

Testimony of Patrick Joseph "Joe" Wright, Southeast Milk Inc.
Before the House of Representatives, Committee on Agriculture,
Subcommittee on Livestock, Dairy, and Poultry

April 26, 2012

Good afternoon. I would like to start by thanking Chairman Lucas and Chairman Rooney and Ranking Members Peterson and Cardoza for this opportunity to come before this Committee and offer comments on the formulation of the Dairy Title of the 2012 Farm Bill. My name is Joe Wright. I am a 3rd generation dairy farmer from Avon Park, Florida. My family owned dairy farm consists of 1200 cows in a pasture based grazing operation. I am also the President of the Florida based dairy cooperative, Southeast Milk, Inc. Last year, *Hoards Dairyman* listed Southeast Milk as the fifteenth largest dairy cooperative in the country. Southeast Milk markets milk for 230 family owned dairy farms located in nine southeastern states.

For months you have heard from the various factions in the dairy industry on what should and should not be in any dairy reform proposal. Some of my comments will mirror many of these comments, but being from the Southeast and Florida in particular, today I will bring a different perspective on several points that probably have not yet been fully explained.

Let me start with a point that I believe has found wide support in the dairy industry and that is the elimination of the Dairy Product Price Support Program. It is a counterproductive, obsolete, government program. Simply stated, the price support is on nonfat dry milk while the world market wants whole milk powder or skim milk powder. Milk powder manufacturers in the U.S. have too much incentive to make nonfat so they can always dump it on the government as a sale of last resort. By the U.S. government subsidizing nonfat, we also set a floor on the world price of dairy products. Please stop this insanity and end this program.

Milk Income Loss Contract (MILC) is another program that most of the industry recognizes is a wholly inadequate safety net for dairy producers. Approximately seventy five percent of the milk produced in the U.S. hits the production cap fairly quick, so essentially there is no meaningful safety net for most of this nation's milk supply. For example, my farm will use up its MILC cap this spring in less than two months. The present era of federal government mandated renewable fuels has the unintended consequence of dramatically driving up feed prices for animal agriculture. That means we need to move to a concept of milk margins, which is defined as the price of milk minus the price of feed.

While we are opposed to the continuation of the Dairy Product Price Support Program, MILC, and the Dairy Export Incentive Program (DEIP), we do support fiscally responsible dairy programs such as Federal Milk Marketing Orders and a margin protection program that is both dairy producer and federal budget friendly.

We are strong supporters of the Federal Milk Marketing Orders. As a reminder, the Federal Order program is a producer program. Federal Orders promote a level playing field among processors and a level playing field among producers and producer cooperatives, especially in a fluid milk market like the southeastern United States. To be more specific, Federal Orders:

- Act as a check and balance among processors as a base price discovery mechanism.
- Are directly responsible for 90% of our milk price. Over order premiums comprise the remainder of our milk price. The premium dollars, together with service, quality and source of milk (local or otherwise) are fertile ground for competition.
- Require that all processors report sales by class so processors cannot cheat the system by underreporting sales of the highest price class.
- Provide the tools through audit procedures and regulations to keep processors honest in their reporting.
- In the event a processor is not playing by the rules, all competitive processors know that penalties can be levied against that competitor.
- Act as a balance between processors and producers by providing for fat testing to assure each side is treated fairly by the other.
- Act as a clearing house in resolving disputes between processors and individual producers regarding fat and weights.
- Contain clearly defined and enforceable payment terms for processors to pay producers for their milk.
- Establishes rules to ensure competition and fair dealing which is needed in all free markets to benefit the small rural businesses that make up America's dairy farmers.

Federal Milk Marketing Orders is a federal program that is very cost effective. Over the past ten years, government outlays have only been an average of \$5.5 million per year. Please make sure that any dairy reform proposal that may pass Congress does not include any changes to the Federal Milk Marketing Order system.

Southeast Milk is also a supporter of milk margin protection plans. As part of National Milk Producers Federation's "Foundation For The Future" process, I sat on the task force for margin protection. We met multiple times over the course of a year and a half to explore all the permutations associated with such a plan, such as; impacts to the federal budget, whether to use the Farm Service Agency or Risk Management Agency to administer the program, whether to use national or regional measures for both the milk price and the feed price, and the correct balance between basic and supplemental coverage. As a resource, we had the expertise of Dr. Bruce Babcock from Iowa State University, one of the foremost experts in the country on crop insurance programs. In the era of bio-fuels and corn ethanol, margin insurance makes more sense for a dairy producer safety net than any other single element.

Before leaving the area of margin protection, I should comment on one of USDA's early efforts to introduce a margin protection program to the dairy industry known as Livestock Gross Margin–Dairy (LGM-Dairy). It has just been in the last year or so that LGM-Dairy became available to producers in Florida. This is more of a crop insurance program with partially subsidized premiums administered through RMA. To date, our dairy has purchased three LGM-Dairy contracts. One of those contracts has concluded, the other two contracts are still active. A LGM-Dairy contract is a more complicated and time consuming program for the producer relative to the margin protection plan contained in the Dairy Security Act. However, we can custom tailor the LGM-Dairy contract to cover the needs of our dairy by varying the relative emphasis on milk price versus feed price. This concept more accurately tries to capture the great variability among management styles of dairying. The real disadvantage for the LGM-Dairy program is there is simply not enough money in the program. The policies use up the allotted money too rapidly so producers who would like to participate are either outright precluded from participating, or the limited funding precludes them from using the program in the manner in which would optimize its usefulness to the producer. That comment means that producers often must make once a year decisions to buy or not buy LGM-Dairy coverage when funding is available, while the program really contemplates, in theory anyway, a producer having the ability to make decisions on a monthly basis.

The last specific dairy program point I want to make is on dairy supply management. Southeast Milk has consistently opposed supply management for two reasons. First, the southeast as a region is milk deficit, so supply management makes no sense. Second, milk production in the southeast has a large seasonal swing compared to the rest of the country, so distortions caused by supply management could be exaggerated in the southeast depending on the time of year restrictions are triggered. As a cooperative, our milk production at Southeast Milk can range from a low of 190 million pounds in a month like September to a high of 250 million pounds or more in March. This production swing is due to the combination of heat and high humidity that we experience in the summer months. Our Class I sales can run 240 plus pounds of Class I sales per month. We import milk at a net loss to us during the deficit months. If supply management were to kick in and restrict production during late summer, producers would not only have their usual annual drop due to heat and humidity, but also lower production required by supply management, and the cooperative would have to spend even more money importing milk to cover the shortfall between production and sales– the cost of which also comes out of producer milk checks. Relative to the rest of the country, the southeast as a region realizes a cost of supply management that other regions of the country will simply not bear because the production patterns of other regions do not fluctuate nearly as great.

At Southeast Milk, we tried to organize industry opposition to completely get rid of supply management, but our effort was not successful. However, we should acknowledge that as a result of a continuous process to improve the Dairy Security Act, there are a couple of changes that have made the legislation more palatable to us. First, the supply management provisions are voluntary rather than mandatory, although a producer cannot sign up for the margin protection without also signing up for supply management. Second, there are thresholds in

place that prohibit the onset of supply management, regardless of dairy margin levels, if the U.S. price for milk is high enough relative to the world market to effectively preclude the movement of U.S. dairy products overseas due to additional price enhancement caused by supply management. These changes to the latest version of the Dairy Security Act related to supply management have made the proposal less onerous.

I would like to wrap up my comments by relaying our thoughts specifically to the latest version of the Dairy Security Act developed as part of the budget negotiations. We are pleased this version does not make any changes to the Federal Milk Marketing Orders. Changes to Federal Orders should be done through the administrative hearing process where all parties can be fairly heard, and NOT through the legislative process. The proposal's elimination of the MILC program is a positive step because the program is wholly inadequate as a dairy farmer safety net and should be repealed. The margin protection provision is commendable but unfortunately it is only available to those agreeing to supply management. The overwhelming majority of our members have told us that making supply management an eligibility requirement for margin protection means they will not participate.

The supply management provision keeps us from being able to endorse the Dairy Security Act because we are philosophically opposed to supply management for the southeast for the above stated reasons. However, we are somewhat persuaded by the argument that our producers would benefit from a margin program linked to participation to a supply management plan even if we do not sign up. To the extent that producers in other regions of the country do participate in supply management, the market as a whole should move faster to a market equilibrium price. That should moderate, but not eliminate price volatility. Both producers and processors would benefit from less volatility. We do view the Dairy Security Act as a whole to be a reasonable compromise that is trying to bring a very diverse industry together. If the Dairy Security Act passes as current outlined, it would be a significant improvement over the present dairy safety net programs.

Lastly, I would like to briefly highlight Farm Bill titles other than the commodity dairy program title that are important to our industry. This is not an all inclusive list but these following warrant mention.

Conservation Title: Dairy farmers like all farmers are stewards of the land. Due to the high capital costs for most environmental projects, we truly need the assistance of USDA conservation programs. We see core benefits for programs directed to "working lands" and cost-share programs such as Wetland Reserve Program (WRP), Environment Quality Incentive Program (EQIP), Grassland Reserve Program (GRP), and Wildlife Habitat Improvement Program (WHIP). In particular, EQIP is a great tool for Florida's dairy industry.

Nutrition Title: The provisions in this section of the Farm Bill are critical to both the dairy industry and the almost 60 million citizens in need of nutritional assistance. Dairy products are critical to a healthy balanced diet. The programs that make up the USDA Food assistance Programs account for 11% of all U.S. dairy sales.

Crop Insurance Title: The uncertainties of weather, yields, prices, government policies, global markets, and other factors can cause wide swings in farm income. Managing risk is an important aspect of the farming business. Particularly in today's tight credit markets, and at least in Florida credit today is still VERY tight for small businesses, USDA risk management tools are an invaluable resource. We request more money for LGM-Dairy.

Research Title: The Research provisions of the Farm Bill and other federal research programs are key investments in creating new solutions for tomorrow's problems and keeping dairy and all of agriculture sustainable, and thus continuing to provide consumers with economical, safe and wholesome food. It is imperative, that as a nation we are aggressive in seeking the latest technology and knowledge in maintenance of herd health/animal welfare, disease prevention/treatment and production of high quality milk. Improvements in technology over the past 60 years have led to the ability to produce 50% more milk with only one third of the cows and at the time reducing the impact of animals on the environment, as the amount of waste per gallon of milk declines with greater efficiency.

This year is the 150th anniversary of the land-grant act which established the land grant universities. We believe in the system so much that SMI farmers have donated millions of dollars to the University of Florida to assist them in carrying out research on our behalf. We ask Congress to continue and increase its partnership of funding research through our Land Grant institutions.

Again, thank you for this opportunity to address this Committee and I appreciate your thoughtful deliberation of this important issue. I will answer any questions you may have of me at the appropriate time.

Curriculum Vitae

Patrick Joseph Wright (Joe)

Business Mailing address: P.O. Box 1057 Avon Park, FL 33826

Residence address: 1519 Lake Lotela Drive Avon Park, FL 33825

Telephone: Office (863) 453-2499; Cell (863) 634-6917

email: pjw@strato.net

Education

B.S.B.A. Finance, with Honors, University of Florida 1978

M.B.A. University of Florida 1982

Juris Doctor, with Honors, University of Florida 1982

Professional Qualification

Admitted to the Florida Bar October 28, 1982, Florida Bar # 349577.

Member of The Florida Bar Agricultural Law Committee 1989-1997, Chairman 1994-1996. In June 1994, the Agricultural Law Committee was absorbed into the General Practice Section of The Florida Bar. By virtue of chairing the Agricultural Law Committee at that time, Mr. Wright sat on the Executive Council of the General Practice Section in 1994-1996.

Career History

1982-1988: Attorney engaged in complex administrative law practice representing the health care industry, and represented lenders in commercial litigation and bankruptcy.

August 1, 1988 to present. Employed at V & W Farms, Inc. of Delray Beach located west of Avon Park, FL on State Highway 64. This is a family-owned commercial dairy farm started by Mr. Wright's late father-in-law, Charlie Williams. The dairy can trace its roots back to Mr. Williams' father, C.B. Williams, who operated a dairy farm in the Miami, Florida area beginning in the late 1920s. Mr. Wright has been the President of V & W Farms since 1997. The dairy is operated as a 1200 adult cow dairy on 1300 acres of land in Hardee County. The dairy operates as a pasture based modified grazing operation and employs

12 full time employees. V & W Farms was awarded the Florida Commissioner of Agriculture's Ag Environmental Leadership Award in 1998. In 2007, Mr. Wright was awarded the Agriculture Institute of Florida, Inc.'s initial "Ag-Vocate" Award in recognition for being an outstanding spokesperson on behalf of the agriculture industry in Florida.

Page Two

Dairy Industry Activities

In order to get a complete glimpse of Mr. Wright's experience and activities since 1988, it is necessary to review a list of various organizations where Mr. Wright sat on the board of directors, and in some instances, where he also served as president/chairman of the board. This list is provided as an indicator of the breadth of his experience.

Florida Dairy Farmers, f/k/a Dairy Farmers, Inc., Maitland, FL. This is Florida's dairy check-off promotion organization (the "Got Milk?" people). Member of the Board of Directors 1990-2010; First Vice President 1997-2010; Presently Director Emeritus status.

Florida Dairy Farmers' Association, a qualified dairy marketing cooperative, formerly based in Ft. Lauderdale, FL. Member of the Board of Directors from April 1990-September 1998. President from April 1997-September 1998. While serving as President, Mr. Wright was instrumental in effectuating a merger with Tampa Independent Dairy Farmers' Association, Tampa, FL. The merged entity is known as Southeast Milk, Inc., based in Belleview, FL. Mr. Wright has served as President of Southeast Milk, Inc. since it was formed in 1998 to present.

Southeast Milk, Inc. is a milk marketing cooperative owned by approximately 215 member dairy farms in Florida, Georgia, Alabama, Tennessee, South Carolina, Louisiana and Mississippi. Annual milk production in 2011 was approximately 2.6 billion pounds. Southeast Milk also markets the raw milk for Cobblestone Milk Producers whose dairy farmers are located in North Carolina and Virginia. Southeast Milk owns three fluid milk plants and an ultra-filtration balancing plant. Total sales for 2011 were \$910 million.

While serving as President of Southeast Milk, Mr. Wright has also served on the Board of Directors of the following other dairy cooperatives and/or organizations: Dairyman, Inc., (Louisville, KY) Corporate Board of Directors 1994; Mid-America Dairyman, Inc., (Springfield, MO) Corporate Board of Directors 1994-1995; Mid-America Dairyman, Inc., (Franklinton, LA) Gulf South Division Board of Directors (Honorary) 1995-1997; National Milk Producers Federation (Arlington, VA) Delegate 1996-2003 and Member of the Board of Directors from 1997 to present; Dairy Cooperative Marketing Association, Inc. (DCMA) 1997-2011 (DCMA is a multi-cooperative marketing agency in common comprised of milk marketing cooperatives marketing milk throughout the southeastern U.S); and Florida Agricultural Council, an industry support group for the University of Florida's Land Grant institution, Institute of Food and Agricultural Sciences (Member ten plus years, multiple board terms).

Other Activities

In November 2006, Mr. Wright was elected for a three year term (2007-2009) to the City Council of Avon Park, Florida, a city with a population of approximately 9,200 year round residents. This was the first public office held by Mr. Wright. In November 2011, Florida Governor Rick Scott appointed Mr. Wright to the Board of Trustees of South Florida Community College.

Updated 4/19/12

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

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, ~~2008~~ 2009

Name: Patrick Joseph "Joe" Wright

Organization you represent (if any): Southeast Milk Inc.

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2008, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: NA Amount: NA

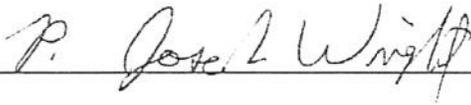
Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, ~~2008~~ 2009, as well as the source and the amount of each grant or contract:

Source: U.S. Military Amount: \$2,863,903

Source: U.S.D.A Grant Amount: \$134,784

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.