House Agriculture Committee
Field Hearing to Review Dairy Policy

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Chairman Peterson and House Agriculture Committee members; thank you for allowing me to testify today about dairy policy on behalf of Idaho Dairymen's Association.

My name is Adrian Boer; I'm in partnership with my wife, sons and daughter-in-laws on 3 dairy operations in Jerome Idaho. Collectively we milk 5,000 cows. I am active in the Idaho dairymen's Association, serve on the Board of Directors of Northwest Dairy Association (NDA) and for NDA serve on the Board of Directors of National Milk Producers Federation (NMPF). For NMPF I serve on the Cooperatives Working Together (CWT) Committee and currently serve on the Production Management Sub-committee.

The Idaho Dairymen's Association (IDA) formed in 1944 and is an organization comprised of all of the dairy producers in Idaho. It is funded by a $0.01/cwt check-off and utilizes it funds to promote the interest of the Idaho dairy industry to individual citizens, state and national legislators, governmental agencies, conservation organizations, community groups and agricultural organizations to maximize the understanding and appreciation of the Idaho dairy industry.

Northwest Dairy Association markets 7.5 billion pounds of milk annually from 550 dairy producers located in Idaho, Northern California, Oregon, Utah and Washington under the Darigold label. Darigold, which established in 1918, is an integrated milk marketing cooperative with11 milk processing facilities in the Northwest that make and distribute fluid milk, butter, cottage cheese, skim milk powder and a variety of cultured products.

You have heard in other testimony before this Committee, that since early in 2009 the national dairy community has been facing an unprecedented financial struggle. That is also true in Idaho and the Pacific Northwest; in Idaho alone last year it is estimated that over $550 million dollars of producer equity was eroded away and currently there is no relief in sight to stop the bleeding. We have literally lost generations of equity. Financial recovery may likely prove impossible for many, it is estimated that over 50% of the dairy cattle in Idaho are in 'unacceptable terms' with their lenders. Uncertainty hangs over their banking relationship. Many producers are unsure if their lenders are waiting for the value of dairy cows and the land, their main sources of collateral, to recover only to proceed to liquidate them.

Numerous reasons can be listed for the collapse of the dairy industry from a drop in exports, to a huge increase in our input cost, to antiquated government programs. Clearly it is time to take a close look at addressing our industry's situation and identifying solutions as individuals, as dairy organizations, and as a country.

The purpose of these hearings is to receive input on what the content of the next farm bill should be. Representing the West I want to make sure we also cover what it should not be. It should not put one commodity at risk while enhancing another commodity as was done in the government ethanol subsidy programs that dramatically increased our input cost and were devastating to Idaho's livestock operations. It should not favor one region of the country over another region as was demonstrated in the recent appointments to the USDA dairy advisory committee, where the west with over 50% of the milk production received on four (4) seats on the seventeen (17) member committee. Finally it should not discriminate based on operation size, nor should it camouflage market signals such as the MILC program currently does by encouraging over production at times when the market is indicating a reduction in production is needed.

That is what it should not be, so how would we propose we move forward? Through my involvement with the different producer organizations, what has become clear 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." This past month I have been involved with the IDA District meetings listening to concerns and attempting to explain a potential pathway for the industry to unite behind so we can move forward. 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.

The current dairy industry financial crises demonstrates that it is time to 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 – followed by huge declines in exports that led to the disastrous plunge in 2009 that we are still currently operating under.

The NMPF proposed Foundation for the Future program is multi-faceted in principle and needs to be looked at seriously for the future Farm Bill discussions. 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. Many of those testifying on behalf of NMPF have already presented the following information but as a member of the committee that was instrumental in the development I believe it is important to reiterate them.

1. <u>Refocusing Current Safety Nets</u>

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).

3. Federal Milk Market Order Reform

Since 2004 when Federal Order 135 was voted out both Idaho and Utah became unregulated milk markets not falling under the protection of either State Milk Marketing Orders, like you find in California or Federal Milk Marketing Orders as is found in Oregon and Washington and most of the country. However we support the goal to develop a pricing system that 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. Revamping Federal Orders, we can encourage the movement of milk to its highest-value uses. The end result should compensate producers fairly, reduces price volatility, and creates a more dynamic dairy industry.

4. Production Management

For the past seven 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 IDA's current policy position strongly supports voluntary production management and allows us to support mandated programs as long as a national referendum is part of the process.

The dairy farmers I have met with this past month at the IDA District meetings all recognize that something has to be done, the current programs are no longer in the best interest of dairy producers or consumers.

Two other concerns I would like to briefly discuss are Immigration Reform and the Trans-Pacific Partnership FTA

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 in the west are foreign born labors. According to a recent study conducted by Boise State University, the Idaho dairy industry accounts for over 29,000 jobs in Idaho 8,200 of those are on the dairy, the majority of those on the dairy are held by foreign born labors. IDA, NDA and 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 has the potential to create 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.

The Trans-Pacific Partnership FTA also raises concerns. 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.

Thank you for the opportunity to testify on the issue of dairy policies here today. Through IDA, NDA and NMPF I am excited about moving forward to working with the members of this Committee on issues of critical importance to the state, regional and national dairy industry. Mr. Chairmen would you like me to answer any questions from the committee.