United States House of Representatives
House Committee on Agriculture
Witness Statement of Brad Bouma
President, Select Milk Producers, Inc.
Texas Tech Museum, Texas Tech University, Lubbock, TX
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Introduction

Mr. Chairman, on behalf of Select Milk Producers, Inc. and Continental Dairy Products, Inc., I welcome you to Lubbock, Texas. Thank you for giving us this opportunity to discuss with you the opportunities for the dairy industry in the upcoming 2012 Farm Bill.

My name is Brad Bouma. I and my wife Barb live in Plainview, Texas, just a few miles from here, where we operate an integrated dairy farm. With the addition of our sons Brandon and Brent to the management team, we represent 5 generations of dairy farming that began in The Netherlands. I also partner in a dairy farm in NW Indiana and am the operating partner in a commercial dairy-heifer feedlot in Hale Center, Texas.

I serve as President of Select Milk Producers, Inc., my marketing cooperative and as a member of the Board of Directors of Greater Southwest Agency. I am a member of Continental Dairy Products which markets my Indiana farm milk. I also serve on the Board of Directors of First National Bank, El Paso.

Select Milk is a milk marketing cooperative owned by only dairy farmers who have dairies in New Mexico, Texas, Oklahoma, and Kansas. Continental Dairy Products, Inc. is a milk marketing cooperative whose members operate dairy farms in the states of Michigan, Ohio, and Indiana. The milk of Continental's members supplies customers in the Mideast, Appalachian, and Southeast marketing orders. Due to its high quality feed, abundant fresh water, good dairying climate, and proximity to the major markets of the United States, that region of the country along with the Upper Midwest are poised for further growth.

Though using different legal entities to maximize tax, estate planning, and other business goals, all of Select and Continental member dairies are owned and operated by families just like my family-.

The Greater Southwest Agency is a cooperative of four cooperatives—Dairy Farmers of America, Lone Star Milk Producers, Zia Milk Producers, and Select. The annual deliveries by members of GSA would qualify it, if a state, as the third largest milk producing state after California and Wisconsin.

As I am sure you have noticed, the dairy farms in the SW are on the average larger than farms elsewhere. But such sized farms can be found in increasing numbers in other states such as Michigan, Wisconsin, Minnesota, Indiana, Illinois, and Ohio. The size of the farm, however, will not define who and who are not the successful dairies of the future. The current depression in dairy farming has adversely affected all farms whether they milk 35 or 3500 cows. Future policies must not be defined as for the "small" or the "large" but for all. Dairy policy must be for all milk produced not a minority of the milk produced. Rather we must focus on what it takes to compete in today's world market. Expansion of foreign markets for our milk and milk products will benefit all dairy farmers regardless of region or size

To meet the world market, dairy farmers in the USA can and must produce the highest quality milk possible. We have been the World's leader in high quality, affordable food stuffs and we must enhance this position. The Size of the dairy farm does not change that. We must be innovators in milk and milk products that can supply milk's nutrition in more ways than traditional dairy products. That is not a size or regional issue. We must remove the regulatory and pricing systems that penalize innovation, quality, and growth of our markets. Size is not part of this equation.

The Farm Bill is due to be passed by 2012 with it taking effect late that year and, traditionally, in place for five years or late 2017. All of that is well into the future and the industry will see significant changes in the next two years and clearly in seven. As a consequence all discussions of dairy policy must be focused on what the dairy industry will be when the programs begin and what we want the dairy industry to be like when it ends. Creating, or modifying older programs designed for prior times, is not only irrelevant to future policy, but will hurt.

In the past we, like most everyone in the industry, discussed dairy policy in terms of milk pricing, federal orders, and similar programs. Though the underlying concept of profit for dairy farmers remains relevant, those policy choices no longer are the only issues defining the future American dairy industry.

We are part of the world. The reduction in dairy exports from the highs of 2008 to 2009 is often identified as a cause of the drop in milk prices at the farm. Despite

that drop, exports of dairy products in terms of pounds for 2009 were the third highest in history. Exports will continue to grow. Just as the role of exports grew from 2007 when the present farm bill was passed, they will be higher in 2012 and even higher in 2017. Prior to 2007, the American dairy farmer was almost entirely in a domestic market and had little impact from the dairy markets of the world. It is no longer a decision of whether or not to be part of the world. American dairy farming and the world are now fully engaged. The question is whether we will adapt and expand to benefit from this great market opportunity, or retreat into a fortress mentality and disintegrate into a smaller, poorer sector in agriculture.

We are a part of this new market. The Farm Bill can assist us in benefitting from this growing opportunity. To prepare for the growth of the dairy exports, three major policy issues must be addressed—sustainability, product innovation, price intervention programs, and quality. The primary one of these is sustainability.

Dairy Farm Sustainability

To maintain profitability in the domestic market and be able to compete in the world market, dairy farms must be sustainable. The term "sustainable" is one of those words that is often misused and misunderstood. It is not "climate change". We desire to produce and deliver to consumers the greatest and most wholesome food in a way that benefits our animals, protects our environment, and makes us a profit. American farmers have always been first and foremost a steward of their land and animals, always desiring to pass on something better to the next generation. This motivation is now heightened because our customers care about these same things, competition among those who use our products is being used to the advantage of those products that are sustainable, retailers market the benefits of sustainability, and food service providers tout the value of sustainable sources of their ingredients. All of that means more and more markets for our products and more markets means more profit.

The Dairy Innovation Center, a collaboration of dairy producers and processors has provided the following guideline regarding sustainability.

The dairy industry is committed to:

- Recognizing and appreciating all members in the value chain from farm to table

- Working collaboratively with all stakeholders, consistent with the vision
- Taking responsibility for our environmental impacts and celebrating our positive contributions to the planet
- Ensuring economic fairness across the value chain
- Preserving and enhancing the health and wellness of all people
- Utilizing both sound science and a transparent process to foster continuous improvement

Key to these principles is that sustainable dairy farming is ultimately profitable dairy farming. Unless programs and processes yield economic benefits to the dairy farmers who practice them, the program is not sustainable. Profitability is important not only to the dairy farmers but to the employees on the farm. A typical dairy farm has one employee for every 100 cows. A three thousand cow dairy would have 30 employees. These are direct employees, and several times that number of jobs are created in the local economy to support the farms' many activities.

Sustainable dairy farming results in dairy farmers implementing technologies that capture the waste produced on the farm and turn it into a valuable product -- energy -- as well as finding other ways to include renewable energy production into existing systems. This adds to the profitability of the farm as well as reducing the environmental impact of the waste. These technologies include systems that capture methane gas and use it to power generators creating electricity and heat for the farm or nearby communities, converting methane to CNG to power farm machinery and transportation of milk, and implementing wind and solar power options in fields and on top of structures that house the cows. Good old American ingenuity will create the most sustainable and competitive dairy industry in the world if we put our Ag dollars to work in the right areas.

Dairy producers have entered into a memorandum of understanding with USDA to reduce the carbon foot print of dairy farming by 25%. Select and Continental members have committed to implement sustainable practices that will simultaneously reduce the carbon foot print of the dairy farm, substantially reduce the environmental risks of modern dairy farming, and produce a source of energy 24 hours a day seven days a week 365 days a year.

We are committed to making dairy farming sustainable. Members of our

cooperative have invested heavily in and currently are operating numerous methane digesters powering electric generators for use on our farms in Indiana; they are studying a solar alternative in Texas; and are moving ahead in a project to clean and compress the methane gas generated on the farm into compressed natural gas (CNG) that will power our truck fleets. It is estimated that this project, in the investigative stage, could produce as much as 10 mW of electricity all day and year round.

Our members with other dairy farmers in the Pecos Valley region of New Mexico have formed a manure handling cooperative. The goal of the Pecos Valley Biogas Cooperative is the collection of manure from its members' farms and converting by gasification or other processes that manure into usable energy. For them the process is essential. Unless they are able to do this, their continued operation in that region is at risk. This is because the required investment to comply with new environmental demands exceeds the value of their farms. At the same time, the milk they produce is essential to the overall supply of milk in this region. Without it the Southwest would be short of milk.

Continental members in Indiana have formed the Cow Power Bio-Energy Cooperative, Inc. to facilitate the advancement of its members in sustainability. These two manure cooperatives are the first of their kind and identify how dairy farmers of all size can use organizational tools already available to benefit from programs to convert to sustainability.

Among the projects being considered in Northwest Indiana is a pilot operation to convert animal waste at the farm into useable gases and environmentally safe land nutrients. This project now, in development stage, will convert farm waste to methane gas. This methane gas will be cleaned and condensed. The resulting compressed natural gas (CNG) will power approximately 47 specially built trucks to move the milk from those farms to the market. At the back end, the remaining material will provide nutrients for the forage crops used to feed the cows. CNG represents a clean replacement of diesel and gasoline powered vehicles. The nutrients replace chemicals and other fertilizers that would be produced from fossil fuel sources.

The benefits to the environment are obvious. For farmers, sustainability can reduce the cost avoidance of environmental management at the farm and receive the income from the sale of the energy and nutrient by-products. Making this sustainable is essential to the long term viability of dairy farming in the United States and places dairy farmers in a position to compete worldwide.

Sustainable dairy farming assists us as we move to the use of less fossil fuel. No other source of renewable energy can provide as many benefits as converting animal waste to energy. Its source is solely renewable, the energy is continuous and thus can reduce the demand of fossil fuel burning plants, and it results in a cleaner environment. It brings jobs from the production of the generation systems and equipment and the dairy, source of energy, contributes to even more jobs.

As much as we want to make our farms more sustainable, in the end they must be profitable. The easy part of converting waste to methane has been accomplished. In some places we have produced electricity and gas. But to truly bring these experimental technologies to full scale commercial use on our dairies, we must overcome a number of economic, regulatory, and other obstacles.

While everyone wants sustainable practices from the consumer to the citizen, no one wants to pay for it. This conversion of waste to energy is not free. There are costs—capital costs for the equipment and costs to maintain the facilities. Further there are numerous limitations on the income. The value of the gas is restricted by a combination of government policies, tax policies, utility regulations, and competition. The wholesale price of electricity is much less than the cost to produce renewable energy. While the dairy can use some of the electricity on the farm, generation from manure produces more energy than a farm can use itself. The excess has to be sold. The result is the difference between what it costs to produce the energy and what it brings in the market, or "the gap". Unless and until this gap can be closed, waste-to-energy programs are unprofitable at the farm and, by definition, non-sustainable.

The obstacles to full adoption of such technology come from many sources. Different types of electricity suppliers (rural cooperatives, municipal utilities, and proprietary utilities) respond with different incentives. Higher renewable energy credits or other incentives that are offered by one type of utility may be unavailable to another. Regulations prohibit in one way, or another, the ability of farms located mostly in cooperative areas to take advantage of those opportunities provided by other utility suppliers. State borders provide additional barriers. Connecting a consumer who is willing to pay a higher price for renewable energy with a producer such as a dairy farm is generally impossible today under regulations as they now exist.

Current tax and other incentives treat methane digested from animal waste unequally. On a million Btu (MMBtu) or dekatherm (DTH) basis other renewable bio-fuels do not represent the same cost benefits and often consume resources that

would be better used for other purposes:

Current Biofuels Effective Tax Incentives ($/MMBtu)

Cellulosic Ethanol	$ 13.29	Arable Land
Bio-Diesel	$ 8.43	Soy Beans
Ethanol	$ 5.92	Corn
Biogas	$ 1.29	Manure & Organic Waste

Figure 1.. Biofuels Effective Tax Incentives ($MMBtu) as prepared by the Gas Technology Institute

This table of comparison is based upon the conversion of biogas into electricity. Biogas which is used as renewable natural gas, its most efficient and cost effective approach, receives *no production tax credit* and without production tax credit is ineligible for the investment tax credits or alternative grants.

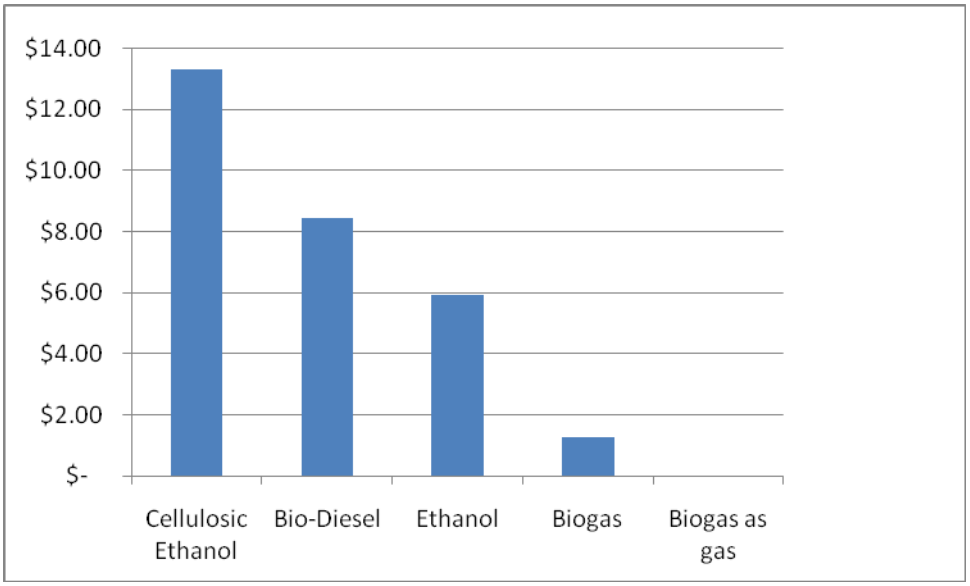

Figure 2. Comparison of Tax Incentives for various renewable bio-fuels

Through combination of harvesting energy from the farm and use of the remaining nutrients as fertilizer, we can create a "sustainability model" that is world class. The size of the dairy farm has no effect on the above opportunities if we as a nation put in place the proper incentives and regulations.

Method	Total Plant CapEx $ for 1MW Installation (2010)	30% ITC	Generator Output Time	kWh Generated Per Year for a 1MW capacity facility	Effectiveness of 30% Grant $/KWh
Solar PV (Large Commercial)[1]	$3,164,488	$949,346	17%	1,489,200	$0.64
Wind (On-Shore)[2]	$1,954,198	$586,259	37%	3,267,480	$0.18
Biogas (1600 Dairy Cow Farm)[3]	$3,879,359	$1,163,808	90%	7,884,000	$0.15

Figure 3. 30% ITC Grant Impact

At this time of budget constraints and efforts to make sure public monies are properly spent, the 30% ITC tax grant would be more effectively spent on biogas versus wind, by 3 more cents per kWh (20%). The major reason for this in spite of almost doubling the cost for wind is the higher generator output time for biogas than wind. The net capacity differs from "nameplate capacity" which is the rated capacity of the plant. The net capacity is the ratio of the actual output of a power plant over a period of time such as a year and what it would have produced if it had operated at the full nameplate capacity for the entire time. The periods of time winds do not blow or the sun does not shine significantly reduce the capacity factor of those types of plants. For example, a 1.0 mW biogas plant will in the end deliver 0.9 mW of power. A wind turbine rated the same will deliver 0.37 mW.

The net capacity is important because it determines just how effective an alternative energy source can prove to be. Due to their inconsistent delivery of energy, solar and wind plants must be backed up with those of higher capacity and have the ability to turn on and turn off as needed. The term "net capacity" as we are using it differs from another common use of "capacity factor" which considers the amount of energy available compared to that used. In the case of wind and solar, this number is rated at 100% because by definition the energy created is what

[1] General Electric
[2] General Electric
[3] http://www.epa.gov/agstar/pdf/digester_cost_fs.pdf

is consumed. Other energy conversions yield less energy than in the raw fuel. For example a gas engine not only provides power but some of the energy is converted to heat that is unable to be used. While the capacity of wind and solar have no wasted energy, net capacity is significantly reduced because the source of energy is not always available.

We do not mean to suggest that there should be no development in these other areas of renewable energy, but it is economically mistaken to ignore or underrate the value of manure powered electricity. In fact such electricity can make the use of wind energy much more efficient because electricity generated from manure provided methane is dischargeable and while off line, the gas or the manure or both can be stored for use when needed. Electricity from our farms teamed with the wind turbines of West Texas and the solar arrays can provide large amounts of renewable energy all the time.

By far one of the best uses of tax incentives and other programs to increase the amount of alternative energy produced would be for dairy farms---an investment that would provide clean energy, reduce the carbon footprint of the production and delivery of an important food, and make dairy farming sustainable. But it is not available.

We realize that some of the legislation that addresses these issues is under the jurisdiction of other committees such as Energy and Ways and Means. At the same time in the upcoming Farm Bill we request that you continue to support the use of animal waste as a renewable energy source. In doing so, we request several things:

First, there should be parity between a dekatherm of energy regardless of how one produces it. Let the efficiencies and market forces of the production of those sources dictate the long-term winners. For example, CNG from animal waste to methane should have the same MMBtu credit as that produced by biodiesel or ethanol.

Second, in issuing competitive grants and other incentives, the Secretary should be required to consider these factors:

- The net capacity of the energy source being considered.
- A multiplier for those processes that also prove to mitigate or eliminate environmental emissions in the production of food such as the conversion

of animal waste into energy.

- The inequity of tax and other incentives that improperly favor one alternative energy source over another.

Innovation

To further increase demand, Select has invested millions of dollars over the last decade to develop innovative products which would increase sales of dairy products, not cannibalize other milk sales. Through patented technology, Select has developed the means to create "designer milks". High quality milk fresh from the farm goes through several filtration processes separating the fat from the protein from the sugars from the calcium and other solids from the water. These then are recombined in different ratios to provide a different profile of milk. The double sugar, lactose, is converted to two simple sugars, glucose and galactose. These sugars are sweeter than lactose and thus the carbohydrates in the drinks can be reduced while maintaining the same sweetness of milk.

For six years HEB has been marketing one such milk here in Texas. This milk is produced by Select Milk and bottled by HEB at its plants in Texas. This designer milk, called "Mootopia," has more protein and more calcium (all fresh from cow's milk) but with fewer carbohydrates. This lactose free milk still tastes the same sweetness as regular milk.

We have also recently introduced another designer milk called Athletes Honey Milk®. This product delivers more milk protein with natural honey added. The result is a restorative drink with natural carbohydrates and proteins to aid individuals after biking, running, rowing, or other physical activities. The product has been produced in five flavors in single serve bottles and is now being stocked in Wal-Mart stores in selected cities in Texas, Indiana, Illinois and Wisconsin. We expect to roll it out in additional outlets. Negotiations are underway to export the product to China.

Samples of these have been made available to the committee today. With our food scientist and team of dairy innovators we continue to look for other ways to provide quality food products for consumers using milk.

Milk Labeling

One of the biggest hurdles to marketing innovative milk has been the labeling enforcement by FDA for use of the term "milk". FDA regulations define "milk" in Federal standards of identity as the "Milk is the lacteal secretion,

practically free from colostrum, obtained by the complete milking of one or more healthy cows."[4] The standards of identity go on to define various milk beverages and products, all of which require as an ingredient "milk."

Despite very clear standards of identity established by FDA, FDA has refused to enforce them. Dairy farmers and processors have spent literally billions of dollars promoting the nutritious value of milk. Promoters of competitive drinks that have no milk and in fact advertise themselves as alternatives to milk have been openly using the word "milk" to describe their products. In the process they are able to capitalize on the marketing of dairy farmers for milk. These include "soy milk" and "almond milk".

More flagrant has been the use of the name "Muscle Milk" to describe a product that at most contains among its dozens of chemicals some caseinates or whey proteins in minute amounts. These products are now appearing in dairy cases in packaging similar to real milk.

The standards of identity exist to protect consumers from the dangers associated with mislabeling of foods. Allowing products which are not "milk" to use that name as part of their food name or label threatens the integrity of this vital food safety program. None of these products could be used as substitutes for milk in recipes or even deliver the same kind of nutrients as milk.

FDA has done nothing to stop this misappropriation of a distinct food name. Some state milk regulatory programs, such as New Mexico, have asked them to stop, but without the FDA doing its job, the continued theft of the good name of milk will continue.

We recognize that this Committee does not have direct authority over the FDA, but it does have authority over the milk promotion programs and milk pricing and regulation. The failure of the FDA to do its job threatens those. We urge the Committee as a committee and its members to demand an accounting from FDA for this error.

While these products have been given a pass on the standards of identity, Select has undergone close scrutiny and obstacles to use "milk" in the products we have produced for you to sample. All of these products use milk from cows and, except for flavorings, only milk from the cows. In other words, dairy farmers producing

[4] 21 CFR § 131.110 (April 2009).

innovative products that only use their milk have to strictly comply with labeling requirements while products made by non dairy farmers can make up names for their non dairy products using the word "milk" get a free pass. This inequity must end.

In this way, the failure of FDA to enforce regulations against flagrant violators but challenge legitimate users of only milk is one of the many obstacles we face to innovation of new milk products.

Higher enforceable standards of milk quality should be established.

American dairy farmers produce the highest quality, safest, and most wholesome food in the world. Despite that, its standards for products and for quality are inconsistent with international markets.

The current standard for somatic cell count (SCC) under the Pasteurized Milk Ordinance (PMO)is an example. SCC is a critical measurement in the quality of milk. It is the count of white blood cells found in the milk. As pathogenic bacteria increase or decrease in the cow, the SCC responds similarly. More and more dairymen are able to bring their average counts for their entire herd below 100,000 and it is widely agreed that 400,000 should be the outside limit. Under current rules a farmer retains Grade A status and thus can share with the extra value of bottled milk in Class I if that farm does not have more than two tests out of five over 750,000 SCC. A few states, such as Indiana, permit limit on SCC for milk used for manufacturing to be 1,000,000 SCC. In the world, however, EU and other countries have a standard of 400,000. To efficiently supply the market, we must have quality that meets these standards for our domestic and export markets.

Improving somatic cell counts has other benefits. Lower counts bring better animals and more efficiency. Cows with lower counts are healthier animals and produce more milk. Milk with lower SCC produces higher cheese yields.

The challenge is that the standards for SCC are part of the Pasteurized Milk Ordinance (PMO). The PMO is promulgated by the National Conference on Interstate Milk Shipments. NCIMS includes representatives from local and state milk inspection agencies, producer groups, milk transporters, academia, and FDA. Every two years this conference considers questions regarding milk safety. Since its first use in 1924 it has met the challenge of making milk safe. The ordinance it adopts at these conferences are adopted throughout the Nation providing a uniform milk safety and sanitation code. This allows milk to flow from one region to

another without concerns that the milk does not meet local standards.

While this program is very successful, it presents a challenge in that the standards for quality are now surpassing the standards for safe milk. Repeated efforts at the conference to lower the limits on SCC have failed. We do not propose direct interference by Congress into this valuable administrative process but efforts to force the FDA to take a leadership role in this area at the NCIMS would be helpful.

Another area of quality that needs to be addressed is temperature. Current PMO regulations require that milk that is harvested at over 100 degrees from the cow be chilled and stored at no higher than 50ºF or less within four hours of the the beginning the first milking and no more than 45ºF within two hours after the milking has ended. In cases where more than two milkings are put into the tank, the temperature cannot exceed 50ºF. Higher milk temperatures result in degradation of the milk. For that reason, all of Select and Continental farms immediately cool the milk at harvest to less than 40◦F before putting it in the tank. More importantly, we all have time and temperature charts that show the temperature of milk in the tank at all times.

Most farms, however, have the temperature tested only at the time the hauler picks it up. If it tests at that time at less than 45^{o}F the milk is accepted and there is no way to know how long that milk was at that temperature. There is a cost associated with putting time and temperature charts on all bulk tanks. The cost is prohibitive for many farmers, particularly the smaller ones. Expecting them to make this investment would be unfair. As a result this cost barrier has hampered a universal adoption of the practice even though it would benefit the entire industry including the producers.

Providing grants to producers to install the equipment would cost less than $100 million dollars and would be a onetime investment in the program. The result would be even higher quality milk and value to all dairy farmers.

Another example is the use of nonfat dried milk (NFDM) as the mainstay of our powder industry. Essentially NFDM is skim milk that is dried. The protein content varies depending upon the protein in the milk. International markets want skim milk powder (SMP) which is very similar to NFDM but the protein has been standardized. The standards of identity for dairy products permit the use of NFDM in those products, but not SMP even though the use of the latter would make for a better product.

What should Congress do specifically with dairy policy?

As discussions center on "what can Congress do?" we must realize that in the end, very little. We need to recognize that the law of economics will always win and legislation cannot avoid the consequences of violating its rules. After nearly three decades of milk diversion programs, whole herd buyouts, the milk assessment with refund, MILC, price supports, and the industry-funded CWT program, we still find ourselves with low-priced milk. In terms of the purchasing power of the dollar, milk is worth less today than it was in the early 1980s. Over time, the laws of supply and demand will always win as markets seek efficient pricing. This is true in free markets and controlled markets. Free markets adjust relatively quickly in finding price equilibrium. History shows that markets which have been controlled, by government for example, eventually self-destruct generally because prices were set too high or low and over-supply or shortages accordingly ensue. And markets, such as dairy in the United States, which are subject to regulation, are not immune from this economic force. With that as our underlying policy we have several proposals.

Drop price support

The Dairy Product Support Price Program should end. Its role in providing a safety net for producers has passed. For cheese purchases, it fails to address commercial cheese making of the 21st Century in a way that will attract cheese when prices fall. On more than one occasion, cheese prices fell and remained below the support price.

In the area of NFDM, the price support program is impairing the ability of the industry to provide the dairy ingredients wanted domestically and internationally. Because of the safety net built for powder plant operators with price support and end product pricing, the industry has failed to fully adapt to meet the growing demands for skim milk powder, caseins, milk proteins, and other products dried milk.

Finally, and most important, the price support program has become the world price support program. American taxpayers are not only supporting domestic producers of powder, but foreign ones. While dairy farmers in America suffer from low prices, American taxpayers keep the international price of powder high for our competitors. That must end.

Risk management

The current crisis has shown the need for better price risk management by dairy farmers. Those dairymen who weather this storm the best will be, for the

most part, those who had the foresight to manage their price risk before the markets failed. Though such practices did not "lock in a profit" in every case, each of them certainly were able to fix their losses to a level which could be weathered. As the industry moves forward the need for and use of the price risk management tools will increase.

Many of the tools of risk management come from the industry. The various contracts available on the Chicago Mercantile Exchange are examples of how the private sector is addressing the needs for risk management within the industry.

Congress should coordinate any programs so as to leverage the private sector rather than interfere with it. Proposals for livestock gross margin programs, for example, using existing markets to tailor specific margin risk opportunities for producers. We would support such programs so long as there is no limit based upon size.

Changes to Federal Order Program

The fundamental part of the FMMO program is minimum pricing. Since the late 1990's USDA has relied in part or in whole on product formulas for pricing milk. These end product-to-rice formulas prices use surveyed commodity product prices, make allowances, and yields to determine the milk value. There is a general consensus that such formula pricing is a mistake.

In any event, this end product pricing must end and end soon. The four classes of milk need to be replaced with a much simpler one-price discovery system with two classes of milk—bottled and everything else. The system would allow plants and producers negotiate competitive prices for milk used in manufacturing. These prices would be surveyed and used to establish minimum prices for Class I. Plants in combination with their producer suppliers would be free to price and market dairy products to the world.

We are working with NMPF and IDFA and others to develop a competitive pricing series that lets the market place tells us the value of milk. This will bring an end to the product formulas and the contentious hearings that they bring.

These changes will not require legislation but can be handled under current authority in the Agricultural Marketing Agreement Act and the Federal Milk Marketing Order program.

Price Reporting

Greater price transparency of dairy products will enhance the use of existing

risk management tools. The Secretary should be required, with necessary funding, to daily report the selling of milk, cream, and dairy products in the same way that beef producers can see the pricing of meat products.

Animal welfare and identification

NMPF with its FARM program is providing a research based program to assure the proper handling of animals in a humane and proper way. Such programs can best be handled by the industry as this program shows.

Animal ID is important. The degree of traceability from farm to the store must be transparent to assure our customers that we provide the safest food available. We support animal ID.

Supply Management

We in the United States are sitting on the cusp of a tremendous opportunity to grow our dairies to supply the world. We should not be shutting it down by implementing supply management programs.

We oppose any supply management program for dairy. Such programs of production base and controls have not worked anywhere else in the world. Europe's base plan is in shambles and on farm prices are the lowest in decades, with farmers protesting all over the Continent. Canada's system keeps production volumes matched with domestic usage. This only works if you have in place tight tariff controls on imports. If we attempt to shrink US milk production to equal domestic consumption, imports of MPC, casienates, and milk fat will pour into our country further eroding our own internal market. We will not only lose our place in the world market, we'll lose more and more of our market at home as well.

The "promise" of these programs is that by managing supply, dairy farmers will always be profitable or, at least, not experience what they have now. Supply management has been in Europe for decades and they have the same low prices we do. Canada's system exists because they can balance off of the United States while protected by extraordinarily high tariff rates on imported dairy products.

Each of the programs propose different means to compute base, determine the amount to be reduced, how much is charged for "over production" and the like. In the end all of them transfer wealth from the vigilant and efficient to the inefficient and less vigilant. They trap the industry into the past rather than let it fly into the future.

The underlying principle of all of the "supply management" programs is that by

some means the government imposed tax or other penalty will short the market which in turn will result in higher prices. We urge the Committee to run away from any proposal that imposes milk taxes, causes artificial inflation of food costs, and holds back the industry from fully developing.

The reason expressed for such proposals is to reduce volatility. But, at the same time, we have experienced no volatility since the beginning of 2009 while we received too low of prices. The two go together. You cannot have viable milk prices without some volatility. All commodities share that.

The goal of the supply management programs is to eliminate growth in milk production. But production growth comes from being more efficient, producing higher quality milk, treating cattle better, adopting innovative ideas, and strategic relocation of farms to more economically meet changing demand. Supply management programs penalize those efforts by taxing, and in some proposals completely taking, all of the gains from efficiency, quality, animal welfare, and innovation.

We must not forget that the milk market is different from any other market in the world. Unlike corn, its raw product is perishable. Unlike perishable vegetables which are subject to annual planting decisions, its raw product cannot be "turned on or off" at the individual producer level except by program liquidation. Unlike a domestic oil well, its raw product cannot be immediately sourced overseas under efficient market arbitrage. Unlike gold, its raw product is a solid staple in the diet of over half of the world's population. The fact that the milk market is very unique from other markets implies that it is even more important to understand and respond to milk's supply and demand laws. It goes hand-in-hand, then, that the normal process of supply and demand seeking equilibrium pricing should not be manipulated.

In support of their proposals, some of the proponents have been showing the results of “models” and how they show that if adopted the proposal would provide profitability all the time to dairy farmers. There is a misuse of these models. The models used by FAPRI, USDA and academia all incorporate as many as 500 different variables, the change to any one of which would cause change in the result. By ignoring the hundreds and hundreds of other variables, proponents of supply management focus on only one of them. The only way a supply management program can work is to isolate us from the world both in terms of imports and exports. It is difficult enough to estimate domestic demand; it is impossible to do so for world demand. Besides dozens of different economies, the

ever changing value of the dollar, international events and politics, and different weather conditions all pose multiple factors to the equation. Matching supply and demand to domestic market eliminates opportunities in world markets.

The biggest weakness of economic models is they ignore the power of the human spirit. Not a single economic model for dairy would predict that after twelve months of the lowest milk prices and negative margins that milk supply in the US would remain unchanged. If six dollar and more discounts on milk price cannot stop milk production, what can the proposals being touted do?

The law of unintended, but clearly predictable, consequences,, will play out if supply management is instituted. By decoupling milk prices from market reality, the gaps between dairy prices and the ingredients from imported products or the use of substitute ingredients will over time further reduce the demand for milk. By decoupling the milk prices from the rest of market activity, producers will be exposed to higher risk of unprofitability because prices will not respond to costs of production. Technology for increasing production will stagnate. The value of more milk per cow will decrease.

For example, the institution of supply management will reduce the value of heifers. Limiting farm production means fewer cattle, less cattle means less value. Reduced value of cattle will reduce credit lines, balance sheets, and producer income regardless of size. The excess heifers unwanted in US will be exported to develop and grow competing milk supplies elsewhere in the world. Smaller, retiring farms will be especially hit. Their animals will be worth less than with a dynamic market and opportunities to sell will be reduced.

In the long run, we can't isolate ourselves from market realities. Our current treaties and sanitary rules will not keep out foreign dairy products. We have the most efficient dairy industry in the world and can compete effectively to supply the world with high quality protein, but we have to maintain efficiency and be aggressive competitors. A supply management program would reduce efficiency and competitiveness.

Conclusion

Consider long term reform for the dairy industry that is done in a thoughtful and methodical manner. Decisions should not be made in "crisis mode". It will be better to do nothing now and allow the market to find equilibrium while working toward the goal of transforming the US dairy industry into a consistent global supplier of high quality dairy products.

In summary, we propose:

- Do not adopt any supply management programs.
- Put sustainability of dairy farming at the forefront of policy changes. The Congress can provide assistance through added availability of credit, focusing of grants to dairy and livestock waste to energy programs, regulatory reform to remove obstacles to integration of bio gas into our national energy supply, and issue cost effective tax credits for investment and production.
- Eliminate the price support program. It is a burden to the US dairy farmer and taxpayer. The US price support programs should not continue to be the balancer of burdensome global milk supply.
- Replace end product pricing with competitive pricing for milk.
- Institute a mandatory price reporting (analogous to mandatory price reporting in US cattle trade.) We need greater transparency and price discovery in pricing of milk and milk products. Surveys of what all plants are paying for milk, inventories of dairy products, prices received for milk products. This information helps us understand what the dairy economy is doing.
- We need to maintain the integrity of the markets and those who participate in them.
- We can talk about other insurance or safety net options so long as those options do not hamper the sale and movement of milk and milk products domestically and in world markets.
- We must overhaul our pricing and safety net systems to allow our industry to compete on the world stage.
- We must let market forces work. Less, not more, government involvement is needed to make the dairy industry the best in the world.

Thank you, Mr. Chairman, for this opportunity. We remain willing, able, and even eager to assist you, the committee, and the staff with information, ideas, and insight as you address dairy in the upcoming farm bill.

Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: BRAD BOUMA

2. Business Address: 1151 COUNTY ROAD AA
PLAINVIEW, TX 79072

3. Business Phone Number: 806-291-9060

4. Organization you represent: SELECT MILK PRODUCERS, INC.

5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:
PRESIDENT OF SELECT MILK PRODUCERS, INC.
MEMBER OF CONTINENTAL DAIRY PRODUCTS, INC.
MEMBER OF BOARD, FIRST NATIONAL BANK OF EL PASO

6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:
5 GENERATIONS OF DAIRY FARMING
30 YEARS DAIRY FARMING IN TEXAS

7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:
PRESIDENT OF SELECT MILK PRODUCERS, INC.

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.

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

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2006.

Name: BRAD BOUMA

Address: 1151 COUNTY ROAD AA
PLAINVIEW, TX 79072

Telephone: 806-291-9060

Organization you represent (if any): SELECT MILK PRODUCERS, INC.

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2006, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: NONE Amount:

Source: Amount:

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2006, as well as the source and the amount of each grant or contract:

Source: NONE Amount:

Source: Amount:

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

Signature:

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

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.