable and predictable than the current pricing formula and would finally provide a fair base price for farmers.

If S. 889/S. 1645 provides for potential assessments or rewards for every producer based on their individual milk production or milk marketed, relative to a production history (*e.g.*, last year's production):

a. Describe how that history (past production) would, or would not become capitalized (monetized) into the value of each affected operation.

There would be no monetary value placed on production history. Production history (base) cannot be bought or sold. The production history is used solely to determine what production is valued at full price and what production would be eligible for assessment.

b. Describe how S. 889/S. 1645 might help or hinder new producers from entering the industry.

S. 889/S. 1645 does not hinder in any way new producers who produce up to 3,000,000 pounds of milk in the first year. Production over 3,000,000 pounds is eligible for assessment.

c. Describe how S. 889/S. 1645 might help or hinder producers from operating their businesses in an efficient manner.

With a fair price producers will be enabled to operate in an efficient manner with less stress and with greater financial efficiency and accountability within their rural business economic infrastructure.

### **III. S. 889/S. 1645 In Practice**

Describe in detail how S. 889/S. 1645 would have operated during this period and how milk prices and dairy farm incomes would have been different under S. 889 from those actually experienced in the industry.

S. 889/S. 1645 would have provided a stable price to dairy farmers and a stable cost to processors and consumers. There would have been less incentive to import dairy products since doing so could not have reduced the domestic price. The export market could have remained viable if farmer funds from supply management would have been used to export dairy products. However, from 2000 to 2006, the United States had a significant negative balance in dairy trade. The primary objective of S. 889/S. 1645 is to ensure a fair price for milk used for domestic use and to discourage disruption of milk prices by imports being used to create an appearance of overproduction. Farm milk prices would not have been as high under S. 889/S. 1645 during the summer and fall of 2007 but would have been higher most of the rest of the time in the last decade. Dairy farm incomes would have been stable and much more acceptable.

More specifically, one of the reasons why milk prices were high in 2007 and 2008 was the export market because we exported in excess of 10% of our domestic production.

How would S. 889/S. 1645 affect the competitiveness of the U.S. dairy industry in the world market?

The Chicago Mercantile Exchange (CME) tends to be a trend setter in world dairy prices. It is our belief that each nation has a right and indeed a moral obligation

to ensure a strong and sustainable domestic agricultural infrastructure. Imports of food should be driven by need not by greed. Providing bottom dollar exports is not in the best interest of farmers regardless of the volume of product exported. However, the U.S. could be competitive in the world marketplace under this legislation.

How would S. 889/S. 1645 affect the export of U.S. dairy products when world prices are high and when they are low?

When world prices are high exports may increase. We hope that S. 889/S. 1645 will be a trend setter that farmers around the world be treated fairly and that the world prices deep would not reach deep lows.

How would the operation of S. 889/S. 1645 be affected when world prices are high and when they are low?

The operation of S. 889/S. 1645 would not be affected by world prices.

#### **IV. Political Considerations Regarding S. 889/S. 1645**

If S. 889/S. 1645 requires Congress to enact legislation to provide potential assessments or rewards for every producer for taking specific production decisions, do you believe S. 889/S. 1645 can be accepted by the necessary majority of producers and other interested parties to achieve political consensus nationally. What opposition do you see, if any, with respect to gaining widespread support for S. 889/S. 1645?

We believe this legislation would be widely accepted by farmers who understand it. The main roadblocks would be put forth by those who believe that cheaper is better regardless of the human or environmental cost. Those who see the farmer's labor as a way to increase their own profits will oppose this legislation. The global free trade crowd that sees people as economic pawns will oppose this legislation.

Is S. 889/S. 1645 consistent with the U.S.' WTO obligations?

Since supply management is farmer-funded, the main target is domestic supply and demand and the legislation does not rely on government subsidies, we believe it is consistent with the U.S.' WTO obligations.

Will S. 889 require changes to the current tariffs and quotas pertaining to imports of dairy products into the U.S.?

No changes in current tariffs and quotas would be required under this legislation.

How would the proprietary processor sector view S. 889/S. 1645?

We believe that the proprietary processor sector would view this legislation favorably since they will have consistent cost and farmers would be responsible for curbing oversupply.

How would the public (*i.e.*, taxpayers and consumers) view S. 889/S. 1645?

Taxpayers should view this legislation favorably since it is not taxpayer funded. If consumers are properly educated to realize that the current farm milk price volatility keeps ratcheting retail prices higher and that a stable, fair, farm milk price does not have to mean excessive retail prices, they will view this legislation favorably. Without a system that pays farmers fairly for their milk very few farmers will remain in business to provide fresh local milk, dairy products and beef for our domestic communities.

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SUBMITTED MATERIAL BY BRYAN GOTHAM, DAIRY FARMER, ST. LAWRENCE COUNTY,  
NY

#### **Simple Dairy Policy Goals for Farm Bill 2012**

- New price discovery rather than Chicago Mercantile Exchange (CME) driven. The CME only sells surplus cheese. Why is the average cheese price based off the surplus?
- Provide a milk price that is adequate and supports the "Average" sized farm. Without this, any policy is not sustainable without extreme government subsidies, such as those we have today. With adequacy, the MILC program can be eliminated.
- Remove make allowance and support price. Processors and need more responsibility for the burden of the oversupply with financial signals of their own. Farmers also need to be more responsible; they should not be able to market every drop of milk that they want.

- The USDA inspects 1% of imported food for quality, but 100% of domestic food is tested and sampled for quality. Imported food needs to meet the same standards and regulation as domestic food. If imported dairy products cannot meet domestic standards, they should not be put into our food.
- Provide quality incentives in the Federal formulas.
- Class I fluid prices need to be paid on regional cost of production factors to truly reflect the real value of producing fresh, local milk.
- Reporting of cheese inventory needs to be mandatory.
- The value of cheese needs to be determined by the entire market from high value to low value cheese. The value needs to be broad based and electronically driven.
- All dairy products wholesaled need to be included in the pricing of manufactured dairy products for dairy farmers.
- If the burden for the oversupply is completely placed onto the farmer through a supply management system than a financial allowance for this financial burden needs to be in the Federal formulas for farmers. This would remove the taxpayers' financial responsibility today.

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SUBMITTED STATEMENT BY ARDEN TEWKSBURY, MANAGER, PROGRESSIVE  
AGRICULTURE ORGANIZATION\*

April 20, 2010

Hon. COLLIN C. PETERSON,  
*Chairman,*  
Committee on Agriculture,  
U.S. House of Representatives;  
and Members of the Committee.

Mr. Chairman,

My name is Arden Tewksbury. I reside at [Redacted].

I have been a dairy farmer all of my life. Since 1991, I also have been the manager of the Progressive Agriculture Organization located at [Redacted], Meshoppen, Pennsylvania. In the past, I also have done a substantial amount of work for the Pennsylvania Farmers Union, and I have been a member of the Dairy Committee of the Pennsylvania State Grange. In addition, I was a member of the Board of Directors of the Regional Cooperative Marketing Agency (RCMA) and a member of the Board of the Regional Cooperative Bargaining Agency, a subsidiary of RCMA.

I was a member of the Board of Directors of the former Eastern Milk Producers for 9 years, serving as Vice President for 2 years and President for 5 years. One of our foremost accomplishments was to bring Leprino Foods into South Waverly, Pennsylvania, near Waverly, New York, in a joint venture with Eastern Milk Producers. This mozzarella cheese plant ended up providing a market for the milk of hundreds of dairy farmers. The need for this milk plant became necessary when many proprietary milk handlers went bankrupt and other milk handlers terminated a marketplace for hundreds of other dairy farmers.

However, entering into a joint venture with Leprino Foods and full supply contracts with other milk handlers *never* caused me to lose sight of the main objective of a dairy cooperative, and that is to obtain a *fair* milk price for dairy farmers.

This is what is bringing us to the table today: the need for a *fair milk price for all dairy farmers*.

Many dairy farmers have been on a collision course with financial disaster since April 1, 1981. This is the date on which the United States Congress froze the support price on manufactured milk products. In addition, Congress prohibited any further upward adjustment on the milk support price. Previously, the U.S. Secretary of Agriculture was required to adjust the support price twice a year.

Through the 1980's and 1990's, the U.S. Congress made several attempts to resolve the dairy crisis. Such programs, such as the Dairy Herd Termination Act, the Milk Diversion Program, and the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act of 1985, only added additional turmoil on many dairy farms across the United States for two main reasons:

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\*The testimony is supported by Progressive Agriculture Organization, Meshoppen, Pennsylvania; Pennsylvania Farmers Union, Millville, Pennsylvania; New York Chapter, National Farmers Organization; National Family Farm Coalition, Washington, D.C.



1. The lack of a milk pricing formula that accounted for the cost of producing milk on our farms.
2. The lack of a true inventory management program, which could be funded by dairy farmers to be sure the production of milk stayed in line with the domestic needs for milk.

In the late 1990's, milk hearings were held in Alexandria, Virginia, to consider a new milk pricing formula for paying dairy farmers. Some of us testified vehemently that a new pricing formula was needed to enable dairy farmers to cover their cost of production.

However, our voices were drowned out by those who insisted that the dairy industry must impose a product pricing formula which contained the infamous "make allowance" for milk processors that would allow the processors the opportunity to cover their cost of operations. What a great idea!! But, what about the *dairy farmers' cost of operations*????

I have written hundreds of editorials in my lifetime, but the one I am proudest of was written after "Order Reform" was implemented on January 1, 2000. The title was: "*ORDER REFORM: A Processor's Dream and a Dairy Farmer's Nightmare.*"

Now, today, many of the people who disagreed with us in the late 1990's are clamoring for changes in the milk pricing formula. Certainly, a change is needed and needed immediately.

In January 2009, we estimated that dairy farmers across the United States would collectively lose nearly \$15 billion. Unfortunately, this figure proved to be correct. Now we are almost through a third of 2010 and still nothing substantial has been done to correct the serious financial inequities facing dairy farmers from California to Vermont. We are seeing dairy farmers continually going out of business. We are witnessing the dairy infrastructure of rural America on the verge of final destruction. Dairy farmers in many areas are unable to receive credit for their needs. Many dairy farmers cannot repay loans they obtained during 2009.

The dairy farmers' crisis must be addressed *NOW*. Dairy farmers cannot wait for the next farm bill to solve their immediate crisis. Actions can and must be taken now.

The original RCMA proved that there were more funds in the marketplace than what dairy farmers were receiving. The Northeast Interstate Dairy Compact proved that there was more money in the marketplace for dairy farmers than what they were receiving.

Consumers are paying an additional nearly 30¢ per gallon for milk as a result of actions taken by the Pennsylvania Milk Marketing Board (PMMB). This equates to about \$3.00 per cwt on milk used for fluid purposes (not milk used for manufacturing purposes). While many dairy farmers are wondering where all this extra money goes, it does prove that the marketplace can absorb a much *greater price* than what the present pricing system allows. And, finally, a milk handler in the Northeast is paying his shippers an *unqualified* premium on all the milk they ship which again proves that there is substantial room in the marketplace to pay all dairy farmers much needed funds.

Immediate emergency action must be taken for a *SHORT-TERM* resolution to the current crisis.

1. Either the U.S. Secretary of Agriculture or the U.S. Congress must raise the support price of manufactured milk products up to \$18.00 per cwt. *OR*
2. Either the U.S. Secretary of Agriculture or the U.S. Congress must establish a floor price under all classes of manufactured milk at a level between \$18.00 and \$20.00 per cwt. Existing Class I differentials must be added to the manufactured milk price to determine the value of Class I milk.
3. If needed, the U.S. Congress could use the milk supply management program contained in "The Federal Milk Marketing Improvement Act of 2009" (S. 1645) to deal with any fear of overproduction.

These steps or other comparable steps must be taken immediately for the sake of our dairy farmers and their dairy support businesses.

For a *LONG-TERM* solution to the problems overwhelming the majority of dairy farmers, we strongly urge that the U.S. House Agriculture Committee give serious and much-needed consideration to a companion bill to "The Federal Milk Marketing Improvement Act of 2009" (S. 1645) as a reasonable cure for the ruinous low raw milk prices dairy farmers have been subjected to over the past many years.

S. 1645 would price manufactured milk on the national average cost of production. Existing Class I differentials would be applied to the manufactured price which is basically the current practice now being used to determine the value of fluid milk for bottling.

S. 1645 contains an inventory management program which would be funded by dairy farmers. S. 1645 also calls for the U.S. Secretary of Agriculture to be sure that imports of dairy products do not exceed the amount of exported dairy products. No longer should imported dairy products be allowed to depress milk prices paid to American dairy farmers.

S. 1645 mandates that the U.S. Secretary of Agriculture must adjust the raw milk prices on a quarterly basis.

S. 1645 also eliminates processor "make-allowances" which are currently being deducted from the value of milk products before dairy farmers are paid.

S. 1645 also calls for the continuation of the Federal Milk Marketing Orders in the event that a proposed Amendment to the Order is rejected.

However, the most important item in S. 1645 is the realization that the dairy farmers' pay price will have a direct relationship to their cost of production for the first time since the early 1980's.

The pricing formula in S. 1645 will be supported with a true milk supply management program which will not cost the taxpayers any direct money for payments.

All the meetings we have held recently with nearly two thousand dairy farmers indicate that they support S. 1645. During the last year, we have collected signatures from over 2,000 dairy farmers and consumers in support of a new pricing formula for dairy farmers based on the dairy farmers' cost of production.

However, even more dramatic is the fact that during the last 10 years, we have had over 150,000 consumers profess to us that they are deeply concerned about the demise of the countless number of family dairy farmers who have been pushed out of business by years of low raw milk prices. These consumers always claim with conviction that they would be willing to pay more for milk *if* the dairy farmers received the additional funds.

It is time for the dairy farmers to receive a fair price from the marketplace. Dairy farmers do not want Milk Income Loss Contract ("MILC") payments, and, contrary to the message delivered by some people, I have found no dairy farmers who believe that they should be compelled to buy into some highfalutin insurance program to compensate for inadequate raw milk prices.

Let's give dairy farmers a *fair* price from the marketplace. Dairy farmers will then have an adequate cash flow to do their part and plays major role in revitalizing rural America.

Thank you.

#### ATTACHMENT 1

Accessed 8/13/2009 from <http://thomas.loc.gov/cgi-bin/query/z?c111:S.1645>:  
S. 1645 IS

111th CONGRESS  
1st Session

#### **S. 1645**

To amend the Agricultural Adjustment Act to require the Secretary of Agriculture to determine the price of all milk used for manufactured purposes, which shall be classified as Class II milk, by using the national average cost of production, and for other purposes.

#### **In the Senate of the United States**

**August 6, 2009**

Mr. SPECTER introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

#### **A Bill**

To amend the Agricultural Adjustment Act to require the Secretary of Agriculture to determine the price of all milk used for manufactured purposes, which shall be classified as Class II milk, by using the national average cost of production, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

#### **Section 1. Short Title.**

This Act may be cited as the 'Federal Milk Marketing Improvement Act of 2009'.

**Sec. 2. Prices Received for Milk Under Milk Marketing Orders.**

Section 8c(5)(B) of the Agricultural Adjustment Act (7 U.S.C. 608c(5)(B)), reenacted with amendments by the Agricultural Marketing Agreement Act of 1937, is amended—

- (1) in the first clauses (i) and (ii), by inserting ‘(based on the blended price of all milk covered by the order)’ after ‘uniform prices’ each place it appears; and
- (2) in clause (b) of the matter following the first clause (ii), by inserting ‘and the component value’ after ‘quality’.

**Sec. 3. Class II Milk Pricing.**

Section 8c(5) of the Agricultural Adjustment Act (7 U.S.C. 608c(5)), reenacted with amendments by the Agricultural Marketing Agreement Act of 1937, is amended by adding at the end the following:

‘(P) CLASS II MILK PRICING.—

‘(i) MINIMUM PRICE.—The Secretary shall base the minimum price for Class II milk on the average cost of producing all milk in the 48 contiguous States, as determined by the Economic Research Service of the Department of Agriculture in accordance with clause (ii) (referred to in this subparagraph as the ‘national average cost of production’).

‘(ii) NATIONAL AVERAGE COST OF PRODUCTION.—For purposes of this subparagraph, the national average cost of production shall equal the national average of the operating cost and the allocated overhead cost of producing all milk.

‘(iii) SURVEY.—For purposes of clause (ii), the Secretary shall survey producers and associations of producers subject to Federal and State milk marketing orders and in all unregulated areas applicable to all milk.

‘(iv) PRICE ANNOUNCEMENT.—

‘(I) IN GENERAL.—Not later than November 1 of each calendar year, the Secretary shall announce the minimum price for Class II milk for the next calendar year, as determined in accordance with clause (i).

‘(II) ADJUSTMENTS.—Using the most currently available national average cost of production, the Secretary shall adjust the price announced under subclause (I) for a calendar year on April 1, July 1, and October 1 of the calendar year.

‘(v) BASIC FORMULA PRICE.—

‘(I) IN GENERAL.—The Secretary shall use the Class II milk price announced under clause (iv) as the basic formula price for all Federal and State milk marketing orders and all unregulated milk production areas.

‘(II) CLASS I MILK.—

‘(aa) IN GENERAL.—The price of Class I milk in all Federal and State milk marketing orders and all unregulated milk production areas shall be equal to—

‘(AA) the basic formula price under subclause (I); plus

‘(BB) the applicable Class I milk differential under Federal and State milk marketing orders.

‘(bb) UNREGULATED AREAS.—For purposes of item (aa)(BB), the Secretary shall assign comparable Class I milk differentials to each unregulated area.

‘(vi) ESTIMATION OF ANNUAL MILK PRODUCTION AND DOMESTIC CONSUMPTION.—Not later than November 1 of each calendar year and taking into consideration the import projections and export projections for all milk products, the Secretary shall estimate the quantity of all milk to be produced in the 48 contiguous States and marketed by producers for commercial use during the next 12 months.

‘(vii) INVENTORY MANAGEMENT PROGRAM.—

‘(I) IDENTIFICATION AND DETERMINATION OF DAIRY PRODUCTS.—

‘(aa) IN GENERAL.—Not less frequently than once each quarter, the Secretary shall—

‘(AA) identify all dairy products (including cheeses, curds, butter, butterfat, butter oil, buttermilk, anhydrous milk fat,

dairy spreads, milk, cream, concentrated milk, condensed milk, nonfat dry milk powder, whole milk powder, skim milk powder, all other forms of powdered milk, yogurt, ice cream, whey, whey powder, dried whey, whey protein concentrate, all other forms of whey products, milk protein concentrate, milk protein isolate, casein, caseinates, lactose, food preps containing milk, and milk chocolate) imported into, or exported from, the United States; and

‘(BB) determine the quantity of raw milk contained in each such product.

‘(bb) INCLUSIONS.—In identifying dairy products under item (aa)(AA), the Secretary shall include any current or projected future imports or exports of a product used for dairy, a dairy substitute, or ingredient, including any product that does not have the status of ‘generally recognized as safe’, as determined by the Commissioner of Food and Drugs.

‘(II) MILK PRODUCTION TOTALS.—Not later than February 1 of each calendar year, the Secretary shall determine the total quantity of all milk produced by each producer or farming operation during the preceding calendar year.

‘(III) EXCESS PRODUCTION DETERMINATION.—Not more than once every 2 months, if the Secretary, acting through the Commodity Credit Corporation, has purchased the maximum quantity of milk and milk products as required by law to administer programs including child nutrition programs (as defined in section 25(b) of the Richard B. Russell National School Lunch Act (42 U.S.C. 1769f (b)), feeding programs administered by the Secretary of Defense, institutional programs, and any other mandated Federal food or feeding programs, the Secretary shall determine whether an excess quantity of milk and milk products is being produced for the national domestic market.

‘(IV) REDUCTION IN PRICE RECEIVED.—

‘(aa) IN GENERAL.—Subject to item (bb), if the Secretary determines under subclause (III) that there is excess production, the Secretary may provide for a reduction in the price received by producers for not more than 5 percent of all milk produced in the 48 contiguous States and marketed by producers for commercial use.

‘(bb) LIMITATION.—The Secretary shall not provide for a reduction in the price received by a producer under item (aa) unless the Secretary determines that there exists a positive trade balance in dairy products described in subclause (I)(aa)(AA) that are imported into, or exported from, the United States, based on—

‘(AA) dollar value; and

‘(BB) the quantity of milk represented by imports and exports, as determined under subclause (I)(aa)(AA).

‘(V) AMOUNT.—The amount of the reduction under subclause (IV) in the price received by producers shall not exceed half the minimum price of Class II milk.

‘(VI) ADDITIONAL REDUCTION.—If the Secretary determines that the reduction described in subclause (IV) is insufficient to reduce excess production, subject to subclauses (VII) and (VIII), the Secretary may reduce the price received by any producer or farming operation that has increased the production of all milk in a calendar year, as compared to the immediately preceding calendar year.

‘(VII) APPLICATION.—A reduction in price under subclause (VI) shall apply only to the quantity of milk produced in excess of the quantity of milk produced during the previous calendar year.

‘(VIII) NEW PRODUCER EXCEPTION.—A new producer, as defined by the Secretary, shall—

‘(aa) during the 1 year period beginning on the date on which the new producer commences operation, be exempt from any applicable price reduction relating to the first 3,000,000 pounds of milk produced by the new producer;

‘(bb) in the case of any milk produced in excess of 3,000,000 pounds during that 1 year period, be subject to each price reduction described in subclauses (IV), (V), and (VI); and

‘(cc) after that 1 year period, be subject to each price reduction that applies to existing producers.

‘(IX) APPEALS.—

‘(aa) IN GENERAL.—A producer subject to an additional reduction under subclause (VI) may appeal to the Federal or State milk marketing administrator to provide evidence that the producer did not increase production in the calendar year that the reduction was in effect when compared to the immediately preceding calendar year.

‘(bb) SUBMISSION OF APPEAL.—A producer that ships to an unregulated milk handler may submit any appeal of the producer to the Secretary or to the designated representative of the Secretary.

‘(X) EXTRAORDINARY CIRCUMSTANCES.—In deciding an appeal submitted by a producer under subclause (IX), a Federal or State milk marketing administrator (or, in the case of an appeal under subclause (IX)(bb), the Secretary or the designated representative of the Secretary) shall take into consideration production losses due to, at a minimum, fire, severe weather conditions, or severe disease outbreaks.

‘(XI) COLLECTION.—Except as provided in subclause (XII), reductions in price required under subclause (IV) or (VI) shall be collected by Federal and State milk marketing administrators and timely remitted to the Commodity Credit Corporation to offset the cost of purchasing excess milk products.

‘(XII) COLLECTION IN UNREGULATED AREAS.—Reductions in price required for unregulated areas under subclause (IV) or (VI) shall be collected by the Secretary and timely remitted to the Commodity Credit Corporation to offset the cost of purchasing excess milk products.

‘(viii) PROHIBITION ON CERTAIN CHARGES.—In carrying out this Act, the Secretary shall not impose charges on producers for the cost of the conversion of raw milk to manufactured products.

‘(ix) RESPONSIBILITIES OF MILK PURCHASING HANDLERS.—A milk handler that purchases milk from a producer shall assume title for the milk at the time at which the milk is pumped into a milk truck provided by or otherwise delivered to the milk handler.

‘(x) APPLICABILITY.—This subparagraph applies to all producers and handlers of milk in the 48 contiguous States.’

**Sec. 4. Amendments to Federal Milk Marketing Orders.**

Section 8c(17) of the Agricultural Adjustment Act (7 U.S.C. 608c(17)), reenacted with amendments by the Agricultural Marketing Agreement Act of 1937, is amended by adding at the end the following:

‘(H) ORDERS COVERING MILK AND MILK PRODUCTS.—In the case of an order covering milk or milk products, disapproval of an amendment to the order shall not be considered to be disapproval of—

- ‘(i) the order; or
- ‘(ii) other terms of the order.’

ATTACHMENT 2

**Estimated Pay Price to Dairy Farmers Under the Federal Milk Marketing Improvement Act of 2009 (S. 1645)**

Federal Order	Class II Basic Formula	Class I Differential	Class I	Price Paid to Dairymen	Class I Utilization
1—Boston	\$22.00	\$3.25	\$25.25	\$23.51	46.5%
5—Appalachian	\$22.00	\$3.10	\$25.10	\$24.05	66.3%
6—Florida	\$22.00	\$4.00	\$26.00	\$25.36	84.0%
7—Southeast/Atlanta	\$22.00	\$3.10	\$25.10	\$23.83	59.3%
30—Midwest/Chicago	\$22.00	\$1.80	\$23.80	\$22.28	16.0%
32—Central/Kansas City	\$22.00	\$2.00	\$24.00	\$22.63	31.4%
33—Mideast/Cleveland	\$22.00	\$2.00	\$24.00	\$22.77	38.4%
124—Pacific NW/Seattle	\$22.00	\$1.90	\$23.90	\$22.56	29.5%
126—Southwest/Dallas	\$22.00	\$3.00	\$25.00	\$23.09	36.4%
131—Arizona	\$22.00	\$2.35	\$24.35	\$22.88	37.5%

**Estimated Pay Price to Dairy Farmers Under the Federal Milk Marketing Improvement Act of 2009 (S. 1645)—Continued**

Federal Order	Class II Basic Formula	Class I Differential	Class I	Price Paid to Dairymen	Class I Utilization
California	\$22.00	\$1.90	\$23.90	\$22.34	18.0%

\* This revised formula was compiled by Arden Tewksbury, Manager, Progressive Agriculture Organization to more effectively equalize the prices paid to dairy farmers in the United States. Figures used are 2009 figures.

Pro Ag can be reached at (570) 833-5776 or [proagorg@yahoo.com](mailto:proagorg@yahoo.com).

ATTACHMENT 3

**The Following Is a Summary of the Specter-Casey Dairy Bill S. 1645 “The Federal Milk Marketing Improvement Act of 2009”**

(1.) *ALL* milk produced in the United States will be priced on the national average cost of producing milk on the dairy farms.

(2.) *ALL* milk used for fluid purposes will be classified as Class I.

(3.) *ALL* milk used for manufacturing purposes will be classified as Class II.

(4.) The Class II price will be the national average cost of production. This price will be uniform in all Federal and state Orders as well as unregulated areas. The Class I price will be determined by using the Class II price *plus* the existing Class I differentials that are currently in place in each Federal Order. The State of California and other unregulated areas will be assigned a Class I differential by the U.S. Secretary of Agriculture.

(5.) *ALL* Federal and State Milk Marketing Orders will remain intact. Each Milk Marketing Order will be responsible for determining the component value of milk.

(6.) S. 1645 prohibits any cost of operating milk manufacturing plants (commonly called “Make Allowance”) to be levied on dairy farmers.

(7.) The U.S. Secretary of Agriculture will adjust the value of milk four times a year.

(8.) S. 1645 calls for an inventory supply management program. The program is aimed at preventing a build up of domestic milk products and prevents foreign milk products from destroying dairy farmer prices.

(9.) The inventory management program can not be implemented unless the imports and exports of dairy products are in balance.

(10.) *ALL* dairy farmers will fund the inventory management program. *If* and only *if* the program is necessary then all dairy farmers will receive a lower price on up to 5% of their production. This price will be ½ of the value of manufactured milk. However, the dairy farmers will receive the correct price on 95% of their milk. *Please remember* if the inventory management program *is not implemented*, then the dairy farmer’s will receive the full price. *Also*, the U.S. Secretary of Agriculture may decide that only a reduction of one or two percent of total production may be sufficient.

(11.) If this reduction is insufficient to reduce excess production, the Secretary may reduce the price for producers who have increased production over the previous year. This reduction only applies to the volume of increased production.

(12.) A new producer may produce milk up to 3 million pounds in the Milk Marketing Order he is regulated under before he is subject to the provisions of the inventory management program described in point “11.” This relates only to his first year.

(13.) The intent of S. 1645 is not to tell dairy farmers how much milk they can produce. However, over-production will be addressed in the inventory management program.

(14.) An inventory management program is necessary to prevent a small amount of milk from forcing \$20.00 per hundredweight milk down to \$12.00 per cwt.

(15.) The beauty of S. 1645 is that this bill will be farmer-funded and will *NOT* cost the USDA any direct cost. The dairy farmer’s reward for funding the bill (if necessary) is for the first time the dairy farmers will receive fair/stable prices for his/her efforts.

(16.) Rejection of proposed FMMO amendments will not result in the elimination of the FMMO.

(17.) S. 1645 allows milk hauling charges to be levied on dairy farmers. The cost of production figures by the USDA pick up the hauling charges. Again, the dairy farmers’ hauling costs *are* in the cost of production figures.

## SUBMITTED STATEMENT OF RALPH E. MOYER, DAIRY PRODUCER, MYERSTOWN, PA

You have heard all the numbers, seen the research, and are aware of questionable practices at the Chicago Board of Trade. You have also heard how Dean's Foods, and other dairy processors, have had record profits this past year. I'm not going to bore you with more of that; I want to make it more personal. I want to share a little about how dairy pricing affects a family run dairy farm, the local community, and the country.

My name is Ralph Moyer. My wife, Crystal, and I own and operate Mor-Dale Farms, a dairy and crop farm in Berks County, Pennsylvania. We have three adult children. My parents and our family moved to Berks County in 1967. Through many years of hard work and sacrifices, my family built a successful dairy and crop farm.

Crystal and I worked into the business and have spent 30 years improving and growing our family-owned business. Five years ago we started to look at our options. We had old dairy facilities that would be costly to renovate. We looked at options for new facilities that would provide a long term, viable business that would appeal to future generations. We also provide school and community educational events and this was important for us to consider in our decision.

In the spring of 2009, we started construction on a new, four-unit, Lely robotic milking facility that will milk up to 250 cows. This includes increased feed storage to provide year-long storage of livestock feed. A new manure storage and biogas digester system is being completed this summer. This will turn methane gas into electric to run our operation, with an added benefit of providing extra energy for our community. This will create a long-term, environmentally sound, community friendly, family-owned business.

This construction job created many jobs for local businesses over the last year and a half and will continue to provide a significant influence on the local economy in service, equipment and supply purchases.

We used a conservative \$16.00/cwt for our milk price while doing our budgeting and feasibility study. This past year has been and continues to be a serious financial struggle with no real end in sight. When I was in high school in the late 1970's my parents were receiving over \$15.00/cwt for their milk, that's more than we averaged for the last year on our farm. Agriculture in general and dairy farming in particular, is different than many other businesses. We buy most of our inputs and supplies at retail prices. We then grow or produce a product, in this case milk, and sell it at wholesale prices.

We pay for the hauling for almost everything we buy, and then when we sell our milk, we are charged the hauling cost to deliver it to the processor. A make allowance, or the amount the processor needs to produce the end product, like cheese, is taken out of our price. The advertising of milk and related products is deducted from the amount we receive.

We contribute to the CWT program, which is designed to remove product from the market to improve our prices. The problem is, as we remove safe, locally produced milk; then imported, unregulated, questionable-quality products are brought in to replace them. The United States does not produce a surplus of dairy products; the last number I heard was that we produce a deficit of about 1 billion pounds. The worst part is that a large percentage is being replaced with products like Milk Protein Concentrates and other ingredients that do not need to meet our quality standards. Some are not approved to be used in food, but are allowed into the United States for glue or construction use. This is why a quota or supply management program will not be successful in this country. Many articles have been written about how milk pricing is unfair and the ability of a few large buyers to control the price in their favor.

One of the most important things we can do for the strength and security of our country is utilizing locally produced food. We must keep our dairy farms profitable in order for our country and economy to prosper. Dollars generated by dairy farms are multiplied several times over by being reinvested back into other local businesses. The amount of other businesses that are impacted by dairy farms in a community is astounding. To list a few we personally deal with; bank, equipment dealer for purchases and service of farm equipment or milking equipment, trucking, custom operators, feeds purchased, veterinary services, nutritionist, and accounting. Many are quality, well paying jobs, creating tax revenues to provide for our schools, roads, and other necessary services in our communities. We would like to provide the opportunity for a young person or couple to be part of our business but unless the financial picture improves that will not be possible.

SUPPLEMENTAL MATERIAL SUBMITTED BY LAUREN MOSEMANN, DAIRY PRODUCER,  
MISTY MOUNTAIN DAIRY LLC

In response to Rep. Kathy Dahlkemper’s question for Lauren Mosemann regarding the barriers to access in the Child Nutrition Reauthorization, NMPF is submitting the following for the record:

The three most recognized barriers to participation in federal child nutrition programs are restrictions on eligibility, excessive paperwork, and the stigma associated with being a public assistance recipient. The child nutrition bill currently making its way through Congress offers an excellent opportunity to address all three barriers.

**Eligibility Expansion**

The Senate-passed bill expands afterschool meals from 13 states to all 50 states, making 140,000 more at-risk kids eligible for meals—as opposed to snacks—after school. The Senate bill also loosens restrictions on children participating in the Summer Food Program, includes \$10 million to establish more local Summer Food Programs, and requires schools to promote the availability of Summer Food Program sites. All these provisions expand eligibility for child nutrition programs. Not in the bill but supported by the School Nutrition Association is expanding free meals to all kids in families with incomes below 185 percent of poverty. Also not in the Senate bill but supported by USDA and SNA is providing commodity support for school breakfasts. A third of the children who participate in the school lunch program do not receive a school breakfast. Federal commodity support would be an incentive for schools to offer breakfasts.

**Paperwork Reduction**

The Senate bill includes a number of provisions that simplify or eliminate paperwork requirements for child nutrition programs. Among them, the bill allows schools in high-poverty areas to offer free school meals to all students without applications, expands automatic certification for free school meals to kids whose families receive Medicaid, offers bonuses to states that improve direct certification programs, and adds foster children to the list of those who are automatically eligible for free meals. The bill eliminates the need for day care centers and their sponsors to submit duplicative paperwork to participate in the Child and Adult Care Food Program (CACFP) and allows the WIC program to share educational materials with CACFP, reducing the administrative burdens on CACFP.

**Stigma Reduction**

The Senate bill transitions from paper coupons to electronic benefits in the WIC program, as has already been successfully done for food stamps. EBT is one proven way to reduce the stigma of public assistance programs. Another is to make all children eligible for school meals. The Senate bill expands “universal” school breakfast programs—in which all kids in a school are eligible for a free breakfast—and encourages innovations in offering breakfast, including breakfast-in-the-classroom. These programs expand eligibility while they reduce the stigma of participating in federal assistance programs.