HEARING TO REVIEW ECONOMIC CONDITIONS FACING THE DAIRY INDUSTRY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
LIVESTOCK, DAIRY, AND POULTRY

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

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Tuesday, July 21, 2009

HEARING TO REVIEW ECONOMIC CONDITIONS FACING THE DAIRY INDUSTRY

TUESDAY, JULY 14, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:10 a.m., in Room 1300, Longworth House Office Building, Hon. David Scott [Chairman of the Subcommittee] presiding.

Members present: Representatives Scott, Costa, Kagen, Kratovil, Holden, Boswell, Cardoza, Markey, Murphy, Minnick, Peterson (*ex officio*), Neugebauer, Goodlatte, Conaway, Smith, Roe, and Thompson.

Staff present: Alejandra Gonzalez-Arias, Chandler Goule, Tyler Jameson, John Konya, Scott Kuschmider, James Ryder, Rebekah Solem, John Goldberg, and Jamie Mitchell.

OPENING STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

The CHAIRMAN. Good morning, everybody. This hearing will come to order.

The gentleman from Pennsylvania, Mr. Thompson, is not a Member of the Subcommittee but has joined us today. I have consulted with the Ranking Member, and we are pleased to welcome Mr. Thompson to have him join in the questioning of witnesses.

Good to have you, Mr. Thompson, thank you.

I would like to first of all state how important this hearing is, how timely it is, and how badly we want to help our dairy farmers in an extraordinary time of great need. And I would like to welcome everybody to the Subcommittee on Livestock, Dairy, and Poultry.

I very much appreciate each of you taking time out during a very busy week to help us examine the economic conditions facing the dairy industry, for they are very, very severe, and we certainly want to help in every way we can.

I welcome all our panelists to the Subcommittee, and in particular, our colleagues Joe Courtney and Peter Welch. Good to have you with us, and we look forward to hearing your thoughts on the issues before us today.

In my years of service on the Agriculture Committee, I have been more of an observer than an active participant on some of the many issues under our Committee's jurisdiction, with the exception of perhaps poultry issues, which are near and dear to the hearts of all of us, and, especially, my State of Georgia. So needless to say, I was not quite prepared for all the complexities of the issues surrounding the dairy industry.

But I have learned very quickly. I have studied the issues very diligently, and I have found out that there was no issue in Congress that Members felt as strongly about, or were as willing to bend my ear about, than the dairy policy.

So I wanted to hold this hearing to serve as a forum for all of our Members to air their concerns, for us to really examine the depth and the breadth of policy issues surrounding the dairy industry. World wholesale dairy prices have reached their lowest level in 5 years. Make no mistake, I do not intend to say that we can solve all of the problems facing the dairy industry in the course of this one hearing. There are going to be other hearings. Indeed, that would be a Herculean feat of strength.

Instead, it is my intention that we begin to closely examine both the short-term problems, the short-term patches, and the long-term adjustments that are needed to bring the whole of the dairy industry, from the farm to the table, back to profitability. That is our aim.

And as I alluded to earlier, there is no shortage of opinions on how to do this, but I hope to examine most if not all of them today. The dairy industry deserves this and the American people deserves this.

[The prepared statement of Mr. Scott follows:]

PREPARED STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

I would like to welcome everyone once again to the Subcommittee on Livestock, Dairy, and Poultry. I very much appreciate you all taking time out during a very busy week to help us examine the economic conditions of the dairy industry. I welcome all of our panelists to the Subcommittee and in particular our colleagues Joe Courtney and Peter Welch, and I look forward to hearing their thoughts on the issues before us today.

In my years of service on the Agriculture Committee, I have been more of an observer than an active participant on some of issues under this Subcommittee's jurisdiction; with the exception perhaps of poultry issues, which are near and dear to the heart of Georgians. So needless to say I was not quite prepared for the complexities of issues surrounding the dairy industry. I found out very quickly that there was no issue in Congress that Members felt as strongly about, or were as willing to bend my ear about, as dairy policy. So I wanted to hold this hearing to serve as a forum for Members to air their concerns and to examine the width and breadth of policy issues surrounding the dairy industry.

Make no mistake; I do not intend to solve all of the problems facing the dairy industry in the course of this one hearing. Indeed that would require Herculean feats of strength. Instead it is my intention that we begin to more closely examine both the short term problems, short term patches and long-term adjustments that are needed to bring the whole of the dairy industry, from farm to table, back to profitability. As I alluded to earlier there is no shortage of opinions on how to do this, and I hope to examine most if not all of them today.

The CHAIRMAN. I yield to my Ranking Member, Mr. Neugebauer.

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

Mr. NEUGEBAUER. Well, thank you, Chairman Scott, for calling this timely and important hearing to review the current economic conditions in the dairy industry.

My district in west Texas is one of the fastest growing dairy regions in the country. Large and mid-sized dairies have found west Texas to be very suitable for milk production. Many of these producers have contacted me and explained the current economic conditions that they face.

Today, we will be hearing from one of the producers in my district. He is Mr. Brad Bouma, who operates a dairy in Plainview, Texas. He also serves as President of Select Milk Producers, Inc., a dairy cooperative serving Texas, New Mexico, Oklahoma, Colorado and Kansas. Mr. Bouma is the owner and operator, with his family, of a five generation dairy farm.

I asked Mr. Bouma to come today and talk about how producers in my district are doing with the current economic conditions. I am sure his story will be similar to many of the producers in the country who are trying to ride out the current economic conditions that include low farm prices for milk, high feed costs and fuel costs.

I wonder if the dairy farmers are excited about our new cap-and-tax bill passed last month to bring higher fuel and energy costs their way.

I look forward to hearing from USDA Under Secretary Jim Miller. Specifically, I would like to ask about the Dairy Export Incentive Program, which has been reactivated, and the Dairy Product Price Support Program, which also likewise falls under his jurisdiction.

I understand that other countries are also taking actions to keep their respective dairy industries competitive in international markets, and I hope he will give us some perspective on what actions they are taking. Likewise, I would like to hear the Administration's perspective on export subsidies, in general, and how we will deal with this issue moving forward.

In a recent event in New Hampshire, I believe that Secretary Vilsack stated that in the next 10 days he will present a plan to allow cashed-strapped dairy farmers to take out loans with low interest rates and flexible payback plans. He also said he is putting together a commission to review the Federal milk pricing system. I am interested in hearing more details from Under Secretary Miller regarding that statement.

The third panel of this hearing should be equally insightful, as we will hear from various industry representatives. I am particularly interested in their views and hope they will give a perspective on how current policies are working. Hopefully they will help us determine how we got here and what actions should legitimately be considered, moving forward, to help the industry.

Thank you again, Mr. Chairman, for calling this hearing. I am certain that my colleagues will have many other questions, and I will look forward to those discussions today.

The CHAIRMAN. Thank you very much, Ranking Member. I appreciate that.

At this point, the chair would like to enter three letters for the record concerning the domestic dairy industry that the Committee on Agriculture has sent to Secretary Vilsack, and I would like to insert them for the record in today's hearing.

The first letter is from the Family Farm Coalition and other organizations on dairy concerns. The second letter is from the Congress to USDA, and the third letter is to the Honorable Tom Vilsack, Secretary of Agriculture, from the Committee on Agriculture.

[The documents referred to are located on p. 89.]

The chair would also like to request of our Members that they submit their opening statements for the record so the witnesses may begin their testimony, and we want to ensure that there is ample time for questions at that time.

[The prepared statement of Mr. Peterson follows:]

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

I want to thank Chairman Scott and Subcommittee Ranking Member Randy Neugebauer for their work in calling today's timely hearing and for their leadership on this Subcommittee. This is one of several hearings this Committee will call on the dairy industry. Today we will examine the current economic conditions that have placed severe financial pressures on many producers, as well as recent responses and what we might see in the future.

Dairy farmers across the country are struggling to survive because of low prices and too much product on the market. The prices they are receiving for milk are not keeping up with ever-increasing production costs. The all-milk price peaked just above $22 per hundredweight in the fall and early winter of 2007, and then began a period of decline before bottoming out around $11 in the very early months of 2009. However, during this time, feed costs rose rapidly and kept climbing. While feed costs have started to fall, they have not done so fast enough to offset the drop in the price of milk.

Weak demand, particularly in the export market, and an expansion of supply due to high prices in 2008, are the prime causes of the glut of milk on the market. The result is the loss of some small to medium sized farms, leaving many to wonder if only the largest farms will have the ability to get through the tough times.

This fall, the combination of slowing feed prices and an increase in the milk price is expected to get dairy farmers to a break-even milk price. USDA's Farm and Foreign Agricultural Services Under Secretary Jim Miller is here to get into the specifics of the market situation as well as the Department's responses to the situation, and I welcome him before this Committee today.

In that vein, I want to thank Secretary Vilsack and the Administration for the steps they have taken to support U.S. dairy farmers. In May, the Secretary announced his decision to use the Dairy Export Incentive Program (DEIP) to assist U.S. dairy farmers who are up against heavily subsidized foreign producers.

The $110 million worth of DEIP purchases will help manage the surplus and continue to develop markets for U.S. dairy products abroad.

Likewise, in March, the USDA announced plans to purchase about 200 million pounds of nonfat dry milk for domestic feeding programs. This action was an obvious win-win situation for producers and consumers alike, given the record number of Americans who have qualified for nutrition program benefits because of the challenging economic times of the last year.

I strongly encouraged USDA to take both of these actions, and I want to thank them for their responsiveness. I made clear during regular conversations with Secretary Vilsack that these actions to help struggling dairy farmers would have strong bipartisan support here on the Hill, and I'm glad he took our suggestions to heart.

So it should be no surprise to the Secretary that we have additional thoughts for action. Yesterday, our Committee sent USDA a letter to improve the Dairy Product Price Support Program to temporarily raise Commodity Credit Corporation purchase prices and to harmonize standards with those used in commercial sales on the Chicago Mercantile Exchange. These steps will help bolster and stabilize the price of milk.

I look forward to hearing from our colleagues, Representatives Joe Courtney of Connecticut and Peter Welch of Vermont, about steps they have tried to take to help their dairy farmers weather the storm.

And I also look forward to the testimony from groups representing the supply chain.

Thank you again, Chairman Scott and Ranking Member Neugebauer for your leadership. I yield back my time.

The CHAIRMAN. So without delay, we will get started with our first panel. We would like to welcome our first panel of witnesses to the table.

First we have the Honorable Joe Courtney. He is a Member of Congress from the Second District of Connecticut. Good having you here, Joe.

And we have the Honorable Peter Welch, who is a Member of Congress from Vermont at large.

Mr. Courtney, we will begin with you.

STATEMENT OF THE HON. JOE COURTNEY, A REPRESENTATIVE IN CONGRESS FROM CONNECTICUT

Mr. COURTNEY. Thank you, Mr. Scott, and thank you, Mr. Neugebauer, for holding this hearing. Obviously, it is another example of your commitment and leadership in terms of dealing with the challenges that face dairy in the U.S., and that commitment actually extended back last year. When the farm bill was put together this Committee led the way, with Mr. Peterson's assistance, to extend the MILC subsidy program, which obviously was a high priority for dairy farmers all across the country, and, for the first time, included input costs in terms of calculating the formula which, again, coming from a high-cost part of the country in the Northeast, it was an important modification to the program. Congresswoman Rosa DeLauro, obviously, was working hard from the appropriations side to make sure that that formula was better in tune with the challenges that, again, face different regions in the country.

I would actually note that when the farm bill was passed, we were at a point in the U.S. economy where farms, where dairy was bringing in about $18 per hundredweight. Obviously, the world has changed dramatically since enactment of the farm bill. The prices have collapsed, as was indicated in your opening statements.

Exports have collapsed. Again, at the time the farm bill was passed, ten percent of America's dairy products were being exported abroad. That has fallen by half. Only five percent of U.S. dairy is now being exported. And the combination of the world economy falling, the national economy being in recession, has been a perfect storm for dairy farmers all across the country.

Peter and I come from the Northeast, but we have had many conversations with Members from California to Maine who have dairy in their district, this is a national problem, and it is a national crisis.

As the Chairman indicated, there are definitely lots of ideas out there and lots of solutions. What I would just say is that clearly some of these are long-term structural changes about whether we need to have some form of a price support system for dairy. That obviously is an interesting and important issue that we need to debate as a country.

But the fact of the matter is, we are at a point today, July 14th, where dairy farmers are out there borrowing money to pay operating costs for their farms. And that is a death spiral for a lot of farms, particularly small farms. We have lost ten percent of our farms in the State of Connecticut, again, not a state usually associated with dairy, but the fact is eastern Connecticut is a part of our state which retains its rural and dairy heritage.

But it is at grave risk today because, as I said, these folks are in a death spiral. And offering more loans, low-interest loans, really is not a solution for these folks who are facing this type of death spiral.

Again, they are selling milk today at $12 a hundredweight compared to $18 when the farm bill was passed. And the MILC subsidy program is just incapable of dealing with that large of a spread in terms of their costs and the price that they are taking in.

Again, we have been trying, Peter and I, over the last few months, through the stimulus bill, the 2009 Agriculture appropriations bill, and through the 2010 Agriculture appropriations bill to see if there is an avenue to get temporary relief, whether it is increasing the amount of support on a temporary basis in the MILC Subsidy Program, whether the Department of Agriculture would consider raising some of the basic support prices.

But the fact is that we need to have a short-term answer to what people are facing today as they get up. Peter can describe the grave problem that exists in the State of Vermont where the Department of Agriculture actually has a suicide hotline for dairy farmers who are facing, again, these almost unbearable stresses and challenges.

I would conclude by saying that in this morning's news, there are press reports that Goldman Sachs is reporting close to $4 billion quarterly profit. People are very excited and happy about that, and certainly we like to see success.

But I think it is important for this Congress to recognize that that would not have happened if there had not been massive government intervention from the last quarter of 2008 through the first quarter. They received TARP funds, they received derivative payments from AIG—who also received TARP funds—and they received massive help from the FDIC.

It is a hard argument, and it is a hard situation for us to go back to districts, where dairy farmers have been rebuffed at every attempt to try and get that same type of short-term relief, and for them to see this sort of entity that received massive government help now taking a victory lap. The dairy industry of this country is really shut out in terms of being able to get that same type of response and action from Washington, D.C.

I hope, again, with your leadership and this Committee's long record of support and commitment to dairy farmers that we are going to see that type of action and that type of help for a critical part of the American economy.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Courtney follows:]

PREPARED STATEMENT OF HON. JOE COURTNEY, A REPRESENTATIVE IN CONGRESS FROM CONNECTICUT

Chairman Scott, Ranking Member Neugebauer, I want to thank you for holding these hearings today on the crisis that is occurring in our dairy industry. This is a crisis that affects all of us, not just our dairy farmers. While they feel the brunt of the sharp decline in dairy prices, our constituents from all walks of life are not immune to its effects.

As many of you know, I introduced a resolution last month in support of the goals of National Dairy Month. The point of this resolution was not only to support our dairy farmers and the dairy industry during national dairy month, but to raise awareness about the state of our nation's dairy industry.

As the Committee is aware, dairy farmers are in crisis mode. A perfect storm has hit the industry. Exports are down, feed and fuel costs are skyrocketing and prices are plummeting. While we accomplished a great deal in the passage of the 2008 Farm Bill, and much credit is due to Chairman Scott, Chairman Peterson and the rest of the Agriculture Committee for their hard work, we have seen prices for dairy drop off significantly since that time. In May 2008, when the farm bill became law, the all-milk price in the Boston zone was $18.18 per hundredweight. One year later, in May 2009, the price was $12.18. I don't need to tell the Committee what they already know—dairy farmers can't survive with prices that low.

Like farmers in all industries, dairy farmers are also coping with tighter credit markets, infrastructure that is crumbling and becoming more expensive to repair or replace, and an economy that is unforgiving. The economic downturn has hit dairy in many ways. A sharp decline in the disposable income of families across the country has led to less family outings for ice cream and less pizza deliveries. While this may seem trivial to you or I, it is no laughing matter for our farmers who provide the milk that makes ice cream or the cheese used by the local pizza place.

In my State of Connecticut, dairy farmers are a dying breed. Since 2007 we have lost well over 10% of our dairy farms. The loss of these farms not only hurts the families that for generations have owned and operated these farms, it hurts everyone. It hurts the communities where these farms operated. It hurts the truckers who deliver the milk to the processors and then on to the market. It hurts the companies that bottle this milk and it hurts average citizens who have come to rely on locally produced milk.

In Connecticut we have a cooperative known as the "Farmer's Cow", a group of local dairy farms that have banded together to market their milk and other products. People in my district know these farmers personally. They go to church with them, their children go to school and play little league together and they have come to rely on the milk they produce. I've met with these farmers on numerous occasions, visited their farms and listened to their struggles. I want them to survive, but unless we provide additional support to these farmers

As many of you may know, Connecticut is a state where open space comes at a premium. However, my district is home to a region known as the Quinebaug-Shetucket Heritage Corridor. This area is better known as the Last Green Valley, the last undeveloped region of the East Coast between Boston and Washington D.C. Why is that the case—dairy farms. Dairy farms make up 70% of Connecticut's open space. They ensure that the rural character of New England is something that is not just read about in history books, but is something that is enjoyed for generations to come.

There is some good news. Secretary Vilsack has used his authority to make bulk purchases of dairy products for use in Federal nutrition programs. He has also recently used the Dairy Export Incentive Program which provides incentive payments to U.S. dairy exporters to counter foreign dairy subsidies and to develop markets for U.S. dairy products abroad. These actions are important and help to reduce the surplus that is helping to drive prices down, but direct aid is necessary.

I urge the Committee to consider all options with regards to providing support for dairy farmers. This means looking at direct support through increases in Milk Income Loss Contract (MILC) payments, supply management, adjustments to the Federal milk marketing order, export assistance and reconsideration of our trade policies with regards to casein and milk protein concentrates. We need not only the short term solutions that will provide immediate relief, but long term solutions that will ensure the viability of this industry for years to come. As I have stated, many dairy farmers have not been able to survive this crisis, and each day that passes without action by Congress will lead to more farms closing their barn doors. Before an entire industry and way of life disappears, we must act.

I want to again thank the Chairman and distinguished Members of this Committee for holding this hearing.

The CHAIRMAN. Mr. Welch.

STATEMENT OF THE HON. PETER WELCH, A REPRESENTATIVE IN CONGRESS FROM VERMONT

Mr. WELCH. Thank you very much, Chairman Scott and Ranking Member Neugebauer, for inviting Joe and I to testify before your Committee. I want to thank the Committee Members. This hearing indicates that you recognize the great peril that is facing the dairy industry.

In Vermont our dairy farmers are the best among us. And throughout Vermont's history, dairy has played a vital role in shaping our state's economy, its infrastructure, its culture and its landscape. And for just as long, dairy farmers in Vermont have labored in an incredibly challenging industry with extraordinary economic risk and uncertain reward.

We know the volatility in milk prices has long plagued our farmers, but today the crisis is like it has never been before. The prices have fallen to record lows, even as production costs, as you know, have risen to record highs and is pushing scores of farms out of business.

In the past 5 years alone, Vermont has lost 250 dairy farms; 32 of those farms have been shuttered since the start of this year alone. The depth of the crisis in Vermont cannot be understated, and I share that with Representatives in dairy districts across the country.

Our state's dairy industry is literally on the brink of collapse. With dairy representing 70 percent of Vermont's agricultural economy, we could very well see a wholesale failure of our entire ag infrastructure, forcing out of business feed dealers, equipment suppliers, processing plants, farm creditors and many more.

The human cost of this economic tragedy can be seen in the faces of folks like Bob and Beth Kennett. They purchased Liberty Hill Farm in Rochester, Vermont, a little ways from where I live in Hartland. They bought it 30 years ago, and they have watched as neighbor after neighbor has shuttered their farm and sold off their herds. Fifty farms populated the upper White River Valley community by the Kennetts in 1960; eleven remained in 1979, and today the Kennetts are the only family still left in business.

Like many Vermont families, the Kennetts had hoped to pass their farm on to their kids, Tom and David, who were raised at Liberty Hill. Both earned college degrees in agriculture before moving back to Rochester to raise their own families on the farm. Together the Kennetts expanded their operation from 50 to 120 cows and pursued innovative opportunities. They are very, very smart, like opening an agri-tourism guest lodge. But despite their efforts, their hard work, their know-how, the family now finds itself saddled with loans and losing money with, literally, every passing day. They just don't know how much longer they are going to be able to hang on.

Unfortunately, Vermont is awash, Mr. Chairman, with stories like the Kennetts. And as farmers cope with mounting losses, the psychological impact is beginning to show. And as Joe just said, we have a hotline, literally, in Vermont to help farmers who are just dealing with this extraordinary pressure of seeing their life of work go down the drain. And beyond the tremendous suffering borne by farmers themselves, the impact of closing a farm on its surrounding community and local economy is very significant. Vermont businesses, with a stake in dairy, reported $426 million in sales in 2001, employed 7,800 workers. And according to the Vermont Department of Agriculture, 96 percent of supplies used on dairy farms are purchased locally. It is the way we are going to get our economy going again.

Saving Vermont and New England's dairy industry will require immediate action and long-term reforms. The most immediate assistance we can provide dairy farmers to survive the current crisis is a Milk Income Loss Contract increase. And this program, in this Committee of course, was instrumental, very instrumental in getting it passed. It helps provide a cushion when the price of milk goes way down.

And with farmers now spending about $19 in Vermont to produce a hundredweight, getting paid less than $12 for every hundredweight, MILC payments of between $2 and $3 are simply not enough to keep them afloat.

I have been working with many of my colleagues, including Mr. Courtney, about seeking an increase in MILC payments to get us through this temporary crisis. The Northeast Association of State Departments of Agriculture wrote to Congress in April asking that we raise the MILC payment from 45 percent to 79 percent and revisit the current cap of 2.9 billion pounds of annual production.

I support this proposal as a short-term solution to help put money back in the pockets of farmers until prices increase.

But as we treat the short-term symptoms of price volatility, we must develop a long-term solution to the problem, one that works in west Texas as well as in the northeast kingdom of Vermont, one that works for a 5,000 cow farm as well as a 100 cow farm. We have to find what is common in the interest of these farmers in its price stability.

Last year producers were paid an average of $18.09; this year the price is down to $11.06. These constant price swings make dairy farming a challenging and sometimes impossible enterprise. And most producers I have spoken with have candidly told me that they would rather make less during the boom years in exchange for price stability.

And the question many of us asked was posed by Mr. Courtney. If our ag folks, working in dairy and in other agriculture sectors, producing local food—which this country needs—producing food that we can export—which our economy needs—why is it we can't have a policy that helps them succeed? Why is it that we can't have a policy where we provide short-term aid when, through no fault of their own, these are the hardest working people among us, when through no fault of their own, they get savaged by the collapse in the price.

And if we can do it for Wall Street—and we should, when that is necessary—to keep the economy going and to protect the middle class, we can certainly find a way to do it for our farmers.

Once again, I thank this Committee for holding this hearing. I really do. This is the most important hearing that is occurring this day in Congress.

And, Mr. Courtney and I want to work with you and Mr. Peterson to see what it is we can do to help our farmers, our dairy farmers get through the short-term crisis, and then have a policy for the long term that is going to make it possible for our dairy farmers large and small to be successful.

[The prepared statement of Mr. Welch follows:]

PREPARED STATEMENT OF HON. PETER WELCH, A REPRESENTATIVE IN CONGRESS FROM VERMONT

Good morning. Thank you, Chairman Peterson, Chairman Scott, and Ranking Members Lucas and Neugebauer for inviting me to testify before the Committee today and for recognizing the great peril facing the dairy industry and farmers who sustain it.

Throughout Vermont's history, dairy has played a vital role in shaping our state's economy, infrastructure, culture and landscape. For just as long, Vermont dairy farmers have labored in a challenging industry with great economic risk and uncertain reward. Though volatility in milk prices has long plagued our farmers, today we face a crisis like we've never seen before. Prices have fallen to record lows even as the cost of production continues to rise – pushing scores of farms out of business. In the past five years alone, Vermont has lost over 250 dairy farms, leaving us with only 1,046 today. Thirty-two of those farms have been shuttered since the start of this year alone.

The depth of this crisis cannot be understated. Vermont's farmers, government leaders and agricultural experts agree: Our state's dairy industry is on the brink of total collapse. With dairy representing 70 percent of Vermont's agricultural economy, we could very well see a wholesale failure of our entire agricultural infrastructure – forcing out of business feed dealers, equipment suppliers, processing plants, farm creditors and many more.

The human cost of this economic tragedy can be seen in cases like that of Bob and Beth Kennett, who, like many Vermonters, have labored all their lives only to find an uncertain future in the field they have chosen. Since they purchased Liberty Hill Farm in Rochester, Vermont, 30 years ago, they have watched as neighbor after neighbor shuttered their farms and sold off their herds. Though 50 farms populated the Kennett's Upper White River Valley community in 1960, just 11 remained in 1979. Today, the Kennetts are the only family left still in business.

Like many Vermont families, Bob and Beth Kennett had hoped to pass their farm on to their children, Tom and David, who were raised on Liberty Hill and who both earned college degrees in agriculture before moving back to Rochester to raise their own families on the farm. Together the Kennetts expanded their operation from 50 to 120 cows and pursued innovative strategies like opening an agri-tourism guest lodge. But despite their efforts and their hard work, the family now finds itself saddled with loans and losing money with every passing day. Like so many Vermonters, they just don't know how much longer they can afford to keep their doors open.

Vermont is awash in stories like the Kennett's — and as farmers cope with mounting losses, the psychological impact is beginning to show. Earlier this year two California dairymen took their own lives as milk prices plummeted and financial ruin appeared imminent. To prevent similar tragedies from occurring in Vermont, the state Department of Agriculture and the University of Vermont have established a farm help line to provide psychological aid as the price crisis continues.

Beyond the tremendous suffering born by farmers themselves, the impact of a closing farm on its surrounding community and local economy is significant. Vermont businesses with a stake in dairy reported $426 million in sales in 2001 and employed 7,800 workers. According to the Vermont Department of Agriculture, 96 percent of supplies used on dairy farms are purchased locally.

Among the many businesses supported by dairy – including veterinarians, fertilizer suppliers and hardware stores – feed dealers have been among the hardest hit. Art Whitman, a feed dealer from North Bennington, Vermont, has found himself lending more and more of his product to customers who have been unable to pay their bills, turning him into an ad-hoc lender. As Art's own creditors have grown impatient, he faces the difficult choice of demanding payment from nearly-bankrupt farmers and risking his own livelihood.

Saving Vermont's and New England's dairy industry will require both immediate action and long-term reforms. The most immediate assistance we can provide dairy farmers to survive the current crisis is an increase in Milk Income Loss Contract (MILC) payments. While MILC has helped ward off full-scale disaster so far, the disparity between the price of milk and the cost of production warrants a reevaluation of its payment formula. With farmers spending nearly $19 and earning back less than $12 for every hundredweight they produce, MILC payments between 2 and 3 dollars are simply not enough to keep them afloat.

I and several of my colleagues have been advocating for an increase in MILC payments since this crisis began. The Northeast Association of State Departments of Agriculture wrote to Congress in April asking that we raise the MILC payment rate from 45 percent to 79 percent and revisit the current cap of 2.95 billion pounds of annual production. I support this proposal as a short term solution to help put money back in the pockets of producers until prices recover. I realize there is a reluctance to re-open the 2008 Farm Bill, but I would urge the Chairman and the Committee to recognize the extreme nature of this crisis and to make an exception in this case.

The Dairy Export Incentive Program (DEIP) is working to re-open foreign markets, and I was encouraged that the USDA announced the implementation of the program for the coming fiscal year. I want to thank Chairman Peterson and the Committee for their support of the DEIP program and their support of its implementation. I also want to encourage Secretary Vilsack to use the Dairy Product Price Support Program to increase the support price for dairy products. The current price supports are far too low to help producers and must be raised during this crisis.

As we treat the short-term symptoms price volatility, we must not lose sight of the need to develop a long-term solution to the problem. In 2006 the average price paid to farmers for milk in Vermont was $12.60; just a year later the price rebounded to $18.84. Last year producers were paid an average of $18.09; this year, the average price is down to $11.66. These constant price swings make dairy farming a challenging enterprise. Most of the producers I have spoken with have candidly told me they would rather make less during the boom years in exchange for price stability.

This current price crisis is impacting every dairy-producing region from the Northeast to the Upper Midwest and the West. If we don't act now to bring about long-term reform, we will be forced to revisit the same problem the next time dairy prices crash —that is, assuming our farms survive the present crisis. Several different plans are being discussed by producers, processors and industry groups, and I strongly encourage the Committee to consider all of them.

Once again, I thank the Committee for holding this hearing and thank you for inviting me to testify today.

The CHAIRMAN. Well, let me thank the both of you for your expert testimony. You have done an extraordinarily good job of accurately describing the urgency and, unfortunately, the desperation that many of our farmers and milk producers find themselves in.

And I can assure you that I have been moved by your testimony, and we are going to do something to help. We have to find a way in which we can respond quickly, as well as put things in motion that can help over the long term.

I was particularly interested in your Milk Income Loss Contract idea, Mr. Welch. I think that is something we certainly can look at, but we do want to get to price stability.

So, Mr. Courtney and Mr. Welch, we thank you very much. You have been very helpful to the Committee. Thank you.

Now we are going to move to our next panel, and we will welcome James Miller, who is the Under Secretary of Agriculture, Farm and Foreign Agriculture Services for the United States Department of Agriculture.

Mr. Miller, we will begin when you are ready.

STATEMENT OF JAMES "JIM" W. MILLER, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Mr. MILLER. Thank you very much, Chairman Scott, Ranking Member Neugebauer, Members of the Subcommittee. It is a pleasure and a great opportunity to be with you today to discuss the dairy situation, and the many USDA programs we are utilizing to respond to the sharp downturn in the milk and dairy product markets.

I am going to summarize the written statement that we submitted to the Subcommittee. I will note that we have revised some of the data points in that, based on the most recent world agriculture supply-and-demand estimates that were issued just last Friday, but those estimates were made after we submitted the testimony. And as I said, I will try to keep my testimony brief so we have the maximum amount of time for discussion of these serious issues.

As you are all very much aware, the dairy industry has been one of the hardest hit sectors in agriculture this past year. Producers have been caught between very high input costs and, certainly, very depressed market prices.

So to begin, I would like to provide a brief economic backdrop to the dramatic downturn that we are seeing in the dairy sector.

The monthly all-milk price peaked in the third quarter of calendar year 2007 at a record $21.70 per hundredweight. Through 2008, milk prices remained relatively strong, averaging $18.41 per hundredweight, which is the second highest annual average price on record. However, as you all are well aware, this spring many dairy producers were receiving less than $12 per hundredweight.

Meanwhile, over the first two quarters of 2009, the milk-to-feed price ratio, which is a measure of the profitability of producing milk, was the lowest in over 25 years. USDA's most recent world agriculture supply-and-demand estimates, the WASDE, project that the 2009 all-milk price will decline by 34 percent compared to 2008, to an average of about $12 per hundredweight, the lowest annual price increase for milk since 1979.

Further, the Economic Research Service data indicates that dairy farmers are among the most highly leveraged. Across all agricultural sectors, dairy ranks third in the average debt-to-asset ratio behind poultry and hogs.

In response to record high milk prices in 2007 and 2008, our dairy sector expanded its herd size by over 200,000 cows from the end of 2006 through the second quarter in 2008.

However, by the end of this year, we expect a reduction in total dairy herd size of about 138,000 head. This reduction in herd size, when coupled with the actions we are taking under the 2008 Farm Bill programs for dairy, will help balance supply and demand.

The July estimate for the 2010 production year project an average all-milk price of about $15.35 per hundredweight for next year, so we are projecting that we will gradually begin to work our way out of this very serious price program.

In terms of exports, an issue that was raised by your colleagues just a few moments ago, dairy exports, as they noted, have declined very sharply in recent months after reaching a record $4 billion in Fiscal Year 2008. For 2009, the value of U.S. dairy product exports are forecast to drop by over 40 percent to about $2.3 billion.

Now, there are many factors that affect our dairy exports and contribute to the current low export demand, and these include, certainly, the global economic recession. But they also include the reactivation of the European Union's export subsidies that began last January, and also the increased value of the dollar in overseas markets.

Let me now turn to the safety net programs that we have in place to help our dairy producers. In addition to our FSA loan programs, the Livestock Gross Margin Insurance program for Dairy and the Federal Milk Marketing Order, which is a marketing program administered by the Agricultural Marketing Service, USDA administers three key safety net programs that are providing assistance to our dairy producers. I would like to spend a couple of minutes discussing these programs in greater depth.

First, the Dairy Product Price Support Program: This program supports the prices of nonfat dry milk, cheddar cheese, and butter as specified in the 2008 Farm Bill. From October 1, 2008 to date, USDA has purchased 272 million pounds of nonfat dry milk and 4.6 million pounds of butter under this program.

Since the first day of this calendar year, we have purchased 170 million of that 272 million pounds of nonfat dry milk. We expect through the rest of this fiscal year to purchase an additional 40 to 50 million pounds of nonfat dry milk.

On March 26, Secretary Vilsack announced that approximately 200 million pounds of nonfat dry milk would be further processed or bartered for dairy products to be used in our domestic and international feeding programs.

This is just one example of USDA fulfilling its dual mission of supporting our producers, while at the same time working domestically and globally to help alleviate hunger.

The 2000 Farm Bill also modified and reauthorized the Milk Income Loss Contract Program, which provides countercyclical payments to producers in times of low dairy price and high feed costs. The MILC payments began in April to compensate producers for the low prices and high feed costs that occurred in February. MILC payments have continued each month since that point, and we expect to continue making MILC payments through the balance of this fiscal year.

As of July 10th of this year, over $511 million has been issued to dairy producers through the MILC Program. We expect total outlays through Fiscal Year 2009 will be about $900 million under this program alone.

A question was raised concerning the Dairy Export Incentive Program. On May 22nd of this year, USDA announced a reactivation of the Dairy Export Incentive Program, known as DEIP, to help regain U.S. market share and challenge the subsidized competition from the European Union in many of our key markets overseas.

For the 2008–2009 WTO year that ended on June 30, USDA awarded export incentives for over 20,000 metric tons of nonfat dry milk, nearly 1,900 metric tons of butter fat and nearly 152 metric tons of cheese, at a cost to the Treasury of just over $4 million.

We have announced our intention to continue this program. And just last evening, I approved a new DEIP sale for about 500 metric tons of nonfat dry milk. These exports will be consumed overseas, while the purchases under our Price Support Program may, in fact, continue in storage at government expense.

I recognize that the decisions that we make here in Washington affect the livelihood of America's farmers and ranchers, and I am committed to working with Members of this Subcommittee and your colleagues to help ensure that we meet the needs of U.S. dairy producers.

I really appreciate the opportunity to testify before the Subcommittee today, and I am willing to respond to any questions that the Members may have.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Miller follows:]

PREPARED STATEMENT OF JAMES "JIM" W. MILLER, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Chairman Scott, Ranking Member Neugebauer, and distinguished members of the Subcommittee, I appreciate the opportunity to discuss the dairy market and programs delivered by my mission area in the U.S. Department of Agriculture (USDA). As Under Secretary for Farm and Foreign Agricultural Services (FFAS), I oversee three agencies: the Farm Service Agency (FSA), the Foreign Agricultural Service (FAS), and the Risk Management Agency (RMA). I would like to take this opportunity to provide you an update on the dairy market situation, our forecasts for the dairy market through the end of the calendar year, and my mission area's response to the sharp downturn in milk and dairy products markets. I will also provide information on the activities of our sister agencies, the Food and Nutrition Service and the Agricultural Marketing Service.

The Dairy Market Situation

The dairy industry has been one of the hardest hit sectors in agriculture in the past year, with producers caught between high feed and other costs and depressed output prices. We have heard many personal stories from dairy producers who are in desperate financial straits. The Secretary's office alone has received hundreds of letters and calls from dairy producers who are in need of help. The Secretary has personally discussed with numerous dairy farmers the poor dairy situation and listened as they related the fears they have about the loss of their way of life. He has traveled to many states to hear directly from dairy farmers, implemented a series of policies to assist these producers, and made efforts to communicate what help is available from USDA.

Prices, Input Costs, and Income

I'd like to provide a bit of an economic backdrop to the dramatic downturn in the dairy sector. The monthly all-milk price peaked in the July–September period of 2007 at a record $21.70 per hundredweight (cwt) and averaged a record high of $19.21 for all of 2007. In 2008, the farm-level milk prices remained strong with the all-milk price averaging $18.41 per cwt, the second highest on record. However, average feed costs increased about 35 percent in 2008, and energy costs increased by 30 percent.

This spring, producers were receiving less than $12 per cwt. Meanwhile, the milk/feed price ratio, a measure of the profitability of producing milk, was the lowest in over 25 years in the first and second quarters of 2009. Feed costs which traditionally have comprised about ½ of variable operating costs, are expected to decline about 15 percent in calendar 2009. At the same time, USDA projects that the all-milk price will decline by 34 percent in calendar 2009, to an average of $12.15 per cwt—the lowest average annual price received by farmers for milk since 1979.

Cash receipts from milk marketings jumped to a record $35.5 billion in 2007, dropping slightly to $34.8 billion in 2008. While cash receipts remained relatively steady in 2008, USDA's Economic Research Service (ERS) reported this past December that high feed costs reduced net cash income for dairy producers by an estimated 40 percent. For 2009, cash receipts are expected to fall by over ⅓ to $23 billion. With feed costs now accounting for 70 to 80 percent of variable operating costs in recent months, dairy producers are facing financial hardship.

Further, ERS data indicate that dairy farms are among the most highly leveraged in U.S. agriculture: about 70 percent of dairy farms use debt, compared to about 30 percent of beef and 50 percent of cash grain farms. Some of the largest dairy farms are the most heavily indebted. Across all sectors in agriculture, dairy ranks third in the average debt to asset ratio, behind poultry and hogs. The financial crisis has made the credit needs of dairy producers all the more pressing.

Herd Size

In response to record high milk prices and above average returns in 2007 and 2008, the U.S. dairy sector expanded rapidly through the second quarter of 2008 to accommodate growing domestic and foreign demand for dairy products. Cow numbers increased from 9.13 million at the end of 2006 to a peak of 9.34 million in July 2008. Cow numbers remained steady during the second half of 2008 despite the deteriorating market outlook, as above average returns in previous months led farmers to bring additional heifers into the breeding herd.

Producers are responding to the current depressed market situation by reducing herd numbers. Cow numbers dropped below a year ago in March 2009 and are expected to average 145,000 lower in 2009 than in 2008. Much of the recent reduction in cow numbers has come in the far western states, where producers tend to have lower overall costs but higher feed costs per cwt of milk produced because they are farthest from major grain producing areas. ERS publishes milk cost of production estimates by state. As an example, for May 2009, California costs for feed were $12.19 per cwt of milk produced. In contrast, the California all-milk price reported by the National Agricultural Statistics Service (NASS) for May was $10.53 per cwt. In a relative sense, New York and Wisconsin fared somewhat better. In New York, feed costs were $10.67 per cwt, while the all-milk price was $11.90. In Wisconsin, feed costs in May were $8.38 per cwt, while the all-milk price there was $11.60.

Demand

Dairy product exports have declined sharply in recent months after reaching a record $4 billion in FY 2008. In FY 2009, the value of U.S. dairy product exports is forecast to drop to $2.3 billion. Cheese exports in April 2009 were down nearly ½ from their April 2008 peak. Butter exports have fallen more than 80 percent from their August 2008 peak, and nonfat dry milk/skim milk powder exports are off more than 70 percent from their May–June 2008 peak.

There are many factors contributing to lower demand and the decline in farm-level milk prices. Drought in New Zealand and Australia contributed to record high international prices for dairy products in 2007 and 2008, boosting U.S. dairy product exports. More normal weather has returned to both of those countries leading to increased milk production globally. The global recession, the melamine scare in China, European Union export subsidies, and increases in the value of the dollar have also lowered the demand for U.S. dairy products in world markets. At home, the economic crisis and, until recently, record high retail dairy product prices, have curtailed domestic demand for dairy products.

Outlook for 2010

Milk production is forecast to fall by 1.3 percent in 2009 and an additional 0.6 percent in 2010. Cow numbers are forecast to drop to 8.89 million by December 2010. Reduced production, an improved economy, and lower retail dairy product prices are expected to lead to a gradual increase in milk prices and improved returns later this year and into next year. USDA is currently forecasting the all-milk price to average $11.60 per cwt in the third quarter and $13.10 in the fourth quarter. For all of 2010, we are projecting an all-milk price of $15.60.

USDA Safety Net Programs

USDA is currently operating four safety net programs that provide assistance to help producers through this difficult time.

Dairy Product Price Support Program

I'd like to first discuss the Dairy Product Price Support Program (DPPSP), which helps support prices and farm incomes. The Food, Conservation, and Energy Act of 2008, commonly referred to as the 2008 Farm Bill, requires the Secretary to operate the DPPSP in a fundamentally different manner than under the 2002 Farm Bill. Under the new farm bill, the Commodity Credit Corporation (CCC) now supports the prices of cheddar cheese, butter, and nonfat dry milk by purchasing these products per minimum price levels for each commodity that are set in the 2008 Farm Bill. In contrast, the 2002 Farm Bill required the Secretary to support the price of milk at $9.90 per cwt by purchasing butter, cheese, and nonfat dry milk. To fulfill this mandate, the CCC established purchase prices for butter, cheddar cheese, and nonfat dry milk.

From October 1, 2008 to date, USDA has purchased 272 million pounds of nonfat dry milk and 4.6 million pounds of butter under this program thus far. During the first six months of 2009, USDA has purchased 170 million pounds of nonfat dry milk, the equivalent of about 30 percent of production. USDA expects CCC to be offered an additional 40 million pounds of nonfat dry milk during the remainder of calendar 2009. We have not purchased any cheese at this time. The wholesale prices for cheddar cheese and nonfat dry milk are near support levels of $1.13 per pound (40 pound blocks) and $0.80 per pound, respectively. The wholesale price of butter is currently about $0.15 per pound above the CCC purchase price of $1.05.

As many of you are aware, the Secretary announced on March 26, 2009 that approximately 200 million pounds of nonfat dry milk would be further processed or bartered for dairy products for use in domestic and international feeding programs. The nonfat dry milk is being further processed or bartered into value-added products, such as instantized nonfat dry milk, ultra high temperature milk, cheese, and ready-to-eat milk-based soups. To date, the Food and Nutrition Service (FNS) has received orders for approximately 30 million pounds of ultra high temperature milk for the National School Lunch Program and the Emergency Food Assistance Program, and has bartered for over 22 million pounds of assorted cheeses. These foods will go a long way towards feeding American school children and alleviating the difficulties of those affected by the economic crisis.

This is just one example of USDA fulfilling its dual-mission of supporting American agriculture—in this case, the dairy market—through market support programs, and working to alleviate hunger by distributing those same dairy products through domestic and international nutrition assistance programs. In fact, in Fiscal Year 2008, approximately $9.6 billion in USDA funds were spent on dairy products ultimately used in the United States, through a combination of purchases made through, or used for, programs such as the Supplemental Nutrition Assistance Program (formerly the Food Stamp Program), the National School Lunch Program, and the Supplemental Nutrition Assistance Program for Women, Infants and Children.

Milk Income Loss Contract Program

In order to provide assistance as quickly as possible to dairy producers, FSA published regulations re-authorizing the revised Milk Income Loss Contract (MILC) program on December 4, 2008. The 2008 Farm Bill modified and re-authorized the Milk Income Loss Contract (MILC) program which provides countercyclical payments to producers in times of low prices. Under the MILC program, direct payments are provided to dairy producers in all states if the monthly Class I price in Boston is below $16.94 per cwt. The 2008 Farm Bill increased the payment trigger of $16.94 during January 1, 2008 through August 31, 2012 if the National Average Dairy Feed Ration Cost exceeds $7.35 per cwt. In addition, the farm bill increased the annual production eligible for payment from 2.4 million pounds to 2.985 million pounds during

October 1, 2008 through August 31, 2012, and increased the payment factor from 0.34 to 0.45. The Farm Service Agency (FSA) began sign-up for the new MILC program on December 22, 2008 and sign-up will continue through the program's expiration date, September 30, 2012.

Declining milk prices caused the Boston Class I price in February 2009 to fall below $16.94, triggering MILC payments. USDA began distributing MILC payments in early April after the information needed to adjust the $16.94 trigger price for feed costs became available and the final payment rate was calculated. The MILC payment rate, including the feed cost adjuster, is set at $1.51 per cwt for milk marketed in February, $2.01 for milk marketed in March, $1.59 for milk marketed in April, and $1.47 for milk marketed in May. The MILC payment rate, unadjusted for feed costs, for milk marketed in June is $1.62 per cwt and for milk marketed in July is $1.54 per cwt. For the February through May period, the feed cost adjuster added about $0.15 per cwt, on average, to the MILC payment rate.

MILC payments are likely to continue for the next several months. If current futures price levels are realized in cash markets, MILC payments will be triggered for the months of August through November. Futures suggest that milk prices will be strong enough to avoid triggering MILC payments in December and succeeding months. As of June 30, 2009, over $450 million had been issued to dairy producers through the MILC program. During FY 2009, USDA expects to issue about $900 million in MILe payments.

Dairy Export Incentive Program

On May 22, 2009, USDA announced the reactivation of the Dairy Export Incentive Program (DEIP) with allocations for the export of 68,201 metric tons of nonfat dry milk, 21,097 metric tons of butterfat, and 3,030 metric tons of cheese. The above quantities reflect the maximum volume of dairy products the U.S. is allowed to export with subsidies consistent with the U.S.'s World Trade Organization (WTO) commitments. The DEIP, reauthorized under the 2008 Farm Bill, helps U.S. exporters meet prevailing world prices and encourages the development of international export markets in areas where U.S. dairy products are not competitive due to subsidized dairy products from other countries. As of June 30, USDA had announced awards for 20,025 metric tons of nonfat dry milk, 1,862 metric tons of butterfat, and 152 metric tons of cheese under the 2008/2009 DEIP allocations announced on May 22. Although these awards are less than the quantities that were allowed under WTO commitments, they are largely reflective of the trade opportunities that existed during the five weeks that the program was in operation for the 2008/2009 year. The Foreign Agricultural Service (FAS) awarded bonuses for 97 percent of the nonfat dry milk volume submitted by exporters.

On July 6, 2009, USDA announced the initial tranche of DEIP allocations for the July 2009–June 2010 year. This initial tranche was announced at quantity levels equivalent to the uncommitted balances remaining as of June 30, 2009. Those quantities are 48,176 metric tons of nonfat dry milk, 19,235 metric tons of butterfat and 2,878 metric tons of cheese. These quantities will count against the 2009/2010 U.S. WTO commitment levels.

As I indicated earlier, a sharp reversal has occurred in the outlook for global dairy markets. The volume of U.S. exports of nonfat dry milk during the January to April 2009 period dropped by 52 percent in comparison to the same period last year. Further, the value of U.S. dairy exports in FY 2009 is expected to fall by 43 percent to $2.3 billion. In addition, there is no indication that the European Union (EU) is prepared to stop providing export subsidies for its dairy products. In fact, the EU has been progressively increasing its subsidy rates since reactivating export subsidies in January 2009.

As of June 30, total subsidy obligations for nonfat dry milk totaled just over $4 million to support 20,000 metric tons of exports under DEIP. We have calculated that to remove the same quantity from the domestic market under the Dairy Product Price Support Program would cost over $35 million. In addition, our exports will be consumed while DPPSP purchases may continue in storage. Thus, as intended, DEIP is reducing costs to the U.S. Government while providing assistance to the U.S. dairy industry, which has seen its international competitiveness continue to be adversely impacted by the use of direct export subsidies by the EU.

Liyestock Gross Margin-Dairy

In addition to these programs, the Livestock Gross Margin-Dairy insurance program, or LGM-Dairy, protects dairy farmers against loss of gross margin, which is the market value of milk minus feed costs. This new insurance program, which was approved by the Federal Crop Insurance Corporation board of directors in mid-2007, uses the Chicago Mercantile Exchange Group futures prices for corn, soybean meal, and Class III milk to determine the expected gross margin and the actual gross margin. The indemnity paid to the policyholder at the end of the 11 month insurance period is the difference between the gross margin guarantee and the actual gross margin (if the difference is positive).

The LGM-Dairy insurance policy is customizable to fit any size farm. LGM-Dairy is also considered a bundled-option insurance, like buying both a call option to limit higher feed costs and a put option to set a floor on milk prices. The policy capacity is up to 240,000 hundred-weight per year. Dairy producers in 36 states are eligible for LGM-Dairy insurance.

The Federal Milk Marketing Order System

I would also like to talk briefly about the Federal Milk Marketing Order (FMMO) program administered by USDA's Agricultural Marketing Service. The FMMO program, is not a price or income support program, but a marketing program that helps establish a competitive balance between the many dairy farmers and the relatively few buyers of their basic commodity—raw milk. The FMMO program sets up a classified pricing system, establishes minimum class prices, and pools all revenues within the defined regional area. The primary objective of the program is to assure that fluid milk processors (bottlers) have an adequate supply at reasonable prices to meet their needs.

In 2008, about 61 percent of U.S. milk marketings were sold to handlers regulated by FMMOs, and less than 40 percent of that is used by bottlers and classified as Class I. A major milk market outside of the Federal order system is the State of California, with its own regulatory system similar to a FMMO. Other unregulated western states include Idaho, Montana, Nevada, Wyoming, and Utah. Like California, Montana and Nevada also have state programs.

It has been suggested that the FMMO program has the authority (specifically 7 U.S.C. Section 608c(18)) to raise minimum milk prices when feed prices rise, regardless of other factors. FMMOs cannot set minimum prices and have above the relative market value of the products of milk. FMMOs have no mechanism to provide additional dollars to handlers above those received from the market in order to pay farmers more than the minimum market value of milk. Thus, raising minimum milk prices above market-justified levels would likely result in fluid milk processors taking less milk or reducing over-order premiums. It would also result in manufacturing milk plants withdrawing from FMMO pools to avoid paying prices they cannot recoup from the marketplace.

Section 608c(18) has long been viewed by the courts as the procedure by which the Secretary establishes and adjusts minimum prices. Through a public hearing, the Secretary evaluates the marketing conditions in an area and considers the price of feeds, the available supply of feeds, and other economic conditions that affect the market supply and demand for milk and its products in the marketing area. Based upon these factors, the Secretary sets milk prices that are reflective of all the economic inputs to ensure a sufficient supply of milk.

Moving Into the Future

I recognize the decisions that we make in Washington affect the livelihood of America's farmers and ranchers and we are committed to ensuring that we work together to help meet the needs of U.S. dairy producers. As I indicated earlier in my remarks, the plight of dairy producers is very serious.

I appreciate the opportunity to testify before this Subcommittee today, and I look forward to working with you, Mr. Chairman, Mr. Ranking Member, and all the Members of this Subcommittee as we continue our hard work to ensure that USDA is responsive to the needs of the dairy sector. This concludes my statement. I will be glad to answer questions you may have.

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

I will start the round of questioning off.

My first question is, many producers feel that milk protein concentrates are entering into this country and are a main cause for our lower dairy prices.

Can you tell us how much milk protein concentrate comes into this country each year and how does that affect the overall dairy price for domestic producers?

Mr. MILLER. Well, so far for 2009—and this is from January through May of this year—U.S. imports of milk protein concentrates are up about 3.1 percent and totaled about 20,600 metric tons. However, that needs to be put in the context of the overall importation of both MPCs as well as casein and caseinates, which are other dairy proteins. And over that same period, the imports of the total complex of those proteins are down about 16.7 percent. So MPCs have gone up, but the overall level of imports have gone down.

Given the wide range of moves for MPCs, we believe that it is not only difficult, but questionable, to argue that MPCs, at least by themselves, are having a significant impact on dairy prices, and particularly for this year, where we are expecting an overall reduction of imports in that protein complex from the dairy industry. We believe that that direct impact on dairy prices is probably not the significant cause for the very steep reduction that we have seen in dairy prices and the economic distress that the industry is facing.

The CHAIRMAN. Let me ask you this as a follow-up. You have heard the testimony of our two colleagues that were just before us from Vermont and Connecticut, Mr. Courtney and Mr. Welch. And they were very descriptive in terms of the desperation of these farmers.

Do you agree with their assessment of how bad the situation is?

Mr. MILLER. Mr. Chairman, I do. This has been devastating to farmers, dairy farmers all across the country. The Secretary has personally spoken with a number of dairy producers on a variety of occasions, both when he is here in Washington and they have come to town, as well as during his travels out into the countryside. And I can certainly convey to you that I am concerned, and the Secretary is significantly concerned about the state of the dairy industry. And, as I indicated, we certainly look forward to working with you to find some way to provide both a relief in the shorter term for that industry, as well as work with you, as was indicated by your colleagues, to see if there is a more appropriate longer-term solution to the situation that confronts this industry.

The CHAIRMAN. And what do you recommend as the most significant thing we can do short term, right now, to help dairy farmers?

Mr. MILLER. In the immediate term—and the Secretary alluded to this during one of his trips out into the countryside—first of all, in terms of the three support programs or safety net programs that I discussed, I believe we have been extremely aggressive in trying to utilize those programs to help alleviate the stress, and I believe, in fact, that that has helped.

Having said that, we know that dairy prices remain depressed and the economic stress continues in the dairy industry. But certainly our purchases under the Dairy Product Price Support Program have been significant, and we expect that they will remain significant down the road.

We have fully implemented the MILC program as it was designed in the 2008 Farm Bill, and we are expecting to continue to make MILC payments throughout the rest of the year, and they will continue to make a significant amount of infusion of cash into the dairy industry.

And as I have indicated, we have continued to reactivate the DEIP program. And while that is undergoing a rather constant review, we will continue to utilize that program.

Also, the Secretary has indicated that we are going to look at all of our authorities in terms of trying to find a way to help provide additional credit, or relieve some of the credit problems, that are faced by this highly leveraged sector of American agriculture.

The CHAIRMAN. All right. Let me just ask you this, because the Secretary has the authority—does he not, under the 1937 Agricultural Marketing Act—to institute an emergency floor price, if necessary, to take into account farmers' cost of production? Farmers are currently seeing prices below cost of production for their milk. So is the USDA, the United States Department of Agriculture, considering using this existing authority?

Mr. MILLER. Mr. Chairman, the authority that you are referencing deals with the Federal Milk Marketing Order, which is generally viewed as a marketing program. And if, in fact, USDA was to establish under that program a different floor price for milk, it could be very disruptive to the operation of the Federal Milk Marketing Order Program in terms of the stability that that provides for producers and processors, and, in fact, could drive some entities out of Federal Milk Marketing Order.

In addition, I think we have to recognize that a very significant number of dairy production states do not participate in the Federal Milk Marketing Order, which creates some additional difficulties in that regard.

Having said that, we do have other programs that are in place, including the Dairy Product Price Support Program, in which we can in fact purchase products. As I noted we have been doing this, which may be a more appropriate program to utilize if we are looking to support the basic prices of the dairy products consistent with the 2008 Farm Bill.

The CHAIRMAN. Thank you very much. We have our Chairman with us, Chairman Peterson, and I would like to recognize you for an opening statement at this time.

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

Mr. PETERSON. Thank, Mr. Chairman, thank you and the Ranking Member for your leadership in calling this hearing.

I thank you, Mr. Miller. I haven't seen you since you have been elevated to your position. We appreciate having you over there, and I want to have you tell the Secretary we have been appreciative of him being responsive to the requests that we have made of the Administration to help us with this dairy situation where they can. So we recognize that.

I have had lots and lots of discussions with Members of Congress and people in the industry over the last number of months. It is a tough time in dairy all over the country, and I appreciate the Chairman having this hearing today.

But I would respectfully suggest to the Chairman that I think that, in my opinion, this should just be the start of us looking into this situation. I would like him to look at his schedule and see if there is a possibility of doing maybe a couple more hearings before we leave in August, so we could bring in all the national groups and all the different folks that are involved in this to look at the issues and to see if people have solutions that might be viable, and if there is something we can rally around.

Although, having served on this Subcommittee for a long time, and struggling to understand this issue, it is complicated and very regional, and it has been made worse by these trade agreements that we have entered into that have tied our hands, so we can't do maybe what we should do. And I think all of these things need to be looked at.

But I would suggest that, first of all, we try to get all the general farm groups in here and have them, as a representative of a national constituency, see if they have something where they have come together. I think we should examine all these trade agreements and how this is impacting prices. You know, we should look at the order system and how that is impacting the situation. And potentially, the question I get all the time: Why, when milk prices have collapsed, haven't we seen a corresponding reduction in retail prices?

So there is no end of things that could be looked at here. But I would suggest that we try to get as many people involved in this as possible, try to have this as open as possible.

We have had a lot of discussions. You have been in those discussions with me and others. But, it is more important we have this out in public, so people can be involved and see what is going on and understand that this Committee has been engaged, and will stay engaged and try to figure out some way to help the people in this industry.

Again, I appreciate your having this hearing today.

The CHAIRMAN. I thank you so much, Mr. Chairman.

And as we speak, we are already moving to get a couple of more hearings before we get to the break.

And you can see by the Chairman's comments how serious we take this issue. And this Subcommittee and the whole Agriculture Committee and the Congress, for that matter, is determined to get help to our dairy farmers as quickly as we possibly can. And in order to do that, we have to get all the players here before the Committee so we can hear from everybody, so we can make the most intelligent and the most impactful decisions and get the help to the dairy farmers as quickly as we can.

Thank you very much, Mr. Chairman. Now we turn to our Ranking Member, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Chairman Scott. Mr. Miller, thank you for being here. I enjoyed our visit recently.

You heard a number of my colleagues talk about, and you are going to hear other panelists talk about, the cost of the inputs in relationship to the cost of the product. The inputs are rising and, unfortunately, the price of the milk has been falling.

And so, given this current economic environment for the milk industry and really all across agriculture, recently the Speaker insisted that this body take up a bill that some would say would dramatically increase the cost of energy in this country, thereby increasing the cost of inputs for farmers and dairy farmers and, really, businesses all across America.

What is the position of the USDA? Is this a good time for Congress to be raising the cost of energy and inputs for the dairy industry?

Mr. MILLER. Mr. Neugebauer, certainly the dairy industry has been faced with significantly increased cost. A big part of the current issue that they are facing in terms of those costs have been the costs of purchased feed ingredients. Naturally, that also does in some way reflect energy costs.

In addition, dairies are big consumers of energy as well. But the real challenge is finding a balance between the prices received in the marketplace and stimulating growth in that marketplace in a way that those costs, whatever they may be, can be fully covered, and hopefully that the dairy industry can return to profitability as soon as is possible.

I think we would expect that while we look at issues concerning climate, as well as the President's initiatives concerning a rapid expansion of renewable energy, that is going to create significant opportunities in production agriculture. Through those opportunities, we believe that all sectors of agriculture, including the dairy industry——

Mr. NEUGEBAUER. Mr. Secretary, I have a limited amount of time.

Mr. MILLER. Sure.

Mr. NEUGEBAUER. But I am going to ask you, yes or no, is this a good time to increase the cost of energy for dairy?

Mr. MILLER. Well, I don't expect that the legislation is going to be passed immediately.

Mr. NEUGEBAUER. Just yes or no, is it a good time to increase the cost of energy——

Mr. MILLER. We would prefer to see more consistent energy prices, certainly.

Mr. NEUGEBAUER. I am going to take that as a no.

I want to move forward on something about the Dairy Export Incentive Program and, really, 5 months before the USDA began to revive that process, the European Union had already begun to subsidize many of their producers.

And I guess the question I have is, are we about to enter into a war here where we are going to see the European Union increase their subsidies, and are there limits in our WTO agreement as to how far those countries and the European Union can continue—or the maximum amount that they can subsidize those.

Mr. MILLER. Under the WTO, both the United States and the European Union have limits in both the tonnage and the amount of funding that can be spent on those programs.

Unfortunately, in terms of our ability to go head to head with the European Union, the commitments for the United States are significantly smaller than they are for the Europeans.

So in terms of a trade war, as you characterized it, Congressman, we do not have the same capacity to continue to provide that assistance to our export market that the Europeans do in fact have. But I can assure you we were very aggressive in the 5 weeks or so that we operated the DEIP program in the 2008–2009 year. And as I indicated, we are continuing the program now as we move into the next WTO year under the subsidy program.

Mr. NEUGEBAUER. I understand you have allocated the remaining 2009 to 2010; is that correct?

Mr. MILLER. What we are doing, because this program is constantly under review with the Administration, is there has been an agreement of the various departments and agencies that have an interest in our Dairy Export Program to continue the program, allow us to utilize up to the amount that was available in 2008 and 2009 that we did not utilize, as we go through the review to determine what the outcome of DEIP will be, going forward.

So the program is still operational. And, as I said, we are aggressively seeking those markets where we can challenge the Europeans to regain market share in our key markets overseas.

Mr. NEUGEBAUER. Do you think that there are some ways that we can work with the European Union to begin to minimize—it sounds like we got out-traded on all these support tariffs. Is there a way for us to enter negotiations where we don't, in fact, end up in some kind of a trade war over milk?

Mr. MILLER. We have certainly indicated our willingness to discuss with the European Union the possibility of both the U.S. and the EU backing off of the export subsidy issue. Obviously, a number of our trading partners and trade competitors also would like to see that action and, of course, the whole issue of export subsidies is a key issue in the WTO negotiations.

The CHAIRMAN. Thank you very much, Mr. Neugebauer.

We will now hear from the gentleman from California, Mr. Costa.

Mr. COSTA. Thank you very much, Chairman Scott. I want to thank you for holding this very important hearing, and I want to thank Chairman Peterson for his earlier comments.

The dairy industry in the United States is in meltdown, let's make no mistake about that. It began first in California last fall, and it has spread throughout the entire country.

To follow up on Chairman Peterson's suggestion with Chairman Scott, I do urge both of you that we follow up, and this be the beginning, as was stated, of a continuum of hearings to really look at not only the fact-finding on what we do in the near term to bring relief—I have had two suicides in the San Joaquin Valley and areas among dairymen that Congressman Cardoza, Nunes and I represent, and we have no outlook for how it can improve. So I would suggest that we, Mr. Chairman, follow up and continue to work on this, because the long term is essential for the vitality of the dairy industry in the United States.

The CHAIRMAN. Well, I can assure you we would definitely be doing that, Mr. Costa. It is a very serious problem. We take it seriously, and we are going to get the dairy farmers' help as quickly as we can.

Mr. COSTA. I would like to submit comments by the California Dairies Inc., and the Milk Producers Council, as well as the Dairy Disaster Resolution that was approved in Kings County, in my district and neighboring Tulare County, and similar resolutions adopted by Merced County in Congressman Cardoza's district, and the City of Hanford, also in my district, for the record.

[The document referred to, *California Dairy Resolution,* is located on p. 193.]

The CHAIRMAN. Yes. Without objection, we accept that.

Mr. COSTA. Thank you very much, Mr. Chairman. I have a lot of questions, I want to go quickly here.

I have asked a number of dairymen—I meet with dairymen a couple of times a month. And it is a very difficult challenge that they are facing, input costs at $9 to $10 per hundredweight in California. I mean, the costs they are receiving for their milk at $9 to $10 per hundredweight and their input costs are $17± per hundred weight, you can't stay in a business like that very long.

From Mr. Watt, he asked me to ask you, Mr. Miller, with what the cost of production for the operations of the dairies going broke, your moving product into the CCC forces costly repackaging of product from commercial packaging, none of which is accounted for in the support price.

Do you agree that a better Federal Dairy Price Support Program should be updated to account for the production costs?

Mr. MILLER. Well, production costs are certainly a key issue in this problem. But looking at the packaging issue, USDA has explored whether our purchases should be repackaged in a different format in order to make those products that we are storing more comparable to what happens in the commercial market.

Our review of that situation, because in fact we are storing these products, some of which will likely store for a significant amount of time, do not really lend themselves to changing the packaging because of the deterioration of the product itself and that potential high cost to the government.

Mr. COSTA. Well, I would suggest we follow up on that.

Let me move over to another area that is troubling. The Chicago Mercantile Exchange Program, there was a CAO report in 2007 that says only a few players sell cheese on the market, and there really is belief that it is prone to price manipulation. That the price discovery mechanism should be reformed so that it is more effective and transparent.

Do you agree, and is the Department taking a look at this?

Mr. MILLER. Well, the issue there is really not one that is fully under the jurisdiction of the Department. However, having said that, I think it is in all our best interests that these markets operate in the most transparent fashion possible, and that we try to ensure that there is no way for those markets to be manipulated. And certainly in our conversations with the Commodity Futures Trading Commission, which does regulate those markets, we certainly do encourage them to see that we do not have manipulation.

Mr. COSTA. Well, I think more needs to be followed up in that area.

But let me move to the longer term, thinking out of the box, because some of us are trying to work with reforming the Federal Order and looking at whether or not a state like California, which is the number one dairy producing state in the nation—a lot of people don't think of California as a dairy state, but we are and we are the largest—on how we could make the Federal Order and maybe provide incentive for California to join the Federal Order to think out of the box.

Mr. Steve Maddox, who is a very effective producer in my area, says we need a new out-of-the-box look for long-term corrections in dairy policy to ensure our industry's survival. Stalling for better days and cutting around the edges and arguing that the replacement—rearranging the chairs on the *Titanic*, so to speak, is not going to be a solution.

Every program that you have stated in your testimony that we have implemented has done nothing to change the prices from the $9 to $10 per hundredweight. What is your suggestion on the long term?

I know my time has run out, Mr. Chairman.

Mr. MILLER. Well, let me respond just briefly, Mr. Costa. I think the Secretary would agree with you and your constituents that we probably do need to take a longer term view of what isn't appropriate and what can be an effective dairy policy in the United States. The farm bill provided for a commission to review the Federal Milk Marketing Order system subject to the availability of funding, which we have yet to see.

However, in addition to that, the Secretary has announced that he is very interested in doing the kind of review that you may be suggesting, both in terms of what we may be able to begin to do internally, and then the prospect of broadening that to be able to entertain ideas from the widest possible number of stakeholders.

The CHAIRMAN. Thank you very much.

Mr. COSTA. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Costa.

Now, the gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. I want to thank the Chairman and the Ranking Member and all the Members of the Subcommittee for participating in this Committee. I am a Member of the full Agriculture Committee. I, unfortunately, don't sit on this Subcommittee. I am pleased for a chance to weigh in.

Agriculture is my home State of Pennsylvania's number one industry and dairy is a leading sector. And, frankly, like probably most Members here, I am contacted regularly by dairy farmers in my district who are struggling just to break even.

And I want to share just a very quick note that I received just at the end of last week that came from my district here to my attention, from Diane Heckman. Jim and Diane Heckman are dairy farmers, lifelong dairy farmers in one of the valleys I represent.

And it says, "June 22, 2009, GT, while it has finally come to almost the end of the farm, we had a small amount of money back, and we have been using that to help pay the bills. But it is now gone. There is nothing left. And if something isn't done about the milk prices, we are going to have to sell the cows and the farm. I haven't told Jim yet, and I don't know how I am going to tell him. I am sitting here crying as I write this letter."

"Please, please, do what you can to help with the damn milk prices. I am just sick that it has come to this, and this has hit many, many family farms."

And it is signed Diane Heckman.

So certainly I really appreciate this hearing.

I think in terms of dairy and our food, our greatest—we have a lot of threats to our national security, but keeping our dairy farmers, keeping our family farms is what we can do most about our national security in terms of food security.

Mr. Under Secretary, I really appreciate you being here. I wanted to—there has been a lot of pieces of legislation that have been introduced over the years, aiming to implement a mechanism for mandating supply. There is a bill in the Senate right now; it is very similar to the Canadian dairy system, and I wanted to see what your view was on the kind of system that implements a mechanism for mandating supply.

Mr. MILLER. Again, you are looking at something that probably should be part of a longer-term solution to the dairy situation that we face currently; and that would be a very significant departure from the types of dairy policy that we have had historically in this country.

Again, I understand that legislation has been introduced. It is quite likely it is something that should be part of an agenda to discuss how we move forward with dairy policy and what is appropriate. So we certainly would welcome the opportunity to continue to engage in the discussion of that idea, as well as many others that have been proposed, and see if we can find an appropriate policy for the dairy industry in the United States.

Mr. THOMPSON. Well, I appreciate your opening comments, really laying out kind of a beginning road map on a short term to address the crisis that we are in right now; because if we lose farms, to get them back will be next to impossible. So I appreciate that.

I wanted to focus just my final question on that long term that you alluded to. I am amazed at a lot of contrasts. One of the contrasts, like the bottled water industry which—they are a free market-driven system that flourishes. Very profitable. People are getting very wealthy and very successful.

Then we have the poverty of the dairy industry which has been weighted under this pricing system that I am still struggling to fully understand it. And I wanted to see, what long-term focus thoughts do you have on milk pricing for changing that?

Mr. MILLER. Well, there are a number of opportunities out there to discuss longer-term changes in our dairy policy. Mr. Costa and I were discussing just prior to the hearing—and this is just a personal comment, but it seems to me that what we have seen in the dairy industry has not only spread between the highs of the dairy market which we experienced only a short time ago, a matter of months ago, and the lows that we are experiencing now have gotten to be more extreme with greater volatility. And the period of time which we have relatively good price or good returns to the dairy industry *versus* those periods of time when the returns may, in fact, be inadequate seem to be compressed.

So we have both greater price volatility, it seems, as well as a situation where we move through those periods of volatility much more quickly. That makes it extremely difficult for farmers and ranchers and dairy producers to plan on anything. It also makes it difficult for the processors, many of which are cooperatives and owned by those same dairy farmers, to plan effectively into the future.

So we certainly welcome the suggestion of Chairman Peterson and Chairman Scott to begin a dialogue about a—what might be a more effective, long-term dairy policy and certainly would offer to participate in that dialogue as the Members would deem appropriate.

Mr. THOMPSON. Thank you, Mr. Secretary.

Mr. Chairman, with your indulgence, I would like to enter into the record the letter that I have read.

[The document referred to is located on p. 98.]

The CHAIRMAN. Yes.

Mr. THOMPSON. Thank you.

The CHAIRMAN. The gentleman from California, Mr. Cardoza.

Mr. CARDOZA. Thank you, Mr. Chairman. I really appreciate the fact that you have had this hearing today—held it. I appreciate your commitment, along with Chairman—Mr. Peterson to continue, and not just to stop today, but really get to the bottom of what is going on here.

If I could, Mr. Chairman, I would like to submit for the record my opening statement and I will save everybody from having it read.

Mr. Miller, thank you for being here and thank you for helping us as you have been able to do. Obviously, the price of pork program isn't working as it was intended.

We never anticipated that there would be these catastrophic losses that are affecting our dairymen. Certainly farmers are used to boom-and-bust cycles; but this one seems to be so profound that it can just put vast numbers of the dairy industry out of business. And I specifically want to talk, that even though when cheese prices have been below support prices for weeks now, I don't believe that the Administration has purchased—or the CCC has purchased any cheese.

Several industry organizations have offered a few suggestions and put them in writing to the Secretary on how to address this, ranging from raising purchase prices, to loosening grading and inspection standards to that of commercial trade, and that of using product immediately in food aid programs.

From your perspective, sir, what changes are needed to make the program better in order to ensure that the safety networks work as intended? And then I will follow up with some other questions.

Mr. MILLER. Well, thank you, Mr. Cardoza.

In terms of the dairy product price support system, it is certainly working in terms of the actual administration of the program. We have been buying significant quantities of nonfat dry milk from the market because prices have been depressed. We have found ways to move a fairly significant quantity of that into our domestic nutrition and international food assistance programs, as a way to take some of that stock that we would otherwise be storing actually off the market and have that product consumed in a way that does not compete directly with commercial sales.

So, the issue is not whether the program can work, but really the issue is one of—is that, in and of itself, adequate to solve the dairy cost price squeeze that we are facing currently? I don't think we have any particular estimates of what would happen if we had not had that purchase program in terms of dairy prices. But we have done a significant amount with that program, and as I indicated, we have also expended millions of dollars and expect that by the end of the fiscal year we will have expended about $900 million in our countercyclical support program.

So in that regard, I think the programs are working. But I probably would agree with many Members of the Committee who suggested at the time that these programs were put into the 2008 Farm Bill that we weren't expecting this kind of situation to hit this sector of agriculture.

Mr. CARDOZA. Certainly not with the rapidity in which it took place.

Mr. MILLER. No. But—I also think we all have to put this somewhat in context and it difficult to do during these very difficult times. But we also have to weigh what are going to be the budgetary costs of modifying the current program either in the short term or the long term, and that is obviously a consideration that weighs on the minds of everyone in this room.

Mr. CARDOZA. There are 27 Blue Dogs on this Committee, and it certainly does weigh on this Committee when we talk about the financial situation. I notice that the Administration has not purchased any cheese. As I recall from my days in California as Chairman of the Agriculture Committee, the cheese price has a very big determining effect of what the price of milk ultimately is.

Can you tell me what the impediments are for purchasing of cheese and why the Administration hasn't purchased any to date?

Mr. MILLER. I guess the simple answer to that difficult question is, we are not being offered cheese to purchase even though, as you indicate, in some instances the price of cheese may be below the purchase price. It was the minimum purchase price that was established in the 2008 Farm Bill.

Others have suggested that part of the issue there is a packaging issue, which I discussed briefly earlier in the question-and-answer period, and that is a difficult issue for USDA because when we purchase any of these products, we are not expecting that we are going to be able to immediately turn those around and put them back into the commercial market. So we need to package things in ways that we can store them, potentially, for several years.

One final comment in terms of the issue on cheese, and it goes back to converting the nonfat dry milk that we have purchased under the Dairy Product Price Support Program, as we are looking to move some of that product into our Domestic Nutrition Program, we are bartering certain amounts, quantities of nonfat dry milk, for specialty cheeses. So in that regard, indirectly we are, in fact, taking some cheese off the market.

Mr. CARDOZA. Thank you, sir. I look forward to working with you more on that question.

The CHAIRMAN. Thank you very much.

Mr. Conaway, you are next—from Texas.

Mr. CONAWAY. Thank you, Mr. Chairman. I don't have a lot to contribute to the solution side.

Mr. Miller, what is the shortfall if we take total milk produced *versus* the $7 or $8 per pound differential between feed costs and what I heard talked about, $17 *versus* the sales price of $10? How much money are we talking about if we had to come up with that to make all these dairy farmers whole on the decisions they made to leverage at 70 percent, to increase the herd sizes during good times?

What is the nut for 2009?

Mr. MILLER. Let me consult with some of my experts here just a moment.

Mr. CONAWAY. While that is going on—they will give you an answer.

Mr. MILLER. Just a rough, back-of-the-envelope estimate, somewhere probably around $7 billion.

Mr. CONAWAY. It is $7 billion? Okay. Mr. Cardoza, that had to get your attention.

What—prices are in the $3.20 per gallon at retail; what would that translate to if we were to get milk prices up and—assuming all of that translated into money going directly to the farmers as opposed to throughout the train, what would a gallon of milk cost to maybe everybody whole without Federal intervention? A gallon?

While they are coming up with that, I will finish off.

Go ahead. Do you have a number?

Mr. MILLER. About $1.20 a gallon. That is to get a producer price of around $14, $15 a hundredweight. So if the producer price was going to need to be higher, then the price per gallon of milk would have to rise as well.

Mr. CONAWAY. So to get up to the $17 or $18 of input——

Mr. MILLER. It would be significantly higher.

Mr. CONAWAY. Why have alfalfa costs gone up so high? Alfalfa is the main food input for dairies, I guess.

Mr. MILLER. Why have the feed costs gone up so high, sir?

I think what we saw last year—and we have to recognize that increasingly dairies are not raising the same level of their own individual farm feedstocks as they have in the past, so a lot of that was being purchased. In the last year we saw record high prices for many of the feed ingredients that go into the dairy ration of corn, soybeans, for example.

Interestingly, many dairy producers now contract for several months in advance for their feed inputs. Some of that could be done even a year in advance, either through cash contracts or futures contracts, and they were doing that when commodities, feed commodities, were extremely high priced. So many of them—even though feed commodities have now come down somewhat, they are still experiencing the results of actually trying to hedge their feed costs with an expectation that those prices could go higher.

Mr. CONAWAY. All of those sound like traditional business risk decisions that every business has some similar kind of exposure to, that sometimes you are on the right side of a price going up and sometimes you are on the wrong side.

Any of those things that are going on in the arena that are exacerbated by public policy that we need to look at? None of us are prophetic enough to know when prices are going to go up or down. Is there anything in the system that means that the policy that we are operating under makes those circumstances worse?

Mr. MILLER. Well, we do need to explore some new ideas in terms of public policy, given the volatility that we are seeing not only in the dairy industry, but in the grain markets.

Mr. CONAWAY. One of the frustrations I have with all the soul searching is, we all talk about new ideas and a better way forward, and long term and short term. We are all talking at about 50,000 feet, and there is no specificity to anything that is being suggested at this point in time. So I would hope to be a part of the process that actually gets to the specifics, as opposed to just swapping slobber back with each other about how wonderful we are, about how much we care and all those kinds of things, and we don't do anything.

I am a CPA by trade, and so I pretend to get to numbers, as opposed to just bragging on the Chairman as we should, and bragging on the Ranking Member as we should, and bragging on each other as we should, and bragging on you and all that kind of stuff. It is very frustrating, I suspect, to the guys out there, like the lady in the letter from GT, that hear all this pontificating and no action.

So I look forward to yielding back my time. Pardon my rant.

The CHAIRMAN. Thank you so much.

We will now hear from the gentleman from—Mr. Minnick of Idaho.

Mr. MINNICK. Mr. Miller, my state, Idaho, became the third largest dairy state last year. Many farmers, dairymen moving from Mr. Costa's, Mr. Cardoza's and other California districts because of the cost of feed. And these same folks are now in the same desperate shape my colleagues have described because of feed costs relative to the price of, primarily, milk.

I was curious. In your written statement, you estimated that about—the average herd's size—not the average herd size, but the total number of dairy cows were going to go down 145,000 this year on average. I am curious as to what the impact of that at year-end is going to be on milk costs as you and your economists have looked at it.

What is the reduction going to be from the beginning of the year to the end of the year, and what do you think that reduction is going to do to the average cost of milk?

Mr. MILLER. Well, first of all, we do have a revised number. I believe my submitted statement suggested that the size of the dairy herd had declined about 145,000 head; the most recent data indicate it is about 138,000 head nationally, just a small adjustment. Obviously, by reducing the size of the dairy herd, that will help bring back a better supply and demand balance to the market, and we believe that that, coupled with other activities that we are engaged in, such as the Dairy Product Price Support Program such as the use of our Dairy Export Incentive Program, that we will next year see gradually improving prices and returns to dairy producers.

I don't think at this point, while we have projections of what prices might be for the various feed crops that are a key part of the dairy price structure, that is going to vary significantly from one part of the country to another and, obviously, can very significantly even from one dairy farm to another.

Mr. MINNICK. Like Mr. Conaway, I believe in free market solutions. And if part of the solution is to reduce the size of the—the herd size, is that going to be enough by itself by year-end to make the production of milk at least a break-even proposition? Because a lot of my farmers don't have another 12 months; they may have 6 months, but if the price does not rise to the point where they can afford to feed their herds by year-end, a lot of them are going to be out of business.

So I am really interested in the next 6 months and what your estimate at that point in time might be, given the dynamic of rapidly reducing herd size.

Mr. MILLER. Our estimates currently are that we will, particularly as we get into the early part of 2010, begin to see improving returns to dairy producers. I think the question is, how quickly will those dairy prices respond, and how high will they go so the producers can begin recovering their cash cost of producing milk. And, again, reduction in herd size will help in achieving that balance in the short term. Hopefully, that, coupled with the tools that we do have available and that the Department is implementing, will provide some additional economic security to those dairy producers.

But make no mistake, this is an extremely difficult time. While we would like to believe that the dairy market situation has bottomed out—and we believe that we have or are close to it—it is going to take some time for these markets to recover, for prices to get to the levels where dairy producers are, first of all, covering their cash costs and, second, returning to profitability. It is not going to happen immediately and the reduction in herd size is not going to happen immediately.

Mr. MINNICK. So you are not estimating we are about to break even by year-end?

Mr. MILLER. No, sir, I am not at this point.

Mr. MINNICK. Then I would suggest that we need to do something, because our dairymen are not going to survive until the gradual improvement in market conditions sometime in the next year that you are prophesying solves the problems. So we had better come up with some additional measures in the interim.

The CHAIRMAN. Thank you very much, Mr. Minnick.

Now, Mr. Roe of Tennessee.

Mr. ROE. Thank you, Mr. Chairman.

I met with a group of dairy farmers not long ago in my district, about 60 of them; and 2 decades ago, we had 50 in one county, we have one now. The largest population county in my district, Sullivan County, we four dairy farmers. I don't think we will have any if this keeps on much longer, and certainly by the end of the year.

One of the things that you and I have talked on the phone about and my concern—Mr. Chairman, you brought out a very, very important point a minute ago that this can't go on. We have all 12 counties in my district that are certified as droughts, and right now—the farm bill was passed last year, and I know Mr. Miller has been working hard on this, but we have farmers that might survive if they can get the funds from the drought insurance that they have.

That might not happen until 2010. We don't know when that will happen, and they are desperate right now for that. They have already paid the insurance for it. My concern is, if we don't do something very quickly, we are going to wipe out the dairy industry in this country.

I think you made one of the best points so far. And so what do we do on, for instance, being able to implement? The government moves so slow and these folks are running out of money. If you are running a dairy farm at a negative $25,000 a month, you are not going to go very long.

I think our small farmers—certainly in Tennessee where we are, what they see is that the larger ones are going to put them out of business, have deeper pockets.

Mr. MILLER. Congressman, as we have discussed, we have taken steps to expedite the implementation of the disaster programs, and, particularly, the disaster programs that affect the livestock industry.

We have just begun this week the sign-up for the Livestock Indemnity Program. The Livestock Forage Program, which is a drought-related feed assistance program, and the Emergency Livestock Assistance Program are both currently being reviewed by the Office of General Counsel at USDA.

So, again, we are moving ahead as expeditiously as possible to make those programs available. And part and parcel of this issue—while, certainly, these programs have been delayed far longer than I would have preferred in terms of implementation, we need to move ahead. We certainly need, once we have these regulations cleared, to ensure that farmers and their creditors know what these programs may provide, so even prior to being able to make payments—which is a challenge that we face at USDA because of our IT systems—at least make information available to producers so they can begin estimating what their benefits might be.

Mr. ROE. You and I have talked about that. I think if you and I made a salary that we made in 1979, today we couldn't pay our bills. That is what these farmers are faced with, a price that these dairymen are faced with, a price from 30 years ago, trying to pay bills today. And it is impossible.

I think as we reduce herd size, the dairymen gets about 40¢, maybe 45¢ on a good day, per pound. Would it make sense to look at subsidizing that? I know the cattlemen might not like that, because the cattlemen are also worried about dumping all this dairy herd and lowering the price of their product. What do you do with that? They sell those cattle, those 144,000 you talked about, basically at a loss, and then you just lose less money. You don't make any money doing that.

Mr. MILLER. I think you raise a very serious issue. There really is a dilemma that confronts the dairy industry and, more broadly, the beef cattle industry because most of these cows that are being taken out of production are going to find their way to the slaughterhouse. So that is, in fact, a dilemma that this Committee has faced in the past when there were policies to begin reducing dairy herd size. And it is somewhat of an issue that is faced currently, although the scale at which the dairy herd size is being reduced and the speed with which that reduction is occurring, there probably is a better opportunity to gradually feed those surplus milk cows into the market than if there was just a wholesale program to take significant numbers of cows out of dairy production and, in effect, drop them into the beef market.

Mr. ROE. Just very quickly. If you were the dictator, if you were the czar, what would you do right now?

Mr. MILLER. I would have higher prices for milk and lower consumer prices.

Mr. ROE. That sound goods. Thanks. So would everybody.

And I would like to win the lottery. How do you do that?

Mr. MILLER. It is difficult. I know it is frustrating for dairy producers. It is certainly frustrating for us at USDA and, I know, equally frustrating for you as policymakers to end up in this situation. It is dire.

And we are using the tools that we have available to us in the 2008 Farm Bill. I believe we are using them aggressively, and unfortunately, the problem would be worse, probably, if we weren't doing this.

But that isn't an answer to the question.

Mr. ROE. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Now the gentleman from New York, Mr. Murphy.

Mr. MURPHY. Thank you, Mr. Chairman. And thanks for having this hearing. I want to stay on the same topic we have been talking about with Mr. Conaway, and Mr. Roe, and with Mr. Minnick.

Where is the equilibrium point right now? It sounds like we have about 9.2 million cows in the herd. We peaked at 9.35, and you say we are down 150,000. Is that about where we are, about 9.2 million?

Mr. MILLER. That is where we will be, we believe, at the end of the year.

Mr. MURPHY. Where are we right now?

Mr. MILLER. We are at about 9.2 now. We will be down around a little closer to nine at the end of the year.

Mr. MURPHY. Where do we think the equilibrium is? We have a $7 billion differential this year between costs and revenues. Where is the equilibrium for the herd?

Mr. MILLER. We think we will be closer to equilibrium at the end of the year. Once we get around nine million, we are going to start, we believe, seeing prices improve. And while it takes time for these things to work themselves through the marketplace, we believe that the average price for milk next year is going to be in excess of $15 in terms of cash costs. Assuming we don't see a significant shock in the input markets, then we think we are going to be fairly close to that equilibrium.

Mr. MURPHY. But if we had nine million herd—nine million head today, we would have, roughly, equilibrium today?

Mr. MILLER. We would be moving toward equilibrium much more quickly.

Mr. MURPHY. How many head of cattle are slaughtered in the beef industry every month? Any idea?

Mr. MILLER. My experts tell me about 600,000.

Mr. MURPHY. So if we took 200,000 head out now, that would be material. But if you took it out over 3 or 4 months, it is fairly immaterial.

What can we do? Because, to me, price supports for $7 billion seems like a crazy idea to leave us in the same place we are in right now. We may have to do some of that in this emergency, but if 200,000 head of cattle coming out is enough to get us to equilibrium, where my farmers can do their work and break even, they would be very happy with that.

Is there a mechanism that we can activate now to start taking those 200,000 head of cattle out? Because that seems like a pretty simple solution, something we could do fairly quickly over a few months.

Obviously, we don't want to destroy the beef cattle industry. But it is a small number in the great scheme of things, and I can't imagine that is anywhere near $7 billion and then let the market balance itself out.

Is there a mechanism out there for us to do that?

Mr. MILLER. USDA has very limited authority in terms of being able to do that. But I am not saying that we are completely without authority.

The big issue with any sort of dairy herd buyout is, first of all, the impact that you have directly on the dairy industry, which we are suggesting would be positive by reducing the——

Mr. MURPHY. We think it is going to happen anyway by the end of the year.

Mr. MILLER. And it is happening and there are programs to encourage—the CWT Program is running, and I would have to assume that it is at least one significant factor in the reduction of herd side in addition to just the general economic situation. But we do have to be cognizant of how that does affect the beef market.

I think we are all aware, while dairy is in a very serious situation, the livestock sector in this country is not extremely healthy to begin with. We have significant problems in hogs and poultry, and I don't think beef producers are just jumping up and down and thrilled with what they are receiving.

So it is a delicate balance. It is a question of finding the appropriate authorities if you wish to do this. And then, certainly, again it is a question of the cost.

Mr. MURPHY. What are the authorities we would use to do that in the short term?

Mr. MILLER. In terms of USDA, we have very limited authority to actually engage in that type of a purchase program. However, in consultation with a number of people, there may—and I am saying "may"—be able to provide at least some financial assistance through credit programs that could potentially augment the efforts of others to reduce the herd size.

Mr. MURPHY. Is there anybody besides the CWT Program out there kind of orderly reducing the herd size?

Mr. MILLER. Not that I am aware of, sir, in terms of an organized effort. Obviously, the market situation is causing a number of dairy producers to begin liquidation of their herds, whether it is through the CWT Program or otherwise.

Mr. MURPHY. I would love to work with you more on this, because we should be more orderly about it and get it done sooner, so that we don't just wait to see everybody starve to death across the whole country. Instead, we can be more orderly about it and get it done in a fashion that is going to be more humane to everybody. It doesn't seem like very far to go to get us back into balance.

And thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Virginia, Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman. And I want to thank you for holding this hearing. It is a very important issue for not just dairy farmers in my district and elsewhere around the country who are suffering, but good dairy policy is important for hundreds of millions of consumers in the country as well.

I want to follow up on a question that Mr. Roe asked and ask you why it is taking so long for the Department to make some of the payments that need to be made? For example, on drought disaster losses that occurred last year and the year before—thankfully, we are out of that situation right now in the East, but we went through a few years where we had some serious problems and some of our farmers still haven't been paid.

Mr. MILLER. Quite frankly, Congressman, the effort to draft the regulations for the Livestock Forage Program, which is the drought feed assistance program for the livestock industry, really only began in earnest earlier this spring, even though the farm bill was passed a year ago.

What we have done in terms of trying to expedite——

Mr. GOODLATTE. Go ahead. You were getting right to my question with what you are doing to speed that up.

Mr. MILLER. In terms of trying to expedite the implementation of the disaster program, we took action to divide it into its components, so we could move each component through the USDA process, and the rest of the Administration's process more quickly, rather than trying to package the bundle of five programs together.

As I indicated, the Livestock Feed Program is currently under review by our Office of General Counsel. It will move from there to our budget and policy——

Mr. GOODLATTE. When do you think you could expect——

Mr. MILLER. We expect we will have it out of the Department sometime this summer. We will then go to OMB for their review, and hopefully, if that——

Mr. GOODLATTE. Is anybody talking to OMB about how urgent it is?

Mr. MILLER. We have conversations with OMB on a regular basis.

Mr. GOODLATTE. Is there any way we can begin their process in terms of ramping up, so as soon as you have your report to them, they can take it and run with it and get it done in a few days? It is ridiculous to recognize a disaster and then have a bureaucratic process that goes on for, now, nearly a year after the farm bill was passed and still nothing for farmers.

Mr. MILLER. Well, as you are aware, I cannot commit to what OMB's schedule might look like. But we do have——

Mr. GOODLATTE. The Department has held it to this point. And at this point, we are many, many months into addressing something that the Congress voted to address a long time ago.

Mr. MILLER. No. I understand and appreciate that.

We are having conversations with OMB. They are aware it is coming. They did expedite consideration of the Livestock Indemnity Program and actually got that program approved in what I think is probably very quickly by OMB standards.

So, hopefully, we can continue——

Mr. GOODLATTE. Let me just urge you to continue down the track as quickly as you can, and go to another subject that was raised by the Ranking Member. And I want to express great concern.

We have in this country a dairy policy that is badly in need of overhaul. The changed conditions that this industry faces, milk can be preserved longer and transported, as a result, greater distances, and the traditional way of looking at the markets and so on is a problem.

I have struggled with that with my dairy farmers in Virginia, who ship their milk greater and greater and greater distances primarily because of the nature of this policy and the way it works. I believe that needs to be overhauled.

But I am also very concerned about the direction that our government is taking in terms of increasing the input costs to dairy farmers. By far, the two largest input costs they face are feed and fuel. And those two things are being very detrimentally influenced by policies that—as you correctly noted, some won't take effect for a while. But nonetheless, the effect that they will have is not good for the long-term future of dairy farmers and others that could be in effect right now that aren't—for example, a national energy policy that would cause increased domestic production of all sources of energy.

We want to develop new technology, but the cap-and-tax legislation that the Congress passed a few weeks ago, I think ignores the need to increase domestic production of oil and natural gas and nuclear power and so on. And that is a problem.

But something of even greater immediate concern is the fact that the Administration is considering increasing the ethanol mandate for gasoline to 15 percent, and that will also be of grave concern to dairy farmers and anybody else who has livestock that they have to feed. It is going to increase what the government is mandating goes to other sectors, and that means they are going to have to pay higher prices for their corn and other feed.

Is the Department of Agriculture taking any steps to communicate with these other agencies to attempt to get some sanity in terms of what price effect this is going to have for our livestock producer, especially dairy farmers?

Thank you, Mr. Chairman, for your forbearance.

The CHAIRMAN. Very quickly, if you can, Mr. Miller.

Mr. MILLER. Yes, we constantly are having dialogue with other agencies and Departments concerning the implications and decisions that are made in other parts of Washington, D.C., how those affect American agriculture. And I can assure you that Secretary Vilsack is not at all shy about discussing agricultural issues with his counterparts and colleagues.

Mr. GOODLATTE. What is he telling them?

The CHAIRMAN. The gentleman from Iowa, Mr. Boswell.

Mr. BOSWELL. Thank you. Thank you very much. I appreciate you being here, and what you bring to the table.

A lot of discussion, a lot of questions about responses. Why don't you just, the best you can—I will give you 2 minutes to turn around and talk to your experts.

What can we do here to help expedite getting some relief out to our dairy farmers? What can we do? What tool do you not have in your toolbox, Mr. Under Secretary, that you can put the bee on—and I think you get a lot of support from everybody in this room—what can we do that would get some relief out there really quick?

Mr. MILLER. I think in the short term, and one of the efforts we are undertaking in the very short term—and it is not a long-term solution, but that is to review the full range of creditor options that we have not only with FSA, the credit programs that are administered within my mission area, but also looking throughout other agencies within the Department to see if they have programs that we could either utilize or adapt to help resolve this current situation.

As I indicated, the dairy industry is very highly leveraged. That is creating a significant amount of stress on dairy farmers currently. Anything that we can do to help address that, both with our direct borrowers, as well as others.

Mr. BOSWELL. I understand that, Mr. Secretary, and I have confidence in you, and I have a lot of confidence in your boss. I hope you are actually on 24/7 down there.

What can we do that is already here? I hope you are already doing that. And only you would know that. But I still think there could be—maybe there is not—there could be something, and you could say if this Committee would get something going. And we surprise ourselves around here sometimes; sometimes we can pass something pretty quick.

And there is desperation out there. When there is desperation out there, if there is a desperate move we can do, I say, do it. And those of you who are working with it the closest—we have heard this testimony. I go back and I talk to my people.

But it is a desperate situation, and you know it is.

Mr. MILLER. We agree it is an extremely difficult situation. We believe we are utilizing the authorities that we have that were provided to us in the 2008 Farm Bill. And as I indicated, we certainly are willing to collaborate with the Committee in terms of any other legislative authorities they may wish to consider.

Mr. BOSWELL. We are ready to consider anything. We would like to get some relief out there. We are asking our experts from your shop to help us if you can.

I don't want to just persist on that, Mr. Chairman. But I think there is a real willingness here. And I think the Chairman said in his opening remarks and the Chairman of the full Committee, everybody. So if we can, tell us, and we will try. Thank you.

The CHAIRMAN. Thank you so much.

We will now go to the gentleman from Wisconsin, Mr. Kagen.

Mr. KAGEN. Thank you, Mr. Chairman, for calling this very important and critical hearing today.

Thank you, Mr. Miller, for attending and bringing to the table what you can.

Wisconsin is the dairyland of America, and we hope to—intend to succeed. But it is very tough to succeed when our feed costs from May of this year, $8.38, and we are getting paid about $11.60. So 70 to 80 percent of our income goes to just feeding the animals. So many of our farmers in Wisconsin, like across the country, are going under water.

They are paying off their bills today with money they made 5 or 10 or 15 years ago. So the young startup, the young farmers, who don't have a lot of capital reserves, are going to be the first to go.

So in January, I had a conversation with the Secretary and we had a conversation about whether or not the herd should be thinned. It was a strategic decision by the Department not to thin the herd, not to seek a reduction of 200,000 or 300,000 head. Instead, the DEIP Program, the Dairy Export Incentive Program, was being promoted. I think, to a degree, that program has not succeeded thus far.

You also just testified that the credit market, the overarching problem we have globally with our global recession is part of the problem.

So let me ask you this. Isn't it time that the dairy producers of this country began to have a compensation method that somehow tied itself, not to the cost of feed or not to the cost of Class I Boston milk, but rather the cost at the grocery store? Because somebody is still making money, it is just not the dairy farmer.

Mr. MILLER. Well, sir, that is certainly an interesting idea; and again I would indicate that as Congress wants to consider a new approach to dairy policy, we are certainly willing and would be happy to collaborate with you and any other Members of the Subcommittee that would like to discuss these options, going forward.

I think it is obvious to the Secretary that we do, in fact, need to have that type of a discussion.

Mr. KAGEN. A previous question was posed to you about the purchase of cheese on the CME and other dairy products: Is the Secretary ready to pull the trigger and purchase some cheese to absorb some of that material, and also boost the price?

Mr. MILLER. That offer under the Dairy Product Price Support Program is out there. And so, to the extent that cheese manufacturers would wish to sell cheese inventories to USDA, we are certainly in the position, at the prices that are identified in the 2008 Farm Bill, to make those purchases. And as I indicated, quite likely those purchases may, in fact, be required to remain in storage for some period of time until we can find adequate avenues to remove them—hopefully, in a way that is not directly competing with the commercial market, or at least not until the commercial market recovers to the extent that we are not only exacerbating the current situation.

Mr. KAGEN. Is it correct, then, that it would be your testimony that until the global demand, the foreign demand, for dairy products increases, that the price will continue to be where it is?

Mr. MILLER. We expect that with the adjustments that have been made, including the projected reduction in the dairy herd, the activities that we have been utilizing to remove product from the market and move it into basically noncommercial chains, the activities of the Dairy Export Incentive Program, will, in fact, result next year in an improved market price situation for dairy producers.

What we are looking at is probably something in the range of around a 25 percent improvement in the dairy market, something projected now at over $15 a hundredweight. So that is a pretty significant improvement.

Would we like to see improvement occur sooner? Would we like the dairy situation to be resolved earlier? Of course, we would. I think everyone in this room would like to see that happen. But, again, we do have a limited range of tools; but, we are aggressively using those tools that we have.

Mr. KAGEN. Well, the dairy farmers of Wisconsin appreciate your effort, and they would also appreciate it if this Congress would work together, across party lines, to succeed in fashioning a health care reform legislation that would lower the cost of health care because the two costs—the two costs that are most at producing the overhead on the farm today are not just energy, but also health care—not the subject of this hearing, however.

And I yield back my time.

The CHAIRMAN. Thank you, Mr. Kagen.

Now I would like to recognize the gentleman from New York.

Mr. MURPHY. Thank you, Mr. Chairman. I just wanted to, for the record, add a letter from the New York State Department of Agriculture and Markets with respect to the dairy crisis.

The CHAIRMAN. So moved and so accepted.

The CHAIRMAN. Let me just conclude the questioning. I have just a couple of questions.

Mr. Miller, can you tell us about any specific plans that you and the Department have to ease the operating credit crunch for dairy farmers? And specifically, what safeguards are you considering to keep any action you take from delaying the supply correction that needs to occur?

Mr. MILLER. Well, Mr. Chairman, through the supplemental appropriations bill, we did finally receive an additional infusion of capital that we are able to use for the credit programs that are administered by the Farm Service Agency.

We are aggressively engaging in an effort with our borrowers to make sure that they understand the complete range of opportunities that are available to them as they go through these stressful times. That can involve some restructuring of loans, it can involve some adjustment of interest rates and a number of things. So we are aggressively doing an outreach program that we hope to be able to communicate with them directly in the very near future.

We will also be communicating with our county FSA offices and do as much as we can to make sure that dairy farmers and others that are eligible to consider these options are fully apprised of what they can do.

We are also beginning to work with the private sector lender, the Farm Credit System and commercial bankers to see how we may work together, because we also do loan guaranty programs with many of those lenders. We may work together to also provide some relief to these farmers that really are up against the wall in terms of their ability to borrow money to get through this period of time. So, again, it could be an extension of the credit terms. It could be adjustments in interest rates. It could be taking a look at the principal.

The CHAIRMAN. Can funds from section 32 be used for dairy farmers?

Mr. MILLER. Typically, section 32 funds have been utilized to provide support for those sectors of agriculture that are not eligible for price support activities. So they have been used for pork and a number of specialty crops.

The CHAIRMAN. Let me just ask you this in concluding, because I am sure you ascertain that there is a sense of urgency on this Committee to do something quickly to help the dairy farmers; I would like to know your opinion.

Do you think we can accomplish that strictly by—administratively, or do you see a need for legislation?

Mr. MILLER. As I indicated, we have been very aggressive at utilizing the tools that we have at our disposal, that were provided by the farm bill, in terms of the safety net operations, as well as in terms of pursuing additional sales that do not compete in the available commercial market for U.S. dairy producers.

So we do need to consider, are these authorities going to be adequate to address this situation both in the short term and looking forward?

The CHAIRMAN. So, let me be clear, you are saying in your opinion that we do need a legislative package?

Mr. MILLER. I think we need to sit down and consider what else could be done to help address this situation, with the goal also to reducing the types of volatility that have gotten us into this position to begin with.

The CHAIRMAN. Mr. Miller, thank you very much. You have been very helpful. We appreciate your expert testimony. I am sure you realize the seriousness of this issue, and our desire on this Committee to move quickly, as quickly as we can, to get assistance to our dairy farmers.

Mr. COSTA. Mr. Chairman?

The CHAIRMAN. Yes.

Mr. COSTA. I know we are moving on to the next panel, but hopefully, other questions that we have we can submit to Secretary Miller for follow-up. And, to your point about raising the question; because clearly, the tools that they have at hand are not working. And with your leadership and with Chairman Peterson on how we move forward is going to be critical.

And we certainly want Secretary Vilsack—I know he is coming out with an announcement later this week on some additional actions that include the commission that we created last year in the 2008 Farm Bill, that I initiated, to look at overhauling the entire Federal order and how we make it relevant to the current market pricing in this country. It is something that we are all going to be very interested in.

So I thank the Chairman. And we look forward to you answering those questions that we submit to you in a timely fashion.

Mr. MILLER. Mr. Costa, we will be pleased to respond to any questions that you or your colleagues will submit, and will try to get a response back to just as quickly as we can.

The CHAIRMAN. Thank you so much, Mr. Miller.

The CHAIRMAN. And now we will hear from our third panel of witnesses and our final panel.

And we are very pleased to welcome you. Thank you all very much for coming. We are very pleased to have you, and let me introduce each one of you.

First, we have Mr. Paul Kruse, the CEO and President of Blue Bell Creameries on behalf of the International Dairy Foods Association of Brenham, Texas.

Welcome, Mr. Kruse. Glad to have you.

Mr. KRUSE. Thank you, Mr. Chairman.

The CHAIRMAN. We have Mr. Tom Wakefield, the National Milk Producers Federation of Bedford, Pennsylvania.

Welcome, Mr. Wakefield.

Mr. WAKEFIELD. Thank you, Mr. Chairman.

The CHAIRMAN. We have Mr. Brad Bouma, President of Select Milk Producers, Inc., of Plainview, Texas.

Good to have you, Mr. Bouma.

He is not here yet?

Mr. CONAWAY. He went to the bathroom.

The CHAIRMAN. We will welcome him when he returns. Thank you.

And we have Mr. Ray Souza, President of the Western United Dairyman, Turlock, California.

Mr. Kruse, we will begin with you.

STATEMENT OF PAUL W. KRUSE, PRESIDENT AND CEO, BLUE BELL CREAMERIES, L.P.; CHAIRMAN, INTERNATIONAL DAIRY FOODS ASSOCIATION, BRENHAM, TX

Mr. KRUSE. Thank you, Mr. Chairman and Members of the Subcommittee. I appreciate the opportunity to be here today. I am Paul Kruse and I am CEO of Blue Bell Creameries, which is based in Brenham, Texas. We are an ice cream producer and we distribute over the southern part of the United States.

I am proud to have a facility in your district, Mr. Chairman, as well as the Ranking Member's district.

As Chairman of the International Dairy Foods Association, I am speaking on behalf of its 220 dairy processing members. They represent about 85 percent of the milk, cultured products, cheese and frozen desserts that are produced and marketed in the United States. Our members employ around 120,000 employees.

Very clearly, we are aware dairy farmers have been hit hard by this economy. This concerns us greatly. The partnership that the dairy farmers have with us as milk manufacturers is critical to the overall success of the industry.

The policies you create here affect this partnership in good ways as well as bad ways. I know we are talking a lot about short-term assistance, and that is probably necessary, but we think it is vital to look at whether our existing, outdated programs that we are living under contributed to the financial problems the dairy farmers are experiencing today.

You know, the U.S. is a very efficient dairy-producing place. Production has grown from around 120 billion pounds in 1975 to right at around 190 billion pounds in 2008. We are good at that, and we do it very, very well.

You know, if you go back 70 years when the Federal order system kind of kicked in: 4.6 million dairy farms, today 67,000; there were 22,000 dairy plants, today there are 1,200 in the United States.

On the demand side, 45 percent of the domestic milk goes into cheese; about 30 percent goes into the bottled milk as fluid milk; about ten percent goes into my favorite, which is ice cream; and the remaining 15 percent goes into butter and, typically, powder.

We have seen the population in the U.S. drinking less and less fluid milk, but on the other side we have seen demand for cheese up strongly, and that is where the big growth has been in the use of milk.

We feel, as an industry, we can capture more of this growth and increase the demand for milk if we avoid the temptation to put a Band Aid on an old system and consider—we need to look and consider long-term approaches that will allow us to innovate and grow as an industry.

It has been talked about here: Our industry has a long history of price volatility. Five years ago, farm milk prices and dairy product prices were at record highs. Then we got around to record low prices in 2006. Then, obviously, in 2007 and into 2008, very, very historic high prices; and now we have dropped off to some of the lowest farm milk prices in recent history.

Price volatility makes it very difficult for folks in our industry to plan any long-term investments. It makes it difficult to capture any new markets for dairy products and hold on to them, or to compete with other commodities in foods that have less volatility. Unlike virtually all the other commodity groups, dairy lacks adequate price discovery and risk management tools.

I am aware that the dairy farmers are locking in their feed costs—or many of them should be—but obviously not locking in their milk price. Why, for instance, can I, as an ice cream producer, lock in numerous years of fixed pricing on vanilla flavoring, forward contracting for that, but yet my biggest input cost, milk, is not forward contracted?

We would like to examine why USDA's wide array of risk management products, such as the Livestock Gross Margin Insurance Program, is underutilized in the dairy industry. There are some calls in the industry to manage the supply or to limit milk production, even suggesting a new tax on milk. These programs have the potential to artificially raise the domestic price, drive people away from that to other options that they have, and really limit our industry's ability to modernize, innovate and grow.

IDFA believes that increasing demand for dairy products, not decreasing production, is the best way to maintain a healthy dairy industry. Before the economic downturn, we were great at exporting; about ten percent of the milk went out of the country, about five percent came in as imports. When the world economy turns around—I think we produce more milk from cows than any other country, and we are very well suited to take advantage of that.

New products that have come onto the market, we need to respond to. There are protein-enhanced waters, sports drinks, power bars, coffee drinks, cake mixes, just to name a few, crackers that are utilizing a lot of the MPCs. We need to change our approach to that.

The Dairy Product Price Support System encourages, for instance, plants to produce the nonfat dry milk, and it is not really the big thing in demand. These milk protein concentrates are probably something that are going to continue and are ending up in a lot of food. There are huge investments to be made in doing that, and a lot of the programs work against stability so that these people know where they are at.

Really, this Subcommittee will and can have a profound influence on the future of our dairy industry. On behalf of all the IDFA members, I would ask you to make some forward-looking changes to our regulations that allow for investment and innovation. This will ensure a healthy and expanding dairy industry both for the dairy farmers and the processors. And we are in the boat together.

Thank you. And I will be happy to answer any questions if possible.

[The prepared statement of Mr. Kruse follows:]

PREPARED STATEMENT OF PAUL W. KRUSE, PRESIDENT AND CEO, BLUE BELL CREAMERIES, L.P.; CHAIRMAN, INTERNATIONAL DAIRY FOODS ASSOCIATION, BRENHAM, TX

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear before you today. I am Paul Kruse, the CEO and President of Blue Bell Creameries based in Brenham, Texas. We have facilities across 18 states in the South and Southeast United States including the districts of Chairman David Scott, and Subcommittee Ranking Member Randy Neugebauer. Blue Bell has been in business since 1907. Today the company manufactures a full line of ice cream products and is recognized as the third largest ice cream brand in the United States.

I am speaking today as Chairman of the International Dairy Foods Association. IDFA's 220 dairy processing members run more than 600 plant operations, and range from large multi-national organizations to single-plant companies. Together they represent more than 85 percent of the milk, cultured products, cheese and frozen desserts that are produced and marketed in the United States.

Today I would like to discuss the status of the dairy industry in the United States, some the trends that have brought us to where we are today and our industry's enormous opportunity for growth.

Many in the dairy industry are facing some very difficult times. Yet, we urge this Committee to avoid establishing new programs that will limit our industry's ability to grow. It is more appropriate to first examine our existing dairy programs. Are these outdated programs actually contributing to the problem? Can we find some better long term programs that help farmers and that will help our industry to meet its potential for growth?

Dairy remains a key component of our nation's agriculture industry. Nationwide, the dairy industry employs hundreds of thousands of people on farms, in processing plants, through marketing and transportation, in retail stores and in companies that supply inputs to the dairy industry. Dairy processors are in the middle of this equation. We depend on our dairy farmers and cooperatives for a reliable and high-quality milk supply to make our products. We have developed tremendous trust and reliance in these relationships. At the same time, our customers depend on us to deliver the nutritious and delicious products they want.

There is not a dairy product manufacturer in this country who takes for granted the great resource we have in our U.S. milk supply or the dairy farmers and their families and cooperatives that make it possible. This partnership between milk producers and milk manufacturers is critical, and the policies and programs that you consider here on Capitol Hill can affect that partnership in both positive and negative ways.

Today's Dairy Industry

There are different ways of measuring how farm milk is used, but roughly 45 percent of domestic milk production is used for cheese; 30 percent for fluid, or beverage milk and ten percent for frozen products like my favorite dairy product, ice cream. The remaining 15 percent is used for butter, nonfat dry milk and other products.

Although nearly every state, including Alaska and Hawaii, has at least a few dairy farmers, nearly ¾ of our nation's milk production currently comes from the top ten dairy states of California, Wisconsin, Idaho, New York, Pennsylvania, Minnesota, Michigan, Texas, New Mexico and Washington.

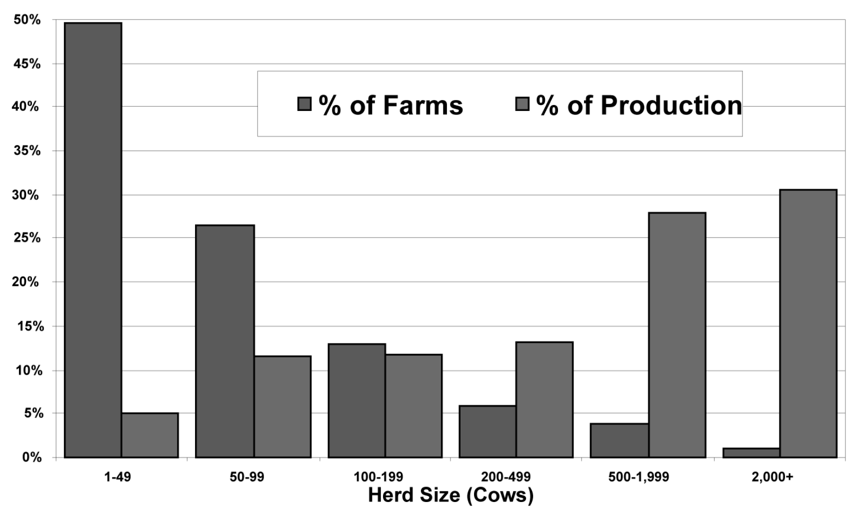
Dairy processors, as one would expect, are clustered in these same areas. As an industry, dairy processors directly employ over 120,000 people. Regional growth in milk production is now most often driven by a dairy processor's decision to build a new plant or increase capacity in an existing one.

Decades ago, most dairy products were only marketed locally or regionally, but with advances in transportation and efficiencies in production, most of our dairy products are now marketed regionally and nationally. In addition, a growing global market has increased demand for products such as milk powders that can be easily incorporated into many other food products.

The dairy industry is defined by a few fundamental trends that often explain governmental policy towards the industry.

- The number of dairy farms has decreased dramatically over the last several decades. When Federal dairy programs were first established some 70 years ago, there were over 4.6 million dairy farms and 22,000 dairy plants to serve our population of 132 million people (1940 data). We now have around 67,000 dairy farms, and about 1,200 dairy plants to support nearly 300 million people. Most states have witnessed a constant and steady decline in the number of dairy farms and dairy plants over several decades.
- The majority of milk production has moved from small dairy farms to large ones. In 2008, almost 59 percent of farm milk production came from only five percent of our dairy farms, those with over 500 cows. In 1940, less than one percent of farms had 30 or more dairy cows, and over 90 percent of milk production came from farms with fewer than 30 cows. The rapid growth of the nation's dairy industry over the past few decades, especially in the Western states but a trend everywhere in the country, is almost entirely due to the development of very large dairy farms of 5,000, 10,000 or even 15,000 cows.

Number of Dairy Farms by Herd Size



Source: USDA, NASS.

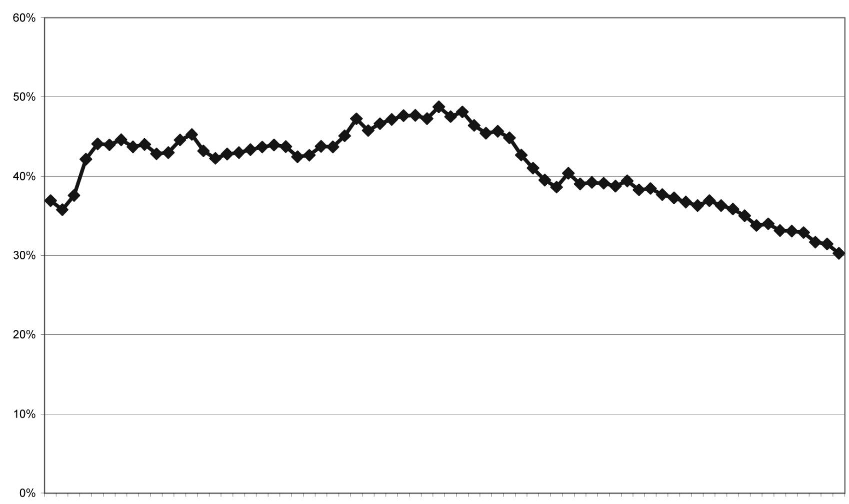
- For decades, these changes in the dairy farm sector, combined with an overall decline in per capita consumption of all milk and dairy products, limited overall growth in the industry. Total U.S. milk production was held to around 120 billion pounds between 1940 and 1975. Since then, milk production has soared and continues to grow annually.

Total Milk Production

Source: USDA, NASS.

- While farm milk production has increased dramatically, the percent used in fluid dairy products fell from nearly 49 percent in 1973 to barely 30 percent in 2007. Annual fluid milk consumption has fallen from 30 gallons per person in the early 1970s to barely 20 gallons per person today. With population growth, this means that total fluid milk sales in the United States have been stagnant for decades.

Percent of U.S. farm milk production sold as fluid dairy products



Source: USDA, NASS.

- Cheese sales, however, have significantly increased and accounted for nearly all of the growth in total dairy sales over the past few decades. Per capita frozen dairy product production has declined over the past 15 years, from nearly 30 pounds in 1994 to around 24 pounds today, but total production has remained relatively steady in recent years thanks to population growth.

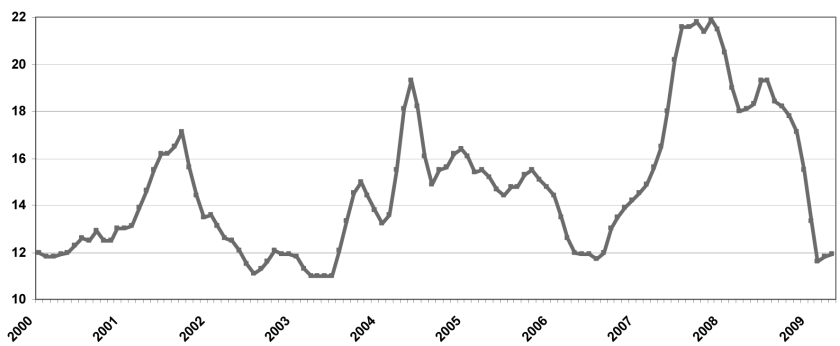
Dairy Lacks Risk Management Tools

This is a difficult time for many in the dairy industry, and I would urge this Committee to avoid quick fixes and consider longer term approaches to address our current situation. Here's why.

Milk price cycles are not unexpected. In fact, the U.S. dairy industry has a long history of price cycles. Agricultural price swings are nothing new for any commodity, but other sectors have well established risk management tools that are used frequently by all market participants. The same cannot be said for dairy.

Just 5 years ago, farm milk and dairy product prices soared to then record-high levels where they stayed throughout 2004 and 2005. But that 2 year period of high prices was followed by low prices in 2006. Starting in 2007, the pattern repeated itself. The record high prices in 2007–2008 have been followed by the low farm milk prices seen so far this year.

All-Milk Price Since 2000



Source: USDA, NASS.

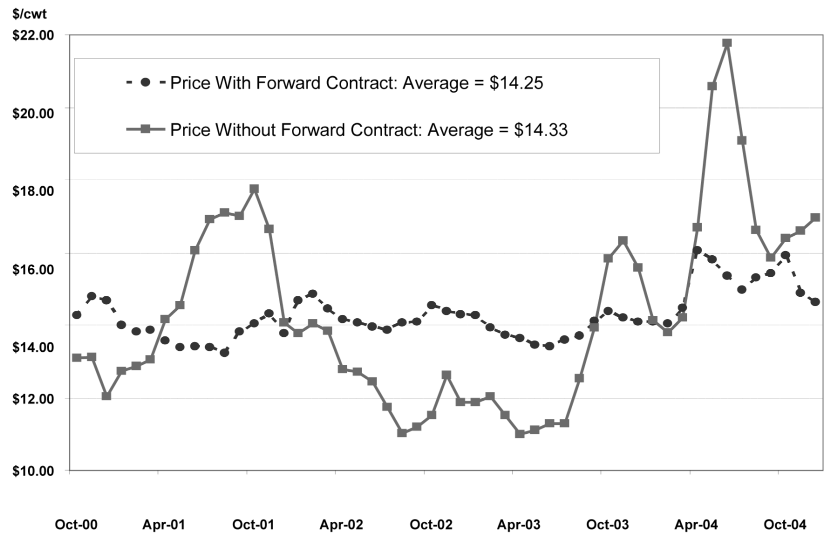
Without adequate price discovery and risk management tools, every segment of our industry suffers through the price swings, especially the small producers and small processors. Price volatility makes it very difficult to plan for long term industry infrastructure investments, to capture and keep new markets for dairy products, and to compete with other commodities and foods that have less volatility. Unfortunately, milk price regulations inhibit the use of risk management tools in dairy.

IDFA recognizes that price volatility is a serious problem for everyone in the dairy industry. We salute the Obama Administration for developing credit programs that can assist dairy farmers through downward swings and expanding insurance programs like the "Livestock Gross Margin Insurance Program". We recommend that this Committee formally review how extensively this program and other risk management tools are utilized by the dairy industry.

IDFA also supports providing dairy farmers with risk management tools such as the forward contracting program that was reinstated by the 2008 Farm Bill. Forward contracting is one of the most important tools that dairy farmers, processors and manufacturers can use to mitigate price swings. This chart, which uses data that the United States Department of Agriculture collected during the forward contracting pilot program, illustrates how risk management tools can be effectively used.

Some segments of the industry have offered options to address price volatility that will ultimately compound the negative aspects of our current dairy policies rather than eliminate fundamental weaknesses. The Holstein Association USA, for example, has proposed limiting milk supply by taxing increases in production. This proposal would not only penalize many dairy producers all over the country, it will also artificially raise domestic milk prices and make U.S. dairy products less competitive on world markets.

Market Based Risk Management



Source: USDA, AMS Dairy Forward Pricing Pilot Program: Information for the Complete Program Periods, September 2000 through December 2004.

Taxing new milk production also will limit the industry's ability to modernize, innovate and grow. Dairy manufacturing facilities have been built and modernized in many parts of the country where dairy production is growing. Taxing increased milk production will limit investments into new plants anywhere in the country because the infrastructure investments require increased milk supply. Instead of rising to the challenge of capturing new domestic and international markets, the Holstein Association USA plan will penalize areas of the country that are increasing production and those areas that are attempting to revitalize their dairy sectors.

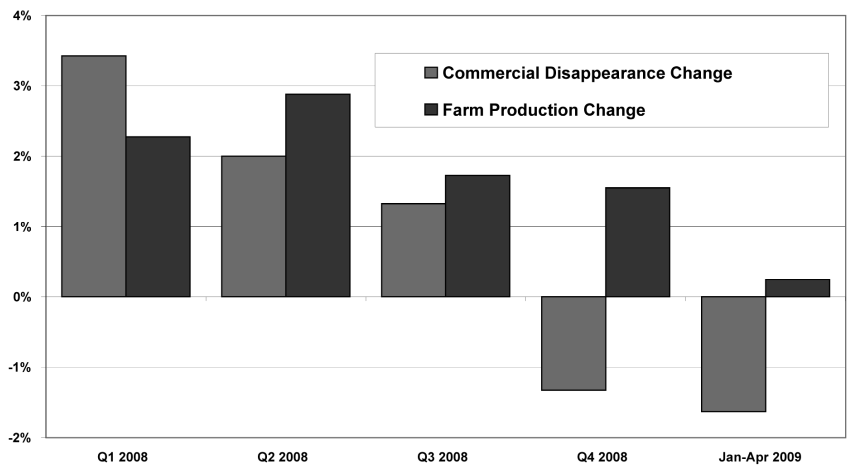
Programs that manage supply or limit milk production would raise milk and dairy product prices and drive domestic consumers to less costly and often less nutritious foods. Propping up domestic milk prices to levels above world market prices surely would cause the U.S. dairy industry to lose enormous opportunities for export growth and to open our markets to increased imports. Jobs that could be created here in the United States would be going elsewhere. At IDFA, we believe that increasing demand for dairy products is the best way to maintain a health dairy industry.

Consumers Are Buying Less Dairy, Export Sales Are Off

Although too much supply has been tagged by many as the root of our current low farm milk prices woes, it is more complicated than that. The current economic downturn has greatly affected domestic and global demand for dairy products.

The chart below shows that demand for dairy products started to slow down in 2008 and actually decreased in the fourth quarter compared to the same period a year earlier. This decrease has continued so far in 2009.

Percent change in total dairy solids vs. same period 1 year ago
(sum of milkfat and nonfat solids)

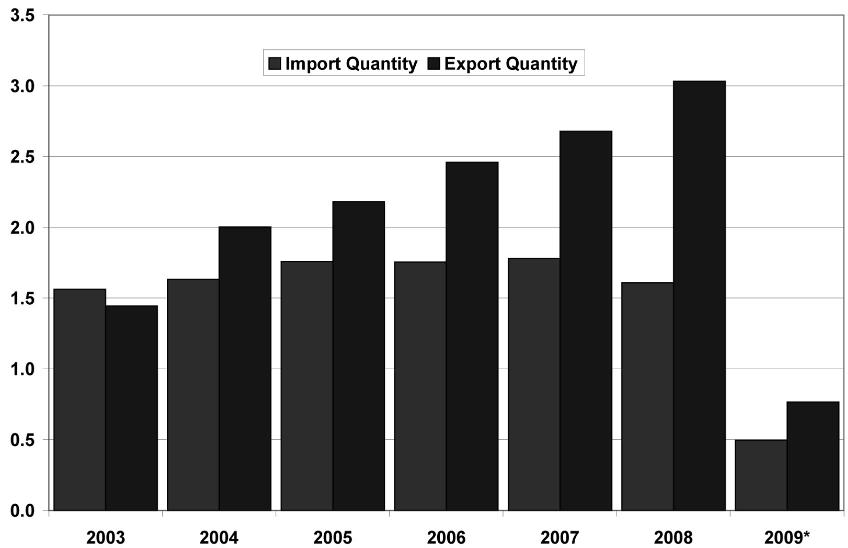


Source: USDA, Economic Research Service.

The same negative economic forces we see in our domestic markets have led to the decline this year for U.S. dairy product exports. Our dairy exports increased to record levels in recent years, but have since dropped precipitously. The volatile and complicated pricing system, and the standards of identity that are outdated and not in sync with international demand, will continue to stymie our ability to retain and capture even larger segments of the growing international market.

In 2003, the United States imported a greater quantity of dairy products than we exported, and much of those exports were only possible due to subsidies under the Dairy Export Incentive Program. By 2008, the total quantity of U.S. dairy product exports had more than doubled, without any export subsidies. The U.S. Dairy Export Council estimated that in 2008 the United States exported more than ten percent of its milk production as dairy products, while imports have remained around five percent of domestic dairy product demand in recent years.

Import/Export Quantity (billion lbs)



Source: USDA, FAS, Through April 2009.

Potential for Growth—Focus on Demand for Dairy

There is good news on the horizon, however. Once the economy begins to rebound, expanding middle-class populations in many nations, particularly in Asia, will help to increase worldwide demand for dairy products. The United States, which already produces more cow milk than any other country, is uniquely positioned to capture these rapidly growing markets. Other major dairy exporting areas, such as the European Union, New Zealand and Australia, are held back in some way. Relatively new entrants to the world's dairy markets, such as Argentina, Paraguay and the Ukraine, are still in the early stages of growing their industries.

Innovative dairy companies around the world have developed new dairy ingredients that are increasingly used in popular products, such as protein enhanced waters, sports drinks, power bars, coffee drinks, cake mixes and crackers, to name a few. Even traditional dairy products are diversifying to meet consumer demand for non-traditional attributes, such as new sizes, flavoring, shelf stability and functionality. Although it is important to the health of consumers, as well as the industry for Americans, to increase consumption of milk and our traditional dairy products, it is equally as important for our industry to meet the growing consumer demand for new and enhanced dairy products. While our U.S. industry has begun this process, our new products lag behind other countries.

Current Dairy Programs Limit Growth and Investment

In many ways, our existing dairy programs stand in the way of our industry's ability to fully take advantage of our trading opportunities and to respond to our competition for new food products here in the United States. Most current dairy programs significantly distort the market for dairy products and limit our industry's growth. At the same time, our existing dairy programs have done nothing to smooth the volatility of milk prices.

Our current policies encourage plants to produce nonfat dry milk, even as few food processors want to use that product. On the other hand, there is growing demand for products like milk protein concentrates which many food processors now source from other countries because the United States does not produce near enough. This Committee should consider the reasons why we see continued investment in plants to produce nonfat dry milk and not the specialized milk proteins demanded by today's marketplace. Another problem with the Dairy Product Price Support program is that it has the unintended consequence of making our products less competitive on world markets.

There is a growing consensus in the dairy industry that the Federal Milk Marketing Order system needs to be significantly overhauled. The rigid, complex formulas used to determine minimum milk prices are the source of a long list of egregious problems, such as preventing milk from moving efficiently to its highest value. By that I mean, we should respond to consumer demand, not the artificial price formulas, to determine how milk is valued.

The Federal orders limit new investments into the dairy industry by creating unnecessary financial risks for many dairy manufacturing plants. By limiting the returns on investment through the pricing structure, the Federal orders have a major impact the location of plant infrastructure, and the type of dairy products that are manufactured. There is a built-in disincentive to manufacture high-value dairy protein ingredients, such as whey protein isolates and milk protein concentrates that are increasingly being used in cutting-edge domestic consumer products like energy bars and sports drinks. The pricing formulas require manufacturers of these new products to pay prices that are based on the wholesale prices of dry whey and nonfat dry milk, completely different products with a different value in the marketplace compared to dairy protein ingredients.

To emphasize this point, there is potential for significant new demand for milk, if dairy plants invest in the infrastructure to make the innovative, value-added, dairy ingredients that are so much in demand today. But because of our regulated pricing system that uses nonfat dry milk and other products to set prices, the return on the investment in the processing technology is very risky. Innovation is stymied by our system of milk price regulations. The result is less milk demand, less domestic milk used and lower prices to farmers.

It's Time for Change

The policies being considered by this Subcommittee have a profound influence on the future of our dairy industry. If you choose to limit supply and guarantee high farm milk prices, our dairy industry will likely stop growing and slowly decline as domestic and world markets are captured by our competitors. On the other hand, if you choose to review and reform the current outdated dairy programs, you can provide the environment for a healthy and expanding dairy industry, for both dairy farmers and processors.

With the right policies and programs in place, the dairy industry will be able to retain and gain customers, both here and abroad, by providing traditional and innovative products that address nutritional needs, meet changing consumer lifestyles and plumb new purchasing power.

The CHAIRMAN. Thank you, Mr. Kruse. And I agree with you. Ice cream is my favorite and Blue Bell is a wonderful ice cream. I love it.

We will now have a—I missed your introduction, Mr. Bouma. I hope I pronounced that correctly. If not, please correct me.

Mr. BOUMA. It is Bouma, sir.

The CHAIRMAN. Bouma, thank you—President of Select Milk Producers, Inc., from Plainview, Texas. Welcome.

Now we will hear from Mr. Wakefield, National Milk Producers Federation of Bedford, Pennsylvania.

STATEMENT OF TOM WAKEFIELD, MEMBER, BOARD OF DIRECTORS, NATIONAL MILK PRODUCERS FEDERATION; CO-OWNER, J.T.J. WAKEFIELD FARMS, INC., BEDFORD, PA

Mr. WAKEFIELD. Mr. Chairman, Ranking Member and Members of the Committee, thank you for the opportunity to testify on the critical state of America's dairy industry.

My name is Tom Wakefield, and I am a dairy farmer from Bedford, Pennsylvania. I serve on the board of directors for my cooperative, Land O' Lakes, and for the National Milk Producers Federation. It is as a representative of National Milk that I appear today.

First, I would like to express our deep appreciation to the many Members of this Committee for working with the Administration by urging the effective use of the 2008 Farm Bill tools at USDA's disposal for assisting dairy farmers. We are fortunate to have many great allies in Congress, as well as a good friend in Secretary Vilsack, as we work to combat this terrible time in our industry.

Dairy farmers are currently experiencing unprecedented financial catastrophe. The sudden loss in late 2008 of a large portion of our export market has thrown our industry into a supply-demand imbalance of a magnitude never before experienced.

From January through May of this year, the U.S. all-milk price averaged almost $5 per hundredweight, below the U.S. average cash cost of milk production. This cost dairy producers billions in lost equity in just those 5 months alone. It is widely recognized that we need a combination of approaches to deal with the current situation in the future for our industry.

We need to address not only the underlying problems that caused this crisis, but also the many factors that have contributed to its depth and duration to avoid a recurrence in the future.

Towards that end, as the only organization representing dairy producers from coast to coast, National Milk has created a strategic planning task force. The goal of this task force is to develop a long-term strategic plan for consideration by the National Milk Producers Federation board of directors, which will have a positive impact on the various factors influencing both supply and demand for milk and dairy products. Our desire is to build a consensus across the country about the underlying factors affecting producer prices, and to examine ways in which the producer community can realistically work to address those factors.

The task force is getting input from a wide range of producer groups as well as from dairy farmers directly. We believe this is the best way for the producer community to develop a plan for the future which can be embraced across the many dairy-producing regions of America. While the long-term planning process is underway, actions are needed to try to deliver short-term relief to dairy producers to see them through the current crisis, and to bolster demand domestically and internationally for U.S. dairy products.

To do our part to address the immediate crisis, National Milk has been attacking the supply-demand imbalance directly at its roots by removing dairy cows from the national herd through the CWT program. More than 150,000 producing cows have been removed through the two most recent rounds of CWT herd retirements. Subsequent rounds will follow soon.

Given the magnitude of this problem, however, we also need continued active involvement from the Administration.

We ask for this Committee's support in urging USDA to employ three important tools at its disposal to address the current situation.

One, USDA should temporarily increase the CCC purchase prices for cheese and nonfat dry milk under the Dairy Product Price Support Program and offer to purchase cheese that meets the commercial standards.

Number two, we greatly appreciate the recent USDA DEIP announcement making sufficient quantities for the 2009–2010 allotments available for use. Swift action to use the remainder of the current year's permitted quantities is needed to minimize the maximum impact.

And, finally, continued usage of the Food and Nutrition Service and section 32 funds to purchase dairy commodities for use in feeding programs is needed. These useful tools help identify much needed support to dairy producers while also helping to feed the many hungry families throughout our country.

We hope that through continued industry self-help actions such as CWT, we can bolster the effectiveness of the tools USDA can bring to bear on the problem to jointly address the suffering in the dairy producer community.

National Milk looks forward to working with the Members of this Committee on best use of existing USDA programs and authority to address this crisis in the near term.

We also would be pleased to provide additional information at a later date regarding the producer-driven outcome of our strategic planning task force once it develops a longer term plan to help ensure that we do not find ourselves back in this similar situation any time soon.

Thank you.

[The prepared statement of Mr. Wakefield follows:]

PREPARED STATEMENT OF TOM WAKEFIELD, MEMBER, BOARD OF DIRECTORS, NATIONAL MILK PRODUCERS FEDERATION; CO-OWNER, J.T.J. WAKEFIELD FARMS, INC., BEDFORD, PA

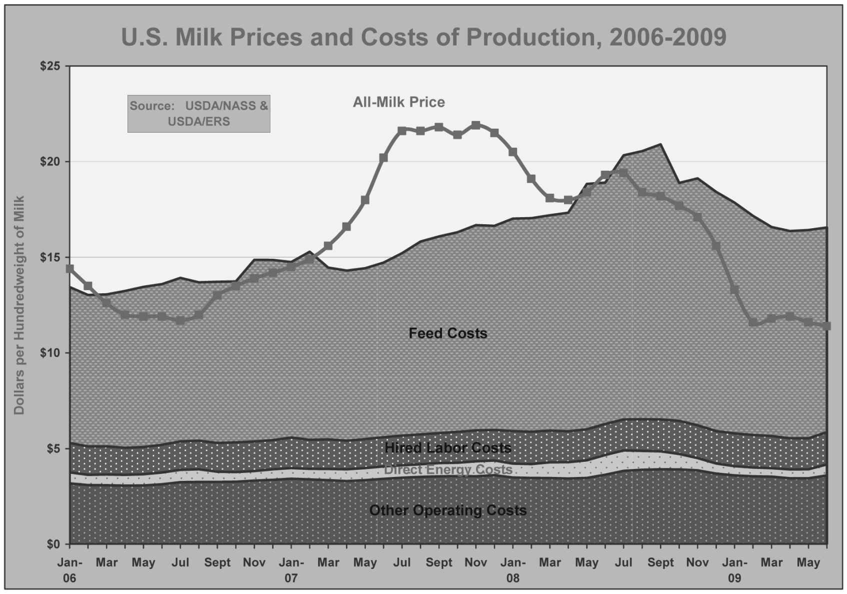
Mr. Chairman, Ranking Member and Members of the Committee: thank you for the opportunity to testify on the critical state of America's dairy industry. My name is Tom Wakefield and I am a dairy farmer from Bedford, Pennsylvania. My brother, Jim, and I own and operate J.T.J. Wakefield Farms, Inc. with the help of family members. My nephew, Scott, works full-time on the farm and my sons, JT and Thad, work part-time, as they are a junior and freshman respectively at Penn State University. We milk 150 cows and crop a total of 600 acres, which includes corn, soybeans, alfalfa and barley.

I am on the Board of Directors for my cooperative, Land O' Lakes and I also serve on the Board of Directors for the National Milk Producers Federation (NMPF). 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, and I am offering this testimony on their behalf.

First, I would like to express the dairy producer community's strong appreciation to the many Members of this Committee, as well as several other Members of Congress who have been devoted to the health of the dairy industry in their district or state, and who have worked with the Administration to try to effectively use the tools at USDA's disposal in an effort to preserve our nation's dairy farms during this period of widespread economic hardship. Congress put in place several measures in the 2008 Farm Bill that USDA has the authority to use to try to address this problem. We have been fortunate to have good partners in many in Congress and in Secretary Vilsack in trying to find ways to best utilize those programs during this historically trying time for our industry. These very useful measures have helped to blunt the impact of the crisis currently facing U.S. dairy farmers.

Economic Crisis:

U.S. dairy farmers are currently experiencing an unprecedented financial catastrophe. The sudden loss in late 2008 of export market-based demand equivalent to about three percent of domestic milk production has thrown the industry into a supply-demand imbalance of magnitude never before experienced. During January through May this year, the U.S. average all-milk price reported by USDA/NASS has averaged $4.80 per cwt. below the U.S. average cash cost of milk production, as reported by USDA/ERS. As a result, approximately $3.9 billion of dairy producer equity has been lost during these 5 months. More recently, the milk-feed price ratio for both May and June (which remained the same for both months) was at its lowest level since the current form of that calculation was created in 1985. The chart below demonstrates visually just how extreme the discrepancy between milk prices and input costs is currently and in comparison to recent years.

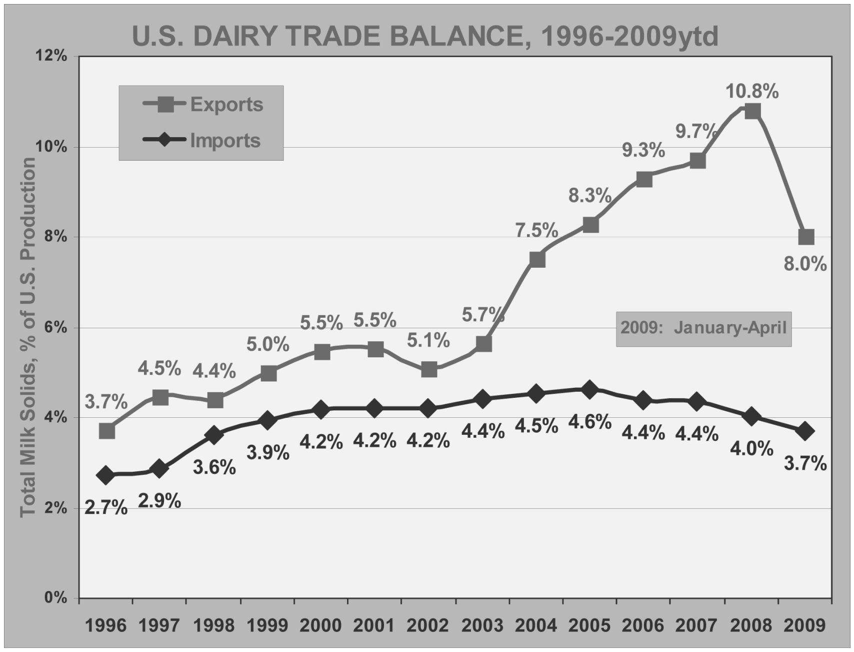


The primary cause for the severely challenging situation facing America's dairy producers is the abrupt decline in export market demand beginning last fall. That was brought on due to an ill-fated combination of the onset of the global economic crisis, combined with a resurgence of milk supplies in Oceania once New Zealand and Australia's recent drought problems abated. This combination of events contributed to a sudden imbalance whereby global demand fell significantly short of available supplies. Because the U.S. market had gradually increased production to respond to the international market signals being sent in recent years that indicated higher demand for U.S. dairy products, U.S. producers found the rug pulled out from under them when such a significant portion of the market for U.S. milk evaporated in the latter part of 2008.

Some have claimed that the problems we face are a result of a surge in unrestricted imports, particularly Milk Protein Concentrates (MPCs) and casein products, two tariff loop-hole avenues that importers have made strong use of in recent years. NMPF has long called for establishing tariff-rate quotas on MPC and casein, in keeping with our WTO rights and obligations. However, it is important to set the record straight regarding the cause of the problem we are now facing in order to develop the best response tools to address it in both the short and long term.

The truth is that we have not seen a significant surge in imported dairy products into the U.S. Imports of MPCs through April are up slightly at 3% over last year, although this is a small change. By the official import data, imports of caseins are actually down somewhat from the same period in 2008. Imports of other notable dairy products such as butterfat (up 40% from a relatively small 2008 volume) and cheeses (down 7%) face limitations due to existing tariff-rate quotas. NMPF continues to support the creation of TRQs for loop-hole products such as MPC and casein and it is essential that we zealously enforce importers to comply with U.S. standards and trade obligations; however imports are not the cause of the problem we are facing. Stepping blindly back from active engagement in trade and from the global market would do more to harm the future prospects for our industry than to help them.

The chart below depicts the U.S. dairy trade balance on a milk solids basis as a percentage of U.S. milk production. The chart shows that on a total milk solids basis in 2009 year-to-date, imports of dairy products are actually down compared to recent years. What is particularly notable—and the largest cause of the current economic crisis facing our industry—is the steep drop in exports from 2008 to 2009, driven by a much lower global demand and larger supplies from exporters that are moving aggressively to push their own products off their shores at whatever price necessary.



Response to Situation:

What is widely acknowledged within the dairy producer community 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 the present milk pricing dilemma in the future.

These dire conditions have caused many in our producer community to begin to cast about for various solutions to this problem. As a national organization representing dairy producers throughout America, NMPF is keen to ensure that we spend our industry's and our government's valuable time and energy pursuing only realistic and rational proposals that would appropriately address the situation we are now facing.

Towards that end, NMPF has created a Strategic Planning Task Force to build consensus across the dairy producer community with respect to the underlying factors affecting producer prices and to examine ways in which the producer community can realistically work to address those factors. The goal of this Task Force is to analyze and develop a long-term strategic plan for consideration by the NMPF Board of Directors which will have a positive impact on the various factors influencing both supply and demand for milk and dairy products.

Through a round of listening sessions, the Task Force will bring in organized producer groups representing different segments and constituencies all across the country to obtain widespread input and access to the best ideas. Individual cooperatives have also been invited to provide proposals to the Task Force for consideration and review. Following its meetings with the various dairy producer organizations, the Task Force will analyze and discuss the many proposals and options, and ultimately develop recommendations for the NMPF Board of Directors. We believe this is the best way to get input from the producer community in order to develop a plan for the future which can be embraced across the many dairy-producing regions of America.

While that long-term planning process is underway, however, actions are needed in the interim to address the significant economic plight of dairy producers on an immediate basis. A combination of several measures is needed to try to deliver short-term relief to dairy producers to see them through the current crisis and to bolster demand domestically and internationally for U.S. dairy products.

To do our part to address the immediate crisis facing the industry, the National Milk Producers Federation, through its CWT program, has been attacking the supply-demand imbalance directly at its roots, by removing dairy cows from the national herd. Dairy producers have spent $115 million of their own hard-earned money this year on our most recent herd retirement program, the largest one in CWT's history, and are prepared to spend up to $160 million more in subsequent rounds of our program in the near future. More than 150,000 producing cows have been removed through the two most recent rounds of CWT dairy herd retirements, and subsequent rounds will follow soon.

Given the magnitude of this situation, however, we also need continued active involvement from the Administration to help see America's dairy farmers through this crisis in the short-term so that our industry can make better and more sustainable plans for the future. It is because of this that NMPF has recently asked USDA to temporarily increase the CCC purchase prices for cheese and nonfat dry milk under the Dairy Product Price Support Program and that USDA offer to purchase cheese that meets commercial standards (Chicago Mercantile Exchange or NASS reporting standards), which could be immediately used in food assistance programs.

Mindful of the budgetary pressures facing our nation, we proposed that the higher CCC purchase prices be put in place for only 3 months and be set at the levels NMPF originally proposed for the DPPSP program in the 2008 Farm Bill: $1.19 per pound for block cheese, $1.16 per pound for barrel cheese, and $0.84 per pound for nonfat dry milk. As this Committee is well aware, such an action is expressly authorized by the 2008 Farm Bill which merely directs USDA to purchase those products at prices "not less than" those specified in the legislation. We are thankful that Congress had the foresight to allow USDA the leeway to set higher purchase levels if they were determined to be necessary. If both the price increases and the equally important commercial cheese standard proposal were put in place during July through September, they would prevent the loss of approximately $235 million in U.S. dairy producer income during that period.

An equally important measure is the use of our WTO-authorized, Dairy Export Incentive Program (DEIP). NMPF is urging USDA to build on the positive step taken in May to announce the 2008–2009 Dairy Export Incentive Program (DEIP) by moving quickly to open the 2009–2010 DEIP year for bidding. We are appreciative of the step USDA took early last week to announce the full allocations for the current DEIP year and hope to see the critical next step of opening the bidding process to use the entire amount of the allocations soon thereafter. Full use of DEIP, which would be facilitated through allowing the maximum time period possible for submission of bids in the current 2009–2010 marketing year, has the potential to move the equivalent of more than 1.5 billion pounds of milk to overseas markets. This would be a strong positive step towards alleviating considerable pressure on U.S. markets and the DPPSP.

In addition, we applaud the steps that USDA has taken to use Food and Nutrition Service funds to purchase dairy commodities for use in the feeding programs so much in demand in these currently challenging economic times. This is a useful tool to help provide much-needed support to dairy producers while also helping to feed the many hungry families throughout our country. The use of Section 32 funds, once they are provided to USDA through the current appropriations process, would also help significantly to achieve these same goals.

We ask the Members of this Committee to join with us and our fellow dairy farmers across this country in calling on USDA to use those tools already at its disposal in order to help dairy men and women make it through this historic economic catastrophe. We hope that through continued industry actions such as CWT, we can bolster the effectiveness of the programs USDA can bring to bear on the problem to jointly address the suffering in the dairy producer community.

NMPF looks forward to working with the Members of this Committee on the best use of existing USDA programs and authority to address this crisis in the near-term. We also would be pleased to provide additional information at a later date on the producer-driven outcome of our Strategic Planning Task Force once it develops a longer term plan for how to help ensure that we do not find ourselves back in a similar situation any time soon.

Thank you.

The CHAIRMAN. Thank you.

Mr. Bouma.

STATEMENT OF BRAD BOUMA, PRESIDENT, SELECT MILK PRODUCERS, INC., PLAINVIEW, TX

Mr. BOUMA. Thank you, Mr. Chairman, Ranking Member. I appreciate the opportunity to be here today. I represent Select Milk Producers. I am the President of the Board of Directors of Select Milk Producers. I am a member of Continental Dairy Products in the Upper Midwest in Indiana and Michigan. And I serve on the Greater Southwest Agency, which markets all of the milk in Texas and New Mexico combined.

I am a fifth-generation dairy farmer. My sons are at home in Texas today taking care of the farm, and my partner is in Indiana taking care of that one.

We find ourselves in a perfect storm in this industry. And it has been alluded to by numerous testimonies prior to mine, so I won't spend a lot of time going there. But with the reduction of five or six percent of our export market, along with the strengthening of the U.S. dollar and many factors that play into consumption—of the worldwide consumption of dairy products, that, alongside high input costs, have created a perfect storm in our industry.

We fully believe, and I fully believe, that our support price system as we know it today is antiquated. I agree with Mr. Kruse's comments. We create a powder today that can't be sold in the world market as it is. Mr. Costa alluded to it. We alluded to the cheese specifications that can't be marketed in the world market today.

We have a make-allowance system within this that takes into consideration the cost to produce cheese or the cost to produce powdered milk that goes into this price formula, which allows older, antiquated processing facilities to still be profitable in this country, and is a detriment to newer, more innovative processing facilities being built.

Our actual cash support price for powder today is stated as $9.90 by the Secretary. Our actual returns are about $9.35, if you look at the make-allowance and the adjustments that have been made in it in the last couple of years. If we are looking for immediate relief as far as dollars are concerned, within the realm of what the Secretary can do, $9.90 would be an immediate—that stated support price would be immediate in that respect.

The truth of the matter is the world market for powder is 65¢ or 70¢ today, maybe 75¢ on its best day. It is rising a little bit. Whey proteins are rising. But we still subsidize our product 90¢ in this country, and we wind up taking this product and storing it in warehouses all over the country.

We store the butter in caves all over the country, while the rest of the world puts its product out there and clears its market. We have become the balancer for the world's commodity products in cheese and butter and powder, while our competitors in the world market are keeping their markets cleared at 10¢ or 15¢ below ours.

What happens in this process is now that once we do make this recovery and once these 150,000—which we really believe needs to be 300,000—cows are ultimately out of the herd, that when we do make this recovery, we as a country now have to chew through this balancing process that has been stacked up and others have alluded to. And this will wind up back in the cheese vat, and it will wind up back in the processing of American cheese products, and it will continue to inhibit the recovery of the farm price on the farm milk products.

We firmly believe that if the Administration and this Congress wants to be involved in that, then create a program of insurance or create a program comparable to corn and beans that allows those prices to fluctuate with seed and meat prices and world prices and be cleared. And instead of using the dollars to store powdered milk in warehouses and butter in caves, put the program back into an LDP program, or some type of insurance program, back to the dairy industry.

For us to compile these massive inventories during this time is just a detriment to us on the backside of this bell curve as we come out of these times, and will be in this case as well.

Second, folks talk about supply management. Our friends in Canada's system has been brought up. Supply management works in Canada because they are neighbors of the United States of America, and we are a free market.

We can't send milk there. They send their excess dairy cattle and heifers here. We purchase them.

If we have a free market trader next door, we can balance on them, then supply management will work here.

If we can restrict this market to a domestic market only through some supply management vehicle, everybody in this room will be back here asking for tariffs against MPCs and caseinates and things that are now working their way, at a world market price, back into our domestic market.

The crisis in the country today is human. It doesn't make any difference if you milk 100 cows or 3,000 cows. At $100 plus a cow month in losses cannot be tolerated by this industry. But putting temporary Band-Aids on long-term problems on how we price milk in this world, and how we continue to access our portion of the world market is not a solution to what we are after today.

We need long-term solutions for our industry to be viable and continue. Thank you.

[The prepared statement of Mr. Bouma follows:]

PREPARED STATEMENT OF BRAD BOUMA, PRESIDENT, SELECT MILK PRODUCERS, INC., PLAINVIEW, TX

Mr. Chairman, on behalf of Select Milk Producers, Inc. and Continental Dairy Products, Inc., thank you for giving us this opportunity to discuss with you the economic conditions that face dairy today with a focus on the opportunities and challenges ahead for this industry.

My name is Brad Bouma. I and my wife Barb live in Plainview, Texas where we operate an integrated dairy farm. With the addition of our sons Brandon and Brent to the management team, we represent five 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 with members in New Mexico, Texas, Oklahoma, and Kansas. 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. What makes it unique is that virtually all of the milk produced in that region is jointly marketed in a highly coordinated fashion so as to deliver milk to the customers in the most cost effective manner and provide benefits to the producers supplying that market.

GSA has brought producers less costs in marketing their milk through greater efficiencies in hauling, testing, and pricing. By working with other producers and gaining the trust of our buyers, GSA has succeeded in managing the milk marketing in that region for a decade without the need for a single milk marketing order hearing for Southwest Milk Marketing Area issues. No other order can say that.

GSA balances the milk in the region and fairly handles the details associated with allocating the costs of such balancing. GSA is a partner in one of the largest cheese plants in the world, Southwest Cheese located in Clovis, New Mexico. We continue to research new plant and partnership opportunities that will make our co-ops more efficient and competitive in the world market.

Continental Dairy Products, Inc. is a milk marketing cooperative with members in 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 the farms that are part of Select and Continental are owned and operated by families just as I and my family do.

The farms in the SW are typically some of the largest in the world. However, the size of the farm will not define the successful dairies of the future. As we discuss the future we all must get away from the "large and small" debate. Rather we must channel our resources in the direction of what it takes to compete in today's world market. Farmers, regardless of size, 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. Size of dairy farm does not change that.

With the goal of moving as a world leader here some of the challenges facing the dairy industry.

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.

We must engage in on-farm energy audits and research all alternative on-farm energy sources available. 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 very close to successfully compressing methane gas into compressed natural gas (CNG) that will power our truck fleets.

By employing these technologies and recycling the by-product of the manure processing we are able to shrink our carbon footprint tremendously.

This combination of harvesting energy from the farm and use of the remaining nutrients as fertilizer, we will 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.

The current economic depression in dairy farming will result in major changes in the location and method of dairy farming. The business model that called for only owning the dairy and buying inputs, one of the most popular in the West, is failing those who relied upon it. This crisis has proven that successful dairymen must be further integrated with their feed supply. The owners and operators of these farms and their successors will necessarily have to be more efficient and located more strategically to sources of feed, water, and markets.

As serious as this economic situation is, and it is very serious, there is little than can be done now to alleviate it. It simply must pass. At the same time we certainly appreciate the efforts of the Secretary to increase purchases of dairy products. Realistically we do not see that as a long term program. There is only so much domestic demand whether through government or consumer purchases. It is the drop in exports which has reduced demand below our supply. It is increasing exports that promises a brighter future.

This 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.

There are other changes occurring in the dairy industry not driven by the depression. One of those is the growth in consumption of organic milk. The USDA's organic certification program has been a major boost to this sector by assuring consumers that the organic label means that the products contained in the package are produced in a way that minimizes or eliminates pesticides, herbicides and other chemicals in the food supply.

Select and Continental members with farms in Texas and Indiana are one of the major suppliers of organic milk. Though not at the steep curve experienced in recent years, we expect this sector to continue to grow. Some of these sales are additional milk sales and, as such, increase demand for dairy products.

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 5 years HEB has been marketing one such milk 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 a new designer milk called Athlete's 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. With our food scientist in Idaho we continue to look for other ways to provide quality food products for consumers using milk.

Without doubt the single most important Federal program in dairy today is the milk marketing order program. Since its inception, this program has succeeded in developing a great industry.

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 product to price formulas prices use surveyed commodity product prices, make allowances, and yields to determine the milk value.

Despite this long term use of such formulas, there has not been the kind of on going systematic research and study of what the yields and make allowances should be to derive a fair price. Instead the Department has relied upon public testimony from those who would benefit the most from lower milk prices. The result is a hodgepodge of a system that surveys product prices of one subset of the commodity, uses make allowances from plants making other products, and yields which have never been supported in any study.

More importantly, this pricing method has had the effect of forcing prices down on dairymen. The current make allowances reward plant inefficiencies by shifting them to producers. It is ironic that at this time when many dairy farmers receive less money for their milk than the cost of the feed that went into them, plants that use that milk remain profitable. Considering the formulas are designed to do this, it is not surprising, nor is it consistent with the spirit of the AMAA.

A recent decision on make allowances shows the Department's refusal to even think in terms of what it costs a dairyman to produce milk. In the recent farm bill, the Secretary was required to determine cost of production in the marketing areas and consider these factors in changing make allowances. The Department failed to do any of that when it substantially reduced producer milk prices. This is unfortunate. While we certainly do not want prices for milk linked to cost of production, certainly the Department must show that it knows whether or not current price levels are sufficient for a significant portion of dairy farmers to profitably produce milk. Complying with the law would be the first step.

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.

The farm bill also modified procedures for amending marketing orders. The first hearing after these took effect was one involving a few changes to some Class I pricing in southern counties of the Mideast Order. It was a very simple issue with a few players and took a few days. The new rule changes worked fine in that environment and successfully brought a rulemaking proceeding within a tolerable time frame.

Broader, national hearings, do not easily fit into the strictures of these new mandated time lines. Select and Continental recently participated in the first national hearing called under these new rules. The producer handler hearing was held to consider twenty-nine proposals which requested 159 amendments to the marketing orders.

To meet the hearing deadlines imposed by the farm bill, the hearing on producer handler exemptions was held in one location, Cincinnati, and went 12 long days, some of them until 9 p.m. The transcript is nearly 4,000 pages with over 100 plus official notice of numerous other collections of dairy statistics. The witnesses numbered over forty.

The hearing was handled superbly by ALJ Jill Clifton and Dairy Programs provided responses to large data requests by the participants. The transcript, professionally done, is among the best of any FMMO hearing in memory. Briefs are due this Friday.

Such mandated compression of a formal rulemaking of such a magnitude has not come without cost. First, for the participants, not just the professionals, but witnesses, affected dairy farmers and processors, and government employees it required nearly 3 week absences from families and jobs. The speed at which the hearing was called and held also impaired the ability to provide the kind of testimony and evidence that would help in making the decision better founded. Having it in only one location, made necessary because of the time limits, denied some parties the opportunity to participate because of distance.

In the past, during the time leading up to the hearing and during the hearing itself, parties begin to compromise positions and coordinate and coalesce around just a few proposals. This assists everyone in making much more focused record, briefs, and decision. The short time frame made that opportunity unavailable. The intense hearing schedule left little time to prepare witnesses and even less time for participants to discuss compromise.

For the Department to meet its own deadlines, it has restricted public participation by denying the use of e-mails or faxes to present positions and has effectively shut off the use of the Postal Service to deliver comments. In the past e-mailed or faxed comments or comments postmarked on the due date were timely. For this hearing only physical copies delivered to the hearing clerk in D.C. will be timely. This can be accomplished only by having someone physically come to D.C. to make the filing or rely on expensive delivery services. While for the professionals involved in this process, it is an inconvenience, for producers and consumers it is a barrier to participation that is simply unacceptable. This should not happen in the future.

One thing that did assist the industry and the Department in holding this hearing in the short time frame was that the issue was well understood by the industry, long debated, and all parties could marshal the resources necessary quickly. In future hearings involving novel issues or facts, this may not be the case. Under the new regime it is possible for a party to do massive research and preparation for major proposals and wait until it is ready to make that presentation. While it was able to dictate the time, the Department and all of the respondents will be forced to do so with immovable deadlines ahead. The potential for serious sandbagging is now present.

Overall the changes are beneficial by providing the industry with timely decisions. The Department is committed to complying with the law. On the other hand, we would recommend that the Department be given some ability to exercise discretion for cause in adjusting the deadlines to adapt to the nature and magnitude of the issues being addressed at the hearing. In the case of major rule changes, such as proposals for competitive pricing, it will be necessary to allow greater preparation time for all participants as well as response by the Department.

Another long time dairy program is the Dairy Price Support Program. It has outlived its usefulness. The current method of marketing NFMP by large co-ops has made CCC the price support program for the rest of the world. It keeps U.S. powder in the United States at higher than market prices allowing other world players to grow demand for their products. The large inventories of powder will dampen prices for dairy farmers for some time. The program also takes away market signals to producers to produce less.

In connection with the FMMO pricing, we need to replace both the DPSP and end product pricing. It creates unneeded incentives to build plants and make product for which the demand is cyclical.

The protection that DPSP used to provide can be done with new programs such as non-recourse loans, expansion of the Livestock Gross Margin program, or a loan deficiency payment program for dairy.

In response to today's crisis there is a call for the U.S. to implement some form of supply management. We oppose that. Base programs and production 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 U.S. milk production to equal domestic consumption, imports of MPC, caseinates, 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 issue of climate change legislation is challenging. We do not have any answers but would note that we have been working for years to reduce our carbon footprint through innovative methods of handling and using our manure. We appreciate the Chairman's successful efforts in protecting early innovators and leaving the oversight of agriculture under the USDA.

As this Committee knows, high prices for corn and soybeans as well as fuel further reduce margins already low due to the low milk prices. A significant part of these higher commodity prices are due to excessive speculation in the exchanges. We applaud Chairman Peterson and the Committee's efforts at working to reign in this improper speculation.

As populations grow, the need grows to move more and more product. The time has come to increase the size of trucks hauling milk to reduce fuel usage, reduce emissions and meet the needs of a growing market for food and other products. We ask the Members support for changes in the Federal Highway Reauthorization Act to allow states to authorize the use of six-axle, 97,000 pound tractor semi-trailers on the Interstate Highway System. We commonly move milk in the Southwest to the fluid markets in eastern and southern Texas over 500 miles. Giving states like Texas the option would reduce fuel consumption and costs for producers, processors and consumers.

The need for a comprehensive change in immigration to allow a guest worker program usable by dairy farmers is long overdue. Any help by this Committee and its Members in that regard would be appreciated.

America has historically been the world's source of high quality affordable, accessible food. If we are to maintain this position we must do the following things:

> A. We must create incentives for our farmers, large and small, through performance based tax incentives to develop and implement the technologies create energy on farm. These include capturing methane gas that powers generators that create the electricity for the farm or nearby communities, converting excess methane to CNG to power farm machinery and transportation of milk, implementing wind and solar power options. 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.
>
> 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.

The CHAIRMAN. Thank you, Mr. Bouma.

Now, Mr. Ray Souza, President of Western United Dairymen.

STATEMENT OF RAY SOUZA, PRESIDENT, BOARD OF DIRECTORS, WESTERN UNITED DAIRYMEN; OPERATOR, MELDELIN DAIRY, TURLOCK, CA; ON BEHALF OF CALIFORNIA DARIES, INC.

Mr. SOUZA. Good afternoon. Thank you, Chairman Scott, Ranking Member Neugebauer, and the rest of the Members of the Committee. I appreciate this opportunity to testify before you here today.

My name is Ray Souza. My wife and I have operated Mel-Delin Dairy for over 40 years. The milking herd today is about the size of the average size dairy in California.

I am currently the President of Western United's Board of Directors, representing 1,100 of the 1,700 dairy families in California. I am also a member of CDI, California Dairies, Inc., which is the second largest cooperative in California.

We have heard a lot of testimony today, and I wanted to put things in more of a personal level and give you an example of two different dairy families.

The Linhares family has been in the dairy business for over 100 years. They were recently recognized by our city during the centennial as the oldest continuing agricultural operation in our region. Three weeks ago they were milking cows. The three most recent generations are still active in the dairy farm. Of course, the previous have passed on, with the grandson hoping to take over the operation.

At a meeting they had between the family, they came to the conclusion that they were weeding through their equity so quickly that they could no longer sustain their operation. They felt they had to dissolve their operation so that they would have something to pass on to the next generation. That farm is now out of business.

The other example is a young man who, through hard work with his family a year ago, was able to raise enough capital to be able to buy a dairy farm. He entered in that dairy farm with a 50 percent deposit on the farm, half of the cows paid for the day he entered. Of course, the banks were lined up and everybody wanted to do business with the young man.

In the last 10 months, his equity has evaporated to nothing. Today he is insolvent after working all those years to put that kind of a deposit on that kind of a herd. He also will soon be out of business.

We have had a record fall in prices. I have had heard $12 milk today, and I have heard $10 milk. I wish we were that fortunate. We have been dealing with an all-milk price in the $9 range since the first of the year, and there doesn't appear to be much of a chance for a short-term recovery.

The value of our herd is diminished now. We have lost in the value of the herd $2.6 million, and that is just the dairy herd in California alone.

Our equity has dropped by half, and yet we continue to borrow and to continue to leverage on the remaining half at the cost of nearly $100 per cow per month. That is a cash cost of $100 per cow per month.

These long-term negative prices have us to the point where it is not only affecting the dairy farmers, our ag lenders are now beginning to feel the crunch. They are having their own problems. Our feed companies are beginning to be denied credit. And in San Joaquin Valley, most of the milk in California is produced in San Joaquin Valley, we have a 20 percent, nearly now 20 percent unemployment. These are jobs not only for the dairymen, but for the residents of our valley that are highly critical. They are highly necessary.

We thought 2006 was a bad year when we lost $3.36 a hundredweight. Today we are at a $9 loss per hundredweight. High feed costs—all of you have heard all of this before—continue to create problems for the dairy business. There is very little good news.

So what we did in December as an organization, we formed a task force to look at some of these problems. We put together three different groups. It is a comprehensive group representing producers, processors, cooperatives and their accountants.

We have had a number of meetings to address some of these issues, and some of the things that we have come up with is that we also believe we need a short-term solution. As someone said in that meeting, when your house is in on fire it is not time to cut the lawn.

We do have a long-term goal in mind, too, including once we get past this crisis, because we think it is going to take time, study and analysis to put long-term programs together.

We have looked at and I will talk about some of the existing programs. The Dairy Price Support Program: Today's price actually paid to farmers of this program is about 20 percent less than it was 25 years ago. We must ask ourselves: Is it even relevant any longer?

The members of our group—of this task force that have met have also felt that we need to do something regarding the grading system either through moving to a CME grading system, a commercial grade, or to increase the support to at least cover the costs of the additional requirements for the CCC purchase grading requirements.

The Dairy Export Incentive Program: We would like to thank the Members of this Committee that worked so hard in getting that program back in place and making it active. It has also provided a significant savings. We shouldn't forget that. It is much better to pay 10¢ for the DEIP than it is to put 80¢ of that product in the CCC.

The issues before us are critical, and we need to move quickly. The working group supports the DEIP. CDI is one of the—we are also working with CDI and the CWT program. CDI, we do belong to CDI and support the work of the CWT and feel that that is held at wholesome near-term potential. We applaud USDA's efforts to address the credit barrier, but we recognize that additional debt without price recovery will provide very little benefit to the producers without some type of program to bring the price back to the producers.

I see I am running out of time, so I will cut my testimony short.

I will conclude. I want to thank, again, the Committee for having this meeting, this hearing, and we will certainly work with all the Members on anything we can do.

I do want to suggest one more thing, our support program that has been working, we do support the idea of expanding some of the Feeding and Nutrition Programs. We think that probably has the greatest potential of a quick recovery for our price as we can move some cheese into the direct market. Over the short-term program, a 60 day program we think, with proper funding, I think it has a couple of benefits. One, it could also provide some savings to the Federal Government in the near term as well. So I would be glad to talk to you about that at a later date.

With that, I will conclude my testimony.

[The prepared statement of Mr. Souza follows:]

PREPARED STATEMENT OF RAY SOUZA, PRESIDENT, BOARD OF DIRECTORS, WESTERN UNITED DAIRYMEN; OPERATOR, MEL-DELIN DAIRY, TURLOCK, CA; ON BEHALF OF CALIFORNIA DARIES, INC.

Good morning. Thank you Chairman Scott, Ranking Member Neugebauer and the rest of the Members of the Subcommittee for holding this hearing. I appreciate the opportunity to provide testimony regarding the current state of the economy for dairy producers and to add some thoughts on potential short- and long-term solutions for our industry.

My name is Ray Souza, and my wife Lynette and I have operated Mel-Delin Dairy outside Turlock, California for more than 40 years. I started as a teenager with a 4–H cow I purchased at the local auction and my family and I have made our living milking cows ever since. The milking herd today is roughly the average size for the state of California at about 900 head.

I currently serve as President of the Board of Directors of Western United Dairymen. Western United represents 1,100 of the 1,700 dairy farm families in the state of California. And I want to emphasize that word family. Even though we are known as a large herd state, I can't think of a dairy that isn't owned and operated by a family.

We are members of the second-largest milk marketing cooperative in the country, California Dairies, Inc., and with our emphasis on purebred cattle I am a member of the Holstein Association of America for more years than I care to think about going back to that original 4–H cow. We have been fortunate to have some success in breeding registered Holsteins and merchandising genetics that have been in demand in the breed.

Today's economic situation in the dairy industry in California is, in a word, dire. In fact, I'll go back to that point about dairy families. A fifth-generation dairy farm family, my neighbors the Linhares, just sold their cows in the last round of CWT herd retirement. Just a few days ago, three generations were operating that farm. Today, after cows have been milked on that farm for 112 years, that family has left the business saying there is simply no way they could justify continuing to erode the equity they have built through five generations of caring for cows and working the land.

I. An economic snapshot of the California dairy industry.

A. Ruinous negative operating margins.

- Farm milk prices and feed commodity prices tend to be cyclical in nature. However, producers have never witnessed such dramatically low milk prices combined with skyrocketing production costs. The milk price/feed cost ratio is the lowest in history.
- The price paid producers for milk has been half what it costs to produce the milk for nearly 6 months. Dairy families are losing what took them years and even generations to build.
- The industry has experienced periods of low prices before. However, production costs (especially for California dairymen) have been on a steady upward climb—up 37% in California in just the last 3 years.
- The following chart, compiled with data from the California Department of Food and Agriculture, compares net operating margins from 2001 through 2008 and year-to-date for this year. While the last really bad year on the dairy farm, 2006, showed margins resulting in a loss of $3.30 per hundredweight, the negative margins year-to-date in 2009 are nearly three times larger.

(per hundredweight)	CA Overbase Price	CA Statewide Cost of Production	Margin
2001	$13.11	$12.24	**$0.87**
2002	$10.24	$12.61	**-$2.37**
2003	$10.70	$12.44	**-$1.74**
2004	$13.89	$12.75	**$1.14**
2005	$13.17	$13.43	**-$0.26**
2006	$10.87	$14.17	**-$3.30**
2007	$17.27	$15.77	**$1.50**
2008	$16.03	$18.54	**-$2.51**
2009	$9.80	$18.51	**-$8.71**

Source: CDFA

- Productivity gains on U.S. dairy farms are nothing short of astonishing. Previous low price cycles have taken their predictable toll on operations that did not control costs relative to their competing farmers serving the same markets. This cycle, however, is different. These ruinously negative margins are hurting everybody, including the most efficient. All producers will be higher cost producers in the years to come as a result of the additional debt load, loss of capital, *etc.*

B. Monthly milk price v. input costs 2008–2009 and near-term projections.

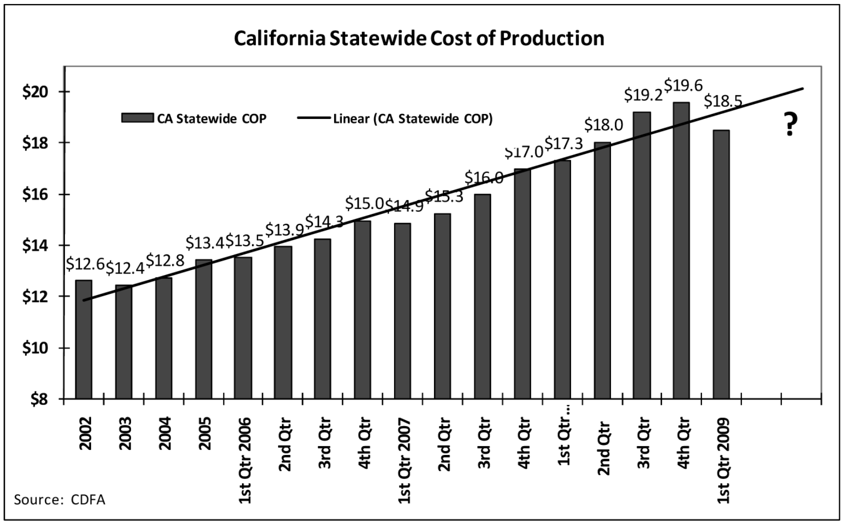
(per hundredweight)	CA Overbase Price[1]	CA Statewide Cost of Production[2]	Margin (OB less COP)	CA Mailbox (plus marketing costs)	Margin (Mailbox less COP)
Jan-08	$17.44	$17.31	$0.13	$18.50	$1.19
Feb-08	$16.72	$17.31	-$0.59	$17.58	$0.27
Mar-08	$16.01	$17.31	-$1.30	$16.57	-$0.74
Apr-08	$15.86	$18.04	-$2.18	$16.43	-$1.61
May-08	$16.77	$18.04	-$1.27	$17.34	-$0.70
Jun-08	$17.42	$18.04	-$0.62	$17.90	-$0.14
Jul-08	$17.35	$19.21	-$1.86	$17.75	-$1.46
Aug-08	$16.31	$19.21	-$2.90	$16.81	-$2.40
Sep-08	$16.22	$19.21	-$2.99	$16.85	-$2.36
Oct-08	$15.44	$19.58	-$4.14	$16.30	-$3.28
Nov-08	$14.27	$19.58	-$5.31	$15.22	-$4.36
Dec-08	$12.41	$19.58	-$7.17	$12.83	-$6.75
Jan-09	$10.40	$18.51	-$8.11	$11.09	-$7.42
Feb-09	$9.58	$18.51	-$8.93	$10.32	-$8.19
Mar-09	$9.84	$18.51	-$8.67	$10.44	-$8.07
Apr-09	$9.87	*$18.51*	-$8.64	$10.40	-$8.11
May-09	$9.76	*$18.51*	-$8.75		
Jun-09	***$9.65***	*$18.51*	-$8.86		
Jul-09	***$9.53***	*$18.51*	-$8.98		

1 Actual through May and estimates for June and July 2009

2 Actual through 1st quarter 2009

- The dramatic increase in feed prices has propelled dairy production costs to record levels and we expect this trend to continue.
- Production costs posted a slight decrease from 4th qtr 2008 to 1st qtr 2009 due to a slight decrease in feed costs. However, COP figures are not expected to decline by any significant amount as we move forward. Even though feed commodity prices have come down a bit in the last week or so, prices are still far above historic averages.

- California producers typically do not grow all their feed and have to pay additional transportation costs to haul in feed for their cows.
- At the same time, all other costs of doing business in California have increased. Additional environmental costs are mounting each year as producers work to meet new waste discharge requirements, for example.



C. The crash came earlier to California.

- The California milk pricing system responds more quickly to current market conditions because it corresponds to the Chicago Mercantile Exchange. In contrast, price reporting procedures for the Federal Milk Marketing Orders usually result in a 1 or 2 month delay.

D. Outlook for the remainder of 2009.

- Producers had been holding out hope that the lowest point was reached in May. However, prices have since moved even lower.
- Futures prices have also moved much lower over the last month or so. While some recovery is expected by the end of the summer, very few analysts expect a significant improvement in prices.
- Prices are not expected to rebound until 2010. At the current negative margins, a significant number of producers will go out of business before that point.
- Those left standing will have a huge debt load to work through. It may take years of higher prices for the industry to recover.

E. The dairy economic safety net is stretched flat on the ground.

- The Dairy Product Price Support Program (DPSP) is a long-standing program that is intended to benefit both producers when prices are declining and consumers when prices are rising. It also benefits all producers in the country equally without regard to herd size or farm location. Yet at its current product purchase price levels the program is wholly inadequate considering the dramatic rise in input costs for farmers in the past 3 years. Prices have also fallen below support due to lack of flexibility in the program. USDA must be provided the authority to increase prices at least temporarily to cover the initial costs associated with processing to Commodity Credit Corporation (CCC) standards. For example, cheese has been below support on and off (and continuously since mid-June) yet not a pound of cheese has been sold to the CCC. Manufacturers participating in the California industry working group have pointed to inspection and grading standards as the major obstacle. USDA could address this by aligning their product standards with those of the commercial market. The industry working group has also written a letter to Secretary Vilsack in support of an increase in purchase price levels as proposed by National Milk Producers Federation.

- Milk Income Loss Contract (MILC) Program—while the payment helps pay some bills, the program will delay the supply reduction that must come since signs of a recovery in the worldwide economy, and the return of export demand for U.S. dairy products that will accompany it, have not yet appeared on the near-term horizon. Unfortunately, the annual production cap of 2.985 million pounds of milk eligible for payment results in a program with only regional benefits. And the duration of this milk price crisis has turned what is intended to be a temporary life jacket for producers in rough economic waters into a long-term program with market-distorting effects that continue to delay the recovery that is so desperately needed by all dairy producers in all regions of the country.
- Dairy Export Incentive Program (DEIP)—I'd like to thank the many Members of the House Agriculture Committee for their help in securing implementation of the DEIP by USDA. I would also like to point out, the DEIP program is a good deal for the Federal treasury. A 10¢ bonus to move a pound of nonfat dry milk to a foreign customer sure beats an 80¢/lb CCC purchase.

II. Steps the industry has taken to address the crisis.

A. Western United Dairymen organized and hosted three industry listening sessions earlier this year. The purpose was to identify both short- and long-term solutions to the economic conditions in the industry. All producers in the state were invited and more than 200 took advantage of the opportunity at each meeting to provide input on issues such as supply management, Federal and state milk marketing regulatory policy and global markets and industry innovation.

B. At the conclusion of the series of three meetings, an industry working group was formed to analyze the ideas presented and provide recommendations going forward. Two meetings have already been held, with the working group taking the lead on requesting economic analysis of a supply management plan and agreement on recommendations for additional ways to address the milk price crisis.

C. Since early January, California dairy producers and their organizations have worked hard and have had the support of nearly every other dairy producer group in the country as well as many Members of the California Congressional delegation in helping to persuade the USDA to implement the DEIP. Again, we say thank you to all the industry partners in that successful effort and to the Secretary, the Chairman and Ranking Member of this Committee as well as the many Members of the Agriculture Committee for your help.

D. Supported the industry push to have the new Agriculture Secretary use all existing authority to increase demand for dairy products—that effort has shown some success, as well, as donations to domestic and international feeding programs were announced very quickly after the crisis began.

E. Cooperatives Working Together (CWT)—California dairy producers have been early and consistent supporters of the industry-directed and -funded supply balancing program managed by National Milk Producers Federation. California Dairies, Inc. is a funding organization in CWT on behalf of its entire membership and Western United Dairymen continues promoting the program to individual dairy producers whose milk marketing organizations are not members. The high percentage of milk produced in California that is covered by contributions to CWT demonstrates the commitment of our producers to the concept of a progressive industry supply-balancing self-help program.

III. Additional suggestions for short-term action.

A. DEIP—the Secretary has announced allocations for the new program fiscal year in amounts equal to the unused allocations from 2008–2009. That is a helpful start and for that we say thank you again to the Secretary and to all those who helped make the case. Invitations for offers must still be announced, however, and dairy farmers look forward to that in the very near future. It also looks relatively sure that the remaining allocations for this fiscal year will be helpful and the organizations I represent here today look forward to working with the Committee and the Secretary to make that happen.

B. Farm Credit—dairy farmers find themselves in a no-win situation in which they are unable to do the very thing that usually helps reverse a period of negative operating margins—they need to cull cows. But their lenders are operating in a new day as well and there isn't the flexibility the banker once had to stick with even their best customers during a period of losses. The fact is, cows are worth about ⅓ less than they were a year ago and that erodes a financial statement in a hurry. And if a dairyman culls cows in order to pay bills, that can have a negative effect on the ability to borrow operating capital. I am happy to hear from several USDA officials that the Department is looking for ways to temporarily ease the dairy farm credit crunch. Cows, facilities and land are a dairy farmer's 401(k) plan. The value of cows on dairy farms has dropped by more than ⅓. Cows and bred heifers are worth $1,000 less than just 6 months ago. Newborn calves have dropped in value by $400 per head. The decline in the value of cattle amounts to a drop in dairy farmer equity of $2.6 billion in California alone. The farmers who do survive must borrow against that remaining equity. That additional debt load will reduce the competitiveness of U.S. dairy farmers in global markets for the next several years.

IV. Potential long-term solutions.

A. Supply Management Proposals—the industry task force that was appointed to examine producer input from the three listening sessions held earlier this year has received and reviewed a proposal for a legislated supply management proposal known as the Holstein Association Dairy Price Stabilization Plan. The task force acknowledged the significant producer interest in a supply management plan and listed some questions to be addressed. The Western United Dairymen Board of Directors extended an invitation for, and received, a briefing on the plan from leading proponents. The Western United Board has endorsed the concept and joins the task force members in posing some questions that must be addressed if producers are to be brought together to pursue legislation.

B. Fluid Milk Standards—several organizations offered a proposal during the last farm bill debate to raise nutrition standards in fluid milk nationwide. Interest in that proposal remains, due to the potential impact it could have on the need to balance supply and demand. This would benefit consumers by helping alleviate the calcium crisis, it would reduce CCC expenditures in the DPSP and the improved price stability would benefit farmers.

C. Industry Self-Help—California dairy producers look forward to participating in a nationwide effort to identify long-term solutions to the current economic crisis. There may be much more that could be done in producer-funded and directed efforts at demand building and market balancing, for example.

Again, Mr. Chairman, thank you for holding this hearing and for extending an invitation to hear from a California farmer. I am aware, and our organizations have worked hard to inform other dairy producers in the state, that you have been hearing often and loud from the Members of this Committee who come from California. I thank them for their persistence and I thank you for listening to them and working with them. I look forward to answering your questions.

The CHAIRMAN. I thank you very much.

I thank each of you for your testimony. I will begin the first round of questioning here.

Mr. Souza, you had mentioned in your testimony a moment ago, $100 per cow per month.

Mr. SOUZA. Yes.

The CHAIRMAN. What does that constitute, again? That cost, a lot of that cost goes to——

Mr. SOUZA. That is actual cash loss. By the time you pay the feed, the vet, the labor, your facility, operating your facility, it is about $100 per cow short per month. I personally have talked to a dairyman who is milking 1,000 cows, and he tells me he is actually going into his credit line, taking out $100,000 a month just to meet his obligations.

The CHAIRMAN. That is an amazing figure there. It is $1,200 per year per cow that they are losing every year. And how many cows—I mean, was this gentleman——

Mr. SOUZA. Well, he is milking 1,000 cows so it would be $1.2 million by the end of the year. But I don't want to overlook the fact that already in equity loss in my particular herd, I am down about $1.5 million. So you add that on to the cash loss, and you can see that you are not going to be in business very long.

The CHAIRMAN. Let me just ask the entire panel, you may each want to weigh in on this, if you have a different opinion than the others. But there has been a lot of discussion lately about supply management that different dairy organizations have proposed.

What is each of your opinions on this option as a management tool to help stabilize prices?

Mr. KRUSE. I am obviously very negative on it. I think it doesn't allow increases where industry is located to process milk. A lot of times they will go there when you are looking for additional milk, but yet there is going to be in essence a penalty or cap.

It also stymies production in states where we need production; I mean in smaller states or the southeastern states. So I do not foresee that as an advantage of something that is forward-looking.

The CHAIRMAN. Mr. Wakefield, do you agree with that or have another opinion?

Mr. WAKEFIELD. If you listen in the country to the producers, there are a larger number of producers today looking at that as an option. However, National Milk will have a task force put together to look at the various options. There are a lot of questions that need to be answered as in exports, imports, and some of the workings. We are not prepared to be in favor or against the program at this time.

The CHAIRMAN. So you are neutral. Okay.

Mr. Bouma.

Mr. BOUMA. As per our testimony, sir, we are very opposed to any supply management concepts. One, again, we feel that we will again have imports on our shores as we constrict ourselves to a domestic market.

And, second, I will allude to Mr. Kruse's statement. For instance, the Southeast, your great State of Georgia, we supply a lot of milk in west Texas that winds up in Georgia every day—140, 150 loads of milk a year during late summer and fall—and have an ongoing agreement with the Southeast, with the cooperatives in the Southeast, to supply that milk because of the shrinking number of dairy cows and the growing population.

And supply management around the country over that will make it harder and harder for us to transport milk where it is needed, and where it is short in this country.

The CHAIRMAN. Yes. Mr. Souza.

Mr. SOUZA. Yes, our organization has taken the position that we support the concept of supply management. But we feel, as other members feel, that it requires further analysis. I think with our trade issues and the trade loss that we deal with today that it poses real challenges to a supply management program.

Our concern is we feel we have to be very cautious in our approach here. If we are to legislate something, it should be very detailed. We are concerned that we could enter into an agreement that could have unintended consequences.

Without addressing the import situation, we could simply just not—if we replace the reduction in supply with imports, we won't substantially raise the price, but we could possibly be giving away our market share. I think it is important that we consider our market share when we are looking at any type of supply management program.

The CHAIRMAN. Let me ask you about this, each of you. Do you think that moving towards a single nationwide marketing order could help create some stability in the dairy industry?

Mr. BOUMA. Sure. I believe that definitely could help. I believe that we need to move towards a two class system of milk in this country: one being fluid milk that is put into a bottle and consumed in ice cream and soft products and things on a daily basis; and a second one being cheese, butter and powder, which our Federal Government participates in allowing them to work at world prices and. If need be, develop some other type of safety net for the industry so that we can get our product offshore and compete in the world market.

But to do what we did today with a four class system and store the product and restore the balance in the world will not work out for the long term.

The CHAIRMAN. All right. Anyone else have a difference of opinion?

Mr. WAKEFIELD. Currently we are not in favor of the one working system. However, we are working with the Federal Orders to make changes within the Federal Orders in the different regions, because there are many regions that are different and need to be addressed as a region.

The CHAIRMAN. Okay. Very fine.

Mr. KRUSE. I would say, as to what Mr. Bouma said, it has been discussed in our organization and there is considerable support for going, perhaps, to a two class system, a Class I and a manufacturing milk class.

The CHAIRMAN. One, all right. Mr. Souza.

Mr. SOUZA. We have had long discussions regarding this, as you probably know. At our task force meetings, we feel that the Federal Orders, as are currently written, certainly wouldn't do anything for California. We also have the problem within the Federal Order system of folks not joining the Orders or, as we say in California, depooling and pulling out of the system. I think it addresses two things. The Federal Order system obviously needs to be looked at again. We need to keep people in the Federal Order system.

It has to be attractive enough to keep those people, who are not currently regulated, in their regulated system and also attract enough to draw California into that same system. And it currently doesn't meet those challenges.

The CHAIRMAN. Thank you. We will now turn to the gentleman from Texas, the Ranking Member, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. One of the things that we have heard repeatedly this morning is we have too much milk now, and the price is low. And supply management has been brought up, reducing the number of herds.

And one of the things that kind of makes me begin to wonder is the current way we do milk, encouraging oversupply and overproduction in some periods of times, and then that is causing the market to have these wide swings, and then we have a period where the prices are low and that hurts everyone.

I believe that the market, the free market system basically is supply management if allowed to perform in an open and transparent way.

I guess the question I have to the panel: Are the current policies that we have for milk now contributing somewhat to these wide vacillations in prices, and should we really rethink the way we are doing that?

Mr. Bouma. I would start with you.

Mr. BOUMA. It does, and especially when milk is short. Milk is short worldwide. Our support program has no bearing on the value.

When Class III, when the equivalent of CME price for cheese milk 18 months ago was $17 or $18, $1.14 pound of cheese—$9.90 or $9.40 Class IV powder price had no effect on it.

As we swing down here in this perfect storm to these extremely low prices where we are putting product into support, we will definitely lengthen the bottom of this economic trough, this economic bell curve that we are in, with our support price balancing the world's powder market.

Our competitors in Australia, New Zealand and Europe are getting their product out of their countries. And as soon as this thing turns, they will be in a much better position to take advantage of the economic turn that the Secretary was talking about.

Whereas in this country, we put all this product back, we have to chew through it before the producer is going to realize it. So definitely more of a down cycle of the economic bell curve than the upside.

Mr. NEUGEBAUER. Mr. Wakefield.

Mr. WAKEFIELD. I agree, it is more on the downside than the upside.

As far as overproduction, we were not in an overproduction mode. We were merely mirroring the export market and supplying an export market that when the economy went south, we got caught in it. It is no fault of any American farmer that we are in the position we are in.

It just happens that the world economy went south and so did our market. And so now we are dealing with extra milk on the market that we had a market for.

And so in this business—in a factory you can turn off the lights and shut down the electricity for a couple of weeks and wait for things to happen, and then start back up. This is a 24/7 job and you can't sort of turn it off and then hope that in 2 weeks it is going to be better. It just doesn't work that way.

Mr. NEUGEBAUER. Mr. Kruse.

Mr. KRUSE. The volatility in price is good for no one. It really creates problems. And we have seen it over the history, just as long as I have been in the dairy business, just the ups and downs. You know, that is an excellent argument for using risk management tools and flatten this thing out if that is what it takes.

That is what we did when we were able to—for all of our major ingredients is manage that risk. We look for win/win situations with suppliers. I don't want an advantage for any one of them, because it is not going to last. And so you work out what is equitable for them and for us. And if you are both efficient, that relationship works and it works long term.

So in some form or fashion, we are going to have to get into that risk management to knock this out.

Mr. NEUGEBAUER. And I like the risk management better than the subsidy piece of it, because then that allows people to take whatever share of the risk they want to take.

Whatever kinds of tools would be better or what kinds of tools for risk management aren't available now that could possibly—need to be looked at?

Mr. KRUSE. I think in the written testimony, there is talk about this gross margin, the livestock matter. But we had forward-contracting in dairy from 2000 to 2004. There was a lot of consternation about it, but apparently it averaged—it pretty much approximated the price that was out there or what was contracted for.

And so I know in the 2008 Farm Bill we are looking at it again. It does not cover Class I, which is the bottled milk. But we have to investigate why there is not good price discovery in the dairy markets.

Mr. NEUGEBAUER. Mr. Bouma.

Mr. BOUMA. If I might, the price Mr. Kruse alluded to is exactly it. And when we create this economy we have in these surpluses we have with a product that we can't even sell overseas, with respect to what is made, we taint the price discovery process.

The CME works fine. I hedge corn, I hedge beans, and I actually hedge milk. But the milk part of this price is skewed by the economic obstacles that we put within the system. And if we cleared that and truly had an economic system that sent clear price discovery signals to the marketplace, we should be able to use the CME to hedge milk just as well as any other product.

The CHAIRMAN. Thank you, Mr. Bouma, Mr. Neugebauer. Now Mr. Costa from California.

Mr. COSTA. Mr. Chairman, with your permission I would like to defer to my colleague, who has another committee meeting, Mr. Cardoza, and then I will take my subsequent turn.

The CHAIRMAN. So recognized.

Mr. CARDOZA. Thank you, Mr. Costa and Mr. Chairman. I appreciate your indulgence.

Mr. Souza, thank you for traveling here. The plight of California dairy farmers has been well documented, and you have been working diligently with your organization to try and correct it.

I would like to point out for the Committee that they may not know, because the California Order changes more rapidly than the Federal Order, that California has actually been in crisis for a longer period of time than the rest of the country has. In fact, when I saw this coming, I went—and Mr. Costa as well—went around to a lot of our colleagues to warn the rest of the country that this was going to be coming down the pike. In fact, we were accurate in that assessment, to no one's good fortune.

Mr. Souza, I understand that California dairymen are going to have a difficult time taking advantage of the conservation and renewable energy incentives that we have worked so hard to put in the farm bill this past year when the Committee did its work. And so if you could comment on why that is and what the relationship is between farmers and those programs, and the problems that the dairy subtitle is causing the farm bill.

Mr. SOUZA. Unfortunately, with the current prices we are suffering, we are having to make choices with what we are going to do and what we are not going to do. As you know, Mr. Cardoza, California is the most highly regulated state when it comes to environmental regulations. Those funds are very, very important to us in California for our existence.

The problem is there simply isn't enough money. The EQIP Program is a matching fund program. Even at 50 percent, you still have to come up with the other 50 percent to access those programs. And, currently I know that I have talked to many, many dairymen that are going into their offices and talking to their conservation people and asking them how they can extend the implementation of their programs, because they can simply not afford to pay the half that they need to pay to use those programs.

Mr. CARDOZA. Mr. Chairman, if we could communicate with our colleagues on the Committee, the bigger Committee, about this question, I think it is something that our greater Agriculture Committee is going to have to examine, because it is certainly not the intention, when we passed the farm bill, of not allowing them to comply. This is one of the most important areas that a lot of us fought for in the farm bill, and it needs a lot more examination.

The CHAIRMAN. That is a very good point, Mr. Cardoza. We will certainly do that.

Mr. CARDOZA. Thank you.

Mr. Souza, the Department has a set of plans to offer assistance to dairy farmers with difficulty obtaining operating credit. Do you have any thoughts on the potential for that kind of program along those lines?

Mr. SOUZA. Well, we certainly do applaud the Department's efforts. But to simply continue to extend credit to an industry that is not able to pay their bills now would just simply create a problem where we are digging ourselves in a deeper hole. I think the idea of extended credit is fine, but it needs to work in conjunction with some type of price recovery program at the same time.

Mr. CARDOZA. I totally agree. That is why I raised the issue.

Mr. SOUZA. One of the concerns I have is just down the road, just to create additional debt, we are really creating a less efficient industry. We heard a lot of talk about competitive and international competition. As our farmers increase their debt, increase their leveraging, increase the amount of money they have to pay to the bank to become a less efficient industry, and at some point in time we will become—we are less competitive today than we were a year ago.

Mr. CARDOZA. Mr. Souza, Mr. Conaway mentioned earlier there was a total aggregate deficit of a $7 billion loss. One of the things that I think I would like to have all of the panelists talk about is how just a little bit of a supply increase—when we saw exports fall, the prices plummeted—and just a little bit of an expansion of shortage will make prices go up, quite volatile.

So $7 billion may not really—a little bit of purchasing, a little bit of adjustment can have a big impact on dairy farmers' profits.

And I would like to open that up for the panel. Mr. Souza, if you would start.

Mr. SOUZA. We agree. There was a discussion earlier on the supply management program. And we actually contracted with Dr. Rich Sexton, who was an economist at Cal Davis, University of California at Davis, to do some of that work. And he talks about exactly what you are talking about.

A one percent change in the supply can create a dramatic difference in the price. So I think that your point is well taken. It doesn't take a lot of milk to turn this thing around.

The problem that we have now is that we have an unusual situation. This is historic. This is an anomaly. We have had—our markets crashed so quickly, we as an industry don't have the ability to react as a fellow that is selling bottled water. It takes 2 years to get a calf into that milking barn. We create a huge inertia; and to slow this bus down, it takes time. We don't have that capability.

And with the rapid loss of the markets, we built up some surpluses. We need to get rid of that surplus to get a response in the price system.

Now we have talked about powder a lot, but we need to be talking about cheese as well. There seems to be a significant number in cheese that is being reported, and there are rumors that there are maybe additional amounts of cheese out there. We need to get our arms around that and respond to that cheese problem we have right now as our industry is slowing down.

California's production—you must remember, California's production has dropped now, what, 8 of the last 9 months. And we are substantially below where we were a couple of years ago, so we are responding.

Mr. CARDOZA. Thank you, Mr. Souza. I would love to hear from the other panelists, but I am going to let the Chairman decide how to handle that. Thank you.

The CHAIRMAN. Thank you. Mr. Conaway, the gentleman from Texas.

Mr. CONAWAY. Thank you, gentlemen, for being here. Dennis, I think the net would be more like nine million. If we have nine billion cows and collectively are losing $1,000 a year per cow, that would be about $9 billion short.

Mr. CARDOZA. However you slice it, Mr. Conaway, it is a bad situation.

Mr. CONAWAY. Yes. Intuitively I am struggling with a small drop in demand having this dramatic of an impact on the price and what factors make that happen. I was interested in Mr. Wakefield and Mr. Souza both saying that your trade organizations have task forces in place.

What is the time frame for completing the work that you might bring—that you hopefully would present some new ideas for policymakers to consider?

Mr. WAKEFIELD. I am not sure of the time frame, but we will be meeting—the task force will be meeting next week in Chicago to get started. There is a 2 day session then to meet with other organizations. Sometime in the fall we hope to have everything put together.

Mr. CONAWAY. Mr. Souza, how about your task force?

Mr. SOUZA. As I mentioned earlier, we have a pretty much broadbased task force. And two of the members of the task force are having their own private meetings, and we expect them to come to our next meeting, which we think will be in about 3 weeks, to report on what they are doing in their meetings.

We hope to have something—we are right today, as we speak, we are primarily focused on this current crisis of what we can do so we can have some members left to talk about a long-term program.

Mr. CONAWAY. What is it about the dairy industry that contributed to this, to the heavy debt load? Why is it that you have—you are more leveraged than other aspects of the agriculture business, 70 percent leveraged. What is it about the dairy that does that?

Mr. Bouma.

Mr. BOUMA. First of all, all animal production agriculture carries a greater leverage than just average agriculture, whether that is pork, or cattle, or poultry. The leverage this time around is created by the anomaly that Mr. Souza alluded to.

And to go back to a typical sweat, boom, and bust cycle like Mr. Kruse talked about, we typically talk about 1.5 percent to two percent milk in this nation being in surplus that will drive a price up or down. That is typical. We have to deal with—and there is a 6 to 8 month period of time when that will correct itself in that 1.5 percent.

Today, by losing five percent of our export market, five or six percent, we tripled or quadrupled the typical surplus.

Mr. CONAWAY. Is it five percent of the export market or five percent total that is exported today?

Mr. BOUMA. No. We were exporting 11 percent of our product a year ago. We are exporting five percent today, so there is six percent additional milk in the United States today.

Mr. CONAWAY. Okay. Thank you.

Mr. BOUMA. Which goes back to this 300,000 cows that I think we need to get rid of, and that is what has created this crisis.

Now the leverage side that created this perfect storm of $100 a cow a month, which you did the math on correctly, is the erosion of our balance sheet. You had a Holstein dairy cow that was worth $2,000 12 months ago, she is worth $1,200 today.

In these small cycle cyclical swings of 1.5 percent or two percent, our balance sheet erosion was not that significant. And as we turn back out of these cycles, you would again gain some equity in your balance sheet and be able to operate through this. But this mass erosion of the balance sheet within the industry is unprecedented today.

Mr. CONAWAY. I am sympathetic to the idea that you can't—that cow has to be milked every day, whether you sell the milk or not. She is going to get milked every day.

The industry I am most familiar with, the oil and gas business, this time last year we had over 1,900 rigs running in the United States. Today there are less than 670 rigs running today—what the price has done from the peaks last year to where they are right now.

So their circumstances are difficult and hard, and they have stories, Mr. Souza, very similar to yours, where folks have lost everything they had because they took business risks that they believed were appropriate at the point in time they had to take it.

Knowing that you had that inertia or that momentum built up about the cycle, how you bring new cows into the production stream, how does the system protect itself? Are there some tools that you need that we could help with that would allow you to recognize that you aren't particularly responsive in the short term, given that you have a herd, and it has got to be milked, and that milk disposed of in some fashion.

Is there something that can be done to acknowledge that and deal with that reality?

Mr. SOUZA. As Mr. Bouma mentioned, something that is this quick and this dramatic, we need to get rid of cows. We need to reduce the cows, and the CWT program certainly has helped.

That is, at this particular point, we have no history with this. We have never dealt with anything like this before. So it is pretty difficult to come up with a short-term program. We do know—I do believe, though, that we need something to bridge the cows we leave. We need a bridge to get there.

The biggest impact we have right now, as production is beginning to stabilize, and actually drop off in certain regions, we have this surplus of cheese out there that the buyers simply don't feel that they need to buy because they see this large cloud looming over our head.

That product, that cheese product, has to be removed. That has to get into the market system, and there are ways of doing it.

Mr. CONAWAY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. And thank you. The gentleman from California, Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman. Mr. Ray Souza, you and I have known each other for over 20 years, about.

Mr. SOUZA. I am only 19.

Mr. COSTA. Well, we are not that old. But your family and my family have been in the California dairy business for three generations.

Mr. SOUZA. Yes.

Mr. COSTA. Have you ever seen it this bad?

Mr. SOUZA. Mr. Costa, I have never seen anything even close to this. I thought 2006 was the end of the world and that was a $3.30 loss. Today is triple that.

Mr. COSTA. I mean, we could lose 20 or 25 percent of the dairy industry in California—I don't know what the estimates would be nationwide—if we are not able to respond in the short term and in the longer term, in my view.

Let me ask you a couple of questions as it relates—California, our export market—our largest is Mexico and, of course, Asia was a growing market until the economic downturn prior to the melamine scandal in China.

What do you think we need to do to try to regain those markets?

Mr. SOUZA. Well, part of it is just the world economy that is going to need to recover to some degree. But I do believe in California we need to become more innovative. The markets are there. It is clear to us, the McKenzie Report told us—the McKenzie Report was a report that was developed by the California Milk Advisory Board to kind of give us an idea of what the future looked like.

Because of our position on the West Coast, we are going to become an exporting state.

Our markets are going to be Mexico and the Asian market. We need to get more involved, we need to become more innovative, and we need to put people there in order to open up those markets.

Mr. COSTA. But it is just not California. And of course the DEIP program, we are going to extend that another quarter. But our exports were 11 percent of our total production just a while ago, and now it is down to seven percent. I mean, that is a significant swing when you look at the total production.

Mr. SOUZA. Right.

Mr. COSTA. So that is an area we are going to have to focus on. But how to compete with countries like New Zealand that are able to produce milk at $9, $10 a hundredweight is very problematic when you look at the trade agreements that we have that Chairman Peterson mentioned earlier.

Mr. SOUZA. I agree with you, Mr. Costa. One of the things hopefully that will come out of our group and National Milk's group is how we better access those markets.

Mr. COSTA. We talked about this earlier, and I want some of the gentlemen to comment on this because I am puzzled. I think we have to restructure the entire Federal Order. I think we have to put in incentives. I would like to see California join the Federal Order if the incentives are put in place, because it is the largest milk production area.

But explain to me equilibrium. We talked about equilibrium. We want to get down below nine million milking cows in the country. But we have over four million replacement heifers with same-sex semen. I mean, explain to me how this is going to—how we are not going to be back within the box within a period of 2 years.

I mean, you can't cull enough of your older cows to put you back in the same box that we are in today in overproduction.

Anyone got an answer?

Mr. BOUMA. That certainly is a dilemma, sir. Whether we export those heifers, a good number—we are the largest exporter of dairy cattle in the world as well. I don't know if we can export our way beyond that system.

I would guess that we are going somewhat by 8.8 or nine million cows before this crisis is over, just due to economic attrition. So some of those——

Mr. COSTA. But do you agree with the four million replacement heifers as an accurate number?

Mr. BOUMA. That is the number that is being professed around the country at this time. So I have no reason to——

Mr. COSTA. The two other gentlemen, before my time is up, got any answers to this?

Mr. KRUSE. Well, I am not a dairyman, but earlier in this year, the predictions that I was reading, we needed to lose 500,000 cows. And that is assuming things kind of settle down. But I don't know that the economy has gotten any better. But I just think we are just milking too many cows.

Mr. COSTA. No. Let me suggest to you, because you all talked about your task force—I know there are a lot of things going on regionally around the country, but dairy producers have to get together. I mean, we can take action, and we can make a big difference here in terms of legislation, as the Chairman suggested. But, frankly, if we are going to continue to have the infighting take place in the dairy producers around the country and on a regional basis, I don't have to tell any of the four of you, it is going to be darn difficult—my father would have a different term back home—to get anything done. You understand that?

Mr. WAKEFIELD. Absolutely. And that is the goal of the task force that we have put together: to bring unity and to bring one message to your group as we try to fix this situation.

Mr. COSTA. I mean, this is equivalent maybe, Mr. Chairman, to trying to achieve peace in the Middle East. I am not sure. But it is a difficult task and you dairymen, producers and the processors, need to come together.

The CHAIRMAN. Thank you, Mr. Costa, I appreciate it.

Now, the gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman.

A question for the whole panel. Five months prior to USDA reviving the Dairy Export Incentive Program, the European Union began subsidizing their dairy exports. Is there any reason to believe that if the U.S. were to make a good-faith offer to cease our use of this export subsidy tool, that the EU would take similar action? Any thoughts?

Mr. SOUZA. I will start off, I suppose. I don't believe, based on history, we could expect that. As you know, the Europeans are having their troubles as well. They are driving their tractors under the Arc de Triomphe. I think there is enough political pressure that they wouldn't—I don't think you would see them respond in that way.

Mr. BOUMA. The European Union has lowered their subsidies through the past years through trade agreements and through things that have come down online. But they have been much more heavily subsidized than the U.S. industry. And immediately—like you say—5 months prior to us, went back into the subsidy level to even a greater than our DEIP program allows us. So I would find that very hard to believe that we would sit down and be able to negotiate some equivalent in that.

Mr. THOMPSON. Thank you. Okay. For the three dairy farmers, USDA and the Under Secretary, we talked about a lot of ideas, but the primary relief, it sounded like, was extending temporary credit, essentially helping our family farmers go further into debt. And I don't know how much relief that is in the big picture. The biggest problem our family farms are facing is that negative balance sheet financially.

You know, just recently, with Speaker Pelosi's leadership, we rammed through legislation that would dramatically increase energy costs for all Americans. Now, considering the current economic conditions facing dairy farmers, do your representative organizations believe that Congress should enact legislation that further increases input costs to dairy farmers, keeping in mind it is that balance sheet that they are struggling with?

Mr. BOUMA. No, sir, we don't. We are very happy or very thankful that we were able to keep the agriculture portion of that under the guidance of Mr. Peterson's Committee and your all's Committee. We see that as a real victory for agriculture in this. But the long-term ramifications today indicate that increases, our input costs, are going to detrimental to us.

Mr. THOMPSON. Any other opinions?

Mr. SOUZA. I would mirror Mr. Bouma's comments, I agree with them entirely. Our membership absolutely would not stand for the additional increase. They cannot handle the costs they have now.

Mr. WAKEFIELD. I agree.

Mr. THOMPSON. Mr. Wakefield, it is good to have a Pennsylvania dairy farmer here. I want to thank the whole panel, but I want to thank you for making that trip from Bedford down to Washington.

I wanted to seek your opinion on how could the current situation of low prices be corrected?

Mr. WAKEFIELD. What it comes down to is getting supply in correction with demand, and creating more demand for our products, not only here but around the world.

As you know, we have the CWT program which has helped. When it comes down to it, the American public is not going out for dinner today at restaurants. Restaurant sales are off. That affects our business as far as cheese and sauces and dairy products.

So we have a problem not only of an exporting situation, but also within our own country we have people that do not have the means, or feel they don't have the means, to go out for dinner as they did in the past, which is hurting another industry.

So it isn't—this situation has affected everybody. How we can improve it, I guess only the Lord knows, more than I do.

Mr. THOMPSON. Just real quick, I only have about 30 seconds here, what has your experience been in terms of the market response to the DEIP program, or the food programs using surplus supply?

Mr. WAKEFIELD. It is on the short term—we have to understand that the program has only been in effect for, what, 2 months now. It has moved, it has dumped—it is the beginning and it is definitely going to be a help. I see no reason not to continue it.

However, it isn't a quick fix. It isn't going to change the market real fast. But something has to happen to change the market, and this program will help start the change.

Mr. THOMPSON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Mr. Murphy, the gentleman from New York.

Mr. MURPHY. Thank you, Mr. Chairman.

Mr. Bouma, I apologize, I had to step out and take another meeting. But you were commenting as I walked in that you thought we might need to take out about 300,000 cows to reach equilibrium.

Mr. BOUMA. Yes, sir. I think my colleagues from California would agree with me as well.

Mr. MURPHY. So if that is the order of magnitude—and to me I like market solutions to most problems. It seems like our problem, as Mr. Wakefield was saying right now, is we have more milk than we have people to buy it. So we would like to reduce that supply, but it is a tricky thing to get any one person to act to take out a few cattle out of their herd.

But what would it cost us to take 300,000 cows out of the herd right now? What is the rough cost for something like that? I heard you reference earlier $1,200 a head?

Mr. BOUMA. Yes, probably $1,000–$1,200 a head.

Mr. MURPHY. Is what a cow is worth right now?

Mr. BOUMA. Right.

Mr. MURPHY. And you would have slaughter costs that would offset some of that?

Mr. BOUMA. It would offset it about $400–$500 a cow.

Mr. MURPHY. So something less than $1,000.

Mr. BOUMA. Somewhere in that general range, $800 to a $1,000 a cow, which is what the CWT bids work out.

Mr. MURPHY. That is what it works out to be.

Mr. BOUMA. Right. It should work out to $1,300 or $1,400 a cow.

Mr. MURPHY. So does that seem like a reasonable solution to the three of you for how to get out of this mess that we are in right now?

Mr. WAKEFIELD. I think it is a short-term solution to a long-term problem.

Mr. MURPHY. Okay. That is a short-term solution. And the long-term problem is people are just going to bring those cows right back on and we are going to have too many again?

Mr. WAKEFIELD. I would hope not. You know, as was mentioned earlier about these same sex-semen heifers, same sex-semen is a good technology, and it is a tool, and it needs to be used as a tool and not just to run rampant.

Mr. COSTA. If the gentleman would yield, you should explain. I am not sure everybody understands what same-sex semen is as a genetic tool. It is amazing.

Mr. WAKEFIELD. Basically by using the technology, the rate of having heifer calves goes from basically 50 percent to 90 percent, so you can increase a herd really fast, your genetics in a very short time, guaranteeing that you will basically get 90 percent heifer calves.

It is a technology that you should use on your best animals and heifers. And it is a good way to grow your business internally. That way, you know what your genetics are. As I said, it is a great technology.

And as we go down the road another 40 or 50 years, I won't be here, but the world population is going to double, and we are going have to feed that population. And that technology will help do that. And there are other technologies that are out there that are available to the dairy industry.

We have been a very—an industry that has used technology. We have been very efficient and our efficiency is probably one of the detriments as to why we are here. We are too efficient, if that is possible.

Mr. MURPHY. Mr. Souza or Mr. Bouma, on the issue of doing a herd culling right now, your thoughts?

Mr. BOUMA. You know, any—I hate to say this at the stake of dairymen that are leaving the industry every day, and we are all losing a lot money. But as we have these conversations, and as the financial industries within this country to lend us money hear at these hearings and these discussions, they say well, if we keep this guy around a month or 2 longer, he will wind up on this program that is being talked about.

And what we do is extend the bottom of this economic bell curve, even having these discussions today. And as we extend that bell curve, those of us that hopefully do survive this downturn chew up a couple more million dollars.

Mr. MURPHY. So you think it is going to happen naturally. Let some people go out of business and it will settle itself.

Mr. BOUMA. CWT is working, and the more that we leave the market to the market, the better off we will be.

Mr. MURPHY. I follow that.

Mr. SOUZA. Okay, I will take a shot at that.

Mr. MURPHY. Thank you.

Mr. SOUZA. There are many, many dairymen today that are looking for a way out. There is no way out. They don't have enough equity except to pay the bank that they owe now. A program like that would have the potential of helping those people exit the business with some dignity and with the ability of leaving, at least, with no debt.

I think it would help move the program quicker. I think we can get back into alignment quicker. And I agree with Mr. Wakefield that it is a short-term solution. But right now we need a short-term solution. To do a long-term policy change, we need an analysis and plenty of industry input to make a major policy shift into this industry.

Mr. MURPHY. Okay. I am intrigued by your answer, because it makes perfect sense. And I guess my goal in doing something like that would be to accelerate the bottom so that everybody doesn't bleed to death before we finally get to the bottom and reach equilibrium. But it is interesting that you would actually go the opposite direction and keep people bleeding for longer, which is clearly an unintended consequence, so something to keep in mind. Thank you.

Mr. BOUMA. And even DEIP and some of the programs that we have implemented now, if they are implemented on the back side of the curve, they will get you out of the curve much quicker. If they are implemented on the front side of the bottom curve, they will just extend the curve, because folks continue to think there is some hope.

Mr. SOUZA. Can I go to that point just quickly? An example that Mr. Bouma has been talking about, the CWP program has been very successful, but it took some time to get it to move. To do that, if you follow the cull numbers, the cow slaughter numbers, they actually flattened out for a time while everybody was waiting for the CWP program to be used.

The CHAIRMAN. All right. Mr. Roe, the gentleman from Tennessee.

Mr. ROE. I am sorry I missed some of the testimony for another meeting. But just a couple of questions that I think the farmers in my area are going to ask is that, with a comment we have just heard here, is that it looks like the big producers are able to hang on with more equity. The smaller producers, like in my area, are going to go out, because they don't have the deep pockets, and the small guy will go.

Just a comment about that. I mean, from what I heard, that is sort of what I heard you all saying.

Mr. BOUMA. If I may, I don't believe I said that. Actually there are a lot of small producers in the country today that are in a better position to withstand this downturn than the large producers, solely because they typically have a larger landmass per cow than do a lot of large dairies in the West. They are all losing $100 to $150 a cow a month. I don't care if you are in Pennsylvania, Tennessee, Texas or California, that is going on.

But as we cycle back out of this crisis, those with larger landmasses of production, agriculture, growing their own crops, better diversification, which historically has been the small producer, he is in a position to recover out of this better than the large producers who have eroded their cow balance sheet because all they have is cows.

Mr. ROE. Do you have any—just a comment—I don't really know the answer to this either. What is the reason, do you think, that milk consumption has gone down? I have read all of your all's testimony. And it was clear it dropped 30 to 40 percent in the last few decades. Any comments about that?

Mr. SOUZA. He is talking about fluid milk?

Mr. ROE. Fluid milk.

Mr. SOUZA. Or total dairy products?

Mr. ROE. Fluid milk.

Mr. SOUZA. The total dairy products have actually been reasonably stable. The fluid milk consumption has dropped in certain regions. Actually in California, fluid milk consumption is up this year nearly five percent. And again, this is social changes. Restaurants typically don't serve milk, don't serve lower-fat milks. There are other beverage choices. And as more and more people eat out, that consumption has probably trailed right along with that about the same percentage.

Mr. ROE. It is just cultural is what you are saying?

Mr. SOUZA. Yes.

Mr. KRUSE. I think there is tremendous competition for that customer. There are many more things out there that people can drink now as opposed to milk. When I was growing up, that was one of the things that we did drink.

Mr. ROE. And this may have been answered earlier, but what percent—and I never did get the answer from Mr. Miller. I don't think it was ever specifically asked. But in the EU, what subsidy per hundredweight do they have for their milk as opposed to what we have in this country? There seems to be in Europe, France, Germany and the EU more of a subsidy on the exports. Is that correct or not? I may be wrong.

Mr. BOUMA. Historically there has been considerably more. They have actually reduced their subsidy levels over the past 4 or 5 years as the EU has evolved. They were the first to jump back and raise those subsidy levels here 6 or 8 months ago, ahead of our DEIP program and things, to try to move their surplus product offshore. To be able to tell you the exact ratio compared to ours is—I don't know the number, but I do know the number per hundredweight—the value per hundredweight of milk in the EU today is the cheapest it has been since the 1960s or 1970s as well.

Mr. ROE. Same ratios we have here. I appreciate your testimony. We have, as you do in your areas—and I read with great detail Mr. Wakefield's testimony. And it very much mirrored all of the farmers in our area. And we appreciate anything, any help or advice you all can give us to help these farmers right now. They are in desperate shape. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Roe. And let me just—as we prepare to conclude—did you have another question, Mr. Neugebauer?

Mr. NEUGEBAUER. Mr. Chairman, I think a good point was made; that we had a MILC hearing with no milk. So I would suggest, as Chairman Peterson indicated and you indicated, we are going to have more MILC hearings in the future, and maybe a little ice cream as well to go along with that, so we can really fully debate and discuss this very important issue.

I am being somewhat facetious and this is a serious problem. I think we had some great testimony today. And I think that we need to continue that because one of the things that I think we all want to do is bring some permanent solutions to make the system better, make it work for everybody in the chain from the producer to the consumer.

So I look forward to having future discussions and I want to thank our panelists. I think we had some very good panelists. I found it very informative and I learned a lot more today. I thank you for your leadership in calling this hearing.

The CHAIRMAN. Well, thank you. And while I appreciate the whole Committee's involvement in this, the real urgency that we have in this—but just before we close, I wanted to get a clearer understanding of what the CWT, this Cooperative Working Together Program. It would be helpful if we knew exactly how does it work, because there has been some criticism saying that it doesn't really help because producers just buy more cows and start over after being bought out. Is that an accurate criticism?

Mr. Wakefield, would you respond too that?

Mr. WAKEFIELD. The program is set up and it is supported by the dairy producers, and the only way that you can participate in the CWT program is to support the program at 10¢ per hundredweight. You can participate in the program, be selected, and you can go back into the program in previous buyouts.

The current buyout has stipulated that anyone who has participated in the past cannot participate in the future; that is, you cannot be in the program, sell your animal, go back in the business, and then get back in the program and be bought out again. You cannot do that.

So anybody that is in the program currently, if they went back in the business, they would have to have rocks in their head, the way the situation is now. I was born and raised on a dairy farm, went to college, and have been involved since the early 1970s. And I have never seen it this bad, ever. And it is not pleasant to go home and talk to your neighbors. And we are all in the same boat.

In fact, one of my friends from California, I talked to him the other day and he said the new term out there is burnout—what is your burn rate, how fast are you burning through your equity? So you call your bank and say, how many more days do I have left?

The CWT program, as I stated, is—the cooperative is working together. Two-thirds of the members of the cooperative, which is basically 70 percent of the MILC, are participating in the CWT program. It is run by a very small staff and it has been effective. Mr. Scott Brown has done work with this Committee from the University of Missouri. He has done studies for the CWT program and it has been effective.

The CHAIRMAN. Thank you.

One final thing for you, Mr. Bouma. You mentioned that the Greater Southwest Agency has succeeded in managing milk marketing in their region without the need for MILC marketing or a hearing for southwest MILC marketing area issues. Do your members supply-manage on the side to help keep their supply and demand in balance?

Mr. BOUMA. No, sir. We actually have been in the forefront of developing plants, profitable plants, cheese plants. We have a new facility on a drawing board that should be on line, hopefully, in 2011. And we have been working to develop our markets which works in your part of the country.

We work very closely with all of the cooperatives in the area. We all sit in the same room on a monthly basis, and we understand what our production coming at us is, and how we need to work through the marketplace to manage that production. We have no supply management, but we are definitely in the market development business, and we are working diligently to create products that will work in the world market and can be marketed as such.

When you have complete cooperation of producers from Florida, all the way back to the Texas, New Mexico State line, you can sit in the room and discuss how this milk needs to move *versus* having Federal Order hearings and trying to find ways to raise differentials, or put in hauling credits, or do different things. And we have been very successful in doing that and also in working with our colleagues in the Southeast as we have accomplished that.

The CHAIRMAN. Very good. Listen. Let me thank everyone. This has been an extraordinary hearing. We have spent over 3 hours in this hearing today, uninterrupted too. But this is very, very serious, very urgent. We are committed to getting help to the dairy farmers and the entire dairy industry as quickly as we can.

We will be having other hearings within the coming weeks. As the Chairman said, both he and I are working cohesively together to try to get all of the actors, all of the participants, all of the voices heard, so that we can then take this information and move forward. And I do believe it will be both administratively with the Obama Administration and the Department of Agriculture increasing their efforts, and there is more I feel that they can do.

And, of course, there is certainly a movement to get legislative remedies as well. But whatever it takes, this Committee is devoted and committed to bringing help to our dairy industry. It needs it badly and we are committed to doing so.

And with that, this hearing is adjourned. Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any questions posed by a Member to the panel.

This hearing of the Subcommittee on Livestock, Dairy, and Poultry is adjourned. Thank you.

[Whereupon, at 1:15 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED LETTERS BY HON. DAVID SCOTT

July 13, 2009

Hon. TOM VILSACK,
Secretary,
Department of Agriculture,
Washington, D.C.

Dear Mr. Secretary:

Thank you for your efforts this year to help alleviate the effects of the continuing dairy crisis. The Department of Agriculture dairy product purchases along with the utilization of the Dairy Export Incentive Program (DEIP) have been necessary and appreciated.

However, since January of this year, dairy product prices have continued to decline, and at times dropped below price support levels, directly affecting the milk prices paid to dairy farmers.

We urge you to take all steps at your disposal to improve the effectiveness of the Dairy Product Price Support Program (DPPSP) to bolster the price of milk. In authorizing the program, Congress provided flexibility to allow the USDA the leeway to set higher purchase price levels when necessary: Using the farm bill authority, we encourage you to temporarily raise Commodity Credit Corporation (CCC) purchase prices, in a manner consistent with pay-as-you-go policies, for the DPPSP.

In addition, we urge you to take all practical steps to harmonize CCC dairy product packaging and grading standards with those used in commercial sales on the Chicago Mercantile Exchange (CME). Differences between CCC and CME standards make dairy product manufacturers reluctant to sell surplus product to the CCC, even when such sales would help stabilize milk prices.

As you know, a new World Trade Organization (WTO) accounting period begins on July 1, 2009. We understand that due to the short time frame between when DEIP became operational and June 30, 2009, the full allocation for the year just ended wasn't able to be used. However, the complete allocation allowed under WTO obligations for the trade year that began July 1, can be fully utilized to help the domestic dairy industry if an announcement is made soon.

Additionally, food banks, feeding programs and other domestic nutrition programs continue to run short on dairy products. We urge you to use the Department's available authorities to address these enduring needs.

Should you have any questions please do not hesitate to contact Chandler Goule, Staff Director, Subcommittee on Livestock, Dairy, and Poultry at [Redacted] or [Redacted].

Sincerely,

Collin C. Peterson	Frank D. Lucas
[illegible]	Randy Neugebauer
Leonard L. Boswell	Peter Welch
Ron Kind	Mark Schauer
Kevin McCarthy	[illegible]
Walt Minnick	John A. Boccieri
Niki Tsongas	Christopher Lee

Betsy Markey

Kathy Dahlkemper

Candice S. Miller

Steve Kagen MD

Bruce L. Braley

Harry Teague

Chris Carney

Joe Courtney

Paul D. Tonko

Scott Murphy

[illegible]

Tammy Baldwin

JoAnn Emerson

[illegible]

[illegible]

Lynn Woolsey

[illegible]

Michael A. Arcuri

[illegible]

T. Holden

Tom Petri

[illegible]

[illegible]

Daniel E. Lungren

[illegible]

Glenn Thompson

July 21, 2009

Hon. TOM VILSACK,
Secretary,
Department of Agriculture,
Washington, D.C.

Dear Mr. Secretary:

A serious imbalance in the domestic dairy industry presents an imminent threat to the economic stability and welfare of American dairy farmers. In spite of industry-led efforts to balance supply, the overall state of the economy has reduced demand for dairy foods, resulting in an estimated 2009 surplus of 6.5 billion pounds.

Exacerbating product surpluses is a price-cost squeeze, with milk prices declining and feed costs rising. The all-milk price received by farmers averaged $15.90 per hundredweight in December, down more than 25 percent from a year earlier nationwide, and 33 percent lower in California, according to USDA data. Milk prices will likely be considerably below these levels in the coming months in the Northeast, Northwest, Southeast, Upper Midwest, and Southwest as well, if no action is taken. During the same period, feed costs jumped. The price of alfalfa, for example, rose 15 percent to $155 per ton. Feed costs have moderated in recent months, but not enough to offset the drop in milk prices.

Simultaneous to low prices and the national economic recession, federal feeding and nutrition programs are at record-high enrollments. As you know, more than 31 million people qualified for benefits under the Supplemental Nutrition Assistance Program (SNAP) in the latter part of 2008. In addition, free and reduced-price school lunch program participation is an unprecedented 18.4 million children.

In light of the disturbing evidence, and consistent with the authority granted the Secretary under Section 5 of the Commodity Credit Corporation Charter Act and Section 32 of the Act of August 24, 1935 (P.L. 74-320 as amended), we respectfully urge you make generous purchases of dairy products as soon as possible for use in federal nutrition programs. As we work to address long-term solutions to overproduction, your quick action to remove surpluses from the market is critical to ease the immediate crisis and continue to provide wholesome and nutritious products for school children, the elderly and others in need.

Thank you for your prompt attention and consideration of this request.

Sincerely,

Collin C. Peterson (MN-7)
Chairman

Frank D. Lucas (OK-3)
Ranking Member

Tim Holden (PA-17)

Joe Baca (CA-43)

Leonard L. Boswell (IA-3)

David R. Obey (WI-7)

Dennis A. Cardoza (CA-18)

Rosa L. DeLauro (CT-3)

Jim Costa (CA-20)

Kirsten Gillibrand (NY-20)

Devin Nunes (CA-21)

July 13, 2009

Hon. DAVID SCOTT,
Chairman,
Hon. RANDY NEUGEBAUER,
Ranking Minority Member,
Subcommittee on Livestock, Dairy, and Poultry,
Committee on Agriculture,
Washington, D.C.

Dear Representative:

America's dairy farmers are facing an unprecedented economic crisis. Tens of thousands of independent producers are at risk of losing their livelihoods if this crisis remains ignored, while consumers across the country risk having no local sources of fresh dairy.

Dairy farmers are losing an estimated $200 per cow each month. Producers are receiving as little as $9 for a hundredweight (cwt) of fluid milk, while their cost of production ranges from $18–$27 per cwt. If trends continue, we may immediately lose up to 20,000 of our nation's 60,000 family dairies and billions of dollars from our rural economies, which are already hurting during this economic recession.

Today's dairy crisis is not just the result of overproduction or a sudden decline in demand spurred by the global recession. Dairy farmers have been hit with a disastrous combination of factors beyond their control. The price of milk paid to farmers collapsed a record 30 percent in January 2009 alone and 50 percent since July 2008, the result of a volatile pricing system that is easily manipulated by a few corporate players. Meanwhile, farmers are struggling to pay bills from record high production costs, adequate credit is increasingly difficult to access, milk substitute imports are rising without regulation, and catastrophic drought and other natural disasters are devastating many areas of the nation.

For the imperative survival of tens of thousands of dairy farmers, the price of milk paid to farmers must be changed to reflect their cost of production. At a minimum, a floor price of $18 per cwt should be instituted immediately. Under Section 608c(18) of the Agricultural Marketing Agreement Act of 1937, the Secretary of Agriculture is required to adjust farm milk price to "reflect the price of feeds, the available supplies of feeds, and other economic conditions which affect market supply and demand for milk and its products." Congress must urge the Secretary of Agriculture to use this authority now.

Not only are farmers missing out but consumers are, as well. Since the early 1980s, the spread between farm milk price and retail milk price has steadily widened without any public benefit. Despite today's unprecedented collapse in farm milk price, the retail price for consumers has barely budged. To make matters worse, the 2009 first quarter earnings by the top dairy processors showed a substantial increase in profits over the same period in 2008.

If the crisis continues, we risk the dire situation of entire states devoid of a single dairy, therefore forced to rely on factory farms and imported milk substitutes and dairy products that compromise public and environmental health and safety. A stable network of local dairy farms is essential for communities to provide their residents with access to safe, healthful food. Furthermore, local dairies are a productive and beneficial way to preserve farmland and open space. Fighting on behalf of America's dairy farmer is a matter of food security, farm security and, ultimately, national security.

The crisis in dairy is not about farmers producing too much milk; it is about unregulated and unnecessary imports. This crisis is not about a decline in demand; it is about ineffective policies leading to unfair, easily manipulated pricing formulas and extremely volatile, unpredictable markets. We know that setting an emergency floor price for farm milk will not address all the problems that led to the current crisis, but it may be the only way to keep thousands of dairy farmers on the land this year.

You have the power and the responsibility to lead Congress in changing the fate of countless hardworking men and women for a better system and a fair deal. The situation is dire, the impacts are widespread, and farmers and consumers need you to do the right thing right now.

Sincerely,

American Agriculture Movement Inc.;
American Agriculture Movement of Arkansas;
American Corn Growers Association;
Alabama Sustainable Agriculture Network;

Alaska Farmers Union;
American Corn Growers Association;
California Dairy Campaign;
California Farmers Union;
Community Alliance with Family Farmers (CA);
Community Farm Alliance (KY);
Family Farm Defenders;
Farm Aid;
Farmworker Association of Florida;
Federation of Southern Cooperatives/Land Assistance Fund;
Food & Water Watch;
Food Democracy Now!;
Food First/Institute for Food and Development Policy;
Iowa Citizens for Community Improvement;
Iowa Farmers Union;
Land Stewardship Project;
Michigan Farmers Union;
Minnesota Farmers Union;
Minnesota Food Association;
Missouri Rural Crisis Center;
Montana Farmers Union;
National Family Farm Coalition;
National Farmers Organization;
National Farmers Union;
National Latino Farmers & Ranchers Trade Association;
Nebraska Farmers Union;
Nebraska Women Involved in Farm Economics;
New England Farmers Union;
New Entry Sustainable Farming Project (MA);
North Dakota Farmers Union;
Ohio Ecological Food & Farm Association;
Ohio Farmers Union;
Operation Spring Plant (NC);
Oregon Farmers Union;
Organic Consumers Association;
Pennsylvania Farmers Union;
Pennsylvania Association for Sustainable Agriculture;
Physicians for Social Responsibility, Oregon Chapter;
Rocky Mountain Farmers Union;
Rural Advancement Fund (NC);
Rural Coalition/Coaliciθn Rural;
Rural Vermont;
Seven Generations Ahead (IL);
Slow Food USA;
Soybean Producers of America;
Sustainable Food Center (TX);
Texas Farmers Union;
The Cornucopia Institute;
The Rodale Institute;
The Second Chance Foundation (NY);
Washington Farmers Union;
Women Involved in Farm Economics;
World Hunger Year.

For more information, please contact Hilde Steffey at 617–354–2922 or *hilde@farmaid.org*.

CC: Members of House Agricultural Committee.

SUBMITTED STATEMENT BY HON. GLENN THOMPSON; ON BEHALF OF DIANE HECKMAN

June 22, 2009

G.T.

Well, it has finally come to almost the end of the farm. We had a small amount of money back. And we have been using that to help pay bills. But it is now gone. There's nothing left. And if something isn't done about the milk prices—we are going to have to sell the cows & the farm. I haven't told Jim yet. I don't know how I'm going to tell him. I am sitting here crying as I write this. Please, please do what you can to help with these damn milk prices! I am just sick that it has come to this. This has hit many, many family dairy farms.

Diane

SUBMITTED STATEMENT BY HON. SCOTT MURPHY; ON BEHALF OF PATRICK HOOKER, COMMISSIONER, NEW YORK STATE DEPARTMENT OF AGRICULTURE AND MARKETS

STATE OF NEW YORK
DEPARTMENT OF AGRICULTURE AND MARKETS
10B Airline Drive, Albany, NY 12235
1-800-554-4501
http://www.agmkt.state.ny.us

Office of the Commissioner

July 10, 2009

The Honorable Scott Murphy
United States House of Representatives
Room 120, Cannon House Office Building
Washington, DC 20515

Dear Representative Murphy:

As we reminded Secretary Vilsack last week in New Hampshire, dairy is the mainstay of this region's agriculture. We greatly appreciate USDA's recent authorization for the transfer of 200 million pounds of nonfat dry milk from the Commodity Credit Corporation to USDA's Food and Nutrition Service for use in domestic feeding programs, and we are pleased about the renewal of the Dairy Export Incentives Program. However, our dairy farmers need additional help and they need it now.

We all anticipated a downturn in milk prices, but no one ever thought it could get this bad or last this long. Dairy farmers in the Northeast, and across the country, are now hurting financially, emotionally and psychologically, even though they are by nature a very optimistic bunch. In the last few weeks, I have been getting a huge number of desperate emails and distressing phone calls from farmers in need of help.

For the first 5 months of 2009, the benchmark federal order average price is $11.59 per hundredweight, down 25 percent from the average of the previous 5 years. In New York State alone, producers will see revenues plummet by over $650 million for 2009. And prices are not expected to recover until 2010. We fear what the fall months will bring and worry that we could lose a substantial part of our regional food system and economy -our family dairy farms.

Today I ask the Committee to take two steps immediately. First, I ask you to support an immediate and retroactive increase to the MILC safety net program. By doubling the payment rate, we would provide some immediate financial relief to struggling dairy farm families across New England, New York, Pennsylvania, Minnesota, Wisconsin and the rest of the country.

Second, I request that you urge Secretary Vilsack to enact an emergency policy to offer dairy farmers a minimum six month long interest-free extension or debt forgiveness on their USDA loans. This would relieve some of the production cost pressure that they face. After six months elapsed, it would then be possible to reevaluate this measure and determine whether it was successful and whether the need is still present.

Currently, USDA loans to farmers, whether Marketing Assistance Loans, FHA loans, USDA Guaranteed and Direct Loans, or Low Interest Storage Loans, constitute a sizeable portion of the debt that many dairy farmers now owe, and they are increasingly unable to pay them. It only makes matters worse when farmers' loan delinquencies to the USDA are causing reductions in MILC and other FSA payments they need to keep afloat.

Longer term, we support the immediate establishment of a commission to study the current Federal Milk Marketing Order system and recommend changes that will reduce price volatility and safeguard dairy farm income. In addition, we believe that Congress should explore ways to strengthen regional food systems and regional agricultural economies, especially dairy for New York and the Northeast. Regional dairy production, especially fresh, fluid milk, has been critically important for the Northeast for the past 100 years. We believe that some relatively simple pricing changes could help stabilize price volatility and safeguard dairy farm income.

We appreciate your interest in this issue and urge you to work with Secretary Vilsack and the Obama administration to do whatever you can to help our dairy farmers in this time of crisis.

Sincerely

Patrick Hooker

Patrick Hooker
Commissioner

SUBMITTED STATEMENT BY HON. PETER WELCH; ON BEHALF OF ROGER ALLBEE, SECRETARY, VERMONT AGENCY OF AGRICULTURE, FOOD AND MARKETS

July 17, 2009

Honorable Congressmen Peterson and Scott,

Thank you for accepting written testimony on the situation of the dairy industry in the nation. As Secretary of Agriculture for Vermont, I am deeply concerned for our state's dairy farm families and the rural communities and economies of our state. I would like to reference the accurate and excellent testimony of Congressman Welch from Vermont to this Subcommittee on the dairy situation—I will echo Congressman Welch and provide further information for your consideration.

Vermont's dairy farms are an economic engine for our state. Vermont is a milk exporting state due to our relatively small population, fewer than 675,000 people, and large number of dairy farms—1,046 as of July 1, 2009. Vermont is an exporter of unprocessed fluid milk and fully processed dairy products to southern New England and many other East Coast states. The sale of unprocessed milk brings over $1 million per day into the State of Vermont. These funds are spent by dairy farmers in their rural communities and provide jobs in transportation and processing in Vermont. Due to extremely low milk prices our rural communities are suffering right along with our dairy farm families.

With the decline in milk prices, the average size Vermont dairy farm is receiving over $100,000 less income this year. Multiplied by Vermont's total number of farms, the decline in income projected for Vermont dairy farms in 2009 is over $116 million. This represents money that will not be circulated in local economies—the vet will go unpaid, the feed dealer will go unpaid, the fertilizer dealer will go unpaid, no new equipment can be purchased and so on. Farmers are proud and want to pay their bills but the deep decline in milk prices is making that impossible at this time.

Added to this issue is the current credit crisis. Many of Vermont's agriculture related businesses, such as feed and fertilizer dealers, are unable to extend the same credit terms to dairy farmers that they have in the past. These related businesses are unable to obtain credit from their primary lenders to be able to extend credit to dairy farmers. One fertilizer dealer in Vermont had to go from 12 months for repayment with interest to 90 days for repayment in 2009 due to a lack of credit from their lending institution. When the extension of credit to dairy farmers from these businesses ends, large numbers of dairy farmer operations will be forced to cease operating, changing forever the working landscape.

Many in our state have concluded that Vermont's dairy farmers need to diversify their operations to be less reliant on the price of milk for their livelihood. I have been contacted by a dairy farmer that also raises 500 turkeys for Thanksgiving and produces 1,000 gallons of maple syrup a year, harvests trees for lumber and pulp wood from the farm's woodlot as well as milking 65 cows—a truly diversified operation. This farmer is extremely concerned. Due to the overall economic downturn, many avenues used to generate additional income have dried up. Sales of maple syrup are flat, sales of logs and pulp wood are non-existent and this farmer is worried that the turkeys he is raising for Thanksgiving will not sell due to the overall poor economy. Many dairy farmers are diversified but even with this diversification, it's the low price they are receiving for their milk that could very possibly put them out of business. This particular farmer estimates that he needs $5 to $6 more dollars per hundredweight to break even. Work harder. be more efficient and diversify is still no guarantee of success when milk prices tumble to rock bottom.

Saving Vermont's and New England's dairy industry will require both immediate action and long-term reforms. The most immediate assistance we can provide dairy farmers to survive the current crisis is an increase in Milk Income Loss Contract (MILC) payments. While MILC has helped ward off full-scale disaster so far, the disparity between the price of milk and the cost of production warrants a reevaluation of its payment formula. With farmers spending nearly $19 and earning back less than $12 for every hundredweight they produce, MILC payments between $2 and $3 are simply not enough to keep them in business.

I and several of my colleagues have been advocating for an increase in MILC payments since this crisis began. The Northeast Association of State Departments of Agriculture wrote to Congress in April asking that the MILC payment rate be raised from 45 percent to 79 percent and to revisit the current cap of 2.95 billion pounds of annual production. I support this proposal as a short term solution to help put money back in the pockets of producers until prices recover. I realize there is a reluctance to re-open the 2008 Farm Bill, but I would urge the Chairman and the Committee to recognize the extreme nature of this crisis and to make an exception.

Secretary of Agriculture Tom Vilsack is considering increasing the Dairy Price Support Program from its current level of $9.90 per hundredweight. In the last farm bill, the Dairy Price Support Program was changed to allow adjustment of individual prices for products involved in the program under Authority of the Secretary. Increasing the Dairy Price Support Program to $12 equivalent price as suggested by Senators Leahy and Kohl (and other Senators) would bring immediate relief to dairy farm families across the nation.

I would like you to consider working with USDA through the Federal Order System to increase Class I differentials. Class I Differentials have not been raised, in the majority of Federal Orders, since the year 2000 when the new system of milk pricing was introduced. Congress was intimately involved in the reforms to the Federal Order System that were implemented in 2000. The current Class I differentials do not take into account the rapid increase in transportation costs due to increased fuel costs or the affect of the ethanol boom on dairy grain costs. These increases in fuel costs have been directly bourne by dairy farmers through fuel surcharges from haulers that are not covered by the purchasers of the milk in many cases. Increased feed costs due to the increased use of corn for ethanol production has also hit dairy farmers hard. Increasing the Class I differentials in all Federal Orders would assist in covering the increased cost in fuel, offsetting or eliminating fuel surcharges to dairy farmers and providing an enhanced milk check to assist in covering increased feed costs.

I would like to encourage the House Agriculture Subcommittee on Livestock, Dairy, and Poultry to consider setting a floor under the Class I mover as a method to increase income to dairy farmers. The floor under the Class I mover, at a minimum, should equal the current trigger price for the MILC program at $13.69/cwt. This figure was set in 2001 when the MILC was enacted and has not been adjusted for inflation. The rate of $13.69 should be indexed to the rate of inflation since 2001 and then used as the Class I Floor for the MILC program.

The Northeast states began working jointly on dairy issues with the formation of the Northeast Dairy Leadership Team through an MOU between New York, Pennsylvania and Vermont. All Northeast states work together through the Northeast Association of the State Departments of Agriculture. There may be several opportunities for the states across the country to work together more closely on dairy pricing issues but authority is needed from Congress on this issue. I would encourage you to consider the potential of regional food security by the states working together to set milk prices that could reflect supply and demand in their regions.

I would like to thank you for the opportunity to provide testimony to the House Agriculture Subcommittee on Livestock, Dairy, and Poultry on the current dairy crisis in the State of Vermont and some possible short-term solutions to this devastating issue.

Sincerely,

Roger Allbee, *Secretary,*
Vermont Agency of Agriculture, Food and Markets.

Submitted Statement by Hon. Peter Welch; on Behalf of Kylie Quesnel, Perry Brook Dairy, Orleans, Vermont

Our parents started farming soon after high school. They left our grandfathers farm and went on their own renting stalls from a local farmer to gain equity and cow numbers until they could rent their own facility. In 1988, with our cow numbers at 300, we had outgrown the rented facility. My Dad and Mom (Lorenzo and Amy) purchased Perry Brook Dairy. They took out a loan to build a new state of the art barn and milking parlor. Our family moved and started on a journey that would eventually lead to the three of us children returning to the farm.

In 2003, Kylie graduated from Cornell with seven great job offers but after careful thought, decided to return home to the farm. With a degree in animal science and half of my credits in business I decided that joining the family business would be the best use of my degree and allow me the greatest speed for advancing my own career. In 2004, Kirstin graduated from Cornell and took a job with Elanco and worked in the Midwest until she decided to return home in 2007. Also in 2007, Jed returned home to join the business with a degree from Northwestern. All three of us decided that we had different interests within our business and felt that we would have a better chance at success if we farmed together *versus* separately. While this has been a good decision for managing our dairy, it has limited us and forced us to assume at times greater risk because when milk price has dropped, we are only eligible for MILC for 6 weeks of production because of our size. We currently milk 950 high production cows with nearly 2,000 total head.

Last March, I applied for a young farmer loan through FSA and purchased the farm next door on my own. This purchase allowed us to bring our heifer's home from the heifer grower to save some expense. I had hoped to milk cows on that dairy as well. As the milk price plummeted, my business plan changed and now my farm only houses heifers.

At this time our dairy is highly leveraged. We are just coming off from a new purchase that required large amounts of capital. As milk price has dropped our goals and plans have been put on the back burner and we now sit waiting for this storm to change. Our gross income is down nearly $1 million in the first part of the year. The average cost of production in our area is $17.88/cwt and our last advance check was $10.50/cwt. We received $51,000 through the MILC program to compare with a loss of $1mil or .20/cwt annual production.

We have worked so hard this year to hold onto our business. We have sold two of our farms this spring at a loss to reduce our monthly payments to keep the heart of our farm going. We have sunk below the equity level acceptable for Farm Credit to continue to extend us operating money. We have concern about where our relationship with Farm Credit is going although we have always made our payments they have made us aware that we are a concern for them. With FSA not having money at this time, we have found ourselves unable to borrow money to keep our business afloat. Obtaining credit is essential for our business and at this time we struggle to find where that credit will come from.

We are working with the power company each month to keep the power on in the barns and in all of the farm housing. Our family has not taken a paycheck from the dairy since last fall and has been forced to discontinue our health insurance because of the lack of dollars to pay for it. We do not qualify for the state health insurance at this time either. In order to qualify we must go without insurance for a complete year and then reapply. We have had to let three employees go and cut costs everywhere. We want to farm, we believe in producing a healthy product for consumers. We are one of the largest employers in our town and have forsaken our own income to keep our employees wages as steady as possible. Our industry needs a lifeline. Our family contributes to our community through volunteering as 4–H leaders and hosting non-farm children through the summer on the dairy, we are on the Otter Creek Conservation Board, are on the farm bureau board and have a progressive summer internship program for college students. In our industry we serve on many different boards and young farmer groups and are well regarded among our peers. We also are proud to keep our land open to VAST trail system and hiking/ATV trails. Our success helps our community and we are playing with all chips in. We are at a critical breaking point and the toll that this stress is playing on us personally is very difficult. We watch our dad's health deteriorate. The stress of our situation has caused depression and anxiety in our family. Each day that goes by we continue to navigate through these difficult times and rely on a failing market we are less sure about our future. In our situation, liquidation is not possible. We would not likely receive enough money through liquidation to cover our expense and walking away would leave all five of us along with ten employees homeless and with no savings or retirement. We have discussed all possibilities and feel that the consequences of bankruptcy for our community and our family would be devastating. We feel that our business ceasing would consequently mean the elimination of one of the vets in our county and potentially have a terrible affect on the local feed companies and suppliers that we have worked with for many years.

My siblings and I would like the opportunity to purchase the remainder of our parents business but without major change in income, we would never make it. We share with you our story but recognize that our story is being repeated all across our country and we send a desperate cry to leadership, please help our industry, we are the fabric of the American dream and such an important part of our great country's landscape. We need safe food in America and our family wants to be a there to meet that need!

If you have ideas for our personal situation, please feel free to share them with 802–989–0400! We will also continue to share our ideas for industry solutions with your office.

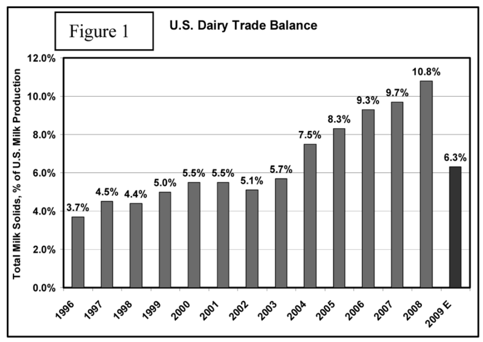
SUBMITTED STATEMENT BY DAIRY FARMERS OF AMERICA

Thank you for the opportunity to submit comments. Dairy Farmers of America is a national cooperative owned by nearly 18,000 dairy farm members in 48 states. The members of DFA produce approximately 20 percent of the nation's milk supply.

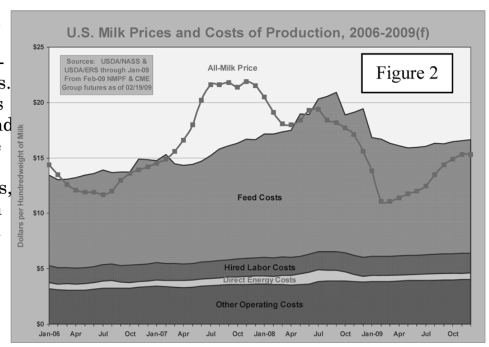
The economic crisis facing the dairy industry is unprecedented. During the last twelve months, billions of dollars in equity have been lost by the U.S. dairy industry. Family farms, in all geographies of the U.S. and of all sizes, are on the brink of collapse. The intensity of the crisis has escalated during 2009. During January through April this year, the U.S. average all-milk price reported by USDA/NASS has averaged $4.80 per cwt. below the U.S. average cash cost of milk production, as reported by USDA/ERS. Extrapolated across U.S. milk production during the first 4 months of 2009, the loss would be in excess of $3 billion. More recently, May's milk-feed index rate was at its lowest level since that calculation was created over 2 decades ago and milk prices have dipped further downward this month. This financial loss leads to the loss of small businesses, jobs in rural America, and a shrinking tax base for schools and public services.

Factors Contributing to Today's Crisis

Decreased U.S. Dairy Exports and Worldwide Demand: In 2008 nearly 11 percent of all U.S. milk solids production was exported. 2008 represented the sixth consecutive year in which U.S. exports increased. As a result of the global recession this is expected to decline to 6.3 percent in 2009, according to the U.S. Dairy Export Council (*Figure 1*). This rapid decline in U.S. dairy exports can be attributed to two factors. First, due to recessionary pressure facing many countries around the world, demand for dairy protein has declined. Second, competition for the hrinking market for dairy products has increased due to increased milk production in New Zealand and early implementation of export subsidies in the European Union. The effect of these factors has been a sharp decline in U.S. dairy exports, and domestic inventory levels that are keeping dairy commodity prices at extremely low levels.



Increased Production Costs: Feed costs, largely influenced by corn, increased to record levels in 2008 as a result of corn being diverted to other uses. Despite higher than normal milk prices on the farm, margins were squeezed and a number of dairymen chose to exit the industry (*Figure 2*). Negative margins will be even larger in 2009 as feed costs, while lower, have not declined as much as milk—therefore dairy producers will likely experience the worst return on their milk production in over a generation.



Efforts to Support Dairy Farms

The U.S. dairy industry, as individual parties, as a collective industry, and in collaboration with USDA, has worked to address this critical problem of excess supply, which is estimated at 6.5 billion pounds of milk (three percent of annual production). Despite the long list of initiatives, a gap between current supply and demand remains, and dairy commodity prices remain at levels much below farm costs of production. The following is a list of some of the steps taken within our industry.

1. Cooperatives Working Together (CWT) is an industry initiative funded by approximately ⅔ of this nation's dairy farmers with the goal of increasing exports of dairy products to meet growing international demand and managing excess

production of milk. On July 10, CWT announced the second Herd Retirement Program this year designed to reduce milk production. The first program reduced milk production by 1.96 billion pounds on an annual basis.

2. USDA has implemented the Dairy Export Incentive Program (DEIP). This program was announced on May 22 and resulted in the commitment to export 48.6 million pounds of dairy products through June 30, the end of the DEIP marketing year. Secretary Vilsack has announced the remaining DEIP volumes would be eligible for bonuses during the 2009–2010 marketing year. DEIP has the ability to subsidize exports of:

- 150 million pounds of nonfat dry milk.
- 22 million pounds of butter.
- 6.7 million pounds of cheese.

These product volumes represent approximately 1.5 billion pounds of milk. DFA members are very appreciative to the Administration and Sec. Vilsack for making the DEIP program available to export dairy products in an environment with a short-term decline in global demand.

3. USDA feeding and nutrition programs announced by Sec. Vilsack have the capability to use dairy products equivalent to approximately 2 billion pounds of milk. We urge full use of this very beneficial program to assist needy consumers as well as dairy farmers.

4. DFA has supported the National Milk Producers Federation (NMPF) request to provide for sales of cheese to the Commodity Credit Corporation (CCC) which meet packaging specifications commonly accepted in commercial channels.

5. DFA has also supported the NMPF request to increase the level of the Price Support Program for a temporary 3 month period to immediately increase dairy farmer income.

6. DFA supports increased dairy purchases for distribution through USDA nutrition programs.

7. DFA's Board of Directors established a new Price Stabilization Study Committee to draft guiding principles for the organization to use in discussion of long-term solutions to today's situation.

8. NMPF has created a Task Force that is charged with seeking long-term solutions to the margin volatility faced by U.S. dairy farmers.

Despite these short-term and long-term initiatives, market conditions continue to be bleak for the dairy industry. Farm level prices for June continue to be near historic lows, and based on current commodity prices, the hope of recovery in July or August gets weaker with each passing day.

We are very concerned that milk supplies will decline dramatically due to the loss of equity on dairy farms and little sign of a turnaround. It is likely that many dairies will decide to liquidate rather than store a year's supply of silage beginning in September. Additionally, this crisis is so severe and of such duration that farm lending institutions will likely withhold additional credit for many dairy farmers, causing them to go out of business. A likely scenario suggests a significant reduction in milk production coinciding with an improving domestic and global economy. As the economy improves demand for dairy products and exports will increase. However, reductions in milk supply will likely result in dairy product shortages causing dairy prices to approach or exceed previous record levels. This will create consumer resistance to higher prices and reductions in demand that will lead to a continuation of brutal cycles.

The dairy sector has a history of identifying programs to help dairymen and women through difficult times. Next week, the industry, under the leadership and guidance of the National Milk Producers Federation (NMPF) will be reviewing and discussing policy proposals in an effort to bring a policy recommendation to Congress. DFA is supportive of this process and is eager to identify policy options which will decrease volatility in milk prices in the future and bring stability to our sector. Following this process, we hope to work with Congress to make the necessary changes to Federal dairy policy in order to allow the dairy sector to thrive.

Thank you for allowing Dairy Farmers of America to submit comments on this important issue. We look forward to working with Congress and others in the industry to make positive changes for the dairy industry.

SUBMITTED STATEMENT BY STEVEN ETKA, COORDINATOR, MIDWEST DAIRY COALITION

Chairman Scott, Ranking Member Neugebauer, Members of the Subcommittee:

Thank you for holding this hearing today to discuss the economic conditions facing the dairy industry. My name is Steven Etka, and I am the Coordinator and Washington Representative for the Midwest Dairy Coalition.

The Midwest Dairy Coalition is an alliance of dairy cooperatives, associations and state agencies working together to provide an Upper Midwest voice on Federal dairy policy issues. Our membership includes Associated Milk Producers, Inc., Bongards' Creamery, Cooperative Network, Family Dairies USA, First District Association, Manitowoc Milk Producers Association, Mid-west Dairymen's Company, Milwaukee Cooperative Milk Producers, and the Wisconsin Department of Agriculture, Trade and Consumer Protection.

As suggested by the title of this hearing, the dairy economy is in crisis. Milk prices have fallen farther than expected, and the recovery has been slower than anticipated. In June of 2008, the Class III milk price was $20.25 per hundredweight. One year later, the June 2009 Class III price is $9.97 per hundredweight. Dairy product prices have dipped below support levels repeatedly since January of this year. With milk prices paid to farmers less than half of what they were a year ago, the economic stress in dairy-dependent regions like the Upper Midwest is severe. This economic pain is being felt in all regions of the country.

The downturn in dairy is as bad as it has been probably since the depression, primarily because of general economic conditions that drive down both domestic and export demand. The financial crisis also spills over into farm lending in general and dairy specifically. As the down cycle continues, bankers increasingly hold the key to whether some great farmers will be able to continue in business. Consistent anecdotal evidence suggests that dairy farmers are losing about $100 per cow per month. When this happens, dairy farmers either bleed their equity or borrow, which is not currently an option due to financial markets. Literally the milk production infrastructure in the U.S. is at stake. Recovery and TARP monies might be used to make a difference in the short run if bold and innovative solutions are tried.

It is with this background that we offer the following suggestions.

Milk Income Loss Contract (MILC) Program and Dairy Product Price Support Program (DPPSP): Changes Need to Improve Effectiveness

Without a doubt, the economic safety net provided by the Milk Income Loss Contract (MILC) Program has provided significant financial assistance to dairy farmers nationwide during times of low prices. The direct assistance provided the MILC program has benefits community wide, as the dollars multiple several times over throughout these dairy-dependent local economies.

The MILC Program was first authorized in the 2002 Farm Bill. The modifications made in the 2008 Farm Bill to add a feed-cost adjuster and to restore the original 45 percent payment rate have provided meaningful enhancements to the program. The Midwest Dairy Coalition worked hard for and has strongly supported the MILC program in both the 2002 and 2008 Farm Bill deliberations.

Unfortunately, the current dairy price chasm that we're experiencing suggests that the MILC program by itself is not sufficient. The price dairy farmers are receiving for their milk is so far below the cost of production that they are losing thousands of dollars a month, even with the MILC program assistance. Congress should consider a temporary increase in the 45 percent MILC payment rate to address the emergency price situation.

As originally envisioned, the MILC program was intended to be a partner to the Milk Price Support Program, which was modified by the 2008 Farm Bill to become the Dairy Product Price Support Program (DPPSP). The two programs working together, in theory, would provide the assistance and stability to allow viable dairy producers to weather the storm of low price cycles. But the theory remains untested, because the DPPSP is not fully functioning, leaving the MILC program to do all of the heavily lifting by itself, a burden it is not able nor was it designed to bear.

Therefore, we are urging the Secretary to take the following immediate remedial actions to bring the DPPSP back to life and serve its intended purpose:

(1) Increase the Commodity Credit Corporation (CCC) purchase prices for butter, powder and cheese

The 2008 Farm Bill sets minimum CCC purchase prices levels for butter, powder and cheese, but provides flexibility for those prices to be increased above those levels when necessary. We are urging the Secretary to take immediate action to increase the price support levels to reflect the additional costs that dairy product manufacturers face when selling product to the CCC relative to commercial sales.

(2) Restore Pre-2009 Policy of Paying a Premium Price for Consumer-Ready, Valued-Added Products in Packaging More Readily Usable in USDA Nutrition Programs and Food Donation programs.

Historically, CCC has paid a premium price under the DPPSP to purchase more consumer-ready value-added dairy products, such as pasteurized processed cheese in 2 or 5 pound boxes, because they are more readily used in USDA Nutrition and Food Donation Programs, and do not require further processing, as do large cheese blocks and barrels.

However, in January of 2009, just as milk prices were collapsing, the Bush Administration issued a notice to dairy product manufacturers informing them that the policy of purchasing these value-added products was ending. Unfortunately, the current Administration has continued this policy.

We are urging that USDA reinstate its pre-2009 policy of paying a premium prices for value-added, ready-to-use dairy products, such as pasteurized processed cheese. This will not only help stabilize milk prices, but will also help meet the growing needs of the food donation programs during this time of high demand. To the extent that there is any question about USDA's authority to continue this practice under the revamped statutory authority for the price support program, we believe that the DPPSP authority can be married with that of the CCC Charter Act of 1933 to address these concerns.

(3) CCC Should be an Active Buyer of Dairy Products on the CME at Established Price Support Levels

For reasons described below, many dairy product manufacturers are reluctant to sell product to the CCC. We are urging the CCC to become an active buyer of dairy products on the CME at the established price support levels, instead of the current practice of being a passive buyer of dairy products by simply offering to buy product at the established CCC purchase price. Because the CME prices are used widely as a benchmark price for off-market dairy product sales, we believe that the CCC's active participation in the CME would significantly enhance the effectiveness of the DPPSP. We believe the Secretary has the authority to buy products for CCC directly on the CME if administratively he waives the CCC product and packaging specifications which are outdated, impractical and costly.

(4) Take All Practical Actions Available to Harmonize CCC Packaging and Grading Standards with Commercial Standards Set by the Chicago Mercantile Exchange (CME)

Currently, CCC packaging and grading standards differ from commercial standards established by the Chicago Mercantile Exchange (CME). Therefore, manufacturers are reluctant to sell product to the CCC because they have to change their manufacturing procedures in order to address those standards. Because of the discrepancies between CCC and CME standards, and periodic delays in receiving payment the CCC, there are additional costs associated with selling product to the CCC. We are urging USDA to undertake a full review of their dairy product packaging and grading standards, in dialogue with the dairy industry, to investigate practical ways to harmonize CCC standards with those used for commercial sales.

Additional Efforts Necessary to Purchase Cheese for USDA Nutrition and Food Donation Programs

USDA has taken action to use existing CCC stocks of nonfat dry milk for food donation programs. This will be helpful in the long-run to prevent excessive stocks from hanging over the market, so we appreciate the Secretary's efforts in this regard. According to food aid organizations such as Second Harvest, food pantry demand is up very significantly from 1 year ago. Dairy products can provide healthful food to children and families in need.

However, we believe that USDA should take additional action to use all authorities at the Secretary's disposal to make purchases of cheese products directly off the market for use in USDA Nutrition and Food Donation Programs. Direct purchases off the market will not only have the most direct and immediate effect in stabilizing milk and dairy product prices, *but will help address the humanitarian food needs for low-income populations.*

Federal Milk Marketing Order Reform

The dairy farmers and industry leaders of the Upper Midwest have long voiced concerns about the discriminatory pricing policies inherent to the Federal milk marketing order system. It is widely documented that the bias of the current system toward Class I (fluid) milk has a downward effect on the value of milk used for manufacturing. For regions like the Upper Midwest, where 85–90 percent of the milk is used for manufactured dairy products, this discrimination is of great concern. In addition, as Class I utilization percentages nationwide continue to decline, the outdated Class I bias of the FMMO system must be revisited. We look forward to working with the Committee and USDA to reform the system in favor a more coherent approach to milk pricing.

Trade Issues

We greatly appreciate the Secretary's recent announcement of the DEIP allocation for the 2009–2010 marketing year, and urge quick action to fill these allocations. The delay in announcement of the 2008–2009 DEIP allocations caused much of this allocation to go unfilled, which is a regrettable lost opportunity to help stabilize milk prices. Hopefully, the 2009–2010 experience will be more positive.

In the world of dairy, small imbalances in supply and demand result in large changes in milk prices. We cannot ignore the fact that dairy imports and exports play a role in that overall supply-demand equation. The strong milk prices of 2007 and 2008 were driven in large part by tight supplies of dairy products in the world market, and a related surge in U.S. dairy exports. The milk price crash of 2009 was related in part to the loss of those markets. The unique, high world market price situation of 2007 and 2008 allowed the U.S. to take advantage of the export market at prices that were profitable to U.S. dairy farmers. However, in general, world market dairy prices are often below the U.S. cost of production. While we should look for ways to expand our export opportunities, it defeats the purpose if those markets come at prices that are unsustainable to U.S. dairy farmers.

There have been times in the last decade were dairy product imports have significantly affected domestic price levels. There continue to be dairy product import categories, such as milk protein concentrates (MPCs), for which there are no limits. Whenever U.S. dairy prices start to recover, our market will once again be vulnerable to lower-priced MPC imports from our competitors. The Midwest Dairy Coalition continues to support efforts to establish tariff rate quotas on MPC imports, to bring about greater consistency with import rules in place for other dairy products, and to close the loopholes that have encouraged circumvention of those rules.

Long-Term Solutions Needed to Address Wide Price Volatility

While immediate action is needed to address the current milk price crisis, the current situation has sparked an industry-wide discussion about long-term solutions to prevent the wide volatility in milk prices. The bottom end of the wide price swings of the last decade have been disastrous for dairy farmers, and the high ends of the price cycles are leading dairy product users to seek out alternatives and reduce their use of dairy products, with long-term effects on dairy demand. Indeed, neither side of these wide price swings is beneficial to dairy farmers.

Many plans are being discussed in the industry to institute long-term policies to prevent the type of price crisis we are now experiencing from ever occurring again. While there is no national consensus of the best approach to achieve this goal, we strongly urge the Committee and the Secretary of Agriculture to assist the industry in these efforts to develop and analyze options for the long-term viability of dairy farming in this country.

Thank you for the opportunity to submit this testimony.

SUBMITTED STATEMENT BY NATIONAL FARMERS UNION

National Farmers Union (NFU), a nationwide organization representing more than 250,000 farm, ranch and rural residents, submits the following testimony for the record.

Since the peak of dairy market prices in 2008, the market has precipitously collapsed to historic low levels and is now well below the cost of production. NFU has long supported a comprehensive dairy policy that accounts for dairy profitability, income stabilization, limitation on imports, competitive markets and supply-inventory management.

Dairy farmers of all sizes and across all regions of the country are continuing to battle an unprecedented economic disaster. From coast to coast, today's situation is untenable. Equity has been rapidly disappearing, market prices are not rising above 1970 levels and creditors are cutting off producers—yet there is no relief in sight. National Farmers Union has worked throughout the past seven months to construct workable and immediate solutions for producers. Today's hearing will provide the subcommittee with input on the economic conditions facing the dairy processing industry. This NFU testimony aims to provide solutions for dairy producers, who are going broke as a result of failed federal dairy policies.

The NFU board recently voted to encourage Congress to pass a dairy stimulus package to provide an adequate safety net for producers in addition to establishing an inventory management program. Furthermore, the board expressed support for the concept of the Federal Milk Marketing Improvement Act of 2009. Most importantly, the board expressed the need for producers to receive an immediate financial lifeline to sustain their livelihoods through this unprecedented situation.

Time is of the essence for these producers. Many continue to lose $100–$200 per dairy cow per month. Regardless of operation size, many producers have been issued notice from feed suppliers that they will no longer receive feed, and creditors across the country are terminating lending. This situation is having a ripple effect across rural America, devastating rural citizens and further weakening the nation's already ailing economy.

America's dairy farmers are some of the hardest working individuals feeding our nation and the world. Congress, the administration and the American public must not wait any longer in offering these individuals a lifeline.

In 2007, NFU hosted a dairy summit of producer-based organizations to seek solutions, both long and short term, for dairy producers. The following three principles were identified and agreed to by participating organizations:

- Return on investment greater than cost of production, PLUS a profit from the market;
- Reform of the Federal Milk Marketing Order system; and
- Restoring competition to a non-competitive dairy market.

While no single action by Congress or the administration will immediately resolve today's crisis, a suite of options does exist to ensure producers will survive this devastating economic period. Options to achieve the above mentioned principles are outlined below, categorized by short-term action and long-term action:

Short Term Options:

- Establish safety net support price that is fair and equitable to all producers—Establish an emergency Class III floor price of $18/cwt by existing authorities of the Secretary for a period of 6–9 months. During this period, USDA should launch the FMMO review as established in 2008 Farm Bill. Additionally, we support efforts to launch an investigation at the CFTC into potential manipulation at the CME;
- Continue countercyclical MILC safety net—Approve Sen. Gillibrand's legislation to double MILC payment rate (S. 1398);
- Eliminate make allowance. If not eliminated, make it variable and tied to producers' cost of production;
- Require the NASS survey to be audited periodically;
- Maintain standards of identity on dairy products and move to increase fat content standards in fluid milk;
- Deploy low-interest and emergency loans, including a foreclosure mitigation program to stem the tide of loan foreclosures;
- Product purchase for donations to food banks and other nutrition programs;
- Allow producers to label milk as free of artificial growth hormones;
- Accurate recording and publishing of import data from ERS; and
- Ensure imported dairy protein blended products are accounted for and categorized appropriately according to the common or commercial meaning of the term "milk protein concentrate", not allowed to disguise skim milk powder MPC to avoid tariffs and the tariff rate quota.

Long Term Options

- Efficient transmission of price signals should be established. Today's market is non-functioning with imbalance of buyers/sellers;
- Pass the Milk Import Tariff Equity Act to address unlimited imports flooding U.S. domestic market.
- Include CA and all regions/areas in the FMMO;
- Correct pooling/de-pooling provisions in the FMMO;
- Eliminate bloc voting;
- Allow "no" vote on amendments, yet maintain FMMO;
- Do not place financial burden of transportation onto producers;
- Establish three-part pricing formula to include: cost of production, Consumer Price Index and Chicago Mercantile Exchange;
- Resolve distribution and supply management challenges;

- Repeal forward contracting authority;
- Support funding for academic antitrust research;
- Intensify review process for proposed dairy mergers;
- Promote smaller coops and increase oversight of coop management to ensure interests of producers are met;
- Passage of S. 889; and
- Eliminate authority for dairy import promotion assessments.

National Farmers Union has written to Congress and the administration calling for action in response to the dairy crisis. Included with this testimony is a copy of these letters. Our producer members are prepared to engage in immediate conversations with members of this subcommittee and any member of Congress willing to help resolve today's crisis and ensure a similar situation is not repeated in the future.

ATTACHMENT 1

June 3, 2009

Hon. TOM VILSACK,
Secretary,
Department of Agriculture,
Washington, D.C.

Dear Secretary Vilsack:

As the dairy market collapse spreads throughout the dairy industry and impacts producers across the country, it is critical for immediate action to occur. With demand shrinking, market prices collapsing, input costs increasing and reduced credit available, dairy farmers are facing a unique set of challenges on multiple fronts. While the dairy sector is not unique in its economic struggles, the immediacy of the market collapse requires creative policy solutions.

On behalf of National Farmers Union's (NFU) independent dairy farmers nationwide, I write to thank you for the initiatives the department has taken thus far to address the dairy crisis. I call upon you for additional help to resolve the immediate situation and proactively create workable policy options for the future. Your March 26, 2009 announcement to disperse 200 million pounds of nonfat dry milk (NFDM) for domestic feeding programs and expeditiously release Milk Income Loss Contract (MILC) program payments was welcome news for dairy producers. Unfortunately the severity of today's situation requires additional action.

Each month NFU tracks and publishes the farmer's share of the retail food dollar. Our latest data shows consumers paying $4.99 for a pound of cheddar cheese while the farmer receives less than $1.00; farmers receive $0.97 out of the $2.99 consumers pay for a gallon of fat free milk. At a time when more consumers are eating at home, thereby increasing retail dairy product sales, producers are losing money on every gallon of milk sold. To make the situation more painful, producers read media stories of double-digit profit margins for dairy processing companies.

NFU has called upon Congress to convene hearings to reexamine the impact of food prices on American families. Twelve months ago, food processing companies were quick to point the finger at higher agricultural commodity prices as the cause of increased retail food prices. Since commodity prices have collapsed and retail food prices have not tracked in similar fashion, a full examination is long overdue.

Furthermore, the discussion of unfettered imports has not been given adequate attention when evaluating the current crisis. For many years, NFU has supported closing the milk protein concentrate (MPC) and casein loophole created by the Uruguay Round agreement, which allows for the importation of MPC and casein tariff-free. Without question, the overflow of imported, ultra-filtered dried protein product displaces American-produced milk in the production of dairy products. MPC was a relatively new product during Uruguay Round negotiations and after implementation of World Trade Organization (WTO) rules in 1995 became commercially viable.

Additionally, a lack of enforcement by the U.S. Customs Service has allowed dairy protein blends to be imported in circumvention of U.S. tariffs and tariff-rate quotas. Much of the imported dairy protein blended products are essentially equivalent to skim milk powder and do not satisfy the common or commercial meaning of the term "milk protein concentrate." Therefore, they should be subject to tariff provisions covering powdered milk imports. Moreover, a 2001 Government Accountability Office (GAO) report stated ultra-filtered milk is not nutritionally equivalent to fluid milk nor has the product undergone mandatory safety tests under the Food and

Drug Administration's "Generally Recognized as Safe" rules. The impact of imports must become a central part of the discussion when trying to address today's crisis.

During NFU's annual meeting, our member-delegates approved a special resolution focused on the dairy crisis. The resolution called on Congress and USDA to take all appropriate actions to sustain family dairy farmers through this period of economic uncertainty. Below are the specific requests to USDA:

- Immediate implementation of the 2008 Farm Bill provisions related to the FMMO system to increase efficiency and be more responsible to the market, including a USDA study and report on the impact of misreporting of nonfat dry milk prices on federal order minimum prices; and a FMMO commission to evaluate current federal and state milk pricing regulations to provide recommendations for changes to Congress and USDA;
- Establishment of a dairy price support program that accounts for the total cost of production. The structure of the program should allow producers to sell milk at a reasonable profit without building government stocks of products;
- Auditing and enforcing the current definition of milk as related to standardized cheese and yogurt;
- Immediate oversight of the dairy product pricing system to ensure transparency, fairness and competitive markets;
- Accurate recording and publishing of import data from ERS;
- Purchases of domestic dairy product and hamburger by the U.S. Department of Agriculture for domestic and international nutrition programs; and
- Immediate release of the MILC payments due to producers.

The special policy resolution further called on Congress to do the following:

- Make low-interest and emergency loans available, including a foreclosure mitigation program, to stem the tide of loan foreclosures as a result of the current economic climate;
- Eliminate authority for dairy forward contracting, which allows processors to shift all economic risk onto producers, encourages vertical integration of America's dairy production and dismantles of the Federal Milk Marketing Order (FMMO) system;
- Eliminate authority for collection of dairy promotion program assessments from importers;
- Pass legislation closing the MPC and casein loophole as established during the Uruguay Round; and
- Oppose efforts that would prohibit producers from labeling milk as free of artificial growth hormones.

More than 150 individuals gathered on May 30 in Manchester, Iowa to rally for higher milk prices for producers. The event was held to draw attention to the ongoing crisis for dairy producers. As evidenced by the well attended Iowa rally, the economic impact is not isolated to the dairy industry. The multiplier effect throughout a rural community is severe when any producer is forced out of business. Since June is nationally recognized as "Dairy Month", I urge you to continue to do all you can to help stem the tide for America's dairy producers.

Again, I thank you for your continued commitment to addressing the dairy crisis and hope we can work collaboratively to protect independent family dairy farmers.

Sincerely,

ROGER JOHNSON, *President,*
National Farmers Union.

cc:
Senate Agriculture, Nutrition and Forestry Members,
House Committee on Agriculture Members.

ATTACHMENT 2

June 22, 2009

Hon. TOM HARKIN,
Chairman,
Agriculture, Nutrition and Forestry Committee,
United States Senate;

Hon. COLLIN C. PETERSON,
Chairman,
Committee on Agriculture,
United States House of Representatives;

Hon. SAXBY CHAMBLISS,
Ranking Minority Member,
Agriculture, Nutrition and Forestry Committee;
United States Senate,
Washington, D.C.;

Hon. FRANK D. LUCAS,
Ranking Minority Member,
Committee on Agriculture,
United States House of Representatives,
Washington, D.C.

Dear Chairmen Harkin and Peterson and Ranking Members Chambliss and Lucas:

Dairy farmers of all sizes and across all regions of the country are facing an unprecedented disaster. From Minnesota to California and Texas to Vermont, the current situation is untenable. Equity is rapidly disappearing, market prices remain at 1970 levels, creditors are cutting off producers—yet there is no relief in sight. The National Farmers Union (NFU) board of directors met late last week to discuss the current dairy crisis and seek workable and immediate solutions.

The NFU board voted to encourage Congress to pass a dairy stimulus package to provide an adequate safety net for producers in addition to establishing an inventory management program. Furthermore, the board expressed support for the concept of the Federal Milk Marketing Improvement Act of 2009. Most importantly, the board expressed the need for producers to receive an immediate financial lifeline to sustain their livelihoods through this unprecedented situation.

In March, NFU member-delegates approved a special policy resolution focused on the dairy crisis. The resolution called on Congress and USDA to take all appropriate actions to sustain family dairy farmers through this period of economic uncertainty. Below are the specific requests to Congress:

- Make low-interest and emergency loans available, including a foreclosure mitigation program, to stem the tide of loan foreclosures as a result of the current economic climate;
- Eliminate authority for dairy forward contracting, which allows processors to shift all economic risk onto producers, encourages vertical integration of America's dairy production and dismantles the Federal Milk Marketing Order (FMMO) system;
- Eliminate authority for collection of dairy promotion program assessments from importers;
- Pass legislation closing the MPC and casein loophole as established during the Uruguay Round; and
- Oppose efforts that would prohibit producers from labeling milk as free of artificial growth hormones.

The special policy resolution called on USDA to do the following:

- Immediate implementation of the 2008 Farm Bill provisions related to the FMMO system to increase efficiency and be more responsible to the market, including a USDA study and report on the impact of misreporting of nonfat dry milk prices on federal order minimum prices; and a FMMO commission to evaluate current federal and state milk pricing regulations to provide recommendations for changes to Congress and USDA;
- Establishment of a dairy price support program that accounts for the total cost of production. The structure of the program should allow producers to sell milk at a reasonable profit without building government stocks of products;
- Auditing and enforcing the current definition of milk as related to standardized cheese and yogurt;
- Immediate oversight of the dairy product pricing system to ensure transparency, fairness and competitive markets;
- Accurate recording and publishing of import data from ERS;
- Purchases of domestic dairy product and hamburger by USDA for domestic and international nutrition programs; and
- Immediate release of the MILC payments due to producers.

Time is of the essence for these producers. Many continue to lose \$100–\$200 per dairy cow per month. Regardless of operation size, many producers have been issued notice from feed suppliers that they will no longer receive feed and creditors across the country are terminating lending. America's dairy farmers are some of the hardest working individuals feeding our nation and the world. Congress, the Administration and the American public must not wait any longer in offering these individuals a lifeline.

Sincerely,

ROGER JOHNSON, *President,*
National Farmers Union.

cc:
Senate Agriculture, Nutrition and Forestry Members,
House Committee on Agriculture Members.

HEARING TO REVIEW ECONOMIC CONDITIONS FACING THE DAIRY INDUSTRY

TUESDAY, JULY 21, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 11:10 a.m., in Room 1300 of the Longworth House Office Building, Hon. David Scott [Chairman of the Subcommittee] presiding.

Members present: Representatives Scott, Kagen, Boswell, Cardoza, Murphy, Minnick, Peterson (*ex officio*), Neugebauer, Goodlatte, Conaway, Smith, Roe, and Thompson.

Staff present: Claiborn Crain, Alejandra Gonzalez-Arias, Chandler Goule, Tyler Jameson, John Konya, Scott Kuschmider, James Ryder, April Slayton, Debbie Smith, Rebekah Solem, Mike Dunlap, and John Goldberg.

OPENING STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

The CHAIRMAN. This hearing of Livestock, Dairy, and Poultry to review economic conditions in the dairy industry, part two, will come to order.

First, let me say welcome to all of you to the second part of our Subcommittee's examination of the current crisis in the dairy industry. As always, I appreciate everyone attending and I look forward to hearing additional perspectives and exploring further ideas for reform of, and assistance to, the dairy sector.

Now, we all recognize the importance of the dairy industry to this nation and to the world. Just yesterday in fact, I and other Members of this Committee and other Members of Congress went on the floor and were speaking about the dairy industry in support of a resolution proclaiming June to be National Dairy Month. And likewise, I am relatively certain that we all agree that the economic situation in this iconic American industry is dire, and it must be addressed quickly as was evidenced by last week's hearing on this topic. However, there is no shortage of opinions regarding the causes of this current crisis, and as such, naturally there is a wide range of views on what we need to do to remedy this situation. Therefore, it is imperative that we use these hearings over the next few weeks to develop some consensus, some way we can all come together as quickly as we can on a way forward to help this industry both in the short term and the long term to maintain the viability of the entire industry. This is a very, very dire situation.

And by "we" of course, I mean us in Congress as the policymakers, I mean the Administration in the form of the United States Department of Agriculture, but most importantly, it is the industry itself, a very complex industry with differing opinions. The old traditional divisions between regions, herd sizes, between processors and producers, between importers and exporters, have only served to deepen and perpetuate this crisis. We must move beyond these differences in order to develop new and innovative policies that benefit the whole dairy industry and not simply one state, or one region, or one sector.

At last week's hearing, many Member of this Subcommittee, as well as many of our witnesses expressed a profound desire to move beyond generalities and platitudes, to roll up their sleeves and begin the dirty and necessary work of developing new, effective, short-term assistance mechanisms and long-term support programs. Some even expressed exasperation that this hasn't been done yet. What I will say to my colleagues, our witnesses and anyone within earshot that anyone and everyone who has specific ideas about reform is welcome to present them to this Subcommittee at any point, at any time. If anyone was waiting for some clear signal that it is time to begin, this is the clear signal. The time is now. So I urge everyone to come to the table with your ideas and desires, make them plain, become ready to give as much as you are ready to receive because compromise, careful consideration will be essential to creating new dairy policy that benefits everyone. That is the goal and helps us to avoid the types of situations we find ourselves in at the present. We can do this.

I will certainly be doing my part as the Subcommittee Chairman, and each Member of this Committee will be doing their part. I will personally push the United States Department of Agriculture to use its available tools, and it has some, in its belt to help this industry in the short term. I have already communicated with Secretary Vilsack to increase the Department's loan guarantees to dairy farmers, and I have asked him to increase the Department's purchase of products off the market. This is an important first step. And in fact, I and many others have sent repeated letters to the Secretary on these very issues. But this gives us something to begin the process of helping.

And with that, now I will turn to my Ranking Member, Mr. Neugebauer, who I know shares my desires to seek solutions to the problems before us today, and is working hard as all of us are, for any opening statement he wishes to make.

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

Mr. NEUGEBAUER. Well, thank you, Chairman Scott, for calling this second hearing to review the current economic conditions of the dairy industry.

The hearing we had a week ago served as a great starting point for the Subcommittee in understanding the current dairy policies, and how they are helping or hurting producers during the current market conditions. I expect the panel for today's hearing will build on what I learned last week and offer some further explanations. I am sure our witnesses will again have a degree of variability in their thinking on what is the best fix or the best appropriate action for us to take. Our witnesses last week were very informative with testimony and subsequent discussions that have transpired thereafter. One of the things I look forward to hearing today is some of the tools that producers are using for risk management in trying to deal with the volatility in the marketplace, and if there are tools that are available, what would those tools need to be. I look forward to hearing from our panel today and thank each and every one of you for taking time out, and Mr. Chairman, again, thank you for calling this second hearing on the dairy industry.

The CHAIRMAN. Thank you very much, Ranking Member.

And now we will hear from our distinguished Chairman, Mr. Peterson, who has been providing sterling leadership on this issue. Chairman Peterson.

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

Mr. PETERSON. Thank you, Mr. Chairman, and the Ranking Member, Mr. Neugebauer, and we appreciate your leadership and we expect great things out of you between your leadership, the rest of the Committee Members, and the folks we have here today. We expect you to come up with a solution that doesn't cost any money, that gets milk back up to at least $15 or higher and that is all sweetness and light.

The CHAIRMAN. We will do our best, Mr. Chairman.

Mr. PETERSON. But as someone who has served as Ranking Member for many years on this Subcommittee, I know the challenges that you have before you, and a lot of people have been looking at different ideas to try to deal with this. We haven't hit the magic sweet spot yet, but we are going to keep working on this and, as you said very well, it is an extremely difficult situation.

Now, we have been in problems before, we have been at $10 milk before, but not for this period of time. We have had some things that have happened here, put together with the recession not in the United States, but around the world and this difficult situation.

I want to welcome, there are a couple Minnesotans here today, Scott Hoese, who is the President of the Farmers Union in Carver County. Welcome to the Committee. And also Mr. Welch, who heads up the AMPI in New Ulm, Minnesota, right outside my district. I had a chance to go over and visit with them on more than one occasion. They do a great job for us over there. So welcome to the Committee, both of you, and the other witnesses. I look forward to testimony and I apologize, I have to head out here in a little bit and go talk to the soybean growers and see what they are up to.

Thank you, Mr. Chairman. I yield back.

[The prepared statement of Mr. Peterson follows:]

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

I will be brief since we have several witnesses today. I want to thank Chairman Scott and Ranking Member Neugebauer for their leadership on this issue and for agreeing to call additional hearings on the economic conditions facing the dairy industry before we adjourn for the August recess. I thought last week's hearing was instructive and I think it is vital we hear from as many different groups of people as we can and keep this issue at the forefront.

Fluid milk prices have fallen faster, and farther, than at any time since the Great Depression. As a result, farmers large and small have said they are in dire financial straits. We heard last week about the kinds of measures that have been taken in communities where dairy producers work and live, including things like counseling and suicide prevention services.

The problems affecting dairy farmers today are hitting producers of every size, in every region, regardless of their business structure. To show that this is a national and not a regional issue, we have dairy farmers from all across the country before us today, including one from my home state, Mr. Scott Hoese from Mayer, Minnesota, President of the Carver County Farmers Union.

Last week we had USDA Under Secretary Miller here to talk about the agency's role in responding to this crisis and I thanked him for the steps USDA has already taken to support U.S. dairy farmers. USDA already has bought nonfat dry milk and authorized export subsidies, but one thing we heard from producers last week—and what I imagine we might hear today—is that many of them are going to need more help if they want to stave off bankruptcy.

I said last week that I think USDA is about at the end of the road in doing what they can to help the industry. We have given away too much in these trade agreements and have asked our dairy producers to depend on an export market that cannot be counted on, as has been shown with the plunge in worldwide demand following the global recession.

I hope these hearings can help us rally around some alternatives that appeal to all producers nationwide. And that is important for both the short- and long-term because one thing we don't need is to have the kind of regional conflicts that have splintered the dairy community in the past. I've seen that we are heading that way and that's something we've got to stop, because a $10 per-hundredweight milk price is not a help to anybody, whether you are big or small, or whether you are in New Hampshire or in central California.

I appreciate today's witnesses being here today and lending their voice to this timely debate.

I thank you again, Chairman Scott, and Ranking Member Neugebauer, for calling today's hearing, and I yield back my time.

The CHAIRMAN. Thank you, Mr. Chairman. I appreciate that.

The chair would request that other Members submit their opening statements for the record so that witnesses may begin their testimony and to ensure that we have ample time for questions.

[The prepared statements of Messers. Baca, Kagen, and Thompson follow:]

PREPARED STATEMENT OF HON. JOE BACA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Chairman Scott and Ranking Member Neugebauer:

I am pleased to be here today to discuss the current economic conditions facing the dairy industry—and what steps, if any, the Federal Government should take to stabilize the dairy market.

I thank the Chairman and Ranking Member for convening this hearing and hope we will be able to gain valuable insight into this critical issue.

I also want to thank all our witnesses for coming here today—and taking time from their schedule to help us in Congress hear the perspective of the dairy industry on how to tackle the current crisis.

Everyone in this room understands the important work America's dairy farmers do, and the vital need to keep the dairy industry healthy and prosperous.

When agricultural markets fluctuate, there is a direct and significant impact on our nation's food supply—and thus the health and nutrition of virtually every American.

In my own Congressional District in the Inland Empire of California—dairy is a significant agricultural and economic product.

As Members of the Subcommittee on Livestock, Dairy, and Poultry, it is vitally important that we gather as much information on this subject as possible.

America's dairy industry must remain strong and secure.

We must be willing to work together on this issue. The USDA, industry groups, the Federal and state governments all play an important role in stabilizing our markets.

I look forward to hearing from our witnesses today and again thank the Chairman and Ranking Member for their leadership.

Thank you.

PREPARED STATEMENT OF HON. STEVE KAGEN, A REPRESENTATIVE IN CONGRESS FROM WISCONSIN

Mr. Chairman,

Thank you for holding this important series of hearings on the economic conditions facing the dairy industry.

As many of you know, Wisconsin is famous for its cheese. While this is just one of the dairy products my state produces, it is evident from this well-deserved reputation that the dairy industry plays a central role in Wisconsin. According to the Wisconsin Agricultural Statistic Service, the State of Wisconsin has over 13,000 licensed herds and over one million dairy cows. Wisconsin also produced over 2.2 billion pounds of milk in May 2009. I assert with some understatement that dairy is a prime economic engine for my state.

The problems facing the dairy industry go beyond the extreme drop in prices we've seen between the record highs of 2008 and today. Were it simply that prices have decreased, I believe that the dairymen in Wisconsin would adapt as they have during prior lulls in prices. However, we are also experiencing a period of high input costs, particularly feed costs. In Wisconsin, feed costs for May 2009 were $8.38 per cwt. when the all-milk price in Wisconsin for May 2009 was $11.60. This dramatic ratio underscores the difficulty farmers across the nation face in trying to remain solvent during this economic crisis.

While I am pleased by the improvements we made in the 2008 Farm Bill by tying MILC payments to feed prices, and the Secretary's recent utilization of the Dairy Export Incentive Program, it is clear that there is more that needs to be done. For example, I hope this Committee will investigate a temporary increase in the MILC payment rate until prices rise. I also would encourage the Secretary to increase the Commodity Credit Corporation (CCC) purchase price for butter powder and cheese.

These are just two suggestions, and I look forward to hearing from our witnesses on other solutions to the dairy crisis. We must continue to support our dairy industry. If farms go under, they will not return. Dairy is critical to our economy and to our future. I look forward to working with the Chairman and the entire Committee to meet the needs of our constituents.

Thank you, and I yield back the balance of my time.

PREPARED STATEMENT OF HON. GLENN THOMPSON, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

Chairman Scott, Ranking Member Neugebauer:

I appreciate you holding a second hearing on this very important issue. While I'm not a Member of the Subcommittee, I again thank you both for allowing my participation in this extremely critical hearing.

I represent about 22% of the Commonwealth of Pennsylvania, where agriculture—and the dairy industry in particular—is extremely important to our rural economy.

Like all of the Members of the Committee present at the hearing, many of the dairy farmers in my district are struggling just to keep themselves from going bankrupt. This has for some time been much more than simply depressed prices. This is a real crisis; and this is a complicated crisis, which is threatening the survival of many dairy farmers, not just in my district, but across the country.

I am grateful for this hearing, and I again appreciate the opportunity to discuss the causes of this predicament and what steps Congress can take to best address it. Sincere thanks to the witnesses for attending and I look forward to working with the Committee on this vital issue in the future.

The CHAIRMAN. When we get to the questioning period, this Subcommittee will follow the leadership of the Chairman and the full Committee and moving away from as people appear. We will call upon people according to seniority as the main Chairman does. Is that all right with you, Mr. Conaway.

Mr. CONAWAY. Let us change it back.

Mr. PETERSON. No, I haven't changed it back yet. It is still a work in progress. We will see how it goes.

The CHAIRMAN. As the Chairman leads, we shall follow. That is a good policy to have here. So we will follow that procedure going by seniority until further notice.

I ask unanimous consent that Mr. Thompson be permitted to sit and participate in today's hearing. Good to have you back, Mr. Thompson, and thank you for your participation on the floor with our bill. I thought we had a good debate.

Let me first welcome our panel of distinguished witnesses to the table. First, we have Mr. Ed Welch, who is President and CEO of Associated Milk Producers Inc. on behalf of the Midwest Dairy Coalition of New Ulm, Minnesota. Thank you, and welcome, Mr. Welch. Next we have Mr. Phil Plourd, who is President of Blimling and Associates Inc., Roger M. Blimling Inc. of Cottage Grove, Wisconsin. Good to have you, Mr. Plourd. Thank you. Mr. Everett Williams, dairy farmer and President of the Georgia Milk Producers, Inc. from Madison, Georgia, my home state, the greatest state in the Union. Good to have you with us, Mr. Williams. Mr. Paul Rozwadowski, dairy farmer and Dairy Subcommittee Chairman of the National Family Farm Coalition of Stanley, Wisconsin. Good to have you with us, Paul. Mr. Scott Hoese, President, Carver County Farmers Union on behalf of the National Farmers Union from Mayer, Minnesota, and Mr. Donald DeJong, dairy farmer, Hartley, Texas. Mr. Welch, we will begin with you.

STATEMENT OF ED WELCH, PRESIDENT AND CEO, ASSOCIATED MILK PRODUCERS INC., NEW ULM, MN; ON BEHALF OF THE MIDWEST DAIRY COALITION

Mr. WELCH. Thank you, Chairman Scott and Ranking Member Neugebauer, Members of the Subcommittee. I appreciate the Committee's invitation for me to present my views on the economic conditions facing the dairy industry. My name is Ed Welch and I am the President and Chief Executive Officer of Associated Milk Producers Incorporated, a milk marketing cooperative based in New Ulm, Minnesota. I am testifying today on behalf of the Midwest Dairy Coalition, an alliance of dairy cooperatives, associations and state agencies working together to provide an upper Midwest voice on Federal dairy policy issues.

As suggested by the title of this hearing, the dairy economy is in crisis. Milk prices have fallen farther than expected and the recovery has been slower than anticipated. Prices paid to dairy farmers are less than half of what they were a year ago. The economic stress in the dairy-dependent regions like the upper Midwest, as in all dairy regions, is severe. Consistent anecdotal evidence suggests dairy farmers are losing $100 per cow each month. At that rate, dairy farmers are bleeding equity and rapidly increasing debt. Many say the downturn in the dairy economy is as bad as it has been since the Depression. Given the general economic conditions and the driving down of both domestic and export demand, I can see how this is true. It is with this background that we offer the following suggestions separated into short- and long-term solutions.

First, I thank you for including the MILC, Milk Income Loss Contract Program, in the 2008 Farm Bill. Adding the feed-cost adjuster to the program and restoring the original 45 percent payment rate provided meaningful enhancement. Without a doubt, the economic safety net provided by the MILC program has provided significant financial assistance to dairy farmers nationwide during this time of low prices.

Unfortunately, MILC alone isn't enough. That reality brings me to the first short-term solution Congress should consider, a temporary increase in the 45 percent payment rate to address the emergency price situation. The MILC program was intended to be a partner to the Milk Price Support Program, which was modified in the 2008 Farm Bill to become the Dairy Product Price Support Program. The two programs working together in theory provide assistance and stability to allow dairy producers to weather low-price cycles, but the theory remains untested because the product price support program is not fully functioning.

Another short-term step should be urging the U.S. Secretary of Agriculture to take immediate steps to bring the support program back to life. I would suggest four steps. First, increase the price of dairy products purchased through the Dairy Product Price Support Program. The 2008 Farm Bill sets minimum CCC purchase price levels for butter, powder and cheese but provides flexibility for those prices to be increased above those levels when necessary. We urge the Secretary to take immediate action to increase the price support levels of these products. Second, restore the CCC's ability to purchase pasteurized processed cheese and other value-added products under the support program. These products could easily be used in domestic nutrition programs. Third, enable the CCC to be an active buyer of dairy products on the CME. This would prevent prices from falling below the support level. Finally, make dairy product packaging standards consistent whether selling to the CCC or the CME. This move would make it easier for dairy product manufacturers to utilize the price support system. Taking these steps would make the Dairy Product Price Support Program more effective, working in tandem with the Milk Income Loss Contract Program. Improvements to both programs could provide necessary short-term fixes to this dairy economy.

Long term, we must address the extreme volatility in milk pricing. To reference an earlier point, the Class III milk price was $20.25 per hundredweight in June of 2008. One year later today, it is $9.97 per hundredweight. The bottom end of that price swing of the last decade has been disastrous for dairy farmers. The high end of the cycle is leaving dairy users to seek non-dairy alternatives and reduce their use of dairy products in general. This will have a negative long-term effect on dairy demand. Indeed, neither side of these wide price swings is beneficial to the dairy industry.

We strongly urge the Committee and Secretary to assist the industry in developing and analyzing options for the long-term viability of dairy farms in this country. That may include limited imports of products such as milk protein concentrated in butter fat for which there are no current limits at this time. Whenever domestic dairy prices begin to recover, our market is always vulnerable to these low-priced imports.

In closing, I want to thank the Committee for holding this hearing on the dairy crisis. I will be happy to answer any questions or provide any additional information that you may want.

[The prepared statement of Mr. Welch follows:]

PREPARED STATEMENT OF ED WELCH, PRESIDENT AND CEO, ASSOCIATED MILK PRODUCERS INC., NEW ULM, MN; ON BEHALF OF MIDWEST DAIRY COALITION

Chairman Scott, Ranking Member Neugebauer, Members of the Subcommittee:

Thank you for holding this hearing today to discuss the economic conditions facing the dairy industry. My name is Ed Welch and I am the President and Chief Executive Officer of Associated Milk Producers Inc. (AMPI). AMPI is a dairy marketing cooperative with 3,500 member farms, 5.8 billion pounds of milk and $1.7 billion in annual sales. Members operate dairy farms located throughout the upper Midwest States of Wisconsin, Minnesota, Iowa, Nebraska, South Dakota and North Dakota. They own 14 manufacturing plants and market a full line of consumer-packaged dairy products.

I am testifying today on behalf of the Midwest Dairy Coalition, an alliance of dairy cooperatives, associations and state agencies working together to provide an upper Midwest voice on Federal dairy policy issues. Members include AMPI, Bongards' Creameries, Cooperative Network, Family Dairies USA, First District Association, Manitowoc Milk Producers Association, Mid-west Dairymen's Company, Milwaukee Cooperative Milk Producers, and the Wisconsin Department of Agriculture, Trade and Consumer Protection.

As suggested by the title of this hearing, the dairy economy is in crisis. Milk prices have fallen farther than expected, and the recovery has been slower than anticipated. In June of 2008, the Class III milk price was $20.25 per hundredweight. One year later, the June 2009 Class III price is $9.97 per hundredweight. Dairy product prices have dipped below support levels repeatedly since January of this year. With milk prices paid to farmers less than half of what they were a year ago, the economic stress in dairy-dependent regions like the upper Midwest is severe. This economic pain is being felt in all regions of the country.

The downturn in dairy is as bad as it has been probably since the depression, primarily because of general economic conditions that drive down both domestic and export demand. The financial crisis also spills over into farm lending in general, and dairy specifically. As the down cycle continues, bankers increasingly hold the key to whether some farmers will be able to continue in business. Consistent anecdotal evidence suggests that dairy farmers are losing about $100 per cow per month. When this happens, dairy farmers either bleed their equity or borrow, which is not currently an option due to financial markets. Literally the milk production infrastructure in the U.S. is at stake. Recovery and TARP monies might be used to make a difference in the short run if bold and innovative solutions are tried.

It is with this background that we offer the following suggestions.

Milk Income Loss Contract (MILC) Program and Dairy Product Price Support Program (DPPSP): Changes Needed to Improve Effectiveness

Without a doubt, the economic safety net provided by the Milk Income Loss Contract (MILC) program has provided significant financial assistance to dairy farmers nationwide during times of low prices. The direct assistance provided the MILC program has benefits community wide, as the dollars multiply throughout dairy-dependent local economies.

The MILC Program was first authorized in the 2002 Farm Bill. The modifications made in the 2008 Farm Bill to add a feed-cost adjuster and restore the original 45 percent payment rate have provided meaningful enhancements to the program. The Midwest Dairy Coalition worked hard for and has strongly supported the MILC program in both the 2002 and 2008 Farm Bill deliberations.

Unfortunately, the current dairy price chasm that we're experiencing suggests that the MILC program by itself is not sufficient. The price dairy farmers are receiving for their milk is so far below the cost of production that they are losing thousands of dollars a month, even with the MILC program assistance. Congress should consider a temporary increase in the 45 percent MILC payment rate to address the emergency price situation.

As originally envisioned, the MILC program was intended to be a partner to the Milk Price Support Program, which was modified by the 2008 Farm Bill to become the Dairy Product Price Support Program (DPPSP). The two programs working together, in theory, would provide assistance and stability to allow viable dairy producers to weather the storm of low-price cycles. But the theory remains untested, because the DPPSP is not fully functioning, leaving the MILC program to do all of the heavy lifting by itself—a burden it is not able, nor was it designed, to bear.

Therefore, we are urging the U.S. Secretary of Agriculture to take the following immediate, remedial actions to bring the DPPSP back to life and serve its intended purpose:

(1) Increase the Commodity Credit Corporation (CCC) purchase prices for butter, powder and cheese.

The 2008 Farm Bill sets minimum CCC purchase prices levels for butter, powder and cheese, but provides flexibility for those prices to be increased above those levels when necessary. We are urging the Secretary to take immediate action to increase the price support levels to reflect the additional costs that dairy product manufacturers face when selling product to the CCC relative to commercial sales.

(2) Restore the pre-2009 policy of paying a premium price for consumer-packaged products that are more readily usable in USDA nutrition and food donation programs.

Historically, CCC has paid a premium price under the DPPSP to purchase more consumer-packaged dairy products, such as pasteurized processed cheese in 2 or 5 pound boxes. They are more readily used in USDA nutrition and food donation programs and do not require further processing, as do large cheese blocks and barrels.

However, in January of 2009, just as milk prices were collapsing, the Bush Administration issued a notice to dairy product manufacturers informing them that the policy of purchasing consumer-packaged, value-added products was ending. Unfortunately, the current Administration has continued this policy.

We are urging the USDA to reinstate its pre-2009 policy of paying a premium price for consumer-packaged, value-added dairy products such as pasteurized processed cheese. This will help stabilize milk prices and the growing needs of food donation programs. If there question about USDA's authority to continue this practice under the revamped statutory authority for the price support program, we believe the DPPSP authority can be married with that of the CCC Charter Act of 1933 to address these concerns.

(3) CCC should be an active buyer of dairy products on the Chicago Mercantile Exchange (CME) at established price support levels.

For reasons described below, many dairy product manufacturers are reluctant to sell product to the CCC. We urge the CCC to become an active buyer of dairy products on the CME at the established price support levels, instead of the current practice of being a passive buyer by simply offering to buy product at the established CCC purchase price. Because CME prices are widely used as a benchmark price for off-market dairy product sales, we believe the CCC's active participation in the CME would significantly enhance the DPPSP effectiveness. We believe the Secretary has the authority to buy products for CCC directly on the CME if, administratively, he waives the CCC product and packaging specifications that are outdated, impractical and costly.

(4) Take all practical actions available to harmonize CCC packaging and grading standards with commercial standards set by the CME.

Currently, CCC packaging and grading standards differ from commercial standards established by the CME. Therefore, manufacturers are reluctant to sell product to the CCC because they must change manufacturing procedures in order to address those standards. Because of the discrepancies between CCC and CME standards, and periodic delays in receiving payment from the CCC, there are additional costs associated with selling product to the CCC. We urge USDA to undertake a full review of its dairy product packaging and grading standards, in dialogue with the dairy industry representatives, to investigate practical ways to harmonize CCC standards with those used for commercial sales.

Additional Efforts Necessary to Purchase Cheese for USDA Nutrition and Food Donation Programs

USDA has taken action to use existing CCC stocks of nonfat dry milk for food donation programs. In the long run, this will be helpful in preventing excessive stocks from hanging over the market. We appreciate the Secretary's efforts in this regard. According to food aid organizations such as Second Harvest, food pantry demand is up significantly from 1 year ago. Dairy products can provide healthful food to children and families in need.

We believe, however, the USDA should take additional action to use all authorities at the Secretary's disposal to purchase cheese products directly off the market for use in USDA nutrition and food donation programs. Direct purchases off the market will have the most direct and immediate affect in stabilizing milk and dairy product prices. *They will also help address the humanitarian food needs for low-income populations.*

Federal Milk Market Order Reform

The dairy farmers and industry leaders of the upper Midwest have long voiced concerns about the discriminatory pricing policies inherent to the Federal milk marketing order system. It is widely documented that the bias of the current system toward Class I (fluid) milk has a downward affect on the value of milk used for manufacturing. For regions like the upper Midwest, where 85 to 90 percent of the milk is used for manufactured dairy products, this discrimination is of great concern. In addition, as Class I utilization percentages nationwide continue to decline, the outdated Class I bias of the Federal milk market order (FMMO) system must be revisited. We look forward to working with the Committee and USDA to reform the system in favor a more coherent approach to milk pricing.

Trade Issues

We greatly appreciate the Secretary's recent announcement of the Dairy Export Incentive Program (DEIP) allocation for the 2009–2010 marketing year and urge quick action to fill these allocations. The delay in announcement of the 2008–2009 DEIP allocations caused much of this allocation to go unfilled, which is a lost opportunity to help stabilize milk prices. Hopefully, the 2009–2010 experience will be more positive.

In the world of dairy, small imbalances in supply and demand result in large changes in milk prices. We cannot ignore the fact that dairy imports and exports play a role in that overall supply-demand equation. The strong milk prices of 2007 and 2008 were driven in large part by tight supplies of dairy products in the world market and a related surge in U.S. dairy exports. The milk price crash of 2009 was related, in part, to the loss of those markets. The unique, high world market price situation of 2007 and 2008 allowed the U.S. to take advantage of the export market at prices that were profitable to U.S. dairy farmers. The world market dairy prices, however, are often below the U.S. cost of production. While we should look for ways to expand our export opportunities, it defeats the purpose if those markets come at prices that are unsustainable to U.S. dairy farmers.

There have been times in the last decade when dairy product imports have significantly affected domestic price levels. There continue to be dairy product import categories, such as milk protein concentrates (MPCs), for which there are no limits. Whenever U.S. dairy prices start to recover, our market will once again be vulnerable to lower-priced MPC imports from our competitors. The Midwest Dairy Coalition continues to support efforts to establish tariff-rate quotas on MPC imports. This would improve consistency with import rules in place for other dairy products and close loopholes that have encouraged circumvention of those rules.

Long-Term Solutions Needed to Address Wide Price Volatility

While immediate action is needed to address the current milk price crisis, the current situation has sparked industry-wide discussion about long-term solutions to prevent the wide volatility in milk prices. The bottom end of the wide price swings of the last decade has been disastrous for dairy farmers. The high ends of the price cycles are leading dairy product users to seek out alternatives and reduce their use of dairy products, with long-term effects on dairy demand. Indeed, neither side of these wide price swings is beneficial to dairy farmers.

Many plans are being discussed in the industry to institute long-term policies to prevent the type of price crisis we are now experiencing from ever happening again. While there is no national consensus of the best approach to achieve this goal, we strongly urge the Committee and the Secretary to assist the industry in developing and analyzing options for the long-term viability of dairy farming in this country.

Thank you for the opportunity to submit this testimony.

The CHAIRMAN. Thank you, Mr. Welch.

Now we will hear from Mr. Phil Plourd.

STATEMENT OF PHILIP G. PLOURD, PRESIDENT, BLIMLING AND ASSOCIATES, INC./ROGER W. BLIMLING, INC., COTTAGE GROVE, WI

Mr. PLOURD. Mr. Chairman and Members of the Committee, thank you for inviting me to appear before you and participate in this important ongoing discussion.

I am President of two Wisconsin-based firms that have worked extensively with dairy producers on risk management issues for more than 15 years. We administer ten cooperative and plant forward contracting programs across the nation including the one at AMPI, Mr. Welch's firm, and we also work with several individual dairy producers. The forward contracting programs we manage, theoretically, serve more than 10,000 farms. I say "theoretically" because the reality is that only a small percentage of producers use the programs and other tools to hedge. This is unfortunate on many levels, and it is curious. Reasonably well-developed futures and options markets exist at the Chicago Mercantile Exchange. Last year, a total of 470,000 Class III milk futures and options contracts traded at the CME. Ten years ago, only 58,000 contracts traded.

In addition, great strides have been made in facilitating dairy producer access to the tools. Forward contracting programs like those managed by our firm are fairy common. Importantly, these programs typically allow smaller producers to access risk management tools. In short, many producers are able to contract milk with their cooperative or proprietary plant in much the same way grain producers can forward contract corn or soybeans with a local elevator.

Finally, while the milk and dairy products markets are certainly volatile, they do not stand out among their peers in the agricultural arena. That is, standard calculations do not show dairy markets to be somehow so volatile as to make conventional risk management impossible. So dairy futures and options markets exist. Convenient producer access to those markets has been facilitated by forward contracting programs, and volatility in the dairy complex is not altogether different from volatility in other domestic agricultural markets.

So why are producers not actively managing risk? For a while I believed the slow adaptation rate was mostly a function of experience. After all, dairy market volatility only really emerged in the late 1980s. The need to manage risk is still relatively new. More recently, however, I have come to a different conclusion. In my opinion, producer risk management efforts are seriously hampered by the various and complicated systems employed to price milk in the United States. Consider how corn producers typically manage risk. They call the local elevator for a quote. Elevators offer a price tied to the Chicago futures market plus or minus a local basis. Producers agree to the price. When the time comes they ship the corn and get paid the contract price. Now consider how different the process is for a dairy producer in, say, Chairman Scott's home State of Georgia. The producer sees a Class III futures price of $14.50. He or she may be offered a Class III value as a base price via a cooperative but here is the rub: dairy producers in Georgia are part of the Southeast Federal Milk Marketing Order. Typically in that order, 60 percent of a producer's income is tied to the Class I price, which is determined of the higher of the Class III or Class IV formula set a month in advance plus his own differentials across the order. Ten percent of the income is based on the Class II price, which is tied to nonfat dry milk and butter plus a differential. Twenty percent of income comes from Class III, which is determined by the cheese and whey markets, and finally, ten percent of income is drawn from Class IV, which is again linked to the nonfat and butter markets.

Believe it or not, there is actually a pretty strong correlation between producer pay prices in Georgia and the Class III price that can be hedged in the futures market, or with a forward contract. It would work. If we had an hour or 2 I could break out the spreadsheets, but who would believe that at a glance? Who could?

Grain farmers would almost certainly hedge less too if confronted with a maze of pricing tied to whether the bushels they send to the elevator go into corn syrup *versus* corn flakes, creamed corn in a can *versus* frozen niblets in a bag, bulk poultry feed or a fifth of Wild Turkey.

It has been our anecdotal observation that dairy producers in the areas with significant cheese production and clear ties to the Class III price are more likely to hedge than producers in more diverse utilization areas, but it is still not easy. Importantly, producers who do hedge have significantly reduced their income variability in recent years. This is supported by our own internal studies of producer risk management performance, and we have clients today who are receiving $17 or $18 per hundredweight for milk hedged last summer compared to the low market prices that prevail. The existing vehicles work; the road, however, is twisted and rutted.

We are trying to convince producers to use modern market-based risk management tools, but they are compelled to do so in an antiquated, complex pricing system. This is not a call for wholesale deregulation. Instead, positive results could be achieved by making a conscious effort to align policy prescriptions with risk management realities. Our dairy producers deserve better than the pricing complexity that confronts most of them every day. United States dairy farmers are the most dynamic producers in the world. Many understand how hedging works. It is my belief that they would be better served by a system that allows them to make it happen. Thank you.

[The prepared statement of Mr. Plourd follows:]

PREPARED STATEMENT OF PHILIP G. PLOURD, PRESIDENT, BLIMLING AND ASSOCIATES, INC./ROGER W. BLIMLING, INC., COTTAGE GROVE, WI

Mr. Chairman and Members of the Committee, thank you for inviting me to appear before you and participate in this important, ongoing discussion of current conditions in the dairy marketplace.

I am President of a pair of Wisconsin-based firms that work extensively with producers, processors, end-users and other interested parties on a variety of dairy market issues. Specific to this discussion, our firm has been a leading provider of market-based risk management services for dairy producers for more than 15 years. Indeed, in 1994, working in partnership with Alto Dairy Cooperative and the Wisconsin Department of Agriculture, Blimling and Associates introduced what is believed to be the nation's first futures-based forward contracting program for members of a dairy cooperative. Today, we administer a total of ten similar cooperative/plant programs from coast-to-coast. Those programs theoretically serve more than

10,000 farms—many located in the districts or home states of the distinguished Committee Members.

I say "theoretically serve" because the reality is that only a comparatively small percentage of producers actually use these tools to hedge—whether on their own, through the programs we manage, or via programs managed by others. This is unfortunate on many levels, not only for the individual producers themselves but for the dairy industry at large.

And, it is curious.

Reasonably well-developed futures and options markets exist at the Chicago Mercantile Exchange Group (CME). While not to be confused with the corn or crude oil markets, the dairy markets have come a long way since their inception in 1993. Last year a total of about 470,000 Class III milk futures and options contracts traded at the CME; 10 years earlier, in 1999, only 58,000 contracts traded. [i] Volume in 2008 equaled approximately ½ of U.S. milk production. Class III milk futures and options combined open interest [ii] stood at about 79,500 contracts on June 30, equal to about 8% of annual U.S. milk production. In addition, there is also a small but growing marketplace in over-the-counter instruments for managing dairy risk that are not traded through the CME.

Beyond the development of markets over the past decade, great strides have been made in facilitating dairy producer access to the tools. Forward contracting programs like those managed by our firm are fairly common. Though I cannot say for certain, I estimate that at least 15 of the 25 largest U.S. dairy cooperatives offer programs. In addition, thanks to a laudable provision of the last farm bill, several proprietary plants offer programs. While not every program is identical, they tend to share basic characteristics. Most notably, they allow smaller producers to access risk management tools because forward contracts are offered in increments smaller than the futures contracts traded at the CME (the plant or cooperative bundles milk forward contracts for sale in the futures market or to customers via a price for finished products). In addition, producers using a forward contracting program are not required to post margin monies as would be required if they were using futures directly in their own account. In short, many—and perhaps a majority—of producers have a mechanism available to contract milk with their cooperative or proprietary plant in much the same way grain producers can forward price corn, soybeans or wheat with a local elevator.

Finally, while the milk and dairy products markets are certainly volatile, they do not stand out among their peers in the agricultural arena. That is, standard calculations do **not** show dairy markets to somehow be so volatile as to in some way preclude risk management via traditional methods employed by producers of other agricultural commodities. For example, we calculate that 30 day historic price volatility in the block cheddar cheese market averaged 27.6% from 2006 through 2008. It was 26.5% in the Class III milk futures market over the same period. That compares with corn at 40.1%, wheat at 44.8%, soybeans at 35.0%, lean hogs at 36.8% and live cattle at 19.2%. [iii] The dairy markets are not exceptionally volatile—at least as conventionally measured.

So: dairy futures and options markets exist. Convenient dairy producer access to those markets has been facilitated by forward contracting programs. And, volatility in the dairy complex is not wholly divergent from volatility in other domestic agricultural markets. Yet comparatively few dairy producers are using risk management tools.

What's going on?

For several years, I believed the slow adaptation rate was largely a function of experience—or the lack thereof. After all, dairy market volatility only really emerged in the late 1980s. Up to that point market-based risk management was not a concern for producers or anyone else in the dairy industry. Sure, grain farmers hedged in larger numbers, but they had a 100 year head start. I must confess that, in less confident moments, I wondered if we were just somehow lousy teachers. We crisscrossed several states talking about risk management and forward contracting programs, conducting workshops for or visiting with literally thousands of dairy producers . . . and only a small percentage came on board.

More recently, however, I have reached a different and more plausible conclusion: in my opinion, producer risk management efforts are seriously hampered by the various and complicated systems employed to price milk in the United States.

Consider how corn producers typically manage risk. They look at futures prices. They call the local elevator for a quote. Elevators offer fixed-forward prices at the futures value plus or minus a local basis. [iv] Producers agree to the price. When the time comes, they ship the corn and get paid the forward contract price.

Now consider how different the process is for a dairy producer in, say, Chairman Scott's home state of Georgia. The producer sees a Class III futures price of $14.50/

cwt posted for January 2010. He or she may be offered that Class III value as a "base price" via a cooperative. Here's the rub: dairy producers in Georgia are part of the Southeast Federal Milk Marketing Order. Typically, in that order, 60% of a producer's income is tied to the Class I price—which can be the higher of a base price determined by the Class III or IV formula set a month in advance plus a Class I differential zoned across the order; 10% of income is tied to the Class II price, which is based on an advanced skim value linked to the price of nonfat dry milk over a 2 week period plus a Class II differential as well as butterfat related to a butter price for the entire month plus a fixed Class II differential; 20% of income comes from Class III, which is determined by the cheese and whey markets; and, finally, 10% of income is drawn from Class IV, which is again linked to nonfat dry milk and butter. On top of all that the producer finds plant and marketing agency premiums as well as volume, quality and hauling adjustments. Against that backdrop, it is difficult to know exactly what the $14.50/cwt Class III futures price means to the dairy producer in Georgia.

Believe it or not, there is actually a pretty strong correlation between producer pay prices in Georgia and the Class III price that can be hedged in the futures market or via a forward contracting program. It would work. If we had an hour or 2 I could break out the spreadsheets, but unless you are one of the few dairy marketing professionals in this country who actually know all about the regulated milk prices and constantly changing premiums discussed in the previous paragraph, who would believe that at a glance? Who could?

Grain farmers would almost certainly hedge less, too, if confronted with a maze of pricing tied to whether the bushels they send to the elevator go into corn syrup *versus* corn flakes, creamed corn in a can *versus* frozen niblets in a bag, bulk poultry feed *versus* a fifth of corn whiskey.

It has been our anecdotal observation over the years that dairy producers in areas with significant cheese production are more likely to hedge than producers in areas with more diverse milk product utilization. Producer hedging, in other words, is more widespread in Wisconsin, Minnesota and Idaho than in Pennsylvania (high Class I and II) or California (an entirely different pricing system and a lot of nonfat dry milk and butter in the pricing pool). Producers are more inclined to hedge when they can readily connect the Class III hedging mechanism with their milk check. This is not to say that a dairy producer in Northeastern Wisconsin has as easy-to-understand a hedging mechanism as his or her neighbor marketing soybeans. But it is closer.

Importantly, those producers who can make the connection and do hedge have significantly reduced their income variability in recent years. This was demonstrated by data included in the testimony offered by Mr. Kruse of Blue Bell Creameries last week. It is supported by our own internal studies of producer risk management performance. We have clients today who are receiving $17 or $18 per hundredweight for milk hedged last summer; some will be in the $15 to $16 range for the second half of this year based on marketing decisions made in February and March. This compares to base prices of $10 per hundredweight that their neighbors are receiving.

The existing vehicles work; the road, however, is twisting and rutted.

Overall, it is my sense that we are in the murky middle so far as producer risk management is concerned.

We are trying to convince producers to use modern, market-based risk management tools; but they are compelled to do so in an antiquated, complex pricing system. We speak about trying to reduce volatility on a macro, market-wide level but underestimate the likelihood that micro, individual level volatility reductions would be far easier to achieve if the U.S. milk pricing system were simplified in a manner that would allow traditional futures and options markets to thrive and foster the greater use of forward contracting.

The inherent challenges, I might add, are not limited to the producer community. Processors and end-users face myriad dairy risk management challenges as well—challenges that are also largely a function of the pricing system. For example, it is much more straightforward for a pizza maker to hedge the cost of wheat used to make dough flour than it is for a pizza maker to hedge the cost of cheese.

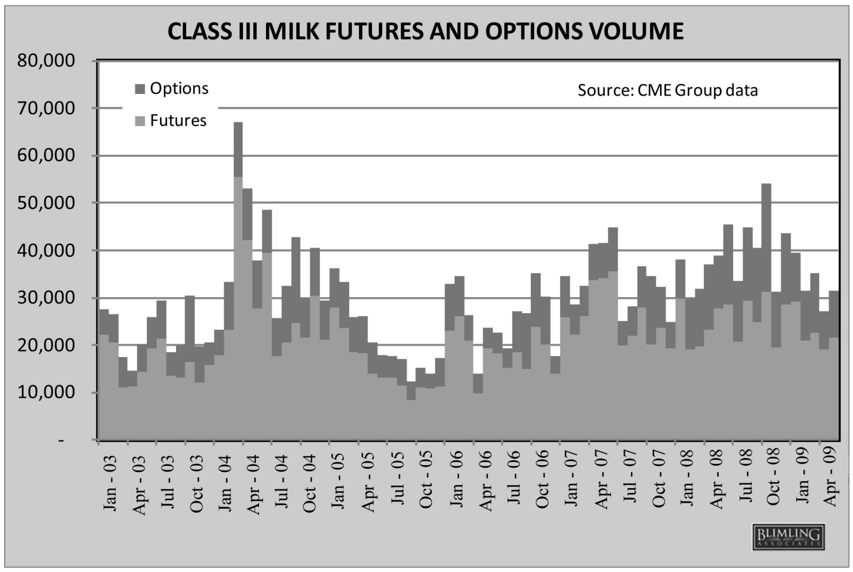
This is not a call for wholesale deregulation. Yes, that would definitely force the issue. Yet similar results could be achieved by making a conscious effort to align policy prescriptions with risk management realities. It boils down to some simple questions. Such as: if we adjust policy in a particular direction, are we increasing or decreasing a producer's ability to manage risk via conventional methods? Or, perhaps more productively: how can we construct a pricing system that makes managing risk straightforward?

Our dairy producers deserve better than the pricing complexity that confronts most of them every day. U.S. dairy farmers are the most dynamic producers in the world. They achieve the amazing day after day. Many understand how hedging works. It is my belief that they would be better served by a system that allows them to make it happen.

Thank you.

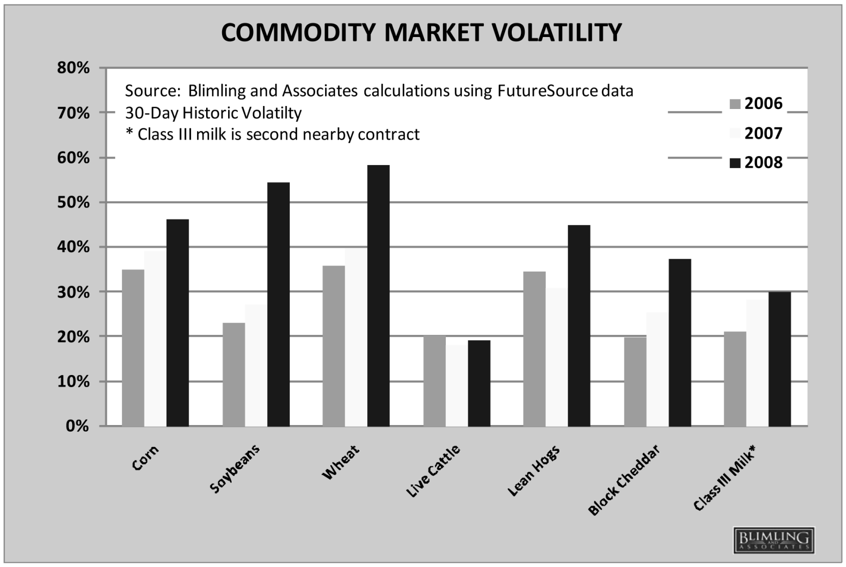
Endnotes

[i]



[ii] *Open Interest* is a measure of market liquidity. It represents the number of contracts that have been entered into but not yet exited. For example, if two parties enter into a new futures market contract—one as a new buyer, one as a new seller—their activity generates one lot of open interest.

[iii]



[iv] *Basis* refers to the difference between a local price and a central market price. For example, corn in Eastern Iowa may be trading at −$0.03/bu relative to the CME Group corn futures price.

The CHAIRMAN. Thank you, Mr. Plourd.

Now we will have Mr. Everett Williams from Madison, Georgia.

STATEMENT OF J. EVERETT WILLIAMS, PRESIDENT, GEORGIA MILK PRODUCERS, INC., MADISON, GA

Mr. WILLIAMS. Chairman Scott and Members of the Subcommittee, I would like to thank you for the opportunity to discuss with you the economic conditions that face dairy producers today. My wife, Carol, and I live in Madison, Georgia, where we operate a third-generation dairy farm with our four children. As President of Georgia Milk Producers, I am here today representing all dairy farmers in Georgia. Georgia dairymen operate in an area where population growth is one of the fastest in the United States. The milk deficit for our area grows greater each year with Georgia now importing up to 68 million pounds of milk per month. The Federal Milk Market Administrator's Office in Atlanta predicts that within the next decade, no dairies will exist in the Southeast. One reason for this is the current dairy pricing system.

The USDA Dairy Product Price Support Program helps support prices and farm income. The price paid for nonfat dry milk, butter and cheese is too low to help dairy producers remain profitable. Raising the support price for these products is not a good long-term solution because the government would have to buy more of these products as dairymen produce them for sale to the government. Government-purchased products depress market prices. Buying products at a price below the cost of production does not support dairymen, but creates inventories that depress prices for months or years, only prolonging the low prices for dairymen. Without the Dairy Product Price Support Program, milk prices might drop lower than with the current system, but prices will rebound faster because the market would use more dairy products, and there would be no government inventories to depress future prices.

The Chicago Mercantile Exchange and cheese trading—producers need a true dairy market for its price signals and income. Farm milk price correlates very closely with the block cheddar price on the CME. We are concerned with the small amount of cheese, less than one percent, that is traded with a small number of buyers and sellers for cheese on the Chicago Mercantile Exchange. The price could be easily manipulated to the detriment of dairy producers. A Government Accountability Office report released in July 2007 stated, "Because the CME spot cheese market remains a market in which few daily trades occur and a small number of traders account for the majority of the trade, questions exist about this market's susceptibility to potential price manipulation." The government should follow up on this GAO report with an investigation to find improvements or a more equitable dairy pricing system.

Marketing programs—we support the Holstein Association's Dairy Price Stabilization Program. The dairy markets continue to have ever-increasing price volatility, which hurts producers, processors and consumers. This program is designed to match supply with demand, including exports. Federal legislation would be needed to implement this plan. This plan allows expansion of production and new producers. The goal would be to control milk price volatility while not setting milk price.

Pricing Class I milk—the present system of using a formula that locks Class I pricing to manufactured pricing is adversely affecting markets that are primarily Class I. Over the last decade the expansion of milk production in the West has weakened Southeast fluid milk production. A system needs to be developed that would price milk independently.

Southeast milk marketing conditions—Our daily cooperatives have done a very poor job of matching milk production with demand. In the Southeast, milk production has decreased 23 percent while in the Southwest production has increased 44 percent since the year 2000. The end result is that we have a fluid market in the Southeast that his short of fluid milk. The money that processors pay for milk is being spent to pay for milk hauling from the Southwest to the Southeast. Transportation credits of 30¢ per hundredweight of milk are paid by Class I processors to a Federal order fund to help supply milk from outside the Southeast. These transportation credits create disorderly milk marketing. This action hurts all dairy producers in the Southeast for the benefit of a few haulers.

Thank you for this opportunity.

[The prepared statement of Mr. Williams follows:]

PREPARED STATEMENT OF J. EVERETT WILLIAMS, PRESIDENT, GEORGIA MILK PRODUCERS, INC., MADISON, GA

Chairman Scott and Members of the Subcommittee, on behalf of Georgia Milk Producers, Inc., I would like to thank you for giving us this opportunity to discuss with you the economic conditions that face dairy producers today.

My name is Everett Williams. My wife, Carol, and I live in Madison, Georgia, where we operate a third generation dairy farm with our four children. As the President of Georgia Milk Producers, I am here today representing all dairy farmers in Georgia.

Georgia dairymen operate in an area where population growth is one of the fastest in the U.S. The milk deficit for our area grows greater each year with Georgia now importing up to 68 million pounds of milk per month. The Federal Milk Market Administrator's office in Atlanta predicts that within the next decade no dairies will exist within the Southeast. One reason for this is the current dairy pricing system.

We appreciate this Committee's efforts to review the current economic situation and to investigate all short-term and long-term possibilities that would improve our industry. Here are some suggestions that we believe would help our region and the nation as a whole:

USDA Dairy Product Price Support Program

The USDA Dairy Product Price Support Program helps support prices and farm income. The price paid for Nonfat Dry Milk (NFDM), butter and cheese is too low to help dairy producers remain profitable, especially considering the dramatic rise in input costs over the past 3 years. Even though raising the support price appears to help producers now, however it is not a good long-term solution. Dairymen would be producing milk for the government to purchase instead of the marketplace. If these government purchased products are used in the U.S., such as for the school lunch program, they still depress market prices causing the government to buy more product. If large amounts of product were given or sold to foreign countries that would depress prices and cause harm to relationships between the U.S. and trading partners.

The government should encourage dairy product usage in the school lunch program to improve our children's diet and nutrition, but using surplus inventories displaces normal market sales.

The USDA Dairy Product Price Support Program is an example of good intentions by the government to help dairymen but now causes more harm than good. Buying products at a price below the cost of production does not support dairymen, but creates inventories that depress prices for months or years, only prolonging the low prices for dairymen. When the dairy industry has excess production processors make NFDM to sell to the government, instead we should be making whole milk powder for the world market. Most foreign countries want whole milk powder not NFDM. Without the Dairy Product Price Support Program milk prices might drop to lower prices than with the current system but prices would rebound faster because the market would use more dairy products and there would be no government inventories to depress future prices. Dairymen would get a better, clearer signal to cut production and to produce products for the market, not the government.

Chicago Mercantile Exchange (CME)/Cheese Trading

Producers need a true dairy market for its price signals and income. Farm milk price correlates very closely with the Block Cheddar price on the Chicago Mercantile Exchange (CME). We are concerned with the small amount of cheese (less than 1%) traded with the small number of buyers and sellers for cheese on the CME. The price could be easily manipulated to the detriment of dairy producers.

We know from a Government Accountability Office (GAO) report (GAO–07–707) released in July 2007, that the opportunity for price manipulation exists. GAO stated, "Because the CME spot cheese market remains a market in which few daily trades occur and a small number of traders account for the majority of trades, questions exist about this market's susceptibility to potential price manipulation."

Cheese plants report prices to the National Agricultural Statistics Service (NASS). These prices are the CME cheddar cheese price of 10 days earlier including basis. Therefore the cheese price on the CME sets the NASS survey price which sets the Class I Mover.

We want the government to follow up on this GAO report with an investigation to find improvements or a more equitable dairy pricing system.

Supply Management Programs

We support the Holstein Association's Dairy Price Stabilization Program. The dairy markets continue to have ever increasing price volatility which hurts producers, processors and consumers. Low prices benefit processors and consumers, but helps to force dairymen out of business causing a severe drop in production and the next round of high prices for consumers. These high prices are needed by dairymen to repay equity lost in the low part of the price cycle, but hurt processors and consumers causing a decrease in milk consumption which makes the next round of low prices even worse.

The Holstein Dairy Price Stabilization Program is designed to match supply with demand, including exports. Federal legislation would be needed to implement this plan. An advisory board would be appointed which would set the amount of milk needed and the market access fee per hundredweight. This fee would be paid by those producers who produce more than their assigned market amount. The fees would be collected and paid proportionally to those producers who do not expand. This advisory board would react to market conditions by increasing supply when milk was short or decreasing supply when there is too much milk. This plan allows for expansion of production and new producers. The goal would be to control milk price volatility while not setting milk prices.

De-Coupling Class I Milk

The present system of using a formula that locks Class I pricing to manufactured pricing is adversely affecting markets that are primarily Class I. The expansion of milk production in the West over the last decade has negatively impacted dairymen producing for fluid markets. A system needs to be developed that would price fluid milk independently.

Southeast Milk Marketing Conditions

Our dairy cooperatives have done a very poor job of matching milk production with demand. We have allowed tremendous production declines in the Southeast while encouraging large milk production increases in the Southwest.

In the Southeast, milk production has decreased 23 percent from 12.0 billion pounds to 9.2 billion pounds since 2000. Meanwhile in the Southwest, production has increased 44 percent from 11.9 billion pounds to 17.1 billion pounds since 2000. The end result is that we have a fluid market in the Southeast that is short of fluid milk. The money that processors pay for milk is being spent to pay for milk hauling from the Southwest to the Southeast instead of going to pay local dairymen. Transportation credits of 30¢ per hundredweight of milk are paid by Class I processors to a Federal Order fund to supply milk from outside a marketing area during periods of deficit milk production. These transportation credits are being used to subsidize milk hauling from the Southwest to the Southeast even as some milk is being hauled out of the Southeast to manufacturing plants in the north. This action hurts all dairy producers in the Southeast for the benefit of a few haulers.

Thank you for the opportunity to submit our plea for help and a call for a drastic change both for the good of Georgia's dairy industry, the Southeast as well as for the U.S.

The CHAIRMAN. Thank you, Mr. Williams.

And now we will hear from Mr. Rozwadowski.

STATEMENT OF PAUL J. ROZWADOWSKI, CHAIRMAN, DAIRY SUBCOMMITTEE, NATIONAL FAMILY FARM COALITION; DAIRY FARMER, STANLEY, WI

Mr. ROZWADOWSKI. Mr. Chairman, Members of the Subcommittee, on behalf of myself, my family and other family farmers, I thank you for giving me the opportunity to come here and testify on the dairy crisis that is causing economic devastation to dairy farm families, related agribusinesses and rural economies all across the nation and it is putting our food security at risk. I am a dairy farmer from Stanley, Wisconsin. I milk 60 cows on 375 acres along with my wife and four children, and have been doing so for 30 years. I serve as the Dairy Committee Chairman of the National Family Farm Coalition. The NFFC has dairy farmers both conventional and organic members from coast to coast.

As we meet here today, the crisis dairy farmers are living worsens. Virtually every dairy farmer in the country is going broke. The stress level amongst farmers is past the breaking points. My parish priest told me last week that for the past couple of months he has had to counsel one or more dairy farmers a week to try to stop them from committing suicide, and he doesn't know how much longer he can be successful at this. Members of this Subcommittee, you have called for this hearing today because you recognize that there is a serious problem in dairy. I believe you are genuinely concerned and we urge you to look for solutions, both short term and long term. We are in a situation that needs emergency actions. Loans are well intended and they pay some bills, but it will further send farmers into debt without the capability to repay even the interest on those loans. Loans get repaid from profit and at $10 to $12 milk, there is no profit.

Congress had good intentions with the MILC Program and now it even has a feed adjuster with it, but at $10 milk I receive about $1.47 payment per hundredweight, which doesn't even bring me close to the $18 I need to operate my farm. Even doubling of these payments would fall far short and put more burden on the taxpayer at a time when dairy processors are making record profits, and should be the ones paying farmers, not the taxpayers. Dean Foods, the large fluid milk processor in the country, saw profits double to $76 million in the first quarter of this year while Kraft Foods saw a $60 million increase in the first quarter when consumers are still paying nearly the same price at the store as they did a year and a half ago when processors were paying us dairy farmers $20 or more for our milk. Now, let us think about this. The processors are getting nearly the same for their product at the retail level but the farmer is receiving half as much for the raw product. Even if we had a five percent surplus, which I don't believe there is, the math just doesn't add up, five percent causing a 50 percent drop in price. What it does add up to is a lot of greed and corruption.

I would be the first one to admit that the processing industry is vitally important, and I could not farm without them processing and marketing my milk. They know they need a profit and return on investment and they successfully got Congress some years ago to give them a make allowance which amounts to about $2 a hundredweight. Again, the dairy farmer pays that cost. Well, the dairy farmer needs to make a profit too. Milk prices have been so low for so long that we must act quickly, or in a few short months there will be a massive exit of dairy farmers like you can't possibly imagine.

I know lobbying organizations for the big processors are telling you that the dairy farmers are producing so much milk that there is a big surplus, and that the poor economy is causing consumers to buy less dairy products, but here is some interesting USDA research figures for 2008. Dairy farmers produced 190 million pounds of milk and the commercial disappearance of the dairy products was 193 pounds. Two thousand nine is following along the same path but with an interesting twist. According to Resources Incorporated, a firm that collects data from retail checkout scanners, found that during the 13 week period from March 1 through May 31 of this year, retail cheese sales were up by five percent and fluid milk sales were up 1.2 percent in the United States. Someone is lying about this surplus thing or maybe it has something to do with the record amount of protein concentrates being imported and made into garbage cheese. Again, the processors are playing both ends by profiting from using cheap, untested imported ingredients and passing it off to consumers as cheese and creating a mythical surplus, forcing down the price of raw milk. Cheese is retailing for $3.50 a pound or more. If 1 pound of cheese is made from 10 pounds of milk, then 100 pounds of milk is worth $35. With the farmer getting $10, who is getting the other $25? We are killing cows with the National Milk Producers Federation's Cooperatives Working Together Program to try to lower milk production. Then we import cows right back from Canada and allow in massive imports. This is another Band-Aid approach that has about as much chance to solve the dairy price crisis as taking an aspirin would have to cure cancer.

We have corruption demonstrated by Dairy Farmers of America, the largest marketing co-op in the country, being fined $12 million and disciplined by the Federal Government for violating rules in futures trading and daily trading at the Chicago Mercantile Exchange. They have also been the focus of a 2 year Department of Justice investigation which I am told is the biggest in U.S. history by the Department. The findings of the investigation never came to light under the Bush Administration. We hope the USDA and the DOJ can immediately revive this investigation.

Another example of corruption plaguing the dairy industry was the misreporting of powdered milk prices from August 2006 to April 2007 on the NASS surveys. It is my opinion that the management of these cooperatives that serve on the board knew what was happening and encouraged it. I respectfully ask Congress to see what is happening here. How much more evidence will it take to convince you that the dairy pricing system is broken. Greed and corruption are running the show.

We ask the Congressional Agriculture Committee——

The CHAIRMAN. Mr. Rozwadowski, we are going to have to ask you—you are a minute or so over. We are going to ask you if you can wrap it up right quick, please.

Mr. ROZWADOWSKI. Yes, last sentence. We ask the Congressional Agriculture Committee to investigate all the corruption in the dairy industry and start working on a new pricing system for dairy. The old one is very badly broken and can never be fixed. Congress needs to start listening to the voices of the family farmers. Thank you.

[The prepared statement of Mr. Rozwadowski follows:]

PREPARED STATEMENT OF PAUL J. ROZWADOWSKI, CHAIRMAN, DAIRY SUBCOMMITTEE, NATIONAL FAMILY FARM COALITION; DAIRY FARMER, STANLEY, WI

Mr. Chairman, Ranking Member and other Members of the Committee, thank you for giving me the opportunity to come here to testify on the dairy crisis that is causing economic devastation across the nation and putting our nation's food security at risk. I am a dairy farmer from Stanley, Wisconsin. I milk 60 cows on 375 acres and have been a dairy farmer for 30 years. I currently serve as the Dairy Subcommittee Chairman for the National Family Farm Coalition. NFFC has dairy farmers from across the country as part of its membership, from California to Wisconsin to Pennsylvania to New York. We also have organic dairy groups who are part of our membership. In the short term, dairy farmers need an $18 emergency price floor for all manufactured milk. In the long term, we need to revamp our failed milk pricing system and antitrust reform of our heavily consolidated industry that has left farmers with few options to market our milk.

In my area, farmers are burning up their equity accumulated over their lifetimes. One farmer in my area had to cash out his wife's IRA just to get crops planted this spring. My parish priest in my small town has had to counsel one or more dairy farmers a week to prevent their suicides. And we know of reports across the country of farm suicides that have already occurred.

All of us, whether we are small or large farms, conventional or organic, have believed for a long time that our industry was in a crisis. During the farm bill, NFFC was one of the few farm groups warning about this coming catastrophe and urging that the current milk pricing system had to be replaced because it was prone to manipulation by a few corporate interests and fostered unsustainable volatility. Now, as we confront 1970s prices for our milk and the worst conditions I have ever seen in 3 decades of farming, we still believe fundamental change is needed to address the corruption and greed that is at the root of this crisis. Dairy prices have crashed to 1970s levels not because of any supposed overproduction, but because of a pricing system easily manipulated on Wall Street, a flood of untested imported dairy ingredients, and dairy cooperatives that have long ceased to represent their farmer memberships. We believe industry groups such as the International Dairy Foods Association and so-called dairy cooperative groups like National Milk Producers Federation have failed America's dairy farmers and are the reason why we have barely 60,000 dairy farms left in the country. So long as Secretary Tom Vilsack and Congress continue to take their policy cues from these industry outfits, we will never solve our dairy crisis.

The National Family Farm Coalition has been working tirelessly for over a decade to represent the real voices of dairy farmers from across the country and to expose corruption in the dairy industry. We have been among the few raising questions about our dairy co-ops, the pricing system and the deep-seated corruption of our so-called industry groups such as National Milk Producers Federation. NFFC's work helped to launch the Department of Justice's 2 year antitrust investigation into Dairy Farmers of America, the nation's largest dairy cooperative. The findings of that investigation have never been released. We have repeatedly requested that the Senate Judiciary Committee look into investigating DFA's activities, but to no avail. NFFC members also protested at the Chicago Mercantile Exchange where cheese prices are determined. Our efforts led the Commodity Futures Trading Commission in December 2008 to issue an unprecedented fine of $12 million against Dairy Farmers of America. NFFC in 2007 brought to the attention of USDA price misreporting of nonfat dry milk prices, costing dairy farmers at least $50 million. To date, dairy farmers have not been compensated for this egregious error that occurred as a result of incompetence on the part of our main dairy cooperatives. NFFC also helped to release a report earlier this year showing the false myth that overproduction was behind the current price collapse when we are currently importing record amounts of milk protein concentrates from foreign countries. On these antitrust and corruption issues, dairy lobbyists such as IDFA, National Milk Producers and our major co-ops have remained virtually silent while continuing to support a pro-free trade, globalized dairy industry that only benefits the bottom lines of processors seeking the cheapest ingredients. These groups have proven over and over that they do not care about the well-being of America's dairy farmers.

Immediate Actions

NFFC, along with Farm Aid, has repeatedly urged Secretary Vilsack to exercise the authority he has under Section 7 of 608c(18) of the 1937 Agriculture Act that gives him authority to adjust the minimum price of milk under the FMMOs if the price "is not reasonable in view of the price of feeds, the available supply of feeds, and other economic conditions which affect market supply and demand for milk." Over 13,000 faxes and letters have been delivered to USDA demanding that farmers receive an $18 emergency floor price. Farmers do not like the idea of receiving taxpayer money from Milk Income Loss Contract payments. While a doubling of MILC payments may address some of the problems short-term, NFFC believes farmers should not be deriving their income from taxpayers, but from processors, many of whom are enjoying record profits. Dean Foods, the largest fluid milk processor in the country, saw profits double to $76 million in the first quarter of this year while Kraft Foods saw a $60 million increase in first quarter profits.

Fixing The Broken Dairy Pricing System

Longer term, in order to stabilize our industry and ensure consumers have access to local sources of fresh dairy products, we need a new pricing system and a reasonable supply management program. Instead of spotlighting our broken dairy pricing system, industry representatives continue to focus on the Dairy Export Incentive Program, National Milk's Cooperatives Working Together's "cow retirement" program, and more government purchasing of dairy products, none of which have made a dent in the crisis. Our milk prices are currently determined in large part by cheese trading at the Chicago Mercantile Exchange. These thinly traded markets are easily manipulated by large corporate players, such as Kraft Foods and DFA. The Government Accountability Office in 2007, at the request of several U.S. Senators, found that the CME was highly prone to manipulation and the December 2008 fine of DFA only confirmed what many farmers suspected for years as we struggled with extreme volatility with our prices. It is unconscionable to have a pricing system that has no basis in supply and demand. Farmers should not be receiving prices that are lower than what they were 30 years ago, not even accounting for inflation! In 1980, the dairy support price was $13. In recent months, we have received between $9 and $11 for our milk. This is unacceptable and it is time to change the system to finally account for farmers' cost of production in the pricing formula.

New Dairy Pricing Bill

NFFC supports a bill introduced in the Senate by Senators Bob Casey and Arlen Specter, S. 889, the Federal Milk Marketing Improvement Act, that would establish a national average cost of production. The only supply management we have now are low prices that drive farmers out of business. This just hurts all our rural communities and puts at risk our domestic food supply. S. 889 would have a supply management that maintains supply in line with demand and gives farmers a fair price. S.889 would have two classes of milk and would price milk based on a national cost of production. All manufactured milk will be classified as Class II milk. The values of Class I milk will be determined by adding the existing Class I differential in each Federal or state market to the Class II price. For instance, in Federal Order #1, if the Class II price were $21.00 per cwt, then adding the Order #1 Class I differential of $3.25 per cwt would establish a Class I price of $24.25 per cwt. The price paid to dairy farmers would be slightly over $22.00 per cwt. S. 889 would also institute an inventory management in case of true overproduction after accounting for imports. Every 2 months, the Secretary can determine whether there is an excess of milk and milk products being produced in the United States. USDA Secretary must factor in products including cheeses, butter, butterfat, milk powder, ice cream, yogurt, as well as substitute dairy ingredients such as milk protein concentrates, casein, caseinates, whey protein concentrates. If the Secretary determines there is excess production, milk prices for producers may be reduced for not more than 5% of all milk produced. There will be no reduction in prices received by producers unless there is a positive trade balance in dairy products (i.e. exports are higher than imports). Producers can receive a reduced price for milk of up to half the Class II price. Further deductions may be taken for producers with more than 3 million pounds of milk. New producers are exempt from these guidelines for 1 year.

IDFA has suggested that dairy producers should utilize risk management tools such as futures contracts and forward contracting. These tools are simply designed to pay producers below the FMMO minimum price. A USDA study shows farmers lost $28 million through their pilot forward contracting program. The 2008 Farm Bill unfortunately revived the forward contracting program. Sixty thousand dairy farmers cannot hope to attain a fair price when the industry is so heavily consolidated and controlled by a few key players, including Dean Foods in the fluid milk market, Leprino Cheese for the food processing sector and Kraft Foods for the retail sector.

Controlling Imports

The reaction from USDA and our dairy cooperatives to stem the current crisis so far has been to get the government to buy up supposed surplus products and help subsidize exports. USDA has spent millions to purchase products for international food aid and to distribute to local food banks. USDA has also, at industry's behest, revived the Dairy Export Incentive Program. National Milk Producers Federation has been promoting for 6 years its Cooperatives Working Together program. CWT attempts to control U.S. dairy production through herd retirements. It has been an utter failure at stabilizing milk prices and also lower cull-cow prices, further hurting farmers' income. Farmers who have been milking for decades are now seeing a lifetime's work go up in smoke as their herds, including even bred heifers, are being sold off to the CWT program. The Pope this week noted we have 924 million hungry people in the world today, yet farmers are selling their cows to CWT instead of helping to produce the vital dairy products that could be used to feed the hungry. One respected farm reporter said, "CWT is a bloody and heart-breaking supply-management program that isn't working . . . At best, it's a poor way of managing the milk supply. At worst, it's a sinister scheme for killing off the nation's dairy industry so that cheaper, foreign sources of dairy products can be utilized." None of these supply stabilization programs, from export subsidies to CWT, will work so long as we cannot control dairy imports flooding our markets and displacing U.S. farmers' quality milk.

Currently, the U.S. has seen record imports of milk protein concentrates, which have never been approved as "Generally Regarded as Safe" by the FDA. For the first 2 months of 2009, there was a 71.8% increase in MPC imports compared to 2008. Seven thousand metric tons of MPCs were being imported in February, the highest ever on record. Yet USDA and industry continue to insist on an oversupply of milk and downplay the impacts of imports.

Consumer Gouging

The collapse in dairy prices has not been a benefit to consumers, as seen in the profits experienced by dairy and food processors. While prices paid to farmers have dropped 50%, consumers have certainly not seen a 50% drop in prices at the grocery store for milk and cheese. Dean and Kraft's profits show that consumers are still paying exorbitant prices in many parts of the country for milk and cheese.

Fallacy of Global Markets

The industry and our dairy cooperatives have continually promoted the false idea that global exports are the key to helping improve milk prices. Food processors and dairy co-ops are continually trying to degrade standards of identity for milk to allow for inferior and cheaper dairy ingredients to be used, instead of U.S. farmers' wholesome fresh milk. Industry has tried to allow for the use of more MPCs to be used in cheesemaking and wants ultrafiltered milk to be labeled as simply "milk." Consumers thinking they are getting real milk in their dairy products are now seeing these milk substitutes, many coming from foreign countries, in everything from coffee creamers to macaroni and cheese. MPCs, which are the dry powder form of ultrafiltered milk, remove many of the vitamins and minerals contained in real milk. MPCs were originally intended for use in industrial glue and are sourced from countries that include China and India! They may even be coming from water buffaloes and not cows. No consumer is clamoring for "innovative" dairy products containing more fake milk substitutes using imported materials. Only the industry, such as IDFA's members, supports such innovation not to address consumer demand, but to fatten their own profit lines. NFFC supports the immediate closure of loopholes allowing for the import and use of MPCs and passage of the Milk Import Tariff Equity Act. Consumer interest and trends have shown a strong preference for local sources of fresh dairy products. This is the exact opposite of industry's vision of a "global marketplace." NFFC remains greatly concerned about the

Federal Milk Marketing Order Review Commission called for by the 2008 Farm Bill to examine milk pricing. The Commission emphasizes ensuring globally competitive dairy markets at the expense of a fair price for dairy farmers. Also, the Commission explicitly calls for "evaluating the nutritional composition of milk, including the potential benefits and costs of adjusting the milk content standards." We believe this is a dangerous attempt by food processors to water down the definition of milk to include MPCs and ultrafiltered milk.

Dairy farmers have also never seen the trickle down effects of export markets. When dairy prices were relatively higher in 2007 due to supposed export demand for nonfat dry milk, U.S. prices consistently lagged behind the world price and behind the EU and Oceania (New Zealand and Australia). Through the work of NFFC member John Bunting, we helped expose price misreporting in 2007 on the part of DairyAmerica, the marketing agency for nonfat dry milk exports. DairyAmerica is made up of several major U.S. cooperatives, including DFA. It was discovered that from August 2006 to April 2007, DairyAmerica had submitted erroneous nonfat dry milk powder prices to the NASS survey that helps determine milk prices. NFDM prices reported to NASS consistently lagged behind world prices. A June 2008 report released by the USDA's Inspector General estimated farmers lost at least $50 million due to this scandal. To date, USDA has offered no compensation to farmers for this enormous loss. NFFC believes this is a gross underestimate of the real amount of losses. I am now part of a class action lawsuit filed in March 2009 on behalf of dairy producers in twenty five states against DairyAmerica. I believe the price misreporting scandal shows why reliance on global exports will never benefit dairy farmers, but only the processors and cooperatives that do the exporting. This is also why the DEIP program is unlikely to benefit farmers.

Antitrust and Fair Competition in Dairy Markets

An April 2004 meeting, organized by NFFC and attended by New York Attorney General Eliot Spitzer, was held in Syracuse, New York, on dairy antitrust issues. The meeting helped spur investigations to finally look at the market abuses on the part of our dairy cooperatives. The Department of Justice's antitrust division then launched a 2 year investigation into DFA and its market collusion with the likes of Dean Foods and others. The Bush Administration never allowed charges to be brought forth, despite evidence of severe anti-competitive practices on the part of DFA. NFFC is working with the DOJ to see if this case can be revived again and justice served for dairy farmers who suffered from DFA's abuses and in many cases were driven out of business. In addition, two antitrust lawsuits have been brought by DFA members and customers against the co-op and in April 2009, a shareholder lawsuit against Dean Foods was filed alleging illegal marketing practices harming farmers. Through all these years of antitrust problems and failures to have a truly free and competitive dairy market, Congress has failed to examine these incredible market failures in our industry while continuing to rely on policy advice from these same players.

Organic Dairy in Crisis

It is not just conventional dairy farmers who are being threatened with bankruptcy. Organic dairy farmers, many of whom invested heavily to switch to organic production, are suffering the same tragic effects of this current crisis. Processors have now cut the price of milk for farmers, and imposed production caps. Many family farmers are now in danger of losing their farms.

The same corporate processors who control conventional dairy production are now threatening the viability of the organic dairy industry. In addition to the serious financial losses some farmers are experiencing, two of the largest organic milk processors and handlers, Dean Foods (marketing Horizon milk) and HP Hood, which owns Kemps dairy in the Midwest (marketing Stonyfield milk) have informed some of their farmers that they will not renew their contracts.

Enforce Organic Dairy Standards

In the dairy sector, there are now estimated to be 20 large industrial dairies, each milking thousands of cows, producing as much as 40% of the nation's organic milk supply. Under the Bush Administration, the USDA was accused of "looking the other way" as large corporations invested in organics while allegedly violating Federal standards. These corporations have, in essence, signed a financial death warrant for these farmers. Without contracts to sell organic milk, many of these operators face bankruptcy and risk losing the farms that have been in their families for multiple generations.

For years, members in the organic community and the National Organic Standards Board, the expert panel set up by Congress, have appealed to the USDA to crack down on "scofflaws" bending the organic regulations on giant factory dairies, mostly in the desert-West. NFFC urges Secretary Vilsack and Congress to view this as a legitimate emergency and take immediate action, to shut down the giant farms that are violating Federal organic law. If nothing is done, many of the ethical, hard-working farmers who built the organic dairy industry will be driven out of business by those who are unethically skirting the law.

The dairy industry, conventional and organic, contributes over $20 billion to Wisconsin's economy. We help support thousands of jobs in rural communities. The current crisis is now putting our entire rural economies in jeopardy, from our feed suppliers to equipment companies to veterinarians to local small businesses. USDA and Congress need to start listening to the voices of family farmers and not those of the industry who are in large part responsible for this mess. Unless action is taken immediately, we will see ⅓ of our remaining dairy farmers go out of business very soon. Consumers in the very near future may have to rely on Chinese imported dairy products for their food supply. For the sake of our rural economies and our national security, let us work towards ensuring we will always have a viable American dairy industry and consumer access to safe, quality, and real dairy products.

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The National Family Farm Coalition (NFFC), founded in 1986, provides a voice for grassroots groups on farm, food, trade and rural economic issues to ensure fair prices for family farmers, safe and healthy food, and vibrant, environmentally sound rural communities here and around the world. For further information about the organization, visit *www.nffc.net.*

The CHAIRMAN. Thank you very much.

Now we will hear from Mr. Scott Hoese, President of the Carver County Farmers Union.

STATEMENT OF SCOTT HOESE, PRESIDENT, CARVER COUNTY FARMERS UNION, DAIRY FARMER, MAYER, MN; ON BEHALF OF NATIONAL FARMERS UNION

Mr. HOESE. Good morning, Mr. Chairman and Members of the Committee. I am a dairy farmer from Mayer, Minnesota, where my wife, son and I own and operate a diversified farm. We grow all of our own feed for our 120 milk cows in addition to some corn and soybeans. I currently serve as the President of the Carver County Farmers Union, and I am here today on behalf of the National Farmers Union. Bongards' Creamery, where I serve as a Board Member, had a June base price of $10.90 per hundredweight, a dollar over Class III. My costs of production averages $14. As a board member, right now we are trying to pay the most to our producers.

Because the expansion of our operations 3 years ago, we now have surplus pregnant heifers to sell. Today they sell for $1,000 and $1,200 apiece. Last year I was getting more than $2,000.

To comply with state environmental regulations on my manure pad, I have to empty my pad, take out 2 feet of soil clay and then put in 2 feet of new clay back in around the perimeter and then get certified by the NRCS. EQIP will cost share us 75 percent but I still have to account for $10,000 this year.

Recently the Minnesota Farmers Union held a number of listening sessions to hear directly from dairy farmers across the state. What we heard were stories of farmers having to go to their local food bank for food because they have no income. One was hoping his garden would do well this year so he has something to feed his family, and there were two recent suicides by hog and dairy farmers. This economic crisis does not discriminate based upon herd size or location. Today's situation is unlike any experienced in the past.

The roller coaster market dairy producers have been riding seems to be getting more severe with each passing year with the highs not lasting long enough to mitigate the lows. Each month the National Farmers Union publishes the farmer's share for the retail food dollar. July data shows consumers paying $4.99 for a pound of cheddar cheese while the farmer receives less than a dollar. Consumers pay $2.99 for a gallon of fat-free milk with the farmers receiving 97¢. At a time when consumers are eating more at home and increasing retail dairy product sales, producers are losing money on every gallon of milk sold. Policies need to allow producers to capture a greater percentage of the retail food dollar.

Much of the debate over today's situation has been centered on whether we are producing too much milk for current demand. Unfortunately, the data published by the USDA does not provide a full or accurate picture of the commercial disappearance. Failure to account for imported protein skews the overall picture. If USDA would recognize its own 2004 AMS report which concluded milk protein imports used in food production are equivalent to approximately five percent of our milk production, then you would see why we are a net deficit producer. Farmers Union has supported closing MPC and casein loopholes since it was created in 1995. The loophole, coupled with the lack of environment enforcement by the Customs Service, allows an overflow of imported dairy proteins to displace U.S. milk and drive down our domestic market.

While some argue imports are not having a significant impact on our prices and point to export data, it is important to understand where we have been. During the past 6 years, the dollar has lost 40 percent of its value according to the Federal Reserve. That devaluation made the price of U.S. commodities increasingly competitive on the world market at a time when economies across the globe are experiencing growth. Two major factors have changed significantly since 2007–2008. The world economy is in the midst of a severe recession and the value of the dollar is strengthening. Increasing and expanding exports is important to farmers but the chart in my written testimony shows dairy imports have outpaced exports 13 out of the past 16 years. Imports must be part of the discussion when trying to address today's crisis.

Due to increased levels of consolidation, there is a lack of competition in the dairy sector. A few major companies dominate the market, leaving producers and consumers to suffer as a result. In order for the dairy industry to be viable in the future, policymakers need to take immediate steps to foster and restore competitive competition in the marketplace. There is no single reason why the dairy industry is in the economic condition it is in, and there is no single option to solve the crisis.

The following principles were identified and agreed to by producer organizations in March 2000 and remain valid today. Number one: Return on investment greater than cost of production plus a profit from the market; two, reform the Federal Milk Marketing Order System, and number three, restore competition to the dairy market. Included in my written testimony is a detailed list of options to achieve these three principles.

Let me be clear: Producers need a lifeline now. Farmers Union recognizes the need for a fundamental overhaul of our Federal dairy policy, but unless Congress and the Administration extend a lifeline proportionate to today's crisis, there will be little need to overhaul policy because so many producers will be out of business.

Thank you for the opportunity to be here today.

[The prepared statement of Mr. Hoese follows:]

PREPARED STATEMENT OF SCOTT HOESE, PRESIDENT, CARVER COUNTY FARMERS UNION; DAIRY FARMER, MAYER, MN; ON BEHALF OF NATIONAL FARMERS UNION

Good morning, Mr. Chairman and Members of the Committee. My name is Scott Hoese, I am a dairy farmer from Mayer, MN. My wife, son and I have a Century farm that consists of more than 600 acres, 120 milk cows and an additional 125 heifers and young stock. We grow all of our own feed in addition to some corn and soybeans. We expanded our operation 3 years ago, from 65 cows to the current 120. I currently serve as the president of Carver County Farmers Union, as a township supervisor, on the board Bongards' Creamery and am past President of the Minnesota Association of Soil and Water Conservation Districts. I am here today on behalf of National Farmers Union (NFU)—a nationwide organization representing more than 250,000 farm, ranch and rural residents.

In 1908, a small number of dairy farmers in Carver County, Minnesota decided to organize a farmer-owned cooperative creamery, Bongards' Creamery. This farmer-owned cooperative has two processing facilities in Bongards and Perham, Minnesota where we produce approximately 60 million pounds of natural cheese each year and a variety of top quality whey powders. My family has been part of this co-op since 1962 and I currently serve as a director. The initial goals were simple and continue to be our focus today: produce the freshest, most wholesome and flavorful dairy products while getting a fair return for our raw milk.

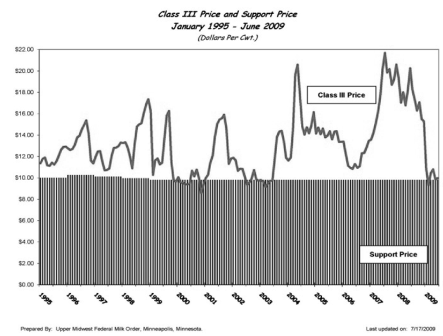
I applaud the Subcommittee for scheduling this hearing and providing producers the opportunity to speak directly to you. Recently, the Minnesota Farmers Union held a number of "No Bull" dairy action sessions to hear directly from dairy farmers and gather suggestions to improve dairy farm-gate price and profits. As a producer, it has been frustrating, to say the least, to weather one of the worst economic periods in 30 years yet it seems as though our society as a whole has not grasped how desperate our situation is.

Dairy farmers of all sizes and across all regions of the country are enduring an unprecedented disaster. From Minnesota to California and Texas to Vermont, the current situation is untenable. Equity is rapidly disappearing, market prices remain at 1970 levels, creditors are cutting off producers—yet there is no relief in sight. Since the first of the year, two dairy producers in California have committed suicide as due to the gravity of their financial situation and the future outlook. This situation is unlike any experienced in the past and the width and depth cannot continue to be ignored.

My state is the sixth largest dairy state in the United States, milking about five percent of the national herd. While many large dairy states have witnessed a decrease in their herd, Minnesota has increased cow numbers for the past 4 consecutive years. Despite the increase in herd size, the number of Minnesota farmers milking today is fewer. Our states' economic engine relies on the dairy industry. For every dollar from dairy production and processing, about $2 is generated in statewide economic activities.

The multiplier effect of the dairy industry on Minnesota's economy is a total economic output of nearly $9 billion and almost 40,000 jobs. Unfortunately, the 2009 market collapse has resulted in an average of $12.60 per hundredweight (cwt) for Minnesota dairymen for the first 4 months of the year according to the Minnesota Department of Agriculture—the lowest market level since 2002. One of the untold stories with today's dairy crisis is the impact it has had off the farm—jobs are lost and rural communities struggle to survive if even just one dairy producer is forced to liquidate their operation.

As quickly as dairy prices peaked last year, they have just as quickly collapsed and have been well below the cost of production. The rollercoaster market dairy producers have been riding seems to be getting more severe with each passing year—with the high's not lasting long enough to mitigate the low's. There are a variety of reasons why the dairy industry is in the economic condition it is in and there is no single silver bullet to solve our problems. An uncompetitive marketplace, industry consolidation, market manipulation, rising imports of dairy proteins, and an insufficient safety net are some of the major factors resulting in our current economic situation.



MAILBOX PRICES

YEAR	JUNE PRICE
1999	$11.42
2000	$9.46
2001	$15.02
2002	$10.09
2003	$9.75
2004	$17.68
2005	$13.92
2006	$11.29
2007	$20.17
2008	$20.25
2009	**$9.97**

National Avg. FMMO prices.
Source: Cheese Reporter

Farmers Share—Retail Prices

Each month NFU tracks and publishes the farmer's share of the retail food dollar. Our latest data shows consumers paying $4.99 for a pound of cheddar cheese while the farmer receives less than $1.00; farmers receive $0.97 out of the $2.99 consumers pay for a gallon of fat free milk. At a time when more consumers are eating at home, thereby increasing retail dairy product sales, producers are losing money on every gallon of milk sold. To make the situation more painful, producers read media stories of double-digit profit margins for dairy processing companies. Dean Foods Company reported its first quarter profits for 2009 more than doubled from the same period in 2008. Kraft Foods Inc. reported 2009 first quarter profits up 10 percent, earning $660 million for the first 3 months of the year. It was just a year ago that Kraft and other members of the Grocery Manufacturers Association launched a multi-million dollar media campaign blaming higher retail food costs on farmers and ethanol. NFU has called upon Congress to convene hearings to reexamine the impact of food prices on American families. Since commodity prices have collapsed and retail food prices have not tracked in similar fashion, a full examination is long overdue.

Supply ***Versus*** *Demand*

Much debate over today's situation has been centered on whether U.S. farmers are producing too much milk for current demand. Unfortunately, the commercial disappearance data used by USDA does not account for the imported MPC, casein and caseinates for food usage as reported in a 2004 USDA Agricultural Marketing Service (AMS) report titled, "*Milk Protein Products and Related Government Policy Issues*". The report stated that in 2003, the amount of imported milk protein concentrates accounted for 5.9 percent of the total U.S. milk protein production. The report concluded that milk protein imports is equivalent to approximately five percent of our milk protein production.

According to a recent letter from Secretary Vilsack to the National Family Farm Coalition, domestic milk marketing's in 2008 totaled 188.8 billion pounds. Data from USDA's Economic Research Service shows commercial disappearance on a milkfat basis totaling 193 billion pounds (184.3 billion pounds of domestic use and 8.8 billion pounds of exports). Vilsack cites this data to underscore his point that domestic marketing's are more than adequate for domestic use. Where USDA's data is flawed is in the lack of accounting for the five percent equivalent of U.S. milk production in the form of imported milk proteins as stated in AMS's 2004 report. Five percent of the 188.8 billion pounds of milk marketed in 2008 totals close to 9.5 billion pounds. Adding the 9.5 billion pounds of equivalent imported milk proteins increases the commercial disappearance number to 202.5 billion pounds.

The 2008 commercial disappearance number of 202.5 billion pounds appropriately includes the imported milk protein ingredients used for food. After removing the export commercial disappearance of 8.8 billion pounds, the total domestic commercial disappearance is 193.7 billion pounds. Comparing the 188.8 billion pounds of milk marketing's verses the 193.7 billion pounds of domestic commercial usage, we are a net deficit producer by nearly 5 billion pounds. If we produce just 188.8 billion pounds and use 202.5 billion pounds for both domestic usage and exports, we are 13.7 billion pounds short on production. As you can see, by using more accurate data to account for imported proteins used for food production, it is clear that U.S. dairy producers are not oversupplying the market.

Imports

For many years, NFU has supported closing the milk protein concentrate (MPC) and casein loophole created by the Uruguay Round agreement, which allows for the importation of MPC and casein tariff-free. The overflow of imported, ultra-filtered dried protein product displaces American-produced milk in the production of dairy products. MPC was a relatively new product during Uruguay Round negotiations and after implementation of World Trade Organization (WTO) rules in 1995 became commercially viable.

A lack of enforcement by the U.S. Customs Service has allowed dairy protein blends to be imported in circumvention of U.S. tariffs and tariff-rate quotas. Much of the imported dairy protein blended products are essentially equivalent to skim milk powder and do not satisfy the common or commercial meaning of the term "milk protein concentrate." Therefore, they should be subject to tariff provisions covering powdered milk imports. Moreover, a 2001 Government Accountability Office (GAO) report stated ultra-filtered milk is not nutritionally equivalent to fluid milk nor has the product undergone mandatory safety tests under the Food and Drug Administration's "Generally Recognized as Safe" rules.

Dairy Imports

Milk Equivalent (Billion Lbs.)	Factor	2002	2003	2004	2005	2006	2007	2008
Cheese	x10	4.75	4.75	4.71	4.60	4.54	4.35	3.75
Casein	x39	7.93	8.94	8.72	8.36	6.95	7.75	10.21
Butter	x4.2	0.14	0.13	0.22	0.16	0.16	0.15	0.13
MPC	x22	2.01	2.34	2.12	2.67	3.04	2.96	3.04
Lactose	x5.5	0.05	0.08	0.06	0.06	0.07	0.07	0.09
Total		14.88	16.24	15.84	15.85	14.76	15.28	17.22
U.S. Milk Production	(Billion)	169.758	170.394	170.934	176.989	181.787	185.602	189.892
Percent of U.S. Production		8.77%	9.53%	9.27%	8.95%	8.12%	8.23%	9.06%

United States Department of Agriculture FAS Agricultural Import Commodity Aggregations

While some argue that imports do not have a significant impact on domestic dairy prices and point to recent export data, it is important to understand where we have been and where we are headed. According to the Federal Reserve, the dollar lost 40 percent of its value from 2002–2008 and in 2008 was at a 30 year low according to USDA, compared to other major currencies. The devaluation of our currency made the prices of U.S. commodities increasingly competitive abroad. In 2007 and 2008, we witnessed record agricultural exports in terms of volume and value despite record high domestic market prices. As economies across the country were experiencing strength and growth, a new demand was created for food commodities. The new middle class populations in Asia, Latin America and Africa were demanding an improved diet including meat and dairy products. Two major factors have changed significantly since 2007 and 2008: economies across the world are in the midst of a severe recession and the value of the U.S. dollar has been strengthening. Increasing and expanding exports is important to American farmers, but in looking at the chart below, dairy imports have outpaced exports 13 out of the past 16 years. The impact of imports must become a central part of the discussion when trying to address today's crisis.

Source: USDA–FATUS.

Chicago Mercantile Exchange Reform

In June 2007, the Government Accountability Office issued a report on the spot cheese market titled, "*Market Oversight Has Increased, But Concerns Remain About Potential Manipulation*". Since the demise of the National Cheese Exchange (NCE) due to manipulation allegations, the CME is where spot cheese prices are determined, impacting virtually all cheese traded in the U.S. as well as impacting the price producers receive for their milk. Despite these significant influences, it is typically less than one percent of the national cheese production is traded on the CME. GAO concluded, "*Because the CME spot cheese market remains a market in which few daily trades occur and a small number of traders account for the majority of trades, questions exist about this market's susceptibility to potential price manipulation.*" In its report, GAO recommended USDA reduce the redundancy that exists in the NASS survey of cheese prices, improve the timeliness associated with the cheese prices survey's and implement an audit for the survey. To date, we are unaware of efforts within USDA to implement GAO's recommendations.

GAO highlighted the lack of transparency on the CME by identifying how the market involves daily anonymous trading compared to the NCE where cheese traded once a week with the identities of the traders made public. The concerns of manipulation that led to the demise of the NCE remain prevalent at the CME including, low trading volume and a small number of entities making the trades. GAO specifically cited trading at the CME spot cheese market being concentrated among a small number of entities, primarily large companies and cooperatives in the cheese and dairy industry. The ability of a handful of players to influence the spot cheese market has a significant negative economic impact on all producers. If the CME was a more open and honest market, more businesses would trade and increase the volume to create a more accurate and reliable market that better reflects the actual milk production in the United States. I encourage the Subcommittee to review the

GAO report and utilize it as a tool in striving to eliminate manipulation from dairy markets.

On December 16, 2008 the Commodity Futures Trading Commission (CFTC) announced a $12 million penalty levied on charges of attempted manipulation of the Class III milk futures contract and exceeding speculative position limits in that contract. CFTC found attempted manipulative practices occurred from May 21 through June 23, 2004 on the CME Cheese Spot Call market. This settlement made public just 18 months following the publication of GAO's report demonstrates the need for the Federal Government to restore fair, transparent and open markets for America's dairy producers.

Competition

Consolidation within the agricultural industry has been on the rise recent years and has brought about the demise of thousands of independent family farms. Independent producers are finding it increasingly difficult to participate in a fair, open and competitive market. The consolidation trend has spread beyond the farm gate and now threatens independent retailers. Since 1999, National Farmers Union has commissioned a series of studies by the University of Missouri-Columbia Department of Rural Sociology to gauge concentration in agricultural and retail markets. The latest update, released in April 2007, reveals that the top four firms in most agricultural sectors continue to tighten their strong-hold.

TOP DAIRY PROCESSORS IN U.S. & CANADA

Company	Annual Sales*
1. Dean Foods	$10,106 million
2. Kraft Foods	$4,400 million
3. Land O' Lakes	$3,901million
4. Saputo Inc.**	$3,461million

Source: * *Dairy Foods: Dairy 100* (2006)
Notes: ** Over 40% of Saputo Inc. plants are in Canada.

Due to increased levels of concentration and consolidation, there is a lack of competition in the dairy sector in the U.S. A few major companies dominate the market, leaving producers and consumers to suffer as a result. In order for the dairy industry to be viable and sustainable in the future, policy decision-makers need to take immediate steps to foster and restore competition in the marketplace. Economic power concentrated in the hands of a few players has essentially eliminated the price system. The farm-gate price is no longer cost plus profit; instead it is a command economy with a few corporate players dictating farm price.

FOOD RETAILING **CR5 = 48%***

Supermarket	Grocery Sales*
5. Wal-Mart Sores	$98.7 Billion
6. Kroger Co.	$58.5 Billion
7. Albertsons, Inc.	$36.3 Billion
8. Safeway, Inc.	$32.7 Billion
9. Ahold USA, Inc.	$23.8 Billion

Source: * *Progressive Grocer's Super 50* (5/1/05)

Make Allowance

Dairy producers and cheese processors are partners, each dependent upon the other. However, both, not just one or the other, must sustain profitability to achieve a healthy dairy industry. Farmers receive no assurance of profitable milk prices under Federal milk market order system, leaving the question as to why should processors be given special treatment. National Farmers Union has opposed all proposals to increase the make-allowance for processors because we believe it gives an unfair advantage to processors and will be economically harmful to producers.

The current make allowance system sends a false signal to processors to continue production regardless of market demand and provides a strong incentive for processors to run as much raw milk as possible through a plant regardless of market conditions. The result from this system is that it puts the needs of the processor at odds with the needs of the dairy producer. Too much milk reduces the price to the dairy farmers and milk shortages decrease the amount of milk available to the processor.

The make allowance system should be reformed so that it provides benefits to the producer and processor. Farmers Union has long advocated for the establishment of a variable make allowance that would link processor and producer prosperity. A variable make allowance would increase significantly when milk prices are high, thereby giving an incentive to the processor to continue production because the return would be greater. However, when prices are low the make allowance would decrease and send a signal to the processor to limit production in order to allow demand to catch up with production. We believe a variable make allowance is a "win-win" proposal because it would enable producers and processors to make a higher return when milk prices rise.

As long as the manufacturing allowance is fixed at the processor's cost plus a return on investment, and is paid for by farmers, the processing segment of the industry will be unconcerned with market signals. We need a system that works with the marketplace at all levels: producer, processor, wholesaler, retailer and consumer to provide an equitable, stable and viable economic environment for all segments of the dairy industry.

NASS Survey

In April 2007, NFU sent letters to USDA's Inspector General and then-Secretary Johanns regarding concerns with reports that prices reported for non-fat dry milk (NFDM) by NASS were consistently below actual prices observed in the marketplace, resulting in lowered prices paid to dairy producers. Because the NASS reports are directly linked to the prices received by dairy producers through the Federal order system, any misreporting, underreporting or inaccurate reporting of NFDM prices is a significant pricing problem. When the misreporting became known, NFU called on USDA to take the following actions:

- Immediately review price reporting procedures for NFDM from July 2006 to the present (April 2007);
- Calculate, with publicly available documentation, the amount of revenues lost by producers as a result of the misreporting;
- USDA should review milk pricing programs, including whey reported prices, to assure that dairy commodity prices are accurately and fairly reported;
- Explanation as to why the department had not implemented the auditing authority granted by Congress in 2000 and 2002; and
- Calculate, with publicly available documentation, the impact of all classes of milk and adjustments to monthly prices for Class I, Class II and Class IV.

To allow such serious agency errors to occur at the expense of dairy producers should not be tolerated.

Policy Options

Time is of the essence for dairy producers. Many continue to lose $100–$200 per dairy cow per month with no immediate increase in the market on the horizon. Regardless of operation size, many producers have been issued notice from feed suppliers that they will no longer receive feed and creditors are terminating lending options. Since dairy prices peaked last year, the market has precipitously collapsed to historic low levels and is now well below the cost of production. NFU supports a comprehensive dairy policy that accounts for dairy profitability, income stabilization, limitation on imports, competitive markets and supply-inventory management.

In 2007, NFU hosted a dairy summit of producer-based organizations to seek solutions, both long and short term, for dairy producers. The following three core principles were identified and agreed to by participating organizations and remain applicable in today's environment:

- Return on investment greater than cost of production, PLUS a profit from the market;
- Reform of the Federal Milk Marketing Order system; and
- Restoring competition to a non-competitive dairy market.

The NFU board voted in June to encourage Congress to pass a dairy stimulus package to provide an adequate safety net for producers in addition to establishing an inventory management program. Most importantly, the board expressed the need for producers to receive an immediate financial lifeline to sustain their livelihoods through this unprecedented situation. A suite of policy options exist to ensure producers will survive this devastating economic period. Options to achieve the above mentioned principles are outlined below, categorized by short-term action and long-term action.

Short Term Options:

- Establish safety-net support price that is fair and equitable to all producers—Establish an emergency Class III floor price of $18/cwt by existing authorities of the Secretary for a period of 6–9 months. During this period, USDA should launch the FMMO review as established in the 2008 Farm Bill and CFTC should launch additional investigations into potential manipulation on the CME. A long-term supply management program must be established in tandem with the emergency floor.
- Continuation of the countercyclical Milk Income Loss Contract (MILC) program—Legislation has been introduced in the Senate that would double the MILC payment rate short term. This provides a quickly deployable lifeline in an effort to prevent additional dairy bankruptcies.
- Eliminate the make allowance. If not eliminated, make it variable and tied to producers' cost of production.
- Require the NASS survey to be audited periodically.
- Maintain standards of identity on dairy products and move to increase fat content standards in fluid milk. Milk is naturally produced with fat content of 3.5 or higher, yet most of the whole milk sold in the U.S. has been reduced to 3.2.
- Deploy low-interest and emergency loans, including a foreclosure mitigation program to stem the tide of loan foreclosures.
- Purchase dairy products and hamburger for donations to food banks and other nutrition programs.
- Allow producers to label milk as free of artificial growth hormones.
- Require accurate recording and publishing of import data from ERS.
- Ensure imported dairy protein blended products are accounted for and categorized appropriately according to the common or commercial meaning of the term "milk protein concentrate," not allowed to disguise skim milk powder MPC to avoid tariffs and the tariff rate quota.

Long Term Options

- Efficient transmission of price signals should be established. Today's market is non-functioning with imbalance of buyers/sellers.
- Pass the Milk Import Tariff Equity Act to address unlimited imports flooding U.S. domestic market.
- Include California and all regions/areas in the FMMO.
- Correct pooling/de-pooling provisions in the FMMO.
- Eliminate bloc voting.
- Allow "no" vote on amendments, yet maintain FMMO.
- Do not place financial burden of transportation onto producers.
- Establish three-part pricing formula to include: cost of production, Consumer Price Index and Chicago Mercantile Exchange.
- Resolve distribution and supply management challenges.
- Repeal forward contracting authority.
- Support funding for academic antitrust research.
- Intensify review process for proposed mergers.
- Promote smaller coops and increase oversight of coop management to ensure interests of producers are met.
- Passage of the Federal Milk Marketing Improvement Act of 2009 (S. 889)
- Eliminate authority for dairy import promotion assessments.

As stated at the beginning of my testimony, today's economic conditions for dairy producers can be attributed to many factors. As such, there will be no single action by Congress or the Administration to resolve all of the challenges. I hope the series of hearings this Subcommittee conducts will provide you with all the necessary resources of ideas to create a suite of options to ensure both short term survival and long term prosperity for America's dairy farmers. Thank you for the opportunity to be here today.

The CHAIRMAN. Thank you, Mr. Hoese.

Now we will have Mr. Donald DeJong, dairy farmer from Hartley, Texas.

STATEMENT OF DONALD A. DEJONG, OWNER AND MANAGER, NORTHSIDE FARMS, LLC; OWNER AND CEO, AGRIVISION FARM MANAGEMENT, LLC; OWNER AND MANAGER, NATURAL PRAIRIE DAIRY FARMS, LLC; OWNER AND MANAGER, DJ FARMS, LTD., DALHART, TX

Mr. DEJONG. Thank you, Mr. Chairman, Mr. Neugebauer, other Members of the Committee for this opportunity to address you on the crisis that faces us in the dairy industry today.

My mom and dad immigrated here to this country in 1958 with nothing, just one machine and a couple hundred bucks. They milked cows for others in southern California, and over a 20 year period put enough money together to buy a dairy farm in Riverside, California. I am one of seven. I have three brothers in the industry, two in central Texas, myself in Hartley, Texas, on the high plains, and one brother still in Shasta, California.

This is truly hard times that we are facing. My dad said we have never seen such a dip or the spreads between cost and profit have been so wide, and it hurts. But we haven't sat still as a family in understanding it. It has been a long process. My dad left The Netherlands for a reason. There was no opportunity there. This country has opportunity. We can work hard. We have laws and it is predictable. And through the years that he has been here, we have been able to work through this process, we have been successful. We currently milk a lot of cows and we use a lot of tools. We try to read the tea leaves as best as we can, and when we need a change, we change. Through the process we have known we have to use market tools, and as soon as they were introduced we started using them. We have opportunities now not always to lock in a profit, but to at least avoid devastation. The last 5 years we have always had an opportunity to take advantage of those products, and those products are both through co-ops. It is not size discriminate. It doesn't cost a lot of money, but you have to be disciplined to make a decision on your own to say, "Look, I can now take a margin, I need to take this margin, I need to take it now and it is going to survive." We have done that. Is it always possible? No. Have we missed some dollars on the top? Yes. Have we avoided the destruction of our family? No. We have been able to grow. The turtle wins the race.

An example of what we have to do—we grow a lot of our feed. We are integrated farms. But I can never, ever get my farm hat to agree with my dairy hat on when to buy and sell my corn. The market gives us opportunities to do that. I am able to take a price. Last year I could sell into a market of corn at $7 and we did. I can buy the corn back at $3.50 to $4. We did. And the market gives us that opportunity. And the same with the milk. We need to have systems in place that don't discourage this. We need to have systems that encourage it. We need to get disciplined. Turtle wins the race. We have in this system a dairy industry that can be a global player. We can grow the pie. But the current systems we have today are discouraging that. Our price support program encourages the government to buy products that the market doesn't want. The powder is the wrong kind. The butter is packaged wrong. And then we have to resell that back into the market. Why do we do that? Then we set up a system with our price support program that we are the balancer of the world. Why do we want to do that? Why do we do that to ourselves? I don't think that is what we want to do in the future. When we roll up our sleeves, we need to talk about those things.

One of the things that we could do immediately is transparency. For somebody who wants to work, and understand price discovery, we have to have better transparency, and daily reporting of sales of all products would go a long way towards that.

In closing, I would like to say I think our future is bright. It is hard. We are at the bottom of this thing. Do no harm. If we act and do things on a knee-jerk reaction now, it is going to do more harm. We are sending the wrong signals. We are clearing the market. We are seeing life happening. We are seeing a reduction of the herd and we will get through this, and we need to roll up our sleeves and say how are we going to fix this thing to be the dominant dairy player in the world, and lead by example as we always have in this country. Thank you.

[The prepared statement of Mr. DeJong follows:]

PREPARED STATEMENT OF DONALD A. DEJONG, OWNER AND MANAGER, NORTHSIDE FARMS, LLC; OWNER AND CEO, AGRIVISION FARM MANAGEMENT, LLC; OWNER AND MANAGER, NATURAL PRAIRIE DAIRY FARMS, LLC; OWNER AND MANAGER, DJ FARMS, LTD., DALHART, TX

Chairman Scott and Ranking Member Randy Neugebauer, thank you for giving me this opportunity to discuss with you and the Committee the economic conditions that face dairy industry today. More than just talk to you and the Committee about the serious economic conditions, I want to share with you and the Committee some of the tools available to all dairymen, regardless of size, that have assisted me and my farm through these difficult times.

My name is Donald DeJong. I operate an integrated dairy farm operation in the northwest corner of the Texas Panhandle. I am the son of a Dutch immigrant who started milking cows for relatives in Southern California in 1958. Our family started our own farm in 1978 after accumulating the necessary capital to start. In 1989 I moved my family to near Dublin, Texas, west of Fort Worth where I started my own dairy. About 5 years ago I moved again to Hartley County, Texas where my wife Cheri and I established the integrated dairy operation we run today.

I am here today to describe to the Committee the risk management tools which we have used to lessen the strain of the current market price disaster in dairy and to identify areas where the Congress can assist to make these tools better and better used by dairymen. By almost all standards, I operate what is called a "large dairy". However, what I am going to talk about today is available to large and small dairy farmers alike.

I appreciate the Chairman calling this hearing to consider the economic conditions which now face dairymen. There are no words that can adequately describe how truly bad the economics are, they are just that bad. These losses are being carried by every producer regardless of region, regardless of size, regardless of marketing or no marketing orders, and regardless of co-op membership. It is broad, it is deep, it is painful. As I read and heard the testimony given today, there is clearly a call to do something to stop the pain. It is also clear that you, Mr. Chairman, and the Committee are interested in the plight of the American dairy farmer and want to do something to help us. We appreciate the sincere concern and desire.

As much as we all would like some immediate cure from this, I caution the Committee and the Congress in its good hearted pursuit to help us in dairy farming. At this point in this crisis, the likelihood that your actions will hurt us are as great as the likelihood that you will help us. Let me explain.

The losses are already made. Some of the results of those losses have some more time to play out, but the losses are set. Though we are not at the end, for those who will not survive, the die is already cast. The market response as to who is milking and where in the dairy industry will become clearer over the next several months to a year. Those actions are already in play and cannot be changed. It is unfortunate, but that is the reality in which we operate.

The problem is simply stated: We have too many farms with too many cows producing too much milk for the markets that we have at this time. As an industry, we responded quickly to rising export demand 2 years ago. However, we have been slower to respond to lower export demand. That is the challenge: Milk has to leave, cows have to go, and, unfortunately, some farms will have to go as well.

Due to a lot of factors, change cannot come soon enough to save those who progressed too far along the path of overproduction, and for many the result will be the end of their farming experience. It is too late.

Without saying that I agree with the following scenarios, I think seeing how some of the recent proposals to help dairymen would play out will help explain my point. For example, the Secretary could raise FMMO milk prices. The Secretary currently has two open hearings regarding make allowances, yields, and other factors concerning the formulas that set prices in the Federal milk marketing orders. These formulas are also used in the Dairy Price Support Program. It is within the power of the Secretary today to use the record as it exists and roll back price reductions of late last year. Depending on what he did, such changes could easily add another 25¢ to 50¢ per cwt to the existing formulas and to producers in general. That is not small money, but when producers are losing dollars, it would not be enough. Even then, assuming he announced that action today, it could not be effective any earlier than for September milk. Producers would receive the benefits in the second half of October, or 3 months from now. It would be too little, too late. At the same time, if the decision was not based on sound law, facts, or policy, it could have other, negative impacts due to being rushed.

There are also proposals that the Secretary immediately announce a higher price support price for powder, butter and cheese. Such a move would directly impact powder, maybe butter, but not necessarily cheese. Cheese has often been trading below the support price since January and there is no clear signal that the price support program is having any real effect. Even then, the higher prices now would only begin to impact product sold in August and would still not reflect in producer checks until September.

Any other program that could be devised will take time to develop, implement, and have an impact on dairy. But, as I mentioned, they will not solve the problem of those deepest in need. There are many farms which will have already exhausted or are on the verge of exhausting all their resources. They will have ended dairying before any forced price relief happens. Farmers are counting days, not months.

Each and every one of us dairy farmers is looking for some relief, a glimmer of hope. Farmers and their bankers and their creditors are looking for any excuse to hang on a little longer, lose some more money, hoping that before they lose it all, relief will have arrived. The announcement of, and holding, these hearings is already providing that glimmer. A program would be a beam of light. But as I noted above, it will be too late and the longer they stay, the longer this time of low prices will continue. The longer the necessary market correction is delayed, the more capital will be drained from the survivors leaving an even more weakened dairy industry. Because the problem is too much milk from too many cows from too many farms, keeping the current numbers up means the source of our problem is continued and relief is delayed. It is how the law of economics works.

What can and should Congress do?

As we ponder things for the future it is important that after 2 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 $9 milk. 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 oversupply or shortages accordingly ensue. And markets, such as dairy in the United States, that are regulated are not immune from this economic force.

The role of price risk management today

In discussions about today's situation there is a lot of talk about price volatility. In looking at the numbers, there is no doubt. We have seen within a twelve month period record high prices and record low prices. Dairy farmers are squeezed between commodity prices. Their inputs are grains and crops that have their ups and downs and their highs and their lows. These commodities are turned into another commodity—milk. It has ups, downs, highs, and lows. The cycles between inputs and outputs do not align. Today we are facing unprecedented high feed costs and equally historic low milk prices.

The circumstances are such that is unlikely that any dairy farmer when considering all of the costs is making any money. Most are not even covering their operating costs.

What role does price risk management have in this circumstance?

First, it is important to understand that price risk management is not the same as guaranteeing a profit. The role of risk management is to limit losses to capital to levels which the farm can sustain and remain viable. In practical terms, what that means is that in the use of the multiple tools available to producers to manage risk (we will talk about those later) the goal is to maximize margins by establishing upper limits for feed costs and lower limits for milk. Sometimes in doing so it means fixing a loss but it is a known loss and one which we know we can afford. We do not have to worry about the losses being greater.

Too often, dairy farmers look at the futures market and say to themselves they want a higher price. Rather than fixing what is available they expose themselves to the risk it will get lower on the chance it will get better.

In summary, price hedging is not the same as price adequacy. Hedging is not always about hedge to profit, hedging to protect capital from losses.

What tools are available?

There are many options available to handle this volatility and protect capital during downturns in prices and upturns in costs.

Today in many markets producers have the opportunity either with their buyer or their cooperative to forward contracts. These options are available regardless of the size of the producer. Under this option, producers and buyers agree either to a fixed price or a fixed formula for a period of time. Both parties analyze the contract to insure that it is something they can afford to be a part of. At the end of the term of the agreement it may or may not be the best price for milk when compared to what others were paid, but it was the best price at the time it was negotiated and if properly understood is good enough to protect the farm capital for survival.

I can and do participate in forward contracts for feed. Under these agreements we agree to purchase in advance hay and other commodities at fixed prices for the upcoming year. Again it is not a question as to whether we judged the market correctly, but whether we fixed our contracts so that we minimized losses or maximized profits depending on market conditions. Feed companies generally provide fixed price feed agreements with their customers. These contracts are available to all farmers regardless of size.

Another means of managing risk is the use of the Chicago Mercantile Exchange Class III and IV prices. Contracts can be had for 200,000 per month or what a 100 cow farm would produce. Many cooperatives offer mini contracts to their members at lower volumes. Through the CME one can use the puts to floor prices and actually sell milk months in advance at higher prices. If milk producers had entered into forward contracts or hedged their milk sales in the fall, and in some cases earlier this year, this price protection may not have guaranteed profits, but the losses might have been in the range of $1 per hundredweight instead of $5 or $6 per hundredweight.

When we look back on these difficult times and look at the survivors there will be many characteristics common among them and generally not found in those who fared less well. Aside from those who started with more capital, integrated dairy farming operations that produced most or all of the crops were better able to survive because the costs of their feeds were less. Smaller farmers tended to be in a better position in general than larger farms who only owned the dairy and purchased the inputs.

The Supply Management Programs should not be adopted

Before further discussion, we must remind ourselves 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. In my opinion, 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.

The law of unintended consequences, but clearly predictable, 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.

There have been a number of farmers who have been advocating instituting a supply management program for dairy. The "promise" of this program 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.

The supply management program, irrespective of its merits or difficulties, cannot solve dairymen's problems today. The current difficulties will have resolved themselves, good, bad, or ugly, before any such program could be decided upon, let alone implemented and having an impact.

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. 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. Matching supply and demand to domestic market eliminates opportunities in world markets. When global demand comes, the U.S. will not have the milk.

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 U.S. 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.

As I have shown, you can reduce the risk of volatility with existing marketing tools and do not need a program; in fact, supply management may interfere with the liquidity of those tools.

What Congress can do?

Consider long term reform for the dairy industry that is done in a thoughtful and methodical manor. 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 U.S. dairy industry into a consistent global supplier of high quality dairy products.

Eliminate the price support program. It is a burden to the U.S. dairymen and tax payer. The U.S. 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 U.S. 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 so long as it does not hamper the sale and movement of milk and milk products domestically and in world markets. Thank you.

The CHAIRMAN. Thank you, Mr. DeJong.

What I find intriguing from these hearings, as we are trying to find a way to help the dairy industry, are the differences of opinions coming from each of you on what the solutions are. For example, let us first talk with one that I think is at the heart of this discussion, and that is the Dairy Pricing Support Program. Let us talk about that. The gentleman from Minnesota, Mr. Plourd, says we need to keep this pricing support system. My friend from Georgia, Mr. Williams, says we need to do away with the price support system. Now, we are sitting here and in order to come up with some of these solutions, we as a Committee are going to have to have the wisdom of Solomon. If one of you say the answer is to do away with the price support system and another one the issue is to keep the price support system, how do we grapple with that? So let me ask you about that. Why do you say do away with it, why do you see keep it, and what should we do with it, and why—each of you, what is the problem? Let us start with that. How do we fix the pricing support system and why do we have such varying opinions on what to do, because we have only one road to go down here and we have to decide what road this is. So would you tell me why you two have such differences on that? And I would like to get everybody's opinion on that one because there is so much here that my first round of questions can't cover it all, but we want to have everybody have a chance for questions.

My apologies. Thank you, my crackerjack staff, it wasn't you, Mr. Plourd. It was Mr. Welch.

Mr. WELCH. I would love to address that issue, Mr. Chairman. The U.S. dairy industry has been supported forever basically. It has been a very good floor and safety net for years and years and years. When the support program got into trouble was the mid 1980s and we probably—I have to be careful here, but the dairy industry probably allowed the support price to get too high. Maybe the cost of production wasn't where it should have been. The support price got to $13, and in that time period the government was buying all kinds of nonfat cheese and they had warehouses full of product that they couldn't possibly give it away to food nutrition programs. So we wanted to keep the support program because it worked great for years. Remember in the 1980s, there was no volatility. You bought cheese at $1.35 under the support and you sold it back at ten percent over that so you sold it back at $1.43, and when you look at the price swings of milk in the 1980s, there weren't any. As you have gone through the 1990s and the 2000s and 2010s, this variability, which to me is the key issue here, that is what is killing the dairy industry. Our consumers and customers don't like it. The export market doesn't like it, and our dairy farmers can't stand the bottom side of it. So we had a support that was too high, too much product in the warehouses. The suggestions at that time were supply management, a two-tier-type program. When you get a certain level of product, cut back on production. I still think those are viable options. I think we let the program support get too low where it was very meaningless, but nobody can argue the last 5 months if we didn't have the support at $1.10, cheese would have gone lower. It is not a coincidence cheese went down to 3¢ under support. I told Secretary Vilsack last week, if he raised the support price 20¢, I bet cheese would go up 20¢. It would be 3¢ under support. The big cheese people aren't interested in the government holding onto cheese. They are interested in holding onto cheese as cheap as possible. So I think the support is an integral part of it. And the other side of it is, any dairy economy in a modernized nation—we have the highest standard of living in the country. Europe strongly supports their dairy industry. The United States has always supported dairy, and agriculture, for that matter. In my opinion, if we think that the United States wants to be unsupported and unprotected and compete with the world market, it is going to be a difficult situation because New Zealand, Brazil, Ukraine, there are a lot of places out there that have lower cost of production.

The CHAIRMAN. Mr. Williams, could you expound quickly why you differ?

Mr. WILLIAMS. My point is, the support price is low enough now that all it does is, when it is enacted the government buys inventories and those inventories continue to depress the price. But, the future of those inventories are done away with, and if they sold back in commercial channels they continue to depress the price. We might be better off as dairy farmers to allow the bottom go down to wherever it was until the product clears out, and then the prices can rebound. It happens with whey now and whey has come back very quickly because it is not supported. It is kind of halfway in between and halfway out. If we increase the support price, somebody has to buy that product and that ends up being the government, and I don't think that is going to work in the long run.

The CHAIRMAN. Just finally because I want to get to the Ranking Member here, but on this main point, could I just get kind of like a show of hands or nod of the head as to those who agree with Mr. Welch that it is an integral part, the price support system. Okay. You have one, two. Anybody else? Okay. So there are two folks favoring the price support system and four that don't. Is that right? Okay. We will come back to that a little later.

I will turn to the Ranking Member now.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. That was an excellent question because I think there is a lot of difference of opinion. One of the things we need to make sure is, when the government is making policy, it is making policy that is helpful and beneficial. If we have current policy that is not beneficial or helpful, then I think certainly that ought to be an issue that is on the table.

Mr. DeJong, Mr. Plourd was talking about some tools that are available and you kind of alluded to some of those tools, and we talked about, I guess, that milk at one time about a year was $20. It is now less than $10. Was there opportunities last summer to lock in these high prices for a period that would have lasted into this year?

Mr. DEJONG. The market trades about 18 months out, and you roll through an 18 month contract, and yet, the market is always giving us opportunity not only to be profitable but really to avoid these huge dips, yes, and we have used those tools.

Mr. NEUGEBAUER. Is that available, Mr. Plourd, to small producers as well as large producers?

Mr. PLOURD. Yes. I mean, there has been a tremendous effort over the past 10 years to, if you will, democratize the process. Most producers shipping to cooperatives and many proprietary plants have access to programs. Some have a 25,000 pound minimum contract, which captures more producers than the contracts in Chicago themselves. So smaller producers do have access to the programs through their plants and cooperatives.

Mr. NEUGEBAUER. Now, one of the things that I think we have unanimity on was that the price discovery for milk is somewhat problematic, that it is not just a matter of my milk is worth X today and I can get a daily price. In the current farm bill we actually provided for an opportunity for USDA to provide daily pricing, but it is my understanding they have not done that at this time. What is the issue that could simplify and make the milk industry more transparent and allow it to be able to use some of the market tools to hedge, to take some of the dips and valleys out of the industry? Mr. DeJong?

Mr. DEJONG. Sir, we do have, currently, some price reporting in the dairy industry, but it is not on a daily basis. If we went to a system very similar to the cattle system of daily reporting of contracts, and this is everything from cheese to fluid, so when our coop sells five spot loads of milk at $1 over or $2 under, it should be immediately reported. This will help all market participants understand where the process is moving. As a dairy producer trying to hedge myself being able to make a more-informed decision and sometimes really having to step out and hope that that is the direction we are going. If there is product that shows up that is not on or reported what is coming in or out of the country and things like that, that transparency will only enhance the market, make it more efficient.

Mr. NEUGEBAUER. Yes, sir.

Mr. ROZWADOWSKI. I would like to comment on what has discouraged me as a dairy farmer from buying milk futures contracts or forward contracts. I think it was 2006, not long ago, the USDA did a study on forward contracting, and that was when it was still a pilot program. The purpose being, they wanted to know how much money farmers made or lost, and they reported that farmers lost $28 million. I approached my accountant about futures contracts, and that is all he does is dairy farmers in my area and he is probably the largest accountant for dairy farmers in Wisconsin or one of the largest. I asked him right out, how many farmers, just give me a rough percentage, how many of your farmers have gone into futures, and he says he has had 25, 30 percent. He says a lot of them have. And I say, again, percentage-wise, how many of those farmers made money at it, and he says I can answer that exactly, he says it is zero; I have never had one come out ahead. He says sometimes they buy futures for a short period of time and come out ahead. Then they will go into it again and they will lose. He says every one of my farmers have lost.

Futures contracts and forward contracts are the only legal way for processors to pay less than the minimum legal announced milk price by the Federal Milk Marketing Orders.

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

Mr. DEJONG. I may respond to that, that we are looking at do dairymen lose money on hedging. Well, if you say you are going to get the top price every month on every hedge, you are a genius and it ain't going to happen. It won't happen. But did you lock in a profit and did that accountant show your bottom line to make money. Sure, you had losses in your hedge account but you made money. You stayed in business. You are able to have a predictable growth pattern, and that is the point that I think that, as we mature in these markets, that is what I would call discipline and how do we get to that point to have the discipline, and not worry about what might show up as a hedge loss.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. I see my time is expired.

The CHAIRMAN. Thank you.

Mr. Kagen, the gentleman from Wisconsin.

Mr. KAGEN. Thank you again, Mr. Chairman, for calling this meeting. If we had all of the people in dairy and those people who represent dairy come in to give testimony about the problems they are having, we wouldn't have time for much else that is going on here in Congress because most everybody I know that dairyland, Wisconsin, is underwater and losing $100 a cow, and these are markets that we can't control. I think what this Committee has to begin to focus on is those factors that we can control, that we can influence, not necessarily the world and global market. I don't think this Committee can have any effect whatsoever about $9 cost reduction of milk over in New Zealand. What we have to do is make certain that we continue to have the resources in our dairy states and dairy farmers so we continue to become food independent.

Mr. Welch, in your testimony you brought up a number of important factors that influenced the price of milk domestically, in particular, the milk protein concentrates, the MPCs. My understanding is, there are no limits at the present time for any corporate import of MPCs. Is that your understanding?

Mr. WELCH. That is my understanding. There are import limits on nonfat and butter and cheese, but as you read the data, there are a lot more MPCs coming back in, and every month there are more, and there is a lot of butterfat coming in in the forms of concentrated milk fat and other milk fat products. One of our main competitors, we do a lot of business for McDonald's Cheese and we are competing on price, and when you make a processed slice, you use butter. We use domestic butter. They use imported butter, 40¢ difference in price. It is hard to compete on a level playing field when things like that are happening.

Mr. KAGEN. You also mentioned in your testimony about the difference between active and passive buying at the CME. I would like you to explain in some detail for other Members of the Committee, and our staff, what you think should be taking place there.

Mr. WELCH. Well, my suggestion is that when there is an offer at the support price, the CCC should automatically buy it. You know, if the support price is $1.13, which it has been, why has the block cheese price been $1.07 to $1.10? Well, the reason is, there is a lot of convoluted things we have to go through to offer the cheese. By the time we get the grater set up it is 3 weeks later and gee, will the cheese market be back up by then. We don't know. So it doesn't work. The floor on support is not really $10 milk. Cheese is about 60¢, 70¢ less, it appears. But if the CCC bought everything offered at the support, that would be the support. It would be $1.13 where it is intended. Now, the USDA would say, well, the quality or find some other issues with it. Well, find somebody to shred it and put it in the food service program or there are other things you can do with the cheese.

Mr. KAGEN. You also had a suggestion that we could harmonize the packaging standards between commercial packaging and also the CCC.

Mr. WELCH. Well, these would have to go hand and hand, they would have to, because the 40 pound blocks offered on the CCC have standards and they are not much different than the government standards. There are some issues on bag tightness, and I am not even sure if they need sleeves anymore like they used to. But my opinion, I don't want to get in trouble here but those standards are roadblocks to make it difficult to offer cheese.

Mr. KAGEN. Let me ask this of the entire panel, whether or not anyone would object to somehow finding a way forward to tying the price of MILC price support in some way to the price that consumers are paying at the markets, the grocery stores. Does anybody object to that? Well, we have one person that would object, the French guy over here, is it?

Mr. DEJONG. Donald DeJong, Dutch.

Mr. KAGEN. So you think that is a bad idea? The old idea of milk-to-feed ratio didn't work out so well in this marketplace. I haven't noticed anything in the grocery stores where the prices are going down for the consumer, but they certainly went down at the farm.

Mr. DEJONG. I am not here to defend retailers, but their risk structure is a lot different than my risk structure. I do not want their risk and I do not want to duke it out like they duke it out in their stores. When we set prices arbitrarily by a few people, it is market distortion and I will vote forever that thousands of people making thousands of decisions daily will move this market where it needs to be quicker and faster.

Mr. KAGEN. So you are suggesting that at the CME there are too few purchasers and sellers, it is too restrictive of a market?

Mr. DEJONG. I think we should encourage everything we can do to have that transparent market grow and encourage that.

Mr. KAGEN. So you would be in favor of transparency of prices of milk that are forward contracted as well if we de-identify those people——

Mr. DEJONG. Every transaction that happens in dairy should be reported the day it happens. Yes, I am in favor of that.

Mr. KAGEN. Thank you. I see that my time is expired. Thank you for being here today.

The CHAIRMAN. Thank you very much, Mr. Kagen.

The gentleman from Virginia, Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman.

Mr. Welch, you suggest in your testimony that USDA should be an active buyer on the Chicago Mercantile Exchange as opposed to serving its traditional role of being a market of last resort for sellers. Are you suggesting that USDA should actively bid on the private market?

Mr. WELCH. No, I am suggesting they would have a standard bid. It would be the support price, so if somebody offered at the support price and somebody else in the industry didn't buy it, they would buy it. That would guarantee that the market would not go below the product support price. This product support price was never intended to really be at $1.08. I mean, we have a product support price program. First of all, we took out the processed-cheese side of it. That weakened the program. And now the prices are 4¢ or 5¢ under it, and the USDA is not buying any product.

Mr. GOODLATTE. Would there be any kind of a mechanism that would stop that from becoming excessive purchases of these commodities? Because I presume they would have to take delivery on these items.

Mr. WELCH. Quite likely there might have to be a volume limit. I don't know.

Mr. GOODLATTE. Does anybody else want to comment on that? Mr. Plourd?

Mr. PLOURD. I think harmonizing the packaging would accomplish the same goal essentially. I mean, if people had a choice between offering at the CME below support or offering to the government at support but the packaging, everything was the same, it would come closer.

Mr. GOODLATTE. Does anybody else want to comment on that? If not, Mr. Plourd, is there any combination of steps individual producers can take in today's market to better position them to ride out the current economic crisis?

Mr. PLOURD. Well, yes, I think that the risk management tools that I discussed do exist, and I think that the point of using these tools is not to—you would expect that producers would limit the variability in their price, not always get the high or get the low. I mean, our studies have shown that producers using forward contracts *versus* producers who don't end up about the same at the end of the day dollar for dollar, but the huge difference is that the guys who are contracting have a $4 or $5 swing between high and low and the guys who are not have a $10 swing between high and low. So it is a way to manage individual volatility on an ongoing basis, and most dairy producers have access to the tools, and my opinion, my testimony is that the pricing system complicates the use of those tools. It is often difficult to understand how to get from point A to point B, given the complexities in the pricing system.

Mr. GOODLATTE. Thank you.

Mr. Rozwadowski, am I close on that pronunciation?

Mr. ROZWADOWSKI. Perfect.

Mr. GOODLATTE. You also had another interesting suggestion. You want the Congress to enact an $18 per-hundredweight price floor. Do you know what the impact of that would be on government purchases?

Mr. ROZWADOWSKI. That immediate step would be temporary like until the end of the year, until we can get a new pricing system going, and on a temporary basis. I don't believe it would have too much effect on supply at all because right now farmers are so far behind in paying bills and debt, and as each month goes on you are even more farther behind.

Mr. GOODLATTE. So they are not going to increase production because they don't have the capital to buy more cows? Is that what you are——

Mr. ROZWADOWSKI. Well, they are going to use the money to pay their bills and catch up on the past bills that they have been getting so far behind on, and that is going to last for at least a few months or quite a few months.

Mr. GOODLATTE. But you don't have any cost estimates on that proposal?

Mr. ROZWADOWSKI. No, sir, I do not.

Mr. GOODLATTE. I wonder if those of you who have experience using a forward contract for your feed purchases or milk sales, were you ever charged or paid a price different from that specified under the terms of your contract? Nobody. And for those of you who have experience using a forward contract for your feed purchases or milk sales, were you ever coerced into entering a contract? And for those of you with those same experiences, have you ever turned down a contract offer that did not work within the financial plan of your business? Have any of you used forward contracting, I guess is my first question. What is your experience with it?

Mr. HOESE. Well, we have in the past. We have not done it for the last couple years. Like the gentleman next to me said, we pretty well broke even. But our creamery charge is a 25¢ per hundredweight which you do contract to protect the cream and to pay the broker. There are some fees involved in forward contracting of the milk, so that is what I will comment on that.

Mr. GOODLATTE. Is that why you are not participating in it now?

Mr. HOESE. Well, at times we think about it because we are diversified, we have other crops we do some forward contracting on and we should be—my son is more or less in charge of the dairy part of it. You know, he wants to and I say go ahead. By the time we go ahead, then the price has dropped again so it is a matter of communication between myself and son, so that is part of the issue, I guess, right there.

Mr. GOODLATTE. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. I thank you, Mr. Goodlatte.

Let me ask each of you this question. Why doesn't the United States produce more milk protein concentrates and why do we produce more nonfat dry milk? Can we start with each of you? Mr. Welch?

Mr. WELCH. Well, basically I think it is pretty simple. The milk protein concentrates have always been cheaper from New Zealand and Australia. We have had attempts over the last 10 years to produce our own milk protein concentrates, but our milk prices are high, and it is just—if we are going to let them free access, that is why we do have tariffs on cheese and butter or we wouldn't be producing cheese and butter. It is all about price. Our milk prices are quite a bit higher than theirs and they can produce it quite a bit cheaper. I think it is that simple. The same with caseinates. Caseins are subsidized out of Europe and we have never been able to make caseinates in this country where we could make money because they are subsidized.

The CHAIRMAN. Are you saying the same thing about why we produce more nonfat dry milk?

Mr. WELCH. Well, there are a couple answers there. One of course is there is a support program so they know they have a market of last resort, and the domestic nonfat market has been fairly strong. It is just in the last 20, maybe 20 years that they have differentiated the proteins and gone to milk for more protein concentrates and some other products.

The CHAIRMAN. Mr. Plourd, do you agree?

Mr. PLOURD. Yes, I would say that the competitive cost of production of MPC is cheaper elsewhere. I guess I will agree with Mr. Welch on both counts. I think with nonfat, the biggest reason we make so much nonfat is because the government will buy it. We sort of devolve into a last resort kind of mentality. Now, if you are going to make a big investment in a plant, you are going to make it in something—all things being equal, you know that the government will buy nonfat from you at 80¢ per pound. They don't have a support price for MPC, so where are you going to put your capital investment, and that tends towards nonfat instead of the others.

The CHAIRMAN. Mr. Williams, do you agree?

Mr. WILLIAMS. The trouble I see with the imports is, industry has learned to use these imports at a cheaper rate to go in the cheese vat and manipulate cheese prices. Our cheese prices are what sets the price of milk all across the United States, and as more of these products are brought in, they go in the cheese vat, increase the cheese yield and the industry has become very adept at using these imports to control cheese price.

The CHAIRMAN. Mr. Rozwadowski?

Mr. ROZWADOWSKI. Yes, it is a profit thing. The processors can produce powdered milk and make more profit on that even at price support levels than they can making a profit on MPCs, given the fact that they can buy imported MPCs so cheaply.

The CHAIRMAN. And Mr. Hoese?

Mr. HOESE. I guess I agree with what the gentlemen had previously said so I don't have any further comment.

The CHAIRMAN. Mr. DeJong?

Mr. DEJONG. Sir, in the Southwest and Texas, we have, really, a joint venture plant between DFA and Fontera that makes MPC in this country, and it is a plant that we use it as our cow balancer. It is the place where we put the milk when we don't have anywhere to put the milk. We can take that plant from zero to 160 loads a day, and to manufacture at that time when our cows are giving us more milk that the market doesn't need. It is an efficient way to do it. Should we have gone out and built a nonfat plant? Our tea leaves say long term-wise, no. But if you are risk averse and the system in place that we have today would tell us as a cooperative, build a nonfat plant and shove it to the government. We will make allowance and we will make a profit in that plant. I don't know what the price of my product is going to be to my farm, but that is not what I want to do. I want to make something that is going to sell and not hold over my head, and if we use it that way, we can make MPC in this country efficiently.

The CHAIRMAN. I see. Let me ask you one other question. There has been a lot of discussion about supply management that different dairy organizations have proposed. What is each of your opinion on this option as a management tool to help stabilize prices?

Mr. DEJONG. I believe that any market intervention to that scope will end in tears.

The CHAIRMAN. Will end in tears?

Mr. DEJONG. Tears. Supply management is either going to end with a surplus or not enough milk, a deficit, and I don't know how to set that fine tune. When you have a country, Mr. Chairman, that has different costs of production from coast to coast, different marketing opportunities, it will be very, very, very difficult. I don't know how to get it done, and obviously with all the programs we have had today, MILC, CWT and everything else, we are here talking about $9 milk.

The CHAIRMAN. I see. Anyone else care to comment on that? Yes, Mr. Rozwadowski.

Mr. ROZWADOWSKI. As far as that goes, farmers may be a unique bunch, especially in this country when prices tend to be down, milk prices tend to be down. They strive and do everything that they possibly can to increase milk production of their cows to try to overcome this deficit. Now, when prices are good, of course, we fall into the category of adding on to your farms, adding on to your herds and increasing the supply. So it works on both ends, and I don't see any other way that we can stop this or curb this without some form of supply management.

The CHAIRMAN. Okay. Thank you very much.

Mr. Conaway, the gentleman from Texas.

Mr. CONAWAY. Thank you, Mr. Chairman.

A couple things. Mr. Welch, would it be okay if the USDA sold into that market, all that stuff they are buying at support prices, they turn around and sell it back into the market?

Mr. WELCH. At ten percent over?

Mr. CONAWAY. No, just sell it at market, at $1.13. So you want protection of the downside but you don't want the upside competition?

Mr. WELCH. Well, I was assuming they would send it in at what the program now, at 110 percent over, but they could. They could sell it to—we could buy it and shred it.

Mr. CONAWAY. Well, what if the USDA sold it, though? Would you be okay with them selling it on the CME, this huge inventory that they are buying?

Mr. WELCH. Sure. Quite likely, they could sell it at $1.40 as the market went back up. It would be the same cheese. It happens a lot. People buy and sell the same cheese in the CME.

Mr. CONAWAY. But not the Federal Government cheese. It is not that huge inventory that they buy. That doesn't go back into the market at those high prices, does it? Okay. Help me understand. Somebody mentioned packaging and differential between the CCC and CME. I know there is a difference but is there a distinction between them? Is there a reason why there is a difference in lot size or package size or whatever it is?

Mr. WELCH. I have been told it is for keeping quality. The program I am familiar with is the barrels, and the barrel is definitely a higher price, firmer fiber barrel, seals up better, probably costs 2¢ to 3¢ more. On the 40 pound blocks, we don't make any 40 pound blocks, but I understand there are some different standards on the block itself.

Mr. CONAWAY. On the price production management system, there are price production management systems that do work. It is typically the market in non-ag businesses because the price will decide whether or not something gets sold or not, and then if you can't sell it and if you don't have that buyer of last resort, the taxpayers. We talk about the government buying stuff. The government really doesn't have any money that it doesn't take from taxpayers or borrow from somebody else, and so there is a management system that would work. I am assuming none of you are really interested at that point in just a free market for milk at this stage. Thank you, Mr. Welch.

I had one other question, Mr. Chairman. The risk management tools that are available, are there barriers to using those other than the 25¢ fee that Mr. Hoese mentioned? Are there other barriers that are systemic, something that we could fix? I can't fix the decision between you and your son whether or not you guys want to pull the trigger. I can't fix the accountant's analysis of whether or not it is a good deal or not but are there things that could be done contract-wise or market-wise that would make those tools a true risk management tool that you would use as opposed to just theoretically thinking about?

Mr. PLOURD. In my estimation, it is about simplification. We have four classes of milk, different calendars operating that set the price, and I think that some effort to harmonize——

Mr. CONAWAY. Mr. Plourd, thank you. We hear a lot of conversations that a lot of the commodities contracts aren't exactly the same. They kind of look like contracts. You buy or sell one thing that kind of looks like something you bake. Have you looked at if you did use a contract at the Class III forward price how that compared with—can that be used as a risk management tool for folks who actually produce and they sell against this complicated, convoluted system where you have a little bit of Class I, II, III and IV make up the price you actually get. Is the contract near enough to be able to use that or are they afraid they are not going to get the best price for that?

Mr. PLOURD. I think, from a mathematical correlation perspective, it does work. As a practical matter, it is not something that is just—people snap to it and understand it right away in terms of reconciling their own milk check with the trade instrument. It does work. Correlations are good but it is complicated to get from milk check to Class III.

Mr. HOESE. If I may, if you look at Minnesota and Wisconsin, the most average age of a dairyman is probably between 55 and 60 so that is one of the curtailing elements that they don't contract now. Some of the larger herds do a lot of contracting. That is what we see in Minnesota.

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

The CHAIRMAN. Thank you, Mr. Conaway.

Well, we have talked about supply management, we have talked about the pricing. Let me ask you all each about the CWT program. It seems to me that through herd reduction we could do two things: we could decrease the milk supply and stabilize our price for fluid milk. Is that not agreeable with everybody? Can we all get on the same page with that one? Is there anybody that agrees with that? Are we all happy with the CWT? Is there anybody that has a problem with that? Mr. Hoese?

Mr. HOESE. Currently, I am not paying into CWT, and of our 450 producers, there is only probably a handful of producers that do pay in the CWT. One of the things that I see as an issue for myself especially is, the last go-around they paid 97 percent up front and another ten percent if you leave your barn empty. I have heard of one producer already went to CWT, sold all his herd, next day he is buying heifers, he is going to forego that ten percent just to start milking again, so that's one issue I have with CWT that I don't agree with.

The CHAIRMAN. Okay. Mr. Rozwadowski?

Mr. ROZWADOWSKI. Yes, I have to agree with Mr. Hoese. I have had one farmer that I saw myself that sold his herd on CWT and at the same time they were hauling them out, they hauled in springing heifers and he never missed a single milking. I don't believe the program is working and has any chance of working.

The CHAIRMAN. Mr. Williams?

Mr. WILLIAMS. I don't think most people would say it is working real well with $9 milk, getting rid of enough cows to control production.

The CHAIRMAN. Mr. Welch?

Mr. WELCH. I think the concept has a lot of merit. It is a supply management program. Most of the panel doesn't agree with supply management but, yes, it has some pitfalls, and a program like that has to be mandatory. You can't have winners and losers and parts of the country that are in or out. But I do think it has some potential.

The CHAIRMAN. Mr. DeJong, did you want to add anything?

Mr. DEJONG. Sure. Currently, our cooperative does pay into CWT. Again, I am not a fan of market initiative but at this current crisis, if you look at a respectful way to retire, this is a respectful way to retire at the values that they are giving to get us out of a short-term crisis here. Will it work perfect? No. Have I voiced my opposition to it within my boards? Yes. But the hopeful sign was at least initially we have 67 percent of the industry together to agree on something, and it has and will make an impact on this industry. Has it been administered perfectly? No. Will it get renewed again? I don't know. But it has forced industry to come together and do something, so that is a positive.

The CHAIRMAN. All right. Do any of you currently participate in the Livestock Gross Margin-Dairy insurance program? Anybody? Getting to a way to stabilize the industry, do you think moving towards a single nationwide marketing order would help create some stability in the industry? Let us start with you, Mr. Welch.

Mr. WELCH. I do. I think if you had one order, you would have not all these other issues about orders, shipping, and all the other requirements.

The CHAIRMAN. Do you agree, Mr. Plourd?

Mr. PLOURD. Yes. I mean, there is always a lot of particulars but in the realm of simplicity, I think it would go a long way.

The CHAIRMAN. Good. Mr. Williams?

Mr. WILLIAMS. I guess it would be more simple but as we consolidate orders, we decrease production, especially in the Southeast where it is short. We are a high-cost region of production, and with a single price we are probably going to be at a greater disadvantage than we are now.

The CHAIRMAN. But you say it could help create some stability?

Mr. WILLIAMS. I said it might be more simple than the conditions are now, but simple does not mean that the dairy industry in the Southeast would survive with a price that was pretty well based on cheese, and when we produce a fluid market and our price cost in the Southeast, we just cannot produce for the cheese market.

The CHAIRMAN. I see. Mr. Rozwadowski?

Mr. ROZWADOWSKI. I would agree with Mr. Welch's comment on that one.

The CHAIRMAN. Okay. Mr. Hoese?

Mr. HOESE. I guess I would agree with the previous gentleman but who would run it and manage it. I guess that would be my major question. Where would you start from? A lot of unknowns here, I guess.

The CHAIRMAN. All right. Mr. DeJong?

Mr. DEJONG. Sir, any movement for less gamesmanship in the Federal Milk Marketing Orders, and they have a lot of gamesmanship between areas, so any movement in that direction would be good.

The CHAIRMAN. So you agree with that?

Mr. DEJONG. Yes.

The CHAIRMAN. Well, this is wonderful. We are making progress here. Mr. Williams is a little hedging but I think that we got one area of agreement, which is great. Okay.

Mr. Thompson.

Mr. THOMPSON. Well, first of all, thank you, Chairman and Ranking Member, for the privilege of sitting in with this Subcommittee. I very much appreciate this series of hearings that you have been doing. It is very important.

I have information that was collected from the Center for Dairy Excellence regarding my Congressional district. It shows that the economic impact of dairy in Pennsylvania's 5th District, it is over $1 billion, and these numbers are striking in terms of the discrepancy. The farm revenue has just over $200 million, and I would fathom to say that frankly the farmers' checkbooks are in red ink. The discrepancy there is just incredible, and so this is such an important hearing. Obviously we are looking at those farmers' checkbooks, that is the important thing here, because we need them to stay in business and continue to feed us and clothe us and to house us and all the things that comes off of our family farms. We are focusing, specifically, on dairy this afternoon and look to the other side of that balance sheet in terms of input costs. I am just curious, Mr. DeJong, how much does input cost? We heard a lot about imports and obviously you compete in that global market, and, obviously, costs impact the balance sheet. How much in your opinion do input costs, particularly in our country in the form of taxes and regulations, energy prices, how much does that put U.S. dairymen at a disadvantage?

Mr. DEJONG. When we say tax, regulation and energy, our tax structure, I would say is benign for me as a dairyman. The regulations, we are looking at investments in—what we talk about is upgrading our systems with nutrient utilization plans, comprehensive nutrient management plans, which are very, very expensive. It is forcing growth, forcing a guy to get bigger because they have to get more cows to cover the costs of that infrastructure. So that is a big issue, and then energy swings have been impacted hugely, and it is very hard for us to figure out as a farmer and an irrigator in west Texas, we use a lot of energy, and it has been very difficult for us on the energy side.

Mr. THOMPSON. Thank you.

Mr. Williams, if you were the milk czar and you had the ability to do whatever reform is necessary to the Federal Milk Marketing Order, what would you see or what would you like to see?

Mr. WILLIAMS. The gamesmanship that has been alluded in the Federal orders, the fact that supplying a Class I market has a higher cost that producing, say, for a cheese market because of swings in production in the Southeast *versus* demand, and that would be two of the ones.

Mr. THOMPSON. Mr. Hoese, any thoughts on that?

Mr. HOESE. Again, that is a loaded question. If I was the milk czar, I probably wouldn't be sitting here right now. You know, every area in the nation is different and cost of production is different in areas. To be a milk czar, whatever you want to call the person in charge of the milk market order or whatever, the task would be overwhelming. My costs of production might be a little lower or might be a little higher than some of the gentlemen sitting here, so I think it is whatever it is in the area that you are in, I don't see a milk czar taking care of the questions that we have here. I think it is going to be tough enough for you gentlemen to solve this and to work through this, and a year from now it might be $18 again on its own. We don't know that right now. You know, when we were thinking about contracting milk in January, it went up to $16. We didn't do it. Everybody was telling us it was going to be higher by then. We didn't contract milk by then. We should have then. We would have been money ahead but we didn't, so to your question, I really don't have a simple answer even though I spun around here a little bit, so sorry about that.

Mr. THOMPSON. That is all right. It is not a simple question. I understand that.

Mr. Rozwadowski, right now the safety line that I think I just read on Friday, the USDA is helping to ease up credit to help folks be able to borrow. There was something like that, that I don't want to misquote it, but I have heard discussions about the lifeline and the lifeline being credit. It seems to me that is a short-term solution obviously to keep farms surviving. How hard is it for our farmers to be able to pay this debt back?

Mr. ROZWADOWSKI. It is impossible right now at $10 milk. It is impossible. Most farmers are not making their mortgage payments. A lot of banks are allowing them to go down to the status of paying interest only, and those farmers are struggling something terrible just to pay that interest.

Mr. THOMPSON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Thompson.

Let me ask each of you this question. We have addressed different things today, but if you had to prioritize what we need to do to help the current dairy situation, what would each of you list as the two most critical things that we should do, or that should be done in the short term to alleviate the current dairy situation? We would like to get what each of you would recommend as the two most critical things that you feel we need to do for the short term to help the dairy industry. Let us start with Mr. Welch.

Mr. WELCH. I think the two things that would immediately help would be to raise the support price, and I would recommend 20¢. I don't think the government would buy any cheese at $1.33. And raise the MILC payment, go from 45 to 90 percent. That would probably be $2½–$3. It would not be cost of production but it would at least keep some people in business. I strongly fear if we don't do something, we are going to have a mass liquidation and we won't have enough milk. I think it is a domino thing. When one starts going, we might see a lot of people exit the dairy business if we don't give something——

The CHAIRMAN. I want to get this right. The first thing would be to raise the support price by 20¢.

Mr. WELCH. Yes, I gave it a number, on cheese.

The CHAIRMAN. On cheese?

Mr. WELCH. Yes.

The CHAIRMAN. Okay, and the second one?

Mr. WELCH. That the MILC calculation, the 45 percent payment, make it 90 percent.

The CHAIRMAN. It is 45 percent now, you want to make it 90 percent.

Mr. WELCH. Yes, and those would be short term. As a matter of fact, you wouldn't have near as much MILC payment because of the support price increase. I haven't done the calculation but there wouldn't be a very big MILC payment.

The CHAIRMAN. Raise the support price by 20¢ on cheese, and the MILC from 45 percent to 90 percent, raise the payment?

Mr. WELCH. Sure, but if you raise the support price by 20¢, the milk price goes up $2. I suspect the MILC payments may not even exist at that level. I am not sure.

The CHAIRMAN. Okay. Good. Thank you.

Mr. Plourd?

Mr. PLOURD. I am not sure I should be in the habit of disagreeing with one of my better customers. I would say two things. I think if I were in the dairy producer lobbying role, I would say that one of the things that struck me as curious was USDA's decision to eliminate the purchases of processed cheese under the support price program. It was a way to get an easier quality standard into the government would have cleaned up the barrel market quite a bit sooner. For myself, I would say with all due respect, I would say that we should just wait because we have had these—I mean, every 3 years we are back at the same table basically discussing the crisis in the dairy farm economy. I think that we ought to make a decision to have these hearings when prices are at higher levels. I mean, we tend to wait until we get way too low before we try to find a fix and we try to fix things. I am not sure we make them better. And then the market tends to take its course and will turn higher. So that would be my comments.

The CHAIRMAN. To wait?

Mr. PLOURD. I have the opinion that already today market forces are at work in such a way that we will see higher milk prices by the fourth quarter of this year as well as on into next year.

The CHAIRMAN. Okay. That is good to know.

Mr. Williams?

Mr. WILLIAMS. I somewhat agree with the last one. I am not sure there is anything government is going to do in the short term that is going to make a significant difference besides handing out money. I don't think that is going to work real well and we ought to be working on more long-term solutions that balance supply with demand and cut out the gamesmanship on Federal orders and that type of thing, and find a true market that cannot be manipulated by a few traders. I think the long-term solutions are much more—even though we are going to have a mass exodus of dairymen, it is hard to enact anything that is going to slow that, that is not going to mess with the market in the future.

The CHAIRMAN. So you feel we should do nothing?

Mr. WILLIAMS. Unfortunately, I don't know anything that they can do besides, like I said, hand out money, that is going to make a significant difference.

The CHAIRMAN. And you don't want us to do that?

Mr. WILLIAMS. Well, if it was given to me, it would be fine, I guess, with no strings.

The CHAIRMAN. Answered like a good man from Georgia.

Mr. Rozwadowski?

Mr. ROZWADOWSKI. First I would like to see an $18 floor price and let that price come from the marketplace, not the taxpayers. That would get some money into the dairymen's pockets so they can pay some bills. And second, one thing that we could do that would really make a difference is, stop the imports of cheese, MPC and dairy ingredients and caseinates and all that stuff.

The CHAIRMAN. Okay. Eighteen dollar floor price as determined by the market, not anything we would do. Is that what you are saying?

Mr. ROZWADOWSKI. I don't think so. A set price announced by the USDA of $18 or near that figure.

The CHAIRMAN. What is it now?

Mr. ROZWADOWSKI. There is none.

The CHAIRMAN. There is none? Okay. Thank you. Eighteen dollar floor price set by USDA. All right. And stop imports of cheese. Is that correct?

Mr. ROZWADOWSKI. Yes, sir. Well, cheese and ingredients like MPCs that we use in our cheese vats to make more cheese.

The CHAIRMAN. All right. Thank you.

Mr. Hoese?

Mr. HOESE. I guess one important thing we should really consider right now is MILC payment. There is a production cap on that, and from my herd of 120 cows, I am going to hit that production cap in about 10 months, so if we could raise that cap or allow that cap to extend, I think that is one of many concerns if there is no price increases of our dairy milk, so that is one issue I have. I agree with the gentleman on the end, raise it 20¢ a hundredweight for the cheese, just get a little stimulus into the program. I am a little concerned about the $18 floor price because that is going to lead to overproduction again, but if you raise it a couple dollars a hundredweight, it should help to alleviate some of the current issues.

The CHAIRMAN. Okay. Thank you very much.

Mr. DeJong?

Mr. DEJONG. Sir, I do believe in do no harm.

The CHAIRMAN. Hold on a second. Let me go back.

Mr. Hoese, you said raise the MILC.

Mr. HOESE. Yes, there is currently a cap, like 1.9 million pounds or something in a year or something like that, and like I said, my herd is going to reach that in about 10 months.

The CHAIRMAN. What would you raise it to?

Mr. HOESE. Double it, because we have to help the gentleman next to me too, and I am sure he probably ran out of his already for this year or close to it. In 10 months he said he will be out of his MILC cap. He will be at the cap. But we should double it to help—it is just 120 cows. If you split that between myself and my son, we each have 60 cows, which is the average herd probably in Minnesota right now and Wisconsin, so everybody looks at you with 120 cows, you got a lot of cows, but——

The CHAIRMAN. So what would that cap be?

Mr. HOESE. It is 3.6–3.7 million pounds, and I think that would probably help a lot right now with the current situation.

Mr. WELCH. The current cap is 2.95 million pounds.

Mr. HOESE. Okay. Thank you.

The CHAIRMAN. Okay, 2.95 million pounds, so you are looking at 6 million pounds.

Mr. HOESE. Six million pounds. Thank you.

The CHAIRMAN. Mr. DeJong?

Mr. DEJONG. Mr. Chairman, I think that this market has gone through a cycle and we are coming out of it. When we send signals out there that we are going to keep and hold these herds and develop a program, it is going to send a signal, it is going to make this thing last longer. Right now, as hard it sounds, is do nothing, is to let this thing—the futures markets today are responding and saying yes, we do believe that the price recovery is at hand and is coming. Herd reduction is here. We are at the trough, and the simple fact that we are all meeting here again is extending this longer for everybody in the dairy sector to get their arms around what the problem is and understand how to solve it. The other thing I would encourage is, just move to mandatory price reporting in everything already and that will encourage a more transparent market.

The CHAIRMAN. Mandatory price reporting?

Mr. DEJONG. Yes, sir.

The CHAIRMAN. All right. Thank you each very much. Mr. Conaway, anybody? All right.

I want to thank all of our witnesses for coming today. This has been a part of a series of hearings that we will be holding, and we will be holding another hearing next Tuesday on July 28. I look forward to our continued discussions with our Subcommittee, our producers and our processors.

Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any questions posed by a Member of the panel.

The hearing of the Subcommittee of Livestock, Dairy, and Poultry is thereby adjourned. Thank you.

[Whereupon, at 12:55 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL BY J. EVERETT WILLIAMS, PRESIDENT, GEORGIA MILK PRODUCERS, INC.

July 27, 2009

Hon. DAVID SCOTT,
Chairman,
Subcommittee on Livestock, Dairy, and Poultry,
Committee on Agriculture,
Washington, D.C.

Dear Congressman Scott:

I would like to take this opportunity to thank you for inviting me to serve as a panelist for the hearing held by the Subcommittee for Livestock and Poultry on July 21, 2009. This is a perilous time for the nation's dairy industry, and we hope that the hearings held by this Subcommittee will lead to a quick recovery for our industry. I have faith that with the right changes made to our milk marketing system, our industry could one day thrive again.

I would like to respond further to one of the questions asked of the panel during the hearing on July 21. A Committee Member asked the panel what actions we would take to improve the current dairy pricing system if we were appointed Milk Czar. I would have the Justice Department investigate market access for all dairymen and any antitrust concerns in the milk markets. The Justice Department should investigate the Chicago Mercantile Exchange cheese markets for illegal activity.

Also, current imports of casein and Milk Protein Concentrates do not meet USDA standards and therefore should not be allowed for use in cheese making. The government's goal should be to not allow the greed of milk companies to destroy dairymen.

The Federal Milk Marketing Order (FMMO) should be expanded to cover all of the United States. Their mission should be to audit milk plants (for better price discovery) and to enforce milk payments to dairymen.

Manufacturing and fluid milk would be the only two classes of milk. The market would be used to set the prices. The goal on fluid pricing would be to encourage milk production near the population. We in agriculture must recognize that allowing the least cost production areas to set our fluid prices will cause more and more milk to be shipped even greater distances.

I would also implement the Holstein Dairy Price Stabilization Program to control milk price volatility. Matching production with market needs would benefit dairymen, processors and consumers.

Once again, I appreciate your efforts to improve our nation's dairy industry and for the opportunity to serve on the panel last Tuesday. I hope you consider these suggestions and please feel free to contact me at [Redacted].

Sincerely,

EVERETT WILLIAMS,
President.

SUBMITTED QUESTIONS

Questions Submitted By Hon. Glenn Thompson, a Representative in Congress from Pennsylvania *

Question 1. In your view, are the current proposals to assist access to credit a short term or long term solution?

Question 2. How will farmers be able to deal with this debt? How will they be able to pay it off?

Question 3. How much do input costs—particularly in the forms of taxes, Federal regulations, and energy prices—put U.S. dairymen at a disadvantage?

Question 4. In your view, how are milk imports affecting prices?

* There was no response from the witnesses by the time this hearing went to press.

HEARING TO REVIEW ECONOMIC CONDITIONS FACING THE DAIRY INDUSTRY

TUESDAY, JULY 28, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:30 a.m., in Room 1300, Longworth House Office Building, Hon. David Scott [Chairman of the Subcommittee] presiding.

Members present: Representatives Scott, Costa, Kagen, Holden, Boswell, Cardoza, Markey, Murphy, Minnick, Peterson (*ex officio*), Massa, Neugebauer, Goodlatte, King, Conaway, Smith, Roe, and Thompson.

Staff present: Adam Durand, Alejandra Gonzalez-Arias, Chandler Goule, Scott Kuschmider, James Ryer, Rebekah Solem, Mike Dunlap, John Goldberg, and Jamie Mitchell.

OPENING STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

The CHAIRMAN. This hearing of the Subcommittee on Livestock, Dairy, and Poultry to review economic conditions in the dairy industry, part three, will come to order. Thank you all very much.

The gentleman from Pennsylvania, Mr. Thompson, is not a Member of this Subcommittee, but he has joined us again today. I have consulted with the Ranking Member. We are pleased to welcome him to join in the questioning of the witnesses. Good to have you, Mr. Thompson, again.

This is the third part of our Subcommittee's examination of the current crisis in the dairy industry—and crisis in the dairy industry is really putting it mildly. As always, I appreciate everyone attending and aiding us in our efforts.

For those who were not able to attend last week's hearing, I would like to inform you that you missed what is perhaps the most monumental event in history of dairy policy. A diverse group of panelists, representing a broad geographic and ideological spectrum all agreed to something, and that is very, very important. I don't know if anyone on this Subcommittee, and certainly not me, can recall that happening in recent history. Of course whether or not that portends further or larger agreements in the future remains to be seen. Let us hope so. For it is only by us coming together that we can really find a solution to these very critical issues that are indeed complex and challenging facing the dairy industry. At the very least, however, it did show that our idea about where dairy policy should head is not irreconcilable.

Of course there is certainly a tremendous amount of work to be done before we are all marching through the halls of Congress singing *Kum Bay Ya*. Hopefully we will be able to do that. However, I feel that this series of hearings has laid the foundation and the groundwork upon which we can begin to enact sound dairy policy reforms.

That being said, new and different voices are always welcome to contribute to the debate.

[The prepared statement of Mr. Scott follows:]

PREPARED STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

Welcome everyone, to the third part of our Subcommittee's examination of the current crisis in the dairy industry. As always I appreciate everyone attending and aiding us in our efforts.

For those who were not able to attend last week's hearing, I would like to inform you that you missed what is perhaps the most monumental event in the history of dairy policy. A diverse group of panelists, representing a broad geographic and ideological spectrum, all agreed to something. I don't know if anyone on this Subcommittee, and certainly not me, can recall that happening in recent history. Of course, whether or not that portends further or larger agreements in the future remains to be seen. At the very least however it did show that our ideas about where dairy policy should head are not irreconcilable.

Of course there is certainly a tremendous amount of work to be done before we're all marching through the halls of Congress singing *Kum Bay Ya*. However I feel that this series of hearings has laid the groundwork upon which we can begin to enact sound dairy policy reforms. That being said new and different voices are always welcome to contribute to the debate. And in the interest of hearing all of those voices I'll end here and turn to my Ranking Member, Mr. Neugebauer, for any comments he wishes to add and then we'll hear from our panelists.

The CHAIRMAN. And in the interest of hearing all of those voices, I am going to end here and turn to my Ranking Member, Mr. Neugebauer, for his comments that he would like to add, and then we will hear from our Chairman, Mr. Peterson, and the rest of the panel. Mr. Neugebauer.

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

Mr. NEUGEBAUER. Well, thank you, Chairman Scott, for calling this third and at least final hearing for a while on the review of current economic conditions in the dairy industry.

As I was visiting with some of the witnesses before the meeting here, we had really good meetings in the past. We have had great panels. As the Chairman alluded to, we have had diverse panels. We have had people with different perspectives and different ideas on what is the current situation in the dairy industry, and really how—where do we go from here. I think one of the things we have heard that there is not universal agreement on, some of the actions that we need to take that probably should give this body pause for concern, that until we come to a consensus on what we would do, we should approach this with some degree of caution.

One of the things that happens when the government starts doing things is it many times disrupts market conditions. And so, then, when the government gets into a marketplace and the market participants have to learn how to now deal with the government being in the room, we are seeing that in other areas of government right now. We have had a massive intrusion of the government into our financial institutions. We now have the government in the car business. We have the government in the insurance business. And I would tell you that those of you out there in the dairy business, you don't want the government getting into the dairy business too deep.

And so what we hopefully will hear today are some more ideas and thoughts about what are some of the appropriate things that we can do. I would hope that we would be looking for long-term solutions. Many cases when market dips and markets go up and down, sometimes government is chasing the problem, maybe things are too expensive or things are too cheap, and somehow people think the government's role is to determine what the price of a commodity is, and that is not the role of a government to determine what the price of something is. Is it the role, then, for government to make sure there is integrity in the market? Certainly. Transparency, certainly. Those are roles we can play.

But I would just caution those that are looking for a quick fix that quick fixes sometimes have long-term consequences. What I would hope we would be looking for, then, are solutions that make the dairy industry healthy and profitable and continue to be a major part of our agricultural economy, and quite honestly, a major part of a way of life in America.

So I thank the witnesses for being here today. We know that we have a great panel of thoughtful witnesses and we look forward to hearing your testimony. With that, Mr. Chairman, I yield back my time.

The CHAIRMAN. Thank you, Ranking Member Neugebauer. Now we will hear from the Chairman of the full Committee on Agriculture, Chairman Peterson.

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

Mr. PETERSON. Thank you, Mr. Chairman, and thank you, Mr. Neugebauer for your leadership, for holding these hearings, the third one that we have done here. And I would guess that we are not done listening to people yet. We will decide how we proceed. But, it is important that we have an opportunity for people to come in and give us advice about where we ought to be going and how we ought to approach this situation, which is a very bad situation as we are all aware.

I just want people to know I have been—I was on this Subcommittee for many, many years going back, way back to Mr. Gunderson's time, and this is one of the worst situations we have been in. But I want folks to know how much Members of this Subcommittee, the full Committee, and Members outside of our Committee have focused on this issue. This is not something that people have not paid attention to.

I cannot tell you how many Members have approached me on the floor, called me into meetings, particularly in the Northeast. The Members—Mr. Holden, Mr. Murphy, Mr. Massa, Mr. Welch, Mr. Courtney—I know I am forgetting somebody. Just about everybody that has agriculture, including some of my friends on the other side of the aisle, have talked to me. In California, which saw this problem first and probably the hardest, Mr. Cardoza, Mr. Costa, Mr. Nunes have been very much focused on this.

As usual in dairy, we have not come to a consensus yet. There are ideas out there. Some good ones, some that I am not sure are so good. But one of the problems we run into is finding out—finding a way to pay for the different ideas that are out there. And frankly from my perspective, one of the problems is that we have been pretty firm in not opening the farm bill, not trying to get down the road of opening that whole situation up. So we have been working within some constraints there as well, but rest assured this Committee very much understands the problem, understands the seriousness, understands that this is something that needs to be dealt with on a timely basis. I can tell you that the Members are very much focused on this and providing leadership and we will continue to do that.

So, Mr. Chairman, I appreciate your leadership and the time that you have spent on this issue, and I look forward to hearing from our witnesses today. We welcome you all to the Committee and very much appreciate your taking your time in giving us your advice about where we ought to move. So, thank you, Mr. Chairman.

[The prepared statement of Mr. Peterson follows:]

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

I would like to thank Chairman Scott and Ranking Member Neugebauer for calling this third and final hearing this month on the economic conditions facing the dairy industry. I appreciate their leadership on this issue and for their diligence in holding these hearings before we adjourn for the August District Work Period.

I will be very brief since the purpose of today's hearing is to continue with the examination of the economic hardships facing dairy producers because of historic low prices.

The two hearings this Subcommittee has held to this point have been instructive and have shown that the dairy crisis is not confined to one region or type of business operation. I imagine we will hear much of the same today.

Including today, this Committee will have heard from 20 witnesses over these three hearings, including producers from California, the Pacific Northwest, Texas, Georgia, Minnesota, Wisconsin, and Pennsylvania. In addition, we heard from two of our colleagues, Representatives Peter Welch of Vermont and Joe Courtney of Connecticut, about the situation in their districts, where the dairy industry plays a big role in the local economy.

I think it was important for this Committee to hear as many different voices as possible from all across the country when it comes to the current plight of the dairy industry and how best to move forward. I know there is a lot of passionate debate on dairy policy, even in the absence of low prices. Too often those strong feelings break along regional lines, pitting producers in one part of the country against another. As I said many times when we were going through the farm bill, we cannot afford to have agriculture divided. I hope our witnesses today and in the previous hearings will keep that in mind.

I appreciate today's witnesses being here today and lending their voice to this timely debate. I thank you again, Chairman Scott, and Ranking Member Neugebauer, for calling today's hearing, and I yield back my time.

The CHAIRMAN. Thank you very much, Mr. Chairman. The chair would request that other Members submit their opening statements for the record so that the witnesses may begin their testimony and we can make sure we have ample time for their questions.

[The prepared statement of Mr. Baca follows:]

PREPARED STATEMENT OF HON. JOE BACA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Chairman Scott and Ranking Member Neugebauer:

I am pleased to be here today as we continue to discuss the current economic conditions facing the dairy industry—and what steps, if any, the Federal Government should take to stabilize the dairy market.

I thank the Chairman and Ranking Member for convening this hearing and hope we will be able to gain valuable insight into this critical issue.

I also want to thank all our witnesses for coming here today—and taking time from their schedule to help us in Congress hear the perspective of the dairy producers and exporters on how to tackle the current crisis.

Everyone in this room understands the important work America's dairy farmers do, and the vital need to keep the dairy industry healthy and prosperous.

When agricultural markets fluctuate, there is a direct and significant impact on our nation's food supply—and thus the health and nutrition of virtually every American.

In my own Congressional District in the Inland Empire of California—dairy is a significant agricultural and economic product.

As Members of the Subcommittee on Livestock, Dairy, and Poultry, it is vitally important that we gather as much information on this subject as possible.

America's dairy industry must remain strong and secure.

We must be willing to work together on this issue. The USDA, industry groups, the Federal and state governments all play an important role in stabilizing our markets.

I look forward to hearing from our witness today and again thank the Chairman and Ranking Member for their leadership.

Thank you.

The CHAIRMAN. We have a battery of issues and concerns, among them, the Dairy National Pricing Order, our Livestock Cost Margin Dairy Program, our Herd Buyout Program, how you feel about the CWT. There is just so much here for us to deal with to try to come to some solutions as to how we can get some help. Our goal again, as I reiterated, is to see what we can do to get some immediate help as well as long-term help.

So with that, let me welcome each of you and our panel of witnesses that we are pleased to have, Mr. Craig Lang, President of the Iowa Farm Bureau Federation and a Member of the Board of Directors of the American Farm Bureau Federation of Brooklyn, Iowa. Welcome.

Mr. W. Anthony Bostwick, the CEO of Braum's Ice Cream and Dairy Stores, on behalf of Braum's and the American Independent Dairy Alliance, Oklahoma City, Oklahoma.

Mr. Joaquin Contente, dairy farmer and President of California Farmers Union, Hanford, California.

Mr. Walter M. Guterbock, D.V.M. and M.S., Manager of the Columbia River Dairy and Sixmile Land and Cattle Company from Boardman, Oregon.

Ms. Melissa L. Hughes, General Counsel, CROPP Cooperative, LaFarge, Wisconsin.

Mr. Gordon M. Cook, Jr., dairy producer and Member of the Board of Directors of Holstein USA, Inc., of Hadley, Massachusetts.

And Mr. Thomas M. Suber, President of U.S. Dairy Export Council, Arlington, Virginia.

Thank you and welcome to each of you, and we thank you for taking the time out to come and share with us your expert testimony.

Mr. Lang, we will begin with you.

STATEMENT OF CRAIG LANG, PRESIDENT, IOWA FARM BUREAU FEDERATION; MEMBER, BOARD OF DIRECTORS, AMERICAN FARM BUREAU FEDERATION, BROOKLYN, IA

Mr. LANG. Chairman Scott and Ranking Member Neugebauer, thank you for the invitation to be here today. I would also like to say it is good to see my friend and Congressman, my personal Congressman, Congressman Leonard Boswell, here today. It is good to see you. Thank you.

I am Craig Lang, a fifth generation farmer from Iowa. Two of my sons comprise the sixth generation of our family to be involved in farming. Our farm is truly a three-generational dairy. My 83 year-old father works on the farm every day. My brother manages the dairy, and my two sons are working into partnership and ownership. They work full time on the farm because, unlike many farms, dairy is a full-time occupation. I would also like to add that my daughter, Jessica, is Executive Secretary of the Iowa Dairy Association. So our roots run very deep in the dairy industry.

We milk 560 cows three times daily, producing roughly 35,000 pounds of milk each day. We plan to expand by building a new parlor and a new nutrient handling system, and also by doubling our herd when long-term profitability returns to the dairy sector. Until that time, we are only expanding enough to meet the needs of my two sons joining my operation. Our break-even cost is around $14 per hundredweight, of which $7 per hundredweight is for feed. Our current mailbox price is about $11 per hundredweight after you add in for premiums for quality and volume.

Because of the historically challenging milk price, we have almost depleted all the cash we put away over the previous 2 years when our farm milk price receipt was considerably higher.

At this time, we have about 40 percent of our 2010 milk production sold for a price between $14 and $18 per hundredweight using a buying tool through our milk cooperative. We have always believed that operating our farm from a strong financial position is our best defense to low prices.

This year, U.S. dairy producers have been caught in a classic price-cost squeeze, with milk prices declining sharply from record highs while feed and land costs remain high. At the current time, public and private intervention measures are in place, but are not being fully felt at the farm gate.

Dairy farmers enjoyed positive returns in 2007 and most of 2008 as strong international demand pushed up the price of dairy products and the mailbox price of milk. In November of 2007, all-milk price hit a record $21.90 per hundredweight. In 2008, milk prices remained high and sent a signal to the market to produce more. And we, as farmers always do, we did produce more because the prices were good.

Last fall converging factors lead to an evaporation in U.S. dairy export markets. First and foremost, the global economic recession virtually halted the trade of products, while a stronger dollar also made our products more expensive in the marketplace. And finally, New Zealand was able to regain their market position in late 2008.

The Farm Bureau believes the major factors leading to the current economic stress in the dairy industry are the demand shock from the evaporation of the international marketplace, excess supply being thrust upon the domestic marketplace, and shrinking margins in income over feed costs.

Declining milk and dairy product prices in late 2008 and 2009 have reactivated government programs to support dairy prices and dairy farm income. In February of this year, milk prices dropped below the trigger of Milk Income Loss Contract payments to dairy farmers for the first time in 2 years triggering over $450 million in checks to dairy producer. However, our dairy herd size only allows us to reap about 30 percent of our production in that program.

In addition, USDA has allocated the maximum volume of dairy products to the U.S. through the MILC Program to export Dairy Export Incentive Payments and yet be consistent with World Trade Organization commitments. We believe this program is good. The Farm Bureau has encouraged USDA to expand Commodity Credit Corporation purchases authority and purchase CCC inventories for domestic feeding programs and expand dairy allocations through DEIP. Short-term solutions include maintaining the current safety net, letting existing programs work, further use of DEIP, expanding or enhancing Cooperatives Working Together Program and altering existing programs to enhance dairy income.

The Farm Bureau would be supportive of at least three options to assist dairy producers in the short term, the first and probably the best through the CWT Program, removing cows from the market. We believe that another three percent reduction in cow herd numbers is important to bring prices back to a profitable level.

Thank you for your time, and I will answer questions later.

[The prepared statement of Mr. Lang follows:]

PREPARED STATEMENT OF CRAIG LANG, PRESIDENT, IOWA FARM BUREAU FEDERATION; MEMBER, BOARD OF DIRECTORS, AMERICAN FARM BUREAU FEDERATION, BROOKLYN, IA

Chairman Scott and Ranking Member Neugebauer, thank you for the invitation to be here today. I am Craig Lang, a fifth generation farmer from Iowa. My two sons comprise the sixth generation of my family to be involved in farming. Our farm is a three-generation dairy. My 83 year old father works on the farm everyday. My brother manages the dairy and two of my sons are working into ownership. They work full time on the farm because, unlike many farms, dairy is a full time occupation.

My oldest son is a graduate of the University of Northern Iowa with a degree in Political Communication. He has decided not to go to law school because he believes there is a good future in the dairy industry. My second son graduated from Kirkwood Community College with an Agriculture Production degree. He also believes agriculture holds a promising future and is specializing mainly in the crops and feed needs of the dairy animals. My two sons could find employment off the farm, however, their passion is to continue farming. With good policy and a little luck, they will succeed in growing our operation to a profitable and competitive size.

We milk 560 cows three times each day, producing roughly 35,000 pounds of milk per day. We plan to expand by building a new parlor and nutrient handling system when long-term profitability returns to the dairy sector. Until that time, we are only expanding enough to meet the needs of my two sons joining our operation. Our expansion includes a remodeled free stall barn, more cows in milk, expanding our silage storage capacity, dry feed storage and additional rented land.

Our break even cost for the milk we produce is around $14 per hundredweight, of which $7 per hundredweight is for feed. Our current mail box price is about $11 per hundredweight after you add in premiums for quality and volume.

Because of the historically low milk price, we have almost depleted all the cash we put away over the previous 2 years when the price was considerably higher. We are now using a bank line of credit to help pay for daily operations. We have about 40 percent of our 2010 milk production sold for a price between $14 and $18 per hundredweight using a buying tool through our milk cooperative.

This year, U.S. dairy producers have been caught in a classic "price-cost squeeze" with farm milk prices declining sharply from record highs while feed costs remain high. At the current time, public and private intervention measures are in place but are not yet being fully felt at the farm gate.

Dairy farmers enjoyed positive returns in 2007 and most of 2008 as strong international demand pushed up the price of dairy products and the mail box price of milk. In November 2007, the all-milk price hit a record $21.90 per hundredweight. In 2008, milk prices remained high and sent a signal to the market to "produce more." Farmers responded by increasing U.S. milk production. Total U.S. milk production rose by 2.1 percent in 2007 and by 2.3 percent in 2008. This is close to the 2.1 percent average increase since 2000. Much of this supply increase was driven by cow numbers rather than gains in milk production per cow because of the pressure of rising feed prices—both concentrates and forage.

Last fall, converging factors led to an evaporation of the U.S. dairy export market. First and foremost, the global economic recession virtually halted the trade of products, while a stronger dollar also made our products more expensive in the marketplace. Finally, New Zealand was able to regain much of its drought-plagued milk production in late 2008.

Farm Bureau believes the major factors leading to the current economic stress in the dairy industry are the demand shock from the evaporation of the international marketplace, excess supply being thrust upon the domestic marketplace, and shrinking margins of income over feed costs.

Declining milk and dairy product prices in late 2008 and 2009 have reactivated government programs to support dairy prices and dairy farm income. USDA estimates that it purchased 170 million pounds of nonfat dry milk in the first 6 months of 2009. That is the equivalent of about 30 percent of production. USDA has said they expect to remove an additional 40 million pounds of nonfat dry milk during the remainder of 2009. In February 2009, milk prices dropped below the trigger for Milk Income Loss Contract (MILC) payments to dairy farmers for the first time in 2 years, triggering over $450 million in checks to dairy producers. In addition, USDA has allocated the maximum volume of dairy products the U.S. is allowed to export with Dairy Export Incentive Payments (DEIP) subsidies and yet be consistent with World Trade Organization (WTO) commitments. Farm Bureau has encouraged USDA to expand the Commodity Credit Corporation (CCC) purchasing authority, purchase CCC inventories for domestic feeding programs and expand dairy allocations via DEIP.

Yet, this declining economic picture has caused all of us to look at various options to determine what can be done to assist the dairy industry—in the short- and long-terms.

Short-term solutions include: (1) Maintaining the current safety net and letting existing programs work; (2) further use of DEIP; (3) expanding or enhancing the Cooperatives Working Together (CWT) program; and (4) altering existing programs to enhance dairy farmer income.

While Farm Bureau policy on dairy is lengthy, a few policy highlights include:

(a) We support "a market-oriented national dairy program that includes a national countercyclical income assistance component, such as the MILC program which is consistent with a worldwide fair and open trade policy." In addition, we oppose "discrimination against large producers in the MILC program."

(b) We support a "continuation of the dairy price support program *at the current level.*"

(c) We support "state and regional initiatives or compacts which are consistent with our overall goal of a market-oriented national dairy program, specifically the expansion and reauthorization of the Northeast Interstate Dairy Compact and authorization of the Southern States Dairy Compact."

(d) We support and encourage the use of CWT.

Given these policy positions, Farm Bureau would be supportive of at least three options to assist dairy producers in the short-term. The first, and probably best, option would be a further ongoing effort to reduce cow numbers through the CWT program. We applaud the efforts undertaken by CWT so far. The latest removal of 100,000 cows unfortunately, only represents about one percent of the U.S. herd. Our economists believe another three percent reduction in the cow herd numbers for an extended period of time will be required before dairy prices are likely to significantly rebound.

We fully understand that the buyout program may not have the funds to reduce the U.S. herd enough to boost milk prices back to a profitable level. This may mean that the only option is for more farmers to sell their herds on the open market.

Eventually, that culling of the U.S. herd will reduce milk supply and boost prices. Cull cow markets have already softened considerably and are making this a difficult decision for farmers.

While fewer dairy cows would be useful in increasing dairy prices to farmers, we are adamantly opposed to a Federal Dairy Herd Buyout program similar to that used in the past. While that program did decrease production significantly and increase the price available to dairy farmers, it added to total meat supplies and had a negative effect on the beef industry. As a general farm organization representing farmers who produce all types of commodities, it is imperative that we do not support programs that may benefit one sector to the detriment of another sector.

Some in the dairy industry have suggested limiting milk supply by taxing increases in production. That would only serve to increase domestic milk prices and make U.S. dairy producers less competitive in world markets.

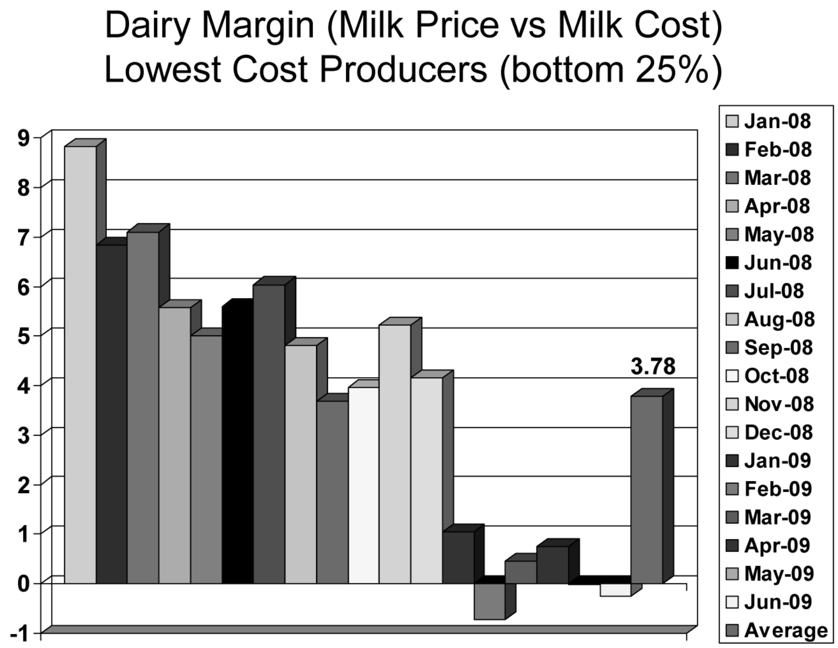
We know that some Members of Congress and dairy organizations have asked USDA to raise the purchase prices under the Dairy Price Support program. While this would certainly raise prices, it is not something AFBF can support given our policy to continue the "dairy price support program *at the current level.*" We also oppose increasing support prices because it has the strong potential to send the wrong signal to the market to increase or at least maintain, rather than to decrease, production.

While our policy does not support increasing the price support levels, it does call for ending discrimination against large milk producers in the MILC program. The current program limits payments to an operation of about 160 cows. Farm Bureau would like to see this payment limitation removed. We would also support state and regional initiatives or dairy compacts, although we do not see much ambition for such an initiative at the current time.

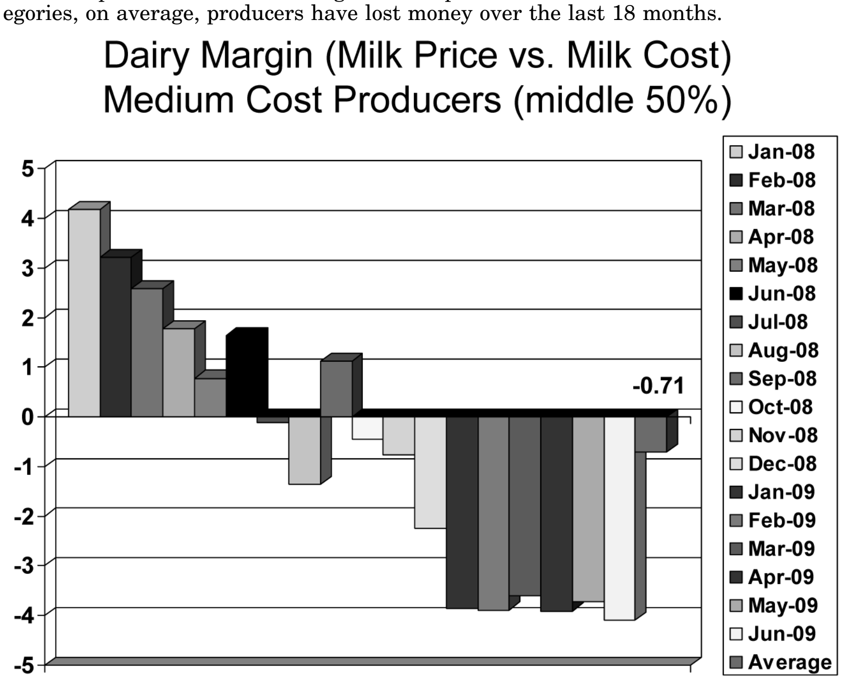
DEIP pays cash bonuses to exporting companies, subsidizing the sale of U.S. dairy products to foreign buyers at prices less than cost and enables U.S. companies to compete in global markets where other countries may be subsidizing their own dairy product sales. DEIP has been dormant for several years but due to encouragement from AFBF and others, USDA reopened the program recently, setting allocations that could help move up to 1.5 billion pounds of milk to the export market. As of July 1, U.S. companies had received $2.3 million in bonuses to export dairy products. AFBF will continue to pursue future DEIP allocations in a timely fashion in order to continue to encourage more dairy product exports while operating within our WTO commitments.

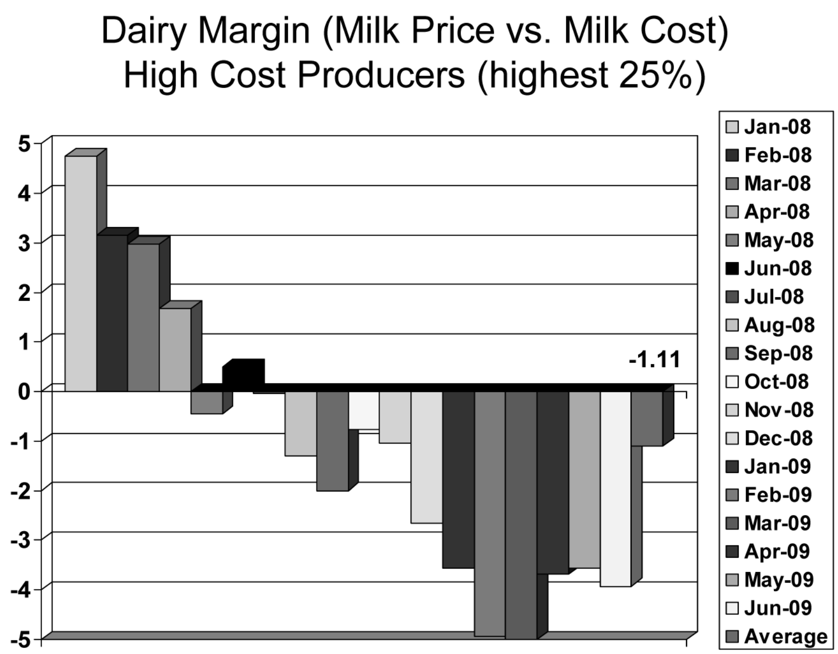
In the short-term, it is tempting to "do something" to help producers immediately. But, as USDA Under Secretary Jim Miller testified before the House Agriculture Committee 2 weeks ago, "USDA is currently forecasting the all-milk price to average $11.60/cwt in the third quarter and $13.10/cwt in the fourth quarter. For all of 2010, USDA is projecting an all-milk price of $15.30." We are working our way out of this severe crisis and must let the dairy sector return to a supply/demand balance as soon as possible.

I want to draw your attention to a few charts. Farm Bureau believes there is a huge problem in trying to "help" the dairy industry via increasing the dairy price support levels. The cost of producing milk varies widely around the U.S. The first chart is a graph of dairy margins (price minus cost) for each of the last 18 months for the 25 percent of producers who are the lowest cost producers in the U.S. These producers have actually made a profit over the last year and a half.



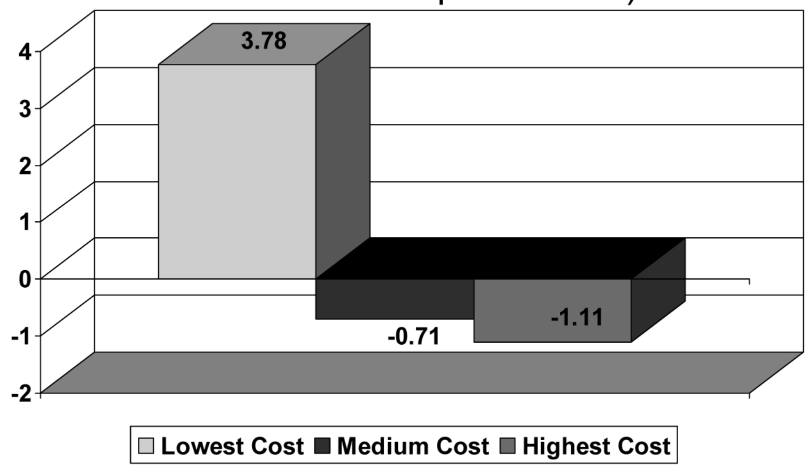
The second chart shows the results for the same 18 months for the 50 percent of producers deemed medium cost producers. The third graph shows the figures for those 25 percent who are the highest cost producers. For both of the last two categories, on average, producers have lost money over the last 18 months.





The final chart compares the profits and losses of the three categories. As we consider how to assist the dairy industry in either the short- or long-term, the question that troubles us the most is, "How do you help high-cost producers without producing a windfall for the low-cost producers?" In the short-term, we believe allowing the current program to work is the best answer. There is no question many dairy producers are in a crisis and have suffered greatly, but attempting to "do something" in the short-term would not be a wise investment.

Dairy Producer Margins
(Can you increase dairy price supports to help the high-cost producers without producing a windfall for the low-cost producers?)



In the long-term, AFBF is well-aware that price volatility has been a major issue for the dairy sector. While volatility may offer opportunities at high price levels, it also means price swings can be difficult to balance on the low end. However, AFBF policy is clear that reducing price volatility should not come at the expense of producer choice, and deviations from market-oriented pricing are unwise. AFBF has strong policy against supply management in all commodities.

A supply/growth management program is problematic for a variety of reasons: (1) It is predicated on the fact that someone can adequately and accurately predict domestic and world supply and demand for dairy products; (2) It limits innovation and incentives for efficiency gains in the industry; (3) It potentially offers an insurmountable barrier to entry for new producers; and (4) It takes away the U.S. dairy industry's ability to participate in the potentially lucrative world markets.

AFBF's policy is clear that greater market presence is needed in the dairy industry. We support an expanded role for markets and private enterprise in establishing prices for all classes of milk; and a price discovery method which utilizes more milk and expands mandatory reporting and auditing of prices and inventories; including penalties for inaccurate reporting.

We also support modifications in the Federal Milk Marketing Order that will enhance the milk price received by producers and are encouraging USDA to appoint the task force to review the Federal Milk Marketing Orders as soon as possible. Many of our dairy producers see the need for improved price discovery and feel that Federal orders could operate more effectively.

In conclusion, we are keenly aware that producers are facing significant income loss and that all of them may not be able to survive financially. We believe encouraging further CWT programs to reduce supply would be most beneficial. We do not believe increasing the minimum support levels in the current dairy price support program is a good idea as it would encourage additional milk production and slow the supply adjustment process needed to bring the dairy market back into balance.

We have encouraged USDA in the past year to increase dairy product purchases by the government. We will undoubtedly request additional buys in the future. We are willing to discuss long-term strategies to help stabilize the dairy sector; however, we do not see supply/growth management implemented by the U.S. Government as a viable option.

As a general farm organization, AFBF must ensure producers of all agricultural commodities are treated fairly. It comes as no surprise to anyone here that the pork and beef sectors are undergoing as troubled a time as is the dairy industry. Certainly, there is reason to believe peanut producers are also suffering. If AFBF was to support additional assistance for the dairy industry, we would also need to be helpful to other sectors as well.

Farm Bureau appreciates the opportunity to share our views and we look forward working with you on these issues.

The CHAIRMAN. Thank you very much, Mr. Lang. We will now hear from Mr. Anthony Bostwick.

STATEMENT OF W. ANTHONY BOSTWICK, CEO, BRAUM'S ICE CREAM AND DAIRY STORES, OKLAHOMA CITY, OK; ON BEHALF OF AMERICAN INDEPENDENT DAIRY ALLIANCE

Mr. BOSTWICK. Chairman Scott and Members of the Subcommittee, on behalf of Braum's Ice Cream and Dairy Stores and the American Independent Dairy Alliance, I would like to thank you for giving us this opportunity to testify today.

Our recommendations grow out of our experience operating a strong regional milk and ice cream business. We believe that there is compelling need now to modernize the U.S. dairy policy. Our current economic condition provides an opportunity that we cannot afford to waste.

Braum's is a vertically integrated third generation 100 percent family-owned business based in Oklahoma. Braum's is unique in that we raise our own crops to feed our own cows, we milk our own cows, we bottle our own milk, and we make our own ice cream, and we sell our own milk and ice cream products in our own stores. Our marketing strategy is based on quality, traceability, time to market, freshness, higher solid nonfats and the lower fat milks.

ADIA is a group of diverse, independent producer-handlers and exempt plants formed several months ago. My testimony is focused on the role of the Federal Milk Marketing Order System and our recommendations for change.

First, Federal minimum prices are set by the government without regard to the cost of production to the producer.

Second, in a highly concentrated market in which a few large cooperatives and processors exercise dominate market power, losses fall with disproportionate weight on smaller producers in the regulated pool.

Third, the Federal Milk Marketing Order pricing system is complex, poorly understood, nontransparent, and ill-equipped to facilitate innovation, growth, and production diversification responsive to changing customer demand. It has essentially become divorced from reality. As originally designed in the 1930s, it was intended to ensure adequate supplies of Grade A milk for fluid consumption. That goal has been accomplished. Fluid milk today is a minority use of milk. Cheese is the undisputed primary use. And the rules of the FMMO today primarily serve that use and are disruptive to fluid milk markets.

We have a system in which a mother buying milk for her toddler is essentially subsidizing cheap cheese for pizzas. This neither makes nutritional or economic sense. A coherent national dairy policy is essential. What is our national policy and what should it be? Is it to preserve small farms? The pooling and pricing system does not contribute to that goal. Nor do the support programs because they are insufficient to overcome the economic penalty of the small farm as a producer of a commodity pool to milk. If that is the goal, a different suite of tools and programs would be required.

Is it reformation of dairy policy to assure producers a return consistent with cost of production and a reasonable profit? The pooling and pricing system as currently structured contemplates no such requirements.

Is it simplification and increased transparency to facilitate a thriving and efficient market driven dairy industry? Braum's and the ADIA both believe that this should be a goal of a revised future oriented Federal dairy policy. We support such simplification. For example, a single Federal order with a single all-milk price could help remove much of the market disruption caused by the current system. A program driven by continuously shrinking Class I receipts is just not rational dairy policy.

Is it to provide options for farmers to control their own destiny? We are headed in the direction of fewer, less diverse opportunities in the milk business rather than more. This is wrong, and it is a counterproductive national policy.

Producer-handlers, large and small, are innovators in the dairy industry, and they respond directly to customer demand for differentiated milk products, organic, grass fed, local, glass bottles, home delivery, higher solids, nonfat content and low-fat milks, freshness, single source farm traceability. The business risks and capital investments of a producer-handler and management responsibilities of direct marketing are very substantial. But for those that choose this model, it is a viable alternative.

We recommend the following: Modernize the Federal Milk Marketing Order system to simplify complex, arcane, and antiquated price formulas and replace them with a national and transparent single price system, and direct the USDA to suspend the producer-handler elimination hearings pending such modernization.

Thank you for the opportunity to testify today.

[The prepared statement of Mr. Bostwick follows:]

PREPARED STATEMENT OF W. ANTHONY BOSTWICK, CEO, BRAUM'S ICE CREAM AND DAIRY STORES, OKLAHOMA CITY, OK; ON BEHALF OF AMERICAN INDEPENDENT DAIRY ALLIANCE

Chairman Scott and Members of the Subcommittee, on behalf of Braum's Ice Cream and Dairy Stores (Braum's) and the American Independent Dairy Alliance ("AIDA") I would like to thank you for giving us this opportunity to testify today. Our comments and recommendations grow out of our experience as a producer-handler operating a strong regional milk and ice cream business and our reasons for opposing the current NMPF and IDFA proposals pending before USDA to eliminate independents from the U.S. dairy marketplace by forcing them into the regulated pool. To us, this is an example of the need now to modernize U.S. national dairy policy. The current economic conditions provide an opportunity that we cannot afford to waste.

I. Braum's and AIDA—Who We Are

Braum's is a vertically-integrated, third-generation, 100% family-owned business based in Oklahoma. Braum's is unique in that we raise our own crops to feed our own cows, we milk our cows, we bottle our milk and make our own ice cream; and we sell our milk and ice cream products in our own stores. The only milk you can buy at a Braum's store is Braum's milk. Braum's operates stores in five states: Oklahoma, Texas, Arkansas, Kansas and Missouri. Our stores include a quick service restaurant with drive thru windows, an Ice Cream Parlor, and a Fresh market where fresh dairy, bakery, meat and produce items are sold.

Our marketing strategy is based on quality, traceability, time to market, freshness, and higher SNF (solids non-fat) in lower fat milks. Our lower fat milk products are unique—they contain a higher SNF percentage than other brands based on a process through which we remove water. As a result, it takes 3 gallons of milk to make every 2 gallons of Braum's fat-free milk. A variety of doctors in our marketing area recommend our low-fat milks to their patients who need extra calcium with less fat.

AIDA is a group of diverse independent producer-handlers and exempt plants formed several months ago in response to a petition by NMPF and IDFA to eliminate producer-handler status as a matter of national policy.[1] We are each strongly interested in the rejection of that proposal on its merits in the ongoing proceeding at USDA, and equally interested in a seat at the national policy table to discuss effective modernization of U.S. dairy programs. To that end, my testimony is focused on the role of the Federal Milk Marketing Order system and our recommendations for change.

II. The Current Dairy Market Economic Situation

A number of witnesses have already testified about one of the fundamental problems for producers in today's market—Federal minimum prices under the Federal Milk Marketing Order system are set by the government without regard to the cost of production to the producer. In times of high input prices for feed and fuel like the present, the economic loss associated with the inability to secure a cost of production plus a reasonable rate of return is devastating.

A second problem is that in a highly concentrated market such as the one we have, in which a few large cooperatives and processors exercise dominant market power, such losses fall with disproportionate weight on smaller producers in the regulated pool. The record in the producer-handler hearing demonstrates as much as a $5/cwt cost of production disadvantage for such producers.

A third problem is that the Federal milk marketing order pricing system is complex, poorly-understood, non-transparent and ill-equipped to facilitate innovation, growth and product diversification responsive to changing consumer demand. It has essentially become divorced from market reality. As originally designed in the 1930s, it was intended to ensure adequate supplies of Grade A milk for fluid consumption. That goal has been accomplished. Fluid milk is today a minority use of milk. Cheese is the undisputed primary use—and the rules of the FMMO today primarily serve that use, and are disruptive to the fluid milk market. We have a system in which a mother buying milk for her toddler is essentially subsidizing cheap cheese for pizza. This makes neither nutritional or economic sense.

A fourth problem is the lack of a consistent regulatory program throughout the country although there is clearly a national market for milk and the dairy products produced from it. We have a jumble of federally regulated areas, state regulated areas, Federal and state regulated areas and areas outside of any order whatsoever. A single national order that encompasses the existing marketing areas would help but would still leave large areas of the country out of the "national" system. The State of Idaho, for example, now one of the top ten dairy states is not included in any Federal or state order system. A coherent national dairy policy is essential.

III. Redefining National Dairy Policy

The elements of the foregoing situation demonstrate a need for re-evaluation of both national objectives and national policy. What is our national policy and what should it be?

- Is it the preservation of small farms? The FMMO pooling and pricing system does not contribute to that goal, nor do the support programs because as currently structured they are insufficient to overcome the economic penalty of the small farm as a producer of commodity, pooled milk. If that is the goal, a different suite of tools and programs is required and should be developed to facilitate economically viable small farm operations. Farm preservation should not be the goal of a program intended to facilitate orderly flow of milk to consumers.
- Is it reformation of dairy policy to assure producers a return consistent with cost of production and a reasonable profit? The FMMO pooling and pricing system as currently structured contemplates no such requirement and unless USDA elects to revisit the methods by which prices are set, Congressional action to change the law may be required.

[1] The founding members of AIDA include Snowville Creamery (Ohio), Kreider Farms (Pennsylvania), Heartland Creamery (Missouri), Aurora Organic Dairy (Colorado), GH Dairy (Texas) and Longmont Dairy (Colorado).

- Is it simplification and increased price transparency to facilitate a thriving and efficient market-driven dairy industry? Braum's and AIDA both believe that this should be the goal of a revised, future-oriented Federal dairy policy. We support such simplification. For example, a single Federal order with a single all-milk price could help remove much of the market disruption caused by the current system. A program driven by continuously shrinking Class I receipts is just not rational dairy policy. As just one example of lost economic value in the current FMMO system, we estimate that the FMMO fees that would be due from Braum's to the USDA for telling us what we should pay ourselves for our own milk would equal an additional ten farm jobs. We would hope we can all agree that folks in Oklahoma need these jobs more than the government needs money for such a purpose.
- Is it providing options for farmers to control their own destinies? As very clearly demonstrated by the producer-handler hearing, we are headed in the direction of fewer, less diverse opportunities in the milk business rather than more. This is wrong and is counter-productive national policy. Producer-handlers, small and large, are innovators in the dairy industry responding directly to consumer demand for differentiated milk products (organic, grass-fed, local, glass-bottled, home delivery, higher SNF content in low-fat milks, freshness, single-source farm traceability, *etc.*). The business risk, capital investment and producer-handler management responsibilities of direct marketing are very substantial but, for those who choose this model it is a viable alternative for economic success and provides a valuable source of competition in the U.S. market.
- Is it maintaining every economically viable business we have in rural areas? Dairy farms in rural areas provide important economic engines for those areas. Every reasonable tool available to minimize consolidation is important to maintaining the economic base of those rural areas. Braum's and AIDA support national dairy policy that is consistent with maximizing jobs in rural America. This presumes every reasonable tool available for competitive success remains available.

IV. Conclusion and Recommendations

We submit that we should stop fighting individual alligators and drain the swamp instead. We need a future-oriented dairy policy that addresses the market we have today and that we hope to have and grow in the future. The independent producer-handler option is an important component of any policy that fosters a healthy competitive marketplace with strong ties between producer, handler, retailer and consumer, of which I represent all four. To this end we recommend the following:

- modernize the FMMO system to simplify complex, arcane and antiquated pricing formulas and replace them with a national and transparent single price system;
- direct USDA to suspend the producer-handler elimination hearing pending such modernization; and
- affirm the ability and right of participation of independent dairies in the marketplace.

Thank you for the opportunity to testify today.

The CHAIRMAN. Thank you, Mr. Bostwick. And now we will hear from Mr. Joaquin Contente. And let me apologize for just basically murdering your name a few minutes ago. And I thank Mr. Jim Costa, your Congressman, and my staffer for coming to my rescue.

Mr. Contente, you are recognized.

STATEMENT OF JOAQUIN CONTENTE, PRESIDENT, CALIFORNIA FARMERS UNION, HANFORD, CA; ON BEHALF OF NATIONAL FARMERS UNION

Mr. CONTENTE. Thank you, Mr. Chairman and Members of the Committee. And I would also like to thank Chairman Peterson for allowing these meetings to exist. And, of course my Congressman, Congressman Costa from the Valley there, we appreciate all of you being here today.

My name is Joaquin Contente. I farm in the Central Valley with my brother Tony, and currently I serve as President of the California Farmers Union, the state chapter of the National Farmers Union. Today I testify on behalf of the National Farmers Union.

I come here humbly today to try to emphasize how serious things are. In my county alone, there are 25 dairies that have either filed, or are on the edge of filing, for bankruptcy. Each day, we have people that are falling into that category closer and closer. Two producers in my area there, immediate area there, have committed suicide and many more are experiencing unimaginable stress because the difference between what producers are receiving and what they are paying for their inputs is huge.

California's dairy industry is very, very large, $61 billion economy to the state, 435,000 jobs that we have in the state due to the dairy industry. Many of the allied industries and businesses that participate in this industry are also falling into these categories of failures. The producers are not able to pay their bills and you are finding businesses that rely on these industries it causes them to fail. The impact will be huge if we do not change something in the very near future.

I have found that there is considerable widespread consensus among dairy producers and their allied industries in what should be done to improve the dairy policy to end this crisis. The California Dairy Campaign has launched a letter writing campaign to call attention to the ongoing crisis. We have sent hundreds of letters here to the Committee and also to the Administration.

A number of counties in the state have recently adopted a resolution. The largest counties, Tulare, Kings, and Merced, have adopted these resolutions. This resolution is included in the testimony that I presented here today in its entirety, And it provides the solutions for the industry.

The first solution: A Federal mandate. I would like to read an excerpt from the OMB's website of what the Support Price Program, a definition of it. For this program to be successful, it should maintain market prices near average operating costs. This will ensure that the efficient producers are able to stay in business until prices recover. However, less efficient producers will not have this protection.

This is a very good explanation of what the Support Price Program should do. It should be there for when the market has these interventions. We had this intervention that happened with the financial meltdown last fall, which really had nothing to do with supply and demand on the producer side. So we should have something in place—and it is a mandate of the Federal Government to have that and that mandate is not being adequately adjusted for the conditions that we have.

We support the July 15th letter that Senator Patrick Leahy of Vermont, along with my Senator, Barbara Boxer, from California, have signed on, urging the Secretary to increase the Dairy Price Support Program. And we also feel that the Secretary has this authority without having to open up the farm bill.

The second solution, implementation of fair tariffs on unregulated dairy solids. During the 1993 Uruguay Round, the caseins were not included in the tariff rate schedules that were negotiated.

That left a big hole for product to come in basically unregulated. Today these unregulated milk proteins make up the largest category of imports by volume. Compounding the problem is the failure of USDA ERS information in regard to the usage data for these proteins. The commercial disappearance or utilization reports do not include any of these imports, thereby misleading the impact of these proteins. If you were to figure out the volume of the amount of milk equivalent of this category, which would be casein, caseinates, and MPC, it would be equivalent to about 15 billion pounds of milk annually. It is the largest single category of imports.

Sorry.

[The prepared statement of Mr. Contente follows:]

PREPARED STATEMENT OF JOAQUIN CONTENTE, PRESIDENT, CALIFORNIA FARMERS UNION, HANFORD, CA; ON BEHALF OF NATIONAL FARMERS UNION

Good morning, Mr. Chairman and Members of the Committee. My name is Joaquin Contente. I own and operate a dairy farm with my brother Tony in Hanford, which is just West of Fresno in the Central Valley of California. I currently serve as a President of the California Farmers Union, a state chapter of the National Farmers Union (NFU). I serve on the board of the California Dairy Campaign (CDC) which represents dairy farmers throughout California. The California Dairy Campaign is a member organization of California Farmers Union and a member of the dairy Subcommittee of the National Family Farm Coalition (NFFC).

My dairy has been in my family since the 1920's, but the future of my dairy and others throughout California and the nation are in serious jeopardy due to record low producer prices. In my county alone 25 dairies have either filed or are in process of filing for bankruptcy and many more are closer to bankruptcy each day. Many of the dairy operations near bankruptcy today have been in operation for several generations. They are family dairy farms that have weathered many economic storms, but the crisis they confront today is unparalleled in our history. Two dairy producers in my state have committed suicide and many more are undergoing unimaginable stress because producer prices cover just 50 percent of the average cost of production in California.

California leads the nation in dairy production generating more than $61 billion in economic activity and more than 434,000 full-time jobs. The dairy crisis is adversely affecting all the related businesses that supply and provide services to dairy producers. Dairy producers across the country face the same grim outlook due to record low producer prices that cover just a fraction of the average cost of production.

Mr. Chairman, I commend your leadership for holding this series of hearings to address the economic conditions in the dairy industry because the dairy crisis becomes more serious each passing day. In order to end this crisis it is vital that dairy producers come together to agree upon policy changes that will lift our industry out of this deepening crisis. In my lifelong history as a dairy farmer I have never seen prices remain this far below our costs for this long and I have never seen so many dairy producers so desperate for relief.

I have found that there is considerable and widespread consensus among dairy producers and their allied industries about what should be done to improve Federal dairy policy end this crisis. The California Dairy Campaign launched a letter writing campaign in May to call attention to the ongoing dairy crisis and offer solutions to end it. Producers and allied industries alike joined the letter writing effort to urge President Obama and leaders in Congress to work together to provide relief to dairy producers. Thus far we have sent more than 300 letters to Members of the House and Senate Agriculture Committees and President Obama calling for an increase in the dairy support purchase price and the establishment of an inventory management program.

A number of counties throughout the California, including some of the biggest dairy producing counties like Tulare, Kings and Merced, have passed a dairy resolution put forward by CDC and CFU to raise public awareness about the dairy crisis and call for specific actions to end it. I have included a copy of the California dairy resolution in its entirety in my testimony. Local officials understand the profound impact that the dairy crisis is having on communities throughout the state. The dairy resolution puts forward solutions to end the crisis by calling for an increase in the dairy support purchase price to reflect today's cost of production; implementation of fair tariffs on unregulated imported dairy solids; greater market transparency; and the establishment of an inventory management program. I will outline each of these solutions in my testimony today.

Increase the dairy support purchase price

In order to be effective, the dairy support purchase price must factor in today's cost of production so that is can provide a meaningful safety net during crisis like the one faced by producers across the country today. We support a temporary emergency floor price of $18 per hundredweight to provide immediate relief to producers. We call for an increase in the Federal support purchase price to the level included in the Milk Income Loss Contract (MILC) program, which is the Boston Class I price plus the feed adjuster.

The Federal Government supports the price of dairy products at $9.90. This is the price milk producers received 30 years ago. We call upon Congress to act quickly to adjust the Federal purchase price so that it includes the current cost of production, not the costs paid to producers more than 30 years ago.

The Office of Management and Budget (OMB) during the last Administration publicly stated that the price support needs to be at the cost of production. We call upon Congress and the Obama Administration to act quickly to adjust the Federal purchase price so that it includes today's cost of production, not the costs paid by producers more than 30 years ago.

The recent devastation of the dairy industry can be attributed to a number of factors including the financial meltdown that began last fall, rising concentrated dairy imports, a lack of competition in the marketplace, consolidation, rising input costs and other factors. To be an effective safety net, the price support program must be increased in response to rising production costs.

The U.S. is already a net deficit milk producer. Federal dairy policy should foster a healthy and viable domestic milk supply because each cow in the U.S. generates $20,000 per year to the national economy. In these uncertain financial times, it is critical that dairy producers receive a fair price that is based on their full cost of production. An equitable price support that more closely reflects the prevailing cost of production would be an important first step in ending the dairy crisis.

Implement Fair Tariffs on Unregulated Dairy Solids

Concentrated dairy imports for January and February of 2009 surged upward more than 70 percent compared to 2008 despite record low producer prices. Much attention has been paid to the decline in dairy exports. But rising imports of concentrated dairy proteins are the real threat to the future of our domestic milk supply. With these imports a little goes a long way in displacing domestic milk production and most do not meet basic food safety standards.

It is difficult to comprehend the impact of concentrated dairy imports because these imports, including milk protein concentrate (MPC), casein and caseinates for food usage, are not included in the commercial disappearance data issued by USDA. A 2004 USDA Agricultural Marketing Service (AMS) report titled, "Milk Protein Products and Related Government Policy Issues" stated that the amount of imported milk protein concentrates accounted for 5.9 percent of the total U.S. milk protein production. The report concluded that on average milk protein imports are equivalent to approximately five percent of our domestic milk protein production.

The U.S. dairy market is the world's largest single commercial dairy market. This market last year reached and exceeded 200 billion pounds of milk including exports. However, the USDA ERS fails to include any usage data for casein, caseinates and MPC in its commercial disappearance of milk data. Therefore, the commercial disappearance or utilization reports from USDA ERS are not complete or accurate. Once all the different categories are included in the commercial disappearance calculation such as casein, butter, MPC, and lactose the total for imports surpasses 15 billion pounds of milk equivalent or more than seven percent of U.S. milk production. Just a few percentage changes in milk consumption can have a significant impact on producer prices. Concentrated dairy imports amount to more than seven of our domestic milk production and have a substantial impact on the prices received by U.S. dairy producers and have made our country net deficit in milk production.

Dairy producers have fought for years to pass legislation to regulate dairy imports by supporting passage of the "Milk Import Tariff Equity Act." So far, dairy processors and food manufacturers, with their well funded lobbying firms, have fought off any regulation. To end the dairy crisis, lawmakers need to direct their attention to the dairy imports that are flooding our market and forcing so many operations to the brink of financial collapse.

As consumers become more interested in where their food comes from, a trade loophole is allowing a flood of concentrated dairy imports from far off places. Our country already relies on dairy imports to meet our domestic needs, and if action isn't taken soon we are going to become even more dependent on imports.

Mandate Greater Market Transparency

In order to establish an effective dairy price discovery system the Federal Government must restore fair, transparent and open dairy markets. The consolidation that has occurred over the past couple of decades has eliminated market competition to the point that now the last one percent of our daily milk production determines the price of all of the milk produced regardless of prevailing market demand for dairy products.

A handful of traders set the prices for cheese and butter on the Chicago Mercantile Exchange (CME). This thinly traded market operates for only a few minutes 5 days per week yet it is the mechanism that sets all-milk futures contracts. The CME completely lacks transparency. Traders use code names to guarantee their anonymity. Capitalism and the interests of society are trumped by a handful of traders that are self-regulated with virtually no oversite. Dairy producers across the country are very concerned that the lack of Federal oversight and transparency at the CME has led to market manipulation, and created a highly volatile market that negatively impacts dairy producers.

Due to the lack of transparency at the CME, producers that may be economically impacted by anti-competitive trading practices, have no recourse to independently inquire or investigate the lack of competition in the marketplace. If the CME was more open and transparent, more businesses would trade, and the sales volume would increase fostering a more accurate and reliable market that better reflects the actual value of milk in the United States.

In June 2007, the Government Accountability Office (GAO) issued a report on the spot cheese market titled, "*Market Oversight Has Increased, But Concerns Remain about Potential Manipulation.*" The 2007 GAO report documented that few daily trades occur on the CME and a small number of traders account for the majority of trades. The report further concluded that the CME is susceptible to potential price manipulation.

One of the greatest challenges facing U.S. producers and every other producer in the world is consolidation and concentration of the marketplace, which also drives market globalization. Capitalistic markets function properly when there is a balance of buyers and sellers. There are about 60,000 dairy farms marketing milk today through 200 cooperatives. Half a century ago, there were 180,000 dairy producers marketing through 1,000 cooperatives. While the number of farms and cooperatives continue to decline, the marketing presence of farmer-owned dairy cooperatives has actually expanded during the past generation. Despite this expansion there is less competition vying for producers at the co-op level, with more intervention by non-cooperatives and non-farmer controlled businesses.

Dairy cooperatives continue to grow in size and form strategic alliances with private entities. For example, my own cooperative, Land O' Lakes, sells a large portion of their cheese to Kraft Foods. The largest cooperative, Dairy Farmers of America, has ongoing agreements to supply milk to Dean Foods and Leprino Foods, and continues to expand its relationship with Fonterra. Cooperatives justify their actions by claiming they are subject to the growing demands of retailers. Wal-Mart, for example, wishes to consider no more than two suppliers for each food product it features in its stores across the U.S. The consolidation and concentration not only harm producers through lower prices, but also negatively impacts consumers with less choice at the grocery store.

In most U.S. metropolitan areas, one company, Dean Foods, has acquired the majority of fluid plants. Two corporations dominate the cheese sector; Kraft Foods at the retail level and Leprino Foods at the food service level. Regardless of which cooperative a U.S. producer markets his milk, at the end of the day the vast majority of milk is purchased by only three major buyers that dictate each market. Dean Foods dominates the fluid market, Kraft owns the retail market and Leprino runs the food service market. Until steps can be taken to end the stranglehold that these three entities have on the three major components of the dairy sector, competition will be stifled and producer prices depressed.

Economic power concentrated in the hands of a few players has essentially eliminated the price system, which capitalism is thought to rest. The farm-gate price is no longer cost plus profit; instead it is a command economy with a few corporate players dictating farm price. The loss of producer economic power is best illustrated by the widening gap between retail prices and farm-gate prices. While consumers continue to experience sticker-shock on dairy products, dairy producers are left with a shrinking percentage of the consumer dollar.

Many organic dairies throughout the country are also struggling due to the dairy crisis. Many have seen the price they receive for organic milk decrease substantially and are now subject to production caps. Organic dairy producers have invested heavily to meet organic standards, but now that many of the same corporate processors have entered the organic market, these producers are also struggling due increasing consolidation and concentration.

Establish an Inventory Management Program

Inventory management is sorely needed now more than ever. At the turn of the century the Federal order adopted the California style make-allowance structure. This pricing mechanism establishes cost of production values for plants. These values remain constant whether the market is short or long. Plants become isolated from market conditions and are decoupled from capitalistic signals in regard to supply and demand.

Since the loss of parity in 1981, the gap between retail and farm-gate prices has continued to widen dramatically. As the mid 1990's approached, volatility constantly increased due to several factors including consolidation; introduction of futures contracts, and the U.S. became a net-importer. Establishing a milk inventory management program will ensure the stability of the marketplace and provide sustainability for all in the dairy industry and these benefits will also be enjoyed by retailers and consumers alike.

California dairy producers have been in a constant growth mode. When prices are good, we add cows; when prices go down, our bankers tell us to add cows in order to cash flow, even though, historically, California has had some of the lowest mail box prices in the nation. An effective inventory management system would provide an incentive for dairy producers to manage milk production to meet prevailing market demand. Producer price volatility is a threat the dairy producers in California and across the nation. The current system provides an incentive for dairy producers to simply maximize their production, especially when producer prices are high which can lead to lower prices due to the increase in supply that results. An inventory management program could provide an incentive for smart growth in milk production that is based upon current market conditions. It would lead to the end of the boom and bust cycles that have plagued dairy producer prices for so many years and provide some stability in the future for all producers.

Conclusion

The outlook for dairy producers in California and across the country is grim unless Congress acts quickly to reform Federal dairy policies. We call upon Congress to increase the dairy support price to factor in today's cost of production; address rising unregulated imports of concentrated dairy proteins; mandate greater market transparency and establish and inventory management program to balance milk supply with market demand.

We thank you Mr. Chairman for holding this important series of hearings to address the difficult and unprecedented economic conditions dairy producers face today. We greatly appreciate the opportunity to testify today and look forward to working with Members of the House Agriculture Committee to end the dairy crisis and sustain our domestic milk supply in the future.

ATTACHMENT

California Dairy Resolution

Relative to dairy producers.

Whereas, California has been the nation's leading dairy state since 1993 and is ranked first in the U.S. in the production of total dairy product, butter, ice cream, yogurt, nonfat dry dairy product, and whey protein concentrate and is second in cheese production, and

Whereas, the dairy industry provides an economic impact of an estimated national average of $20,000 per cow per year, primarily in local economies, and

Whereas, dairy farming is the leading agricultural commodity in California generating more than $7 billion in revenue each year, and

Whereas, the California dairy industry generates more than $61 billion in economic activity and more than 434,000 full-time jobs, and

Whereas, the absence of profitable prices in the dairy industry for farmers, the lack of competition in dairy product processing ownership, as well as outdated regulations are causing an economic crisis among California dairy producers, and

Whereas, since last year, the price that dairy product processors pay farmers for their dairy product has dropped as much a 50 percent, and

Whereas, the primary safety-net for California dairy producers is the Federal dairy product price support program of $9.90 per cwt, and

Whereas, the Federal dairy product price support program does not adequately provide a safety net due to the fact that it is based on production costs from thirty years ago, and

Whereas, the Federal Government in 2006 implemented an ethanol policy mandate that has increased all feed costs to dairy producers in California, and

Whereas, the Federal dairy product price support program does not account for this new Federal energy mandate, and

Whereas, the Federal dairy product price support program should maintain market prices near average operating costs in order to be successful. This will ensure that efficient producers are able to stay in business until prices recover; however, few efficient producers will have the protection at the current price support level, and

Whereas, California dairy product prices are set by the Chicago Mercantile Exchange (CME) cash cheese exchange. A June 2007 General Accounting Office (GAO) report on the CME states that the CME is thinly traded and is not a very competitive market. As a result, the CME should be reviewed and analyzed to determine if it is an effective and transparent price discovery mechanism; and

Whereas, the Federal dairy product price support program needs to be at an adequate level to ensure California dairy producers have a viable, competitive and stable market free of manipulation, and

Whereas, a significant loss of capacity would create a dependence on imported dairy product and other dairy products and reduce our nation's food security, and

Whereas, concentrated dairy imports for January and February of 2009 surged upward more than 70 percent compared to 2008 despite record low producer prices.

Resolved by the Senate and the Assembly of the State of California, jointly, That the Legislature of the State of California respectfully requests that the President, Congress and the United States Department of Agriculture acknowledge the importance of the dairy industry nationwide as well as the unique aspects of the dairy industry region-by-region through:

(1) Updating the Federal dairy product price support program to reflect today's cost of production;

(2) Implementing fair tariffs on unregulated imported dairy solids;

(3) Mandating greater market transparency.

(4) Establishing a milk inventory management program.

* * * * *

The NFU board voted in June to encourage Congress to pass a dairy stimulus package to provide an adequate safety net for producers in addition to establishing an inventory management program. Most importantly, the board expressed the need for producers to receive an immediate financial lifeline to sustain their livelihoods through this unprecedented situation. A suite of policy options exist to ensure producers will survive this devastating economic period. Options to achieve the above mentioned principles are outlined below, categorized by short-term action and long-term action.

Short Term Options:

- Establish safety-net support price that is fair and equitable to all producers—Establish an emergency Class III floor price of $18/cwt by existing authorities of the Secretary for a period of 6–9 months. During this period, USDA should launch the FMMO review as established in the 2008 Farm Bill and CFTC should launch additional investigations into potential manipulation on the CME. A long-term supply management program must be established in tandem with the emergency floor.
- Continuation of the countercyclical Milk Income Loss Contract (MILC) program—Legislation has been introduced in the Senate that would double the MILC payment rate short term. This provides a quickly deployable lifeline in an effort to prevent additional dairy bankruptcies.
- Eliminate the make allowance. If not eliminated, make it variable and tied to producers' cost of production.
- Require the NASS survey to be audited periodically.

- Maintain standards of identity on dairy products and move to increase fat content standards in fluid milk. Milk is naturally produced with fat content of 3.5 or higher, yet most of the whole milk sold in the U.S. has been reduced to 3.2.
- Deploy low-interest and emergency loans, including a foreclosure mitigation program to stem the tide of loan foreclosures.
- Purchase dairy products and hamburger for donations to food banks and other nutrition programs.
- Allow producers to label milk as free of artificial growth hormones.
- Require accurate recording and publishing of import data from ERS.
- Ensure imported dairy protein blended products are accounted for and categorized appropriately according to the common or commercial meaning of the term "milk protein concentrate," not allowed to disguise skim milk powder MPC to avoid tariffs and the tariff rate quota.

Long Term Options

- Efficient transmission of price signals should be established. Today's market is non-functioning with imbalance of buyers/sellers.
- Pass the Milk Import Tariff Equity Act to address unlimited imports flooding U.S. domestic market.
- Include California and all regions/areas in the FMMO.
- Correct pooling/de-pooling provisions in the FMMO.
- Eliminate bloc voting.
- Allow "no" vote on amendments, yet maintain FMMO.
- Do not place financial burden of transportation onto producers.
- Establish three-part pricing formula to include: cost of production, Consumer Price Index and Chicago Mercantile Exchange.
- Resolve distribution and supply management challenges.
- Repeal forward contracting authority.
- Support funding for academic antitrust research.
- Intensify review process for proposed mergers.
- Promote smaller coops and increase oversight of coop management to ensure interests of producers are met.
- Passage of the Federal Milk Marketing Improvement Act of 2009 (S. 889)
- Eliminate authority for dairy import promotion assessments.

The CHAIRMAN. You are about a half a minute over. But we have seven Committee Members. So we are going to try to hold everyone to the 5 minutes so that we can get into the questions. What you have to say is so very, very important, and I appreciate you getting your major points in those 5 minutes. Then we will have ample time with questions and answers from the Committee Members to get into further detail with you. So I appreciate your cooperation and it will help us to make sure we get everything in.

Next we have Mr. Walter Guterbock.

STATEMENT OF WALTER M. GUTERBOCK, D.V.M., M.S., LIVESTOCK MANAGER, COLUMBIA RIVER DAIRY AND SIXMILE LAND AND CATTLE COMPANY, BOARDMAN, OR

Dr. GUTERBOCK. I am Walter Guterbock. I am the Manager of Columbia River Dairy, which is on the shores of the Columbia River in eastern Oregon. Columbia River Dairy is part of an integrated farm that produces potatoes, mint, peas, carrots, and other food crops, as well as feed for the cows. We are able to feed a lot of the byproducts of food processing back to our animals.

Our dairy was built specifically to supply a particular cheese plant which is nearby. We have a direct contract with our customer and we are not a member of a co-op.

The Pacific Coast dairy industry, Mr. Chairman, has unique needs. We live in an area—this would include California—where feed is plentiful, the climate favors dairy production, we have water, we have land, we are able to handle our waste responsibly, there is lots of byproducts of our agricultural bounty that can be fed to animals to create a high quality protein. And we have to grow rotation crops which are also animal feed.

We are close to Pacific seaports and we are far from eastern markets. There are lots of cows and lots of processing plants between us and the bulk of the U.S. population. So we really—for our future growth or our future success, we need to focus on exports, specifically exports to Asia and to Mexico. We need be able to compete on the world market and we can.

As previous speakers have said, we are in the worst economic crisis in the dairy industry that any of us can remember, and the wealth destruction for dairy families and the loss of their family identity is really tragic. And our dairy is losing money just like everybody else or most other people. But the current problem is due to a collapse in demand, mainly export demand, as others have said. The supply of milk is pretty much in line with trends, so supply management is the solution to the wrong problem.

Previous programs, government programs, failed—supply management programs failed to have any lasting effect on milk prices. So the need, as others have said, is to bring supply and demand into balance. The current milk pricing system based on the CME regional orders, modifying the CME price based on regional usage, depooling decisions by processors, and so on, create imbalances between supply and demand in local areas. The most important point is that all the milk that a dairy producer produces is priced the same. So the incentive to the producer is to produce as much as possible. There is a saying that says nobody has a surplus of milk on their farm, and that is true. So the system does not give clear signals not to overproduce. And similarly, the make allowance and the structure of the Federal program allows excess plant capacity to exist.

So supply management has several disadvantages. First of all, it perpetuates current production patterns and prevents shifts to more efficient areas and more efficient enterprises. It creates a privileged class of people who have a license to produce milk, and provides a barrier to entry to young families who want to get in. Most dairy owners look about like me and we need young blood in our industry.

It would increase the surplus that overhangs the market and threatens to reduce prices in the future, and it won't increase demand. It would—most proposals include a tax on producers that would come at absolutely the worst time for cash flow in history, and the tax will come long before there is any benefit in milk pricing.

It will create an artificially high price, which makes us less competitive and will attract imports. And no agency or no person is smart enough to predict supply and demand, and central planning always creates surpluses or shortages.

We cannot isolate ourselves from the world market. The higher U.S. price will cut exports and attract imports and our barriers, whether sanitary or tariffs, are not effective. The Congressional Research Service estimated that by 2018, 5 billion pounds, or 2½ percent, of our milk supply will be allowed in as imports just under current treaties.

So there is a desire now to do something, anything to prevent this kind of crisis from happening again. But supply management is not the solution, and it would perpetuate the current imbalance between supply and demand.

A free market with safeguards and transparent reporting of prices is the most efficient way to match supply and demand. So dairymen and co-ops need to be able to contract freely with users and negotiate prices, and prices need to send clear signals to producers not to overproduce.

Thank you.

[The prepared statement of Dr. Guterbock follows:]

PREPARED STATEMENT OF WALTER M. GUTERBOCK, D.V.M., M.S., LIVESTOCK MANAGER, COLUMBIA RIVER DAIRY AND SIXMILE LAND AND CATTLE COMPANY, BOARDMAN, OR

Chairman Scott and Ranking Member Neugebauer. Thank you for giving me this opportunity to discuss with you and the Committee the economic conditions that face dairy industry today.

My name is Walter M. Guterbock. I have been actively involved in dairying either in academia, veterinary practice, or operation of farms since 1979. I am the Manager of Columbia River Dairy and Sixmile Land and Cattle Company, both in eastern Oregon along the Columbia River. Columbia River is a very large dairy that supplies a nearby cheese plant. Our farm is not a member of a cooperative. It is part of an integrated farm that raises most of the forage crops that are fed to the animals and other food crops such as potatoes, onions, peas, and mint that generate byproducts that are fed to the animals. The animals in turn provide fertilizer for the crops. We take pride in the excellent quality of milk we produce, in the certification we have earned for animal welfare, in the responsible way we handle animal waste, and in our progressive labor management practices. Previously, I have been a partner in or managed farms in California, Michigan, and Washington.

The financial losses of family dairy farms in 2009 are unprecedented. No region, no operation size, nor any business model has been spared the impact of low milk prices and high input costs in the midst of a worldwide economic downturn. Almost all dairy farms, large and small, are owned by families, and it is the wealth of farm families that has been destroyed. There are very few corporate dairy farms.

Crises are the cradles of ideals and ideas. It is too late to prevent the loss of wealth to dairy families that has already occurred. But of course people in the industry are looking for programs that might avoid such economic losses in the future.

Some of these can generally be labeled as supply management programs. The details of these programs vary, but there are key elements that continue to emerge in all of them.

(1) Individual farm and cooperative voluntary plans for growth, consolidation, and relocation will be replaced by government mandates and limitations.

(2) Numerous decisions by independent producers and cooperatives involving the supply of milk will be replaced by a centralized decision making process determining where milk will be produced and how much.

(3) Growth based upon farm family goals, available resources, current market demands, local opportunities, and other individual farm factors will be replaced by government-assigned quota based upon past production. Current national production patterns will be cast in stone and adjustments of milk producing capacity between regions will be difficult. This means that consumers will not benefit from regional efficiencies; the industry will be preserved in less efficient areas and will not be able to expand in more efficient ones.

(4) Payments for milk will be taxed, reducing farm income. Either all producers will pay a tax that will benefit those who comply with restrictions, or substantial penalties will be imposed on milk from farms that do not. In some plans, the tax is on all milk produced, not just the milk that is over the limit, so that the farmer who milks one extra cow or whose production rises because of good

luck or good management would pay a severe penalty on all his milk. The tax will reduce revenue to dairy farmers during a severe cash flow crunch, hardly a desirable goal. Any potential milk price increase resulting from the program will come long after the blow to revenue.

(5) Business decisions and estate planning for dairy farmer families, already complex due to estate and income taxes, will become more complicated. Proposed rules will make it more difficult to combine operations, divide them, or expand them to allow younger family members to participate in the business. As in farm subsidy programs, ingenious ways will be found to hide common ownership of different herds to allow expansion to continue while appearing to comply with the limits.

(6) Supply management creates a privileged class (current producers) and raises huge barriers to entry to entrepreneurs or young families who want to get started in dairying. The population of dairy owners looks about like me, and we need young, aggressive, progressive producers to enter our ranks to keep us moving forward.

Fresh milk is highly perishable. It must be processed within days of leaving the cow. Storage capacity at the farm is usually 1 or 2 days' production, so milk must be picked up promptly or the farmer can't milk because the tanks are full. Milk can only be stored long term in the form of finished products like cheese, butter, protein concentrates, and powder. This means that a farmer must have a processor who will pick up the milk reliably and promptly, and that the processor must then pay the farmer for it. Unlike the grain farmer, the dairyman can not store his product and wait for favorable markets. If the producer can't sell milk immediately, it quickly becomes worthless.

The processor, in turn, has to find a home for the milk or for the finished products. Surplus milk is freely traded and its value tends to fall until the market is cleared. The government support price provides a floor. Little milk is ever discarded. Unfortunately, our current pricing system of Federal orders, pooling, and support prices does not allow these price signals to get back to the producer. The dairy producer gets paid the same price for all the milk he produces, whether it finds a profitable home or not. While the coop or marketing order as a whole may pay some price for overproduction, the individual producer does not really feel it. A supply management system with an artificial floor price will encourage overproduction in relation to real demand and reduce further the transmission of price signals back to producers. The best way to rein in overproduction is to have local co-ops and processors pay farmers far less for milk that is surplus to their needs, sending a strong price signal not to overproduce.

A national supply management system would not recognize local needs for flexibility to adjust to changes in supply and demand. Consuming populations grow and shrink. Successful dairies tend to expand, because they generally produce more heifers (young cows) than they need to replace the cows they cull. There are also tax advantages to reinvesting income into herd expansion and new facilities. Dairy families use expansion as a way to create opportunities for young family members to stay in the business. Also, dairy farming tends to expand in areas like the Northwest where land and feed are reasonably priced and there are opportunities to market milk, and contract in areas where climate, urbanization of farmland, short growing seasons, the lack of processing capacity, or other factors make it less efficient. In the long run, efficient, successful producers of all sizes can supply dairy products to the public more cheaply than inefficient legacy producers. Certain areas of the country favor efficient dairy production more than others, and should be allowed to expand, while others need to contract.

Both the supply and the demand for milk, on a regional or national scale, are unpredictable, although there are patterns. In order to ensure consumers a consistent supply of fresh dairy products without sudden shortages, there has to be some surplus production. So any milk marketing system has to be able to accommodate changes in supply or demand and have enough capacity to accommodate the fluctuations. The idea of supply management is to bring supply in line with demand so that the excess milk does not depress the price of all milk. But milk supply is always out of line with demand somewhere in the country, and milk is moved from one area to the other at market-clearing prices. Surplus milk will find a home at some price in the current system, but if the price is not allowed to drop, there is no incentive to stop producing it.

The factors driving, or dampening, domestic demand are generally known—income, population, season, product availability, government feeding programs, prices, restaurant sales, and other factors. But knowing general trends does not provide anyone the ability to predict demand exactly even 3 months in the future. Milk is traded world-wide, and worldwide prices affect prices and demand at home. Worldwide prices change in response to currency fluctuations, climatic events in other countries (such as drought in Oceania), political events, market crises (like the melamine contamination scare in China), trade negotiations and treaties, the strength or weakness of other economies, dairy policies of our competitors, and other factors. The high dairy prices of 2008 were in part due to increased exports, related to drought in Oceania and high demand from Asia. The melamine scare, the economic collapse, and the end of the drought reduced our exports and are contributing to current low prices. Our current low prices are due to a collapse in demand, not to a great oversupply compared to historical levels.

The factors supporting supply are also well known. The trend is for production per cow to rise, overall milk production to increase slightly from year to year, and for America's dairy producers to continue to provide more milk with fewer cows. Seasonal variations in milk yield are fairly well understood. But there are many variations in milk production that are hard to predict, caused by weather events, differences in forage crop growing seasons, changes in feed prices that drive ration changes, and other imponderables. Successful dairy managers of both small and large herds understand these factors and have learned to maximize profit. But their results vary, day to day, season to season, and year to year, and are not fully predictable.

I am sure there are witnesses who paint supply management as a defense of the small family dairy farm against the big farms that are claimed to have caused a glut of milk and the current low prices. Again, the current crisis is due to a collapse in demand, not a sudden rise in supply. The current crisis actually hurts the traditional farm that produces a lot of its own feed and relies on family labor *less* than it does the larger producer who recently expanded, has to purchase most of his feed, has high overhead, and is carrying a large debt load. The trend to consolidation and larger herds in dairying has been in place for a hundred years, and is driven by demographics and basic economics. When traditional dairy producers retire, their children often do not want to come back to run the farm. The average age of dairy farm owners is in the late 50s. At the same time, efficient, progressive producers of all sizes have expanded their businesses. There are many producers who started with 40 cows and now own thousands. As in any business, there are economies of scale that give a larger producer slight advantages, but smart small producers continue to be successful. The forces driving consolidation will not be stopped by a supply management program, although their effects will be distorted as aggressive producers find creative ways to skirt the rules.

Like other areas of the economy, dairying has gone through a period of over-expansion fueled by high milk prices and easy credit. The party is over and we are in a period of adjustment to new realities. A prompt world economic recovery will help us like everyone else. But there are economic threats to our industry from the large number of heifers waiting to join the national herd and the huge stocks of products in government storage that will have to be sold on the world market someday and threaten to hold prices down. Raising the drawbridge by artificially raising the U.S. milk price through supply management will not do anything about either trend. It will make us less competitive on the world market, perpetuate the surpluses, and do nothing to increase demand. Again, ultimately only the operation of a free market can bring supply and demand into balance.

For supply management programs to succeed, someone must be able to predict production and demand accurately, not just for the next quarter, but beyond. A producer can not turn a spigot to raise or lower production at will. Adjustments are made over years, not over weeks or months, because the production cycle of a cow is so long (2 years for a calf to come into production, and a 4 year productive life of an average cow). Production cycles in other food animals (chickens, hogs, beef cattle) are much shorter and capacity can be adjusted much more quickly than in dairy. There is no known model today which can consistently determine what production should be. We know that free markets are the most efficient way to match supply and demand. Managed economies usually create either shortages, because prices are held so low that producers lose the incentive to produce, or surpluses, if prices are kept artificially high and encourage overproduction.

Not only do supply and demand vary from time to time, they vary from place to place. As it stands now, milk demand exceeds supply in the Northeast, is somewhat balanced in the Southwest and in surplus in California. This summer, a heat wave in California will probably change this balance temporarily, but it may not. Shorting milk nationally because one region is overproducing makes no sense in other regions. The view from the West Coast is different. We have a favorable climate for crop production and dairy cows, and a large supply of feeds that are byproducts of the bounty of food crops produced in the area. We have access to West Coast ports and the Columbia River to get our products onto ships. We are a long way from eastern markets and the bulk of the U.S. population. After consumer demands in our region are met, we have little opportunity to send our milk East. Large and growing milk sheds to the East of us are supplying large and efficient plants that are closer to eastern markets. The result is that the West Coast must look to Mexico and the Pacific Rim for its demand. To meet that demand we have to have the milk and we have to be able to compete in the world market. Penalizing efficient producers and limiting milk production to raise the U.S. milk price artificially will, in the long term, doom the dairy industry on the Pacific Coast, which includes many small producers as well as big ones.

Some would counter that the allowances could be made regionally, not nationally, but to what effect? There is a great interdependence between regions. The Southeast, for example, receives a substantial amount of its milk from the Southwest, Central, Mideast, Midwest and Northeast. Milk flows freely from region to region to fulfill demand and to pursue pricing opportunities.

Ultimately the design of any program will be affected by politics. Since there are many more consumers who vote than dairy farmers, it is likely to that politics will demand lower consumer prices. Ultimately lower farmgate prices will result, which could result in milk shortages. Interregional politics will also come into play, and dairy production will be preserved in inefficient areas where it is dying out. Setting prices too high in the hope of preserving the family farm will encourage overproduction, raise consumer prices, reduce demand, increase government surpluses, and cause food processors to seek alternatives to dairy ingredients. Again, free markets (with appropriate safeguards) allocate resources more efficiently and accurately than any agency or political process can.

The major selling point of supply management has been that milk prices will be more stable. That is there will be no more lows like now, neither will there be any highs like last year. What this means is that American producers would receive a different price than the one that the world market would provide. Higher sometimes, lower sometimes. Those restrictions will not apply to milk produced outside of the United States. To support prices higher than those dictated by economics, there need to be barriers which protect the industry from outside forces. Outmoded political, physical, and sanitary barriers cannot protect the U.S. dairy industry from the outside world.

The political barriers no longer exist. Just last year an Ontario court stopped shipment of milk from that province into the United States. Milk marketing orders, state health departments and other local, state, and Federal agencies in the United States were unable to stop that milk coming in. In fact some, such as milk inspectors, helped it. Instead the milk was stopped because the Canadian court held that all milk produced in Ontario belonged to Dairy Farmers of Ontario and DFO did not wish to market in the United States. That could change tomorrow and we would not be able to stop it. Under NAFTA it is virtually impossible to export milk and milk products into Canada and equally impossible to stop Canadian milk from coming into the United States. The proximity of Canadian milk sheds to U.S. markets in the East and the Northwest makes this a major long term threat if our milk prices get out of alignment with world prices.

Our southern border also poses a challenge. Milk processed in Mexico, whether U.S. milk exported to the plant or milk produced in Mexico, can come into the United States virtually without tariffs and free of Federal Milk Marketing Orders and a supply management program. Large population areas in Texas and Southern California are ready markets if milk prices are out of alignment.

Physical barriers no longer protect us. The use of container ships and a massive, efficient, and speedy transoceanic transportation system mean that the cost of transportation on milk and milk products to the United States provides a lower cost barrier than before. U.S. prices cannot be too far out of alignment with world prices plus those lower transportation costs. Added value products such as cheeses and creams and even UHT fluid milk would be attractive exports to the United States if milk prices were out of alignment with the world.

Over the years various trade agreements in addition to NAFTA have provided access to our domestic markets. We have attached a table showing the amount of dairy products are allowed under multilateral and unilateral trade agreements. Limits on imports from the European Union are not strong enough to prevent a misalignment of prices from attracting European milk and milk products to the U.S.

Sanitary rules provide no protection. To market products as Grade A anywhere in the United States, the product must come from a plant certified on the interstate milk shippers (IMS) list which in turn means that the plant must use milk that comes from farms meeting the Pasteurized Milk Ordinance (PMO) requirements. Though this is universal in the United States and is a U.S. program, it is not limited to the United States. PMO certifying agencies in Florida, New York, and Vermont have inspected and certified plants in Greece, Spain and Canada. A current list shows that plants in Spain, Ontario, and Mexico are on the IMS list and certified by third party certifiers.

We are part of the world market and must meet that market. We are efficient producers of very high quality products. Our goal must be to sell American milk to the world, not provide opportunity for the world to sell milk in our markets. To do that we need a world based pricing system so that we can be exporters of milk and milk products.

Columbia River Dairy's contract with its customer is a good example of how milk can be produced to meet the challenges of the future. Our dairy was located specifically to be close to feed, water, and a market. The plant where we send our milk was built to accommodate the production of our dairy and two others in the area. Our contract was negotiated to meet our customer's needs, its customers' needs, and our needs. It creates a fair means for win-win-win, although we are currently receiving less than our cost of production and are losing money like everyone else. The contract provides for surplus milk so that it does not become a burden for anyone. I agree with a witness from the first hearing who said that the way to get supply and demand into balance is at the farm to plant level. One of the reasons for the current oversupply of milk was the failure of co-ops to place limits on milk shipments from their members. They built new plants instead, to harvest the make allowance, and with the assurance that the government would be the ultimate customer for powder, butter, and cheese. An improved system would send clearer signals to co-ops and producers not to produce in excess of what their customers need.

Producers who would compete on the world market and still make a profit must be efficient. Current dairy programs such as the milk marketing orders and dairy product price support program create or encourage inefficiencies and discourage efficiencies. The make allowance formulas should be replaced with competitive pricing. Plants and producers need to be free to negotiate supply and price to maximize the profits of both. That negotiation requires transparency of information. Full and timely disclosure of volumes of milk and milk products and prices will help us achieve the efficiencies we need. The dairy product price support program needs to end. We need to be free to clear the market and to grow with the market. We certainly do not need a supply management program that taxes those who wish to locate and grow to meet demand efficiently and reward those unwilling to take on those opportunities. All the products the government holds eventually have to be sold to someone and will depress future prices. In the end it is producers, taxpayers, and consumers who pay the price for these programs.

In times like these, free markets look cruel, and it is tempting to try to temper their effects. It is painful to see families losing their life's savings and businesses that have become part of their identity. Businesses that supply dairy farmers also feel the pain and the risk of financial ruin. Dedicated dairy workers lose their jobs and cows get loaded on trucks and go off to an uncertain fate. But in the long run, the market will win. Artificially raising the milk price will reduce our competitiveness, encourage overproduction, and cause even greater surpluses to hang over future markets from government storage.

Thank you again for giving me this opportunity.

I will be happy to answer any questions.

The CHAIRMAN. Thank you very much. Now we will hear from Ms. Melissa Hughes, General Counsel to CROPP Cooperative.

STATEMENT OF MELISSA L. HUGHES, J.D., GENERAL COUNSEL, CROPP COOPERATIVE (COULEE REGION ORGANIC PRODUCE POOL), LAFARGE, WISCONSIN

Ms. HUGHES. Mr. Chairman, Members of the Committee, good morning. My name is Melissa Hughes, with CROPP Cooperative in LaFarge, Wisconsin. Thank you for the opportunity to come here today to discuss the current economy's impact on the organic dairy industry.

CROPP stands for Cooperative Regions of Organic Producer Pools. We are the largest national organic cooperative. Founded 20 years ago by eight farmers, last year we had over $500 million in sales of organic dairy products, juice, produce, eggs, and meat. We have over 1,300 certified organic farmers in 28 states. Of that, approximately 1,050 are dairy farmers with an average herd size of 50 cows.

After 20 years of double-digit growth, 2009 has seen that growth come to a screeching halt. Some companies have seen sales fall back. Ours are flat. The organic dairy industry is a separate but parallel stream to the conventional industry. You, Congress, helped create this separate stream of commerce with the passage of the Organic Foods Production Act in 1990. It takes stringent requirements to get into this stream and the USDA's National Organic Program is there to enforce the regulations.

We appreciate your continued support of the NOP and the Secretary's commitment to strengthening and solidifying the organic program. In an era where many claim to be natural or green or sustainable, organic remains and should remain the gold standard of labels, assuring consumers that the products have followed a rigorous production standard audited and verified from farm to shelf.

But like many other industries, our lane of traffic has hit a traffic jam. Our sales have slowed, causing an excess of supply of organic milk. Although certainly the recession has contributed, we believe other factors have played a part. As the gold standard, many have tried to knock organic from the pedestal. Some of those attacks have come from our own community.

Another factor has been a rush of companies coming into our stream. Who can blame them? We were moving faster. But as those companies have realized, organic dairy is a complicated business to run and they have left the market. The tragedy here is that this has left many small organic dairy farmers stranded with no market for their organic milk. Although they want to remain organic, the high cost of production and feed is forcing them to go conventional or stop dairying entirely. Organic helped them stay on the farm, and without organic they are leaving the farm. This is terrible for our agricultural system and for our rural communities.

Today, we at CROPP are doing okay. The fundamental principles of our business, organic production, a stable and sustainable pay price and supply management are serving us well. Organic production provides a valuable product our consumers desire. A stable and sustainable pay price enables our farmers to know what to expect in their mailbox and know it will cover their costs. We continue to pay our farmers an average of $27/cwt.

Finally, we are diligent in our efforts to match supply with demand. We have instituted a supply management quota to address the current oversupply. Our farmers have collectively decided to reduce their production by seven percent. While this is certainly not easy, we believe this supply management effort will get us through this period and provide us with good lessons for the future.

Again, Mr. Chairman, we appreciate your continued support of organic production and the National Organic Program. Although separate and distinct, our neighbors and partners are conventional dairy and we sincerely appreciate your efforts to help them through this difficult period. Thank you.

[The prepared statement of Ms. Hughes follows:]

PREPARED STATEMENT OF MELISSA L. HUGHES, J.D., GENERAL COUNSEL, CROPP COOPERATIVE (COULEE REGION ORGANIC PRODUCE POOL), LAFARGE, WI

Mr. Chairman, and Members of the Committee, thank you for inviting our organization to appear before you and participate in this important, ongoing discussion of current conditions in the dairy industry.

Twenty years ago, eight farmers in the small town of LaFarge, Wisconsin came together at a moment not completely unlike this period in the conventional dairy industry, when milk was at prices well below the cost of production and farms were forced out of business everyday.

These farmers were schooled in the ways of the conventional dairy system. They had seen the roller coaster prices, and cooperatives who were supposed to serve the farmers, serving themselves. At a time when the small farmer was struggling to stay on the farm, this group saw organic management principles and the consumer demand as path to redesigning the relationship between the farmer and the customer, and reconnect the production of milk to the management of land and animals.

Our cooperative is built on the foundation that organic production of milk is the result of sustainable husbandry and farming practices and that these principles must yield a sustainable income. Our farmers have translated those principles into a business model that has democratically guided the cooperative over the last twenty years, and, we like to believe, influenced the organic marketplace to an extent that the principles are part of that marketplace.

Of course, front and center was the principle that organic farming worked. Appealing to every farmer's independence, and recognizing the connection between livestock and the land, the farmers chose to be as self-sufficient as possible—avoiding off-farm inputs, including feed and chemicals. The farmers had either farmed conventional and were looking for alternatives, or had never chosen that route. As one farmer said "it was easy for me to go organic. I was so far behind I was ahead." Whichever path the farmer had come from, they now joined on a path towards organic production.

The next guiding principle is the farmers always get paid a target price first. It does not matter if the milk is sold on promotion, or if the milk is made to cheese, or powder. When a consumer purchases a gallon of Organic Valley milk, and that money is returned to the cooperative, the farmer is paid first.

The third guiding principle is a stable pay price. Each year, the farmer-governed Board of Directors sets a target pay price for the upcoming year, and although minor adjustments may be made, up or down, the farmer can expect that this pay price will be reflected in the milk check. The money left over from the sale of the milk goes to the cooperative for operations. The goal of the pay price is to pay the farmers a price that is economically sustainable in that it accurately reflects the farmers' costs of production. The pay price is not tied to conventional prices. The simplicity of stable pricing obviously benefits the farmers, and in addition, benefits, processors and retailers, as well as consumers by setting consistent expectations in price.

Attached to this testimony is a graph demonstrating the comparison of our Midwest base price to the conventional statistical uniform price. (Our Midwest base excludes quality components in excess of base and regional premiums.) Although not perfect, you will see that our price has been stable, growing and reliable.

To support the target pay price, if we are not able to sell their milk for the organic price we have set, we will not sell the milk as organic. We will not participate in a spot market for organic milk that drives the overall price down. If we cannot sell the milk for the organic price we have set, we sell it conventionally. We will not engage in a bidding war that lowers the price of our organic milk. Our farmers rely on a price that reflects, to the best of our ability, our farmers' cost of production and marketing. To sell organic milk for less would treat our principles as little more than a marketing ploy and defeats the purpose.

From the small beginning of eight farmers, CROPP Cooperative has grown into nation's largest organic dairy cooperative. We have over 1,300 USDA-certified organic members, who collectively produce certified organic dairy products, eggs, beef, poultry, soy, produce and juice. In 2008, our total sales were $527.8 million, representing 22% growth over 2007. In 2008, we paid our dairy farmers a total organic premium of $85.0 million.

This is not to say that the path has been smooth. Throughout the years, we have experienced many difficulties involving matching supply and demand and the challenges of a fledgling industry. We, and the organic dairy industry, are not immune from the current economic crisis. After experiencing double digit growth for the last 20 years, our growth for 2009 is flat, if not in some cases, down. Prior to the downturn, for the last 9 years, we have been unable to meet the supply demands of the consumers. We continually worked to talk to farmers about the benefits of transitioning to organic, and many of those farmers became our members. At this time, we are no longer actively recruiting farmers to consider the transition to organic. We do have farmers approaching us to market their milk—whether newly transitioned, or existing organic farmers who have lost their organic market. For those farmers who come to us, we can make no promises that we will have a market for their milk. The cooperative has stopped capital projects, has slowed hiring, and is heavily promoting in our retail markets.

However, we do continue to pay our farmers an national average mailbox price of $27/cwt. We have not kicked any farmers off our truck because of a market declines. We believe that we have seen the bottom of the marketplace, and hope to see sales stabilizing and growth returning in the next 6 months. For the most part, we believe our members will come through this economic crisis and stay on their farms. Many are suffering, as costs of health care, feed and other hardships are forcing farmers or their families to take positions off the farm to cover costs. Farming is a hands on job, and when farmers are forced to leave the farm, and in their absence, new problems can develop and existing ones can be exacerbated.

The current economy has challenged but not defeated our guiding principles. The low price of conventional milk has meant that when we sell organic milk conventionally, we have to make up the difference to our farmers some other way. As a cooperative, our farmers are committed to investing in the business, and so a strong equity structure has helped us weather this period financially. However, continued low conventional prices will put more strain on our cooperative.

In June, we chose not to lower the pay price, and instead chose to institute a supply management system within which *our farmers decided* to lower their production by 7%, and for any production over 93%, the farmers will receive the conventional price. You have heard many proposals to vitiate price volatility, and heard much about the concepts of *Federal* supply management during these hearings. We are trying what has worked for use for twenty years, *farmer-based supply management.* We don't claim this is easy, each of our 1,300 farmers has a family, and a story. Our process lets each farmer tell their story by appealing the quota, asking for relief because of the hardships unique to their story. Our own farmer-members hear the appeals and this means we are, together, writing the next chapter of each farm's story and the story of our cooperative. Like any collective effort, we find some farmers are willing to do more to help than others. But we are committed that collectively we can make supply management work to get through this time, and certainly believe it will be part of our marketing system moving forward.

As independent as we like to be, we know part of our story includes Congress, and the United States Department of Agriculture. An early chapter was written by the Congress in 1990; the enactment of the Organic Food Production Act, meant that organic, by Federal mandate, is a separate and distinct category of products from "conventional." By creating a production and handling system that is audited and verified at every step of the process as more environmentally sustainable, beginning on the farm and running all the way to the shelf, Congress authorized a parallel stream of commerce. We know that the organic community has not been easy to work with. This new way of producing products has lead to new ways of doing business, like our cooperative. This that would not have happened without Congress' continued support.

Today, the organic industry stands alone as one of the main engines of growth in U.S. agriculture and food sales. The 2008 Farm Bill included unprecedented recognition of the importance of this separate stream of organic. We appreciate that support, especially as its reflected in increased funding for the USDA's National Organic Program, and its expanded influence that can assure that the organic certificate remains the gold standard among the world's certification processes.

But the challenges to the National Organic Program are not easy to address. The rise of unregulated labels on products, like "natural", "sustainable", or "local" have the potential to undermine Congress' seal. Some organic purists have argued that organic does not mean what it says. Our primary interest is that the USDA organic seal is seen as the first and last inquiry a consumer needs to make when purchasing an organic product. Without this level of certainty, the risk exists that consumers believe that some goods are "more organic" than others, or worse, that the USDA organic seal itself does not necessarily mean that goods were produced in strict adherence with organic standards.

To that end, we are working with the USDA to promulgate clear and understandable organic regulations as soon as practicable regarding pasture and other issues used to "threaten" the integrity of the organic seal. In addition, where necessary, the USDA needs to enforce organic standards swiftly and based on fact, not mere allegations. We ask for a full commitment from Congress and the USDA to the organic seal, and to reject labels that confuse the marketplace, and the consumers.

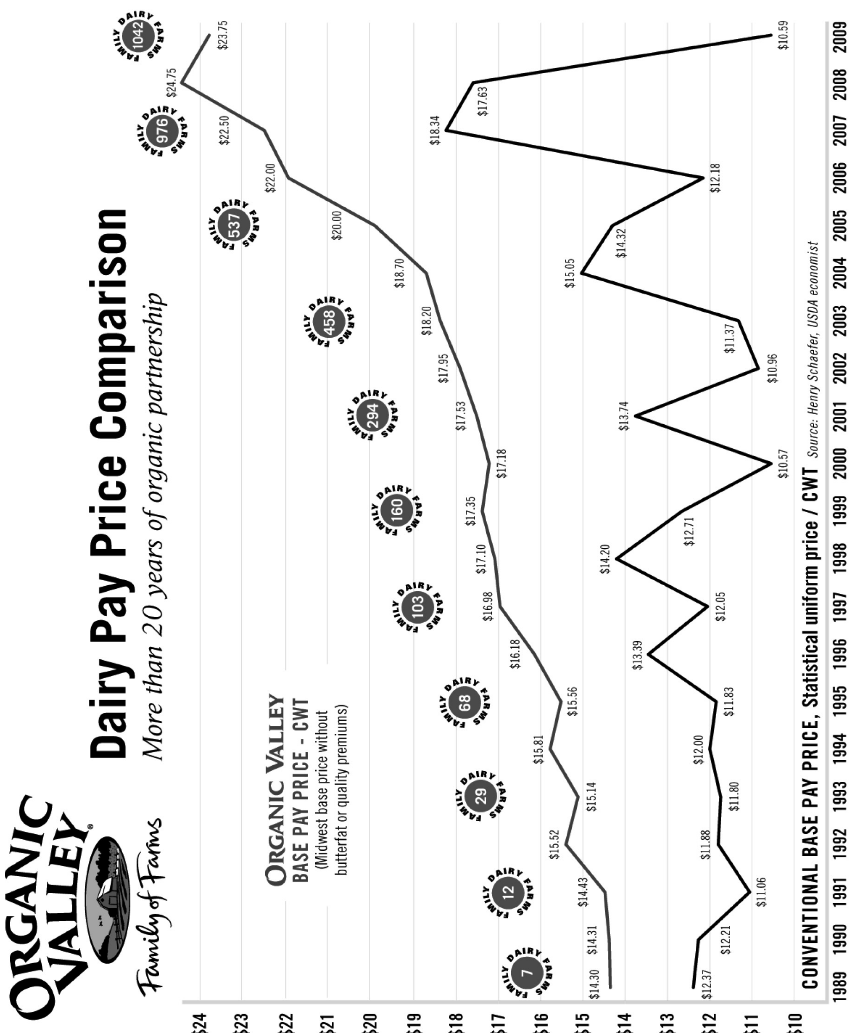
And although we are a separate and parallel industry to conventional, we are affected by the difficult times facing conventional dairies. Our neighbors are conventional dairymen, the processing plants we work with are conventional, the stores we sell to also sell conventional milk. A low and volatile conventional price has strong effects throughout our industry, and through the United States' food supply. While we recognize that we cannot walk in conventional shoes, we do believe that lessons can be learned at this moment, and if the work is done in the upcoming months, the lessons will not be forgotten.

But these difficulties faced can only be avoided by creating the atmosphere for a cultural shift in the dairy industry. Short term cures like "more exports" or expanded purchase by government programs do not address fundamental structural problems in the dairy industry. A traditional dairy farm of thirty cows was historically naturally restricted from growth by barn size and land base. These small family farms formed the basis of a vibrant and healthy rural community and diverse food supply. We feel it is good public policy to have tens of thousands of family farms provide diversity of farm operation and production, train tomorrow's farmers and support rural communities. A large group of moderately scaled farms supports this policy, rather than concentrating operations in hands of larger and larger farms.

Today, farms expand without check—adding cows in a milk parlor setting by simply lengthening milking time, and defying breeding variances by using sexed semen to select for heifers. These seemingly simple choices have led to increased supply without concern for the market, or penalty for the producer. The producers and processors who have grown without a market should bear the burden more than the farmer who has managed growth conservatively. Today's drive to find markets overseas does not recognize the growth of overseas supply, with low costs which U.S. dairymen cannot compete against. In our cooperative's small microcosm, we have been able to have the farmer receive what the farmer needs to stay on the farm, we have shared the risk of changes in supply and demand, and we have always tried to build our production around the current demands of the market. The connection of land and animals has forced a natural boundary on supply increases, allowing for growth, but in reasonable, manageable increments.

We cannot offer the detailed short-term efforts that others have suggested for conventional dairy policy. But we can encourage the dairy industry to consider long term efforts that include supply management tools, quotas, or forward contracting. Our ideas, tested over twenty years, once seemed radical, and now seem conservative. But in the course of twenty years, most important of all, we have reconnected the consumer and the farmer. Our consumers purchase our product because they believe in the value of our production methods, and they believe that the value is reflected in a sustainable price that can be returned to our farmers. This might seem radical today to the dairy industry, but a short twenty years from now, the consumers could understand and value the dairy farmers of America in a manner that they deserve.

ATTACHMENT


ORGANIC VALLEY
Family of Farms
Dairy Pay Price Comparison
More than 20 years of organic partnership
ORGANIC VALLEY
BASE PAY PRICE - CWT
(Midwest base price without butterfat or quality premiums)
CONVENTIONAL BASE PAY PRICE, Statistical uniform price / CWT
Source: Henry Schaefer, USDA economist
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The CHAIRMAN. Thank you, Ms. Hughes. Now we will have Mr. Gordon Cook, Jr.

STATEMENT OF GORDON M. COOK, JR., MEMBER, BOARD OF DIRECTORS, HOLSTEIN ASSOCIATION USA, INC.; DAIRY PRODUCER, HADLEY, MA

Mr. COOK. Thank you, Chairman Peterson, and Chairman Scott, Ranking Member Lucas, and Ranking Member Neugebauer, and other distinguished Members of this Committee for inviting me to testify.

I am Gordon Cook, a dairy farmer from Hadley, Massachusetts, who milks about 65 cows, and I am here representing the 30,000 members of the Holstein Association USA, Inc., a nonprofit dairy organization that is headquartered in Brattleboro, Vermont. I am here to talk about our Dairy Price Stabilization Program which we believe will be able to stabilize the peaks and valleys of milk prices.

The crisis facing American dairy farmers is well documented. You are aware that basically every dairyman in this country is losing money on every pound of milk they sell. What has led us to this crisis? The landscape of the dairy industry has changed significantly since our current milk pricing system was established. There is a disconnect between the producer and processor, which generally is not beneficial to the dairy farmer.

For example, for 1 gallon of milk that the consumer pays $2.99, the dairy farmer who produced that milk gets just 91¢. The $2.08 difference goes to the dairy producer and retailer.

We have seen changes in the quantities of dairy ingredients and products being imported into the United States from other countries. In general, as dairy imports increase the price paid to U.S. dairy farmers decreases.

A third change is the development of sexed semen and the effect it is having and will have on the amount of milk produced in the United States. This year, we expect 63,000 extra heifers to enter the national dairy herd, and in 2010 that number is expected to increase to 161,000.

Historically, the U.S. milk pricing system has encouraged dairymen to produce all the milk they can, which has led us to instability in prices paid to farmers. In the last 4 years, we have seen the U.S. all-milk price average fluctuate between $20.50 and $11.50.

Milk is perishable, unlike other agriculture commodities such as corn and soybeans that can be stored until the market reaches an acceptable level. It is time for our industry to change its mindset and start producing milk for the market instead of hoping we can market all of the milk we produce.

The basic objective of the Holstein Association Dairy Price Stabilization Program is to prevent severely depressed producer milk prices that result in low and negative returns to dairy producers; to reduce the volatility of milk prices, thereby reducing the price risk to dairy producers, dairy processors and consumers of milk and dairy products; to complement and not replace other existing dairy programs such as the Federal Dairy Price Support Program and the Milk Income Loss Contract program. In fact, our program may well reduce the Federal Government's cost to both of these programs.

Here is an overview of the program. Further details have been submitted to you in writing. Let me stress, this program will not require the farm bill to be opened. The Dairy Price Stabilization Program removes the incentive to produce milk beyond the levels of our markets demands. It rewards producers to stay in line with market needs. The U.S. Secretary of Agriculture would administer the program with an advisory board. The board will forecast the 12 month domestic and export market demands for fluid milk and manufactured dairy products.

With consideration toward the current level of milk production, a determination will be made to the needed change in milk production to fulfill the market needs for each quarter of the next 12 months to return a profitable price to dairymen. This is referred to as the allowable milk marketings, AMM. Dairy producers who maintain their milk marketings by quarter within the AMM will not have to pay a market access fee. Dairy producers who expand their operation and exceed their AMM will be assessed a market access fee per hundredweight on total milk marketing. Initially we would expect the fee to be between $2 and $3 per hundredweight on all milk marketed as determined by the Secretary of Agriculture through the board.

The fees collected from producers paying the market access fee would be distributed as a bonus to dairy producers who stayed within their allowable milk marketings.

Producers will receive their base by filing their history of milk production in monthly marketings to the area USDA Farm Service FSA office. The FSA office will notify the producer's milk plant or dairy cooperative to deduct the market access fee if the producer exceeds their AMM.

The cost of the program to taxpayers is nothing. We would expect an assessment of less than 2¢ per hundredweight to producers of all-milk marketings to cover administrative costs of the program.

We are certain that there will need to be some sort of short-term fix such as a temporary 6 to 12 month raise in the Price Support Program or other quick remedy. However, the dairy industry cannot keep coming back to Washington for continued bailouts. The Dairy Price Stabilization Program provides that long-term solution.

On behalf of the Holstein Association, I thank you for this opportunity and I will look forward to your further questions.

[The prepared statement of Mr. Cook follows:]

PREPARED STATEMENT OF GORDON M. COOK, JR., MEMBER, BOARD OF DIRECTORS, HOLSTEIN ASSOCIATION USA, INC.; DAIRY PRODUCER, HADLEY, MA

Thank you Chairman Peterson, Chairman Scott, Ranking Member Lucas, and Ranking Member Neugebauer for inviting me to testify. I am a dairy farmer from Hadley, Massachusetts who milks 65 cows, and I am here representing the 30,000 members of the Holstein Association USA, Inc., a nonprofit dairy organization that is headquartered in Brattleboro, Vermont. I am here to talk about our Dairy Price Stabilization Program which we believe will be able to stabilize the peaks and valleys of milk prices.

The crisis facing America's dairy farmers is well documented. You are aware that basically every dairyman in the country is losing money on every pound of milk they sell.

What has led us to this crisis? The landscape of the dairy industry has changed significantly since our current milk pricing system was established. Sometimes there is a disconnect between the producer and processor which generally is not beneficial to the dairy farmer.

For example, for 1 gallon of milk that the consumer pays $2.99 at the grocery store, the dairy farmer who produced that milk gets just 91¢. The bulk of the $2.08—the difference between what the consumer pays and the farmer receives—goes to the dairy processor, and retailer.

We have seen changes in the quantities of dairy ingredients and products being imported to the United States from other countries. In general, as dairy imports increase, the price paid to U.S. dairy farmers decreases.

A third change is the development of sexed semen and the effect it is having, and will have, on the amount of milk produced in the United States. This year we expect 63,000 extra heifers to enter the national dairy herd, and in 2010, that number is expected to increase to 161,000.

Historically, the U.S. milk pricing system has encouraged dairymen to produce all the milk they can, which has led to instability in prices paid to farmers. In the last 4 years, we have seen the U.S. all-milk price average fluctuate between $20.50 and $11.50.

Milk is perishable, unlike other agriculture commodities such as corn, soybeans, and others that can be stored for days, or months until the market reaches an acceptable level. It is time for our industry to change its mindset and start producing milk for the market, instead of hoping we can market all the milk we produce.

The basic objectives of the Holstein Association's Dairy Price Stabilization Program are:

- To prevent severely depressed producer milk prices that result in low and negative returns over feed costs to dairy producers.
- To reduce the volatility of milk prices to dairy producers and thereby reduce the price risk to dairy producers, dairy processors, and consumers of milk and dairy products.
- To complement, and not replace, other existing dairy programs such as the Federal dairy price support program and the Milk Income Loss Contract Program. In fact, our program may reduce the Federal Government cost of both of these two programs.

Here is an overview of the program, and further details have been submitted to the Committee in writing. Let me stress, this Program will not require the farm bill to be opened.

The Dairy Price Stabilization Program removes the incentive to produce milk beyond the levels our market demands. It rewards producers who stay in line with market needs.

The U.S. Secretary of Agriculture would administer the program with an advisory Board. The Board will forecast the 12 month domestic and export market demands for fluid milk and manufactured dairy products.

With consideration of the current level of milk production, a determination will be made to the needed change in milk production to fulfill the market needs for each quarter of the next 12 months and return a profitable price to dairymen. This is referred to as the "allowable milk marketings".

Dairy producers who maintain their milk marketings by quarter within the allowable milk marketings will not have to pay market access fees.

Dairy producers who expand their operation and exceed their allowable milk marketings will be accessed a market access fee per hundredweight on total milk marketings. Initially, we would expect the fee to be between $2.00 to $3.00 per hundredweight on all milk marketed as determined by the U.S. Secretary of Agriculture and the Board.

The fees collected from producers paying the market access fee would be distributed as a bonus to the dairy producers who stayed within their allowable milk marketings.

Producers will receive their base by filing their history of milk production and monthly marketings to their area USDA Farm Service Agency (FSA) office. The FSA office will notify the producer's milk plant or dairy cooperative to deduct the market access fee, if the producer exceeded their allowable milk marketings.

The cost of the program to taxpayers is nothing. We would expect an assessment of less than 2¢ per hundredweight to producers on all-milk marketings to cover administrative costs of the program.

We are certain that there will need to be some sort of short term fix, such as a temporary 6–12 month raise in price support or some other quick remedy. However, the dairy industry can not keep coming back to Washington for continued bailouts. The Dairy Price Stabilization Program provides a long-term solution.

In closing, the Holstein Association's membership of 30,000 dairy producers of all sizes from coast to coast appreciate the study you are doing on the U.S. dairy crisis. Something needs to be done now to stop the volatile producer milk price roller coaster ride our nation's dairy farmers continue to experience.

The Dairy Price Stabilization Program was developed for dairy producers by dairy producers and is a long-term solution to the problem of milk price volatility. This Program will be beneficial to dairy farmers, milk cooperatives, processors, and consumers.

Thank you very much.

ATTACHMENT

Holstein Association USA, Inc.

Dairy Price Stabilization Program—Draft

Updated July 22, 2009

The volatility in dairy product prices and dairy producer milk prices is extremely difficult for dairy producers, milk processors and end users of milk and dairy products to manage. The U.S. All Milk price averaged $15.13 for 2005, just $12.88 for 2006, a record high of $19.13 for 2007 and $18.32 for 2008, the second highest on record. But, the U.S. All Milk price was a record monthly high of $21.90 November of 2007, started 2008 with a January price of $20.50 only to fall to $15.60 by December and down to $11.50 for February 2009. Such volatility creates major problems for dairy producers to manage cash flow and make capital investment decisions. When prices are at their lows returns over feed costs become unfavorable and even negative. These unfavorable returns have a negative impact beyond the dairy producer level. Farm input suppliers are negatively impacted as dairy producers reduce their purchases of feed, seed, fertilizer, crop chemicals, machinery and other inputs. These lower input purchases negatively impact local businesses and communities.

Program objectives:

- To prevent severely depressed producer milk prices that result in low and negative returns over feed costs to dairy producers.
- To reduce the volatility of dairy product prices and producer milk prices and thereby reduce the price risk to dairy producers, dairy processors and end users of milk and dairy products.
- Provide flexibility in allowing dairy producers who wish to expand their dairy operations as well as providing for new producers who wish to enter dairying.
- To complement and not replace other existing dairy programs such as the Federal dairy price support program and the Milk Income Loss Contract Program. In fact, this program would reduce the Federal Government cost of both of these two programs.
- Provide for a long run dairy program for 7 years with a 5 year review for continuation and/or modifications based on past performance.

Program provisions:

- The program is mandatory in that all states will be included. However, it is flexible in that individual producers may decide to expand their dairy operation and new producers are allowed to enter the dairy industry. States having programs to grow their dairy industry will still be able to implement such programs.
- For the purpose of this legislation, the term "new producer" shall be defined as any individual or group of individuals entering the dairy business, none of whom have any interest in a current dairy enterprise.
- Upon implementation of the program, each dairy producer will be assigned an initial base of raw milk marketings from April 1, 2008 through March 30, 2009. There will be a Committee setup to review individual appeals. For those producers with less than a 12 month history and for new producers entering after the implementation date, their base will begin with their first full quarter of milk marketings and for the next three quarters. Each producer's base will be divided into their quarterly historical milk marketings. Bases are a moving base whereby at the beginning of the next 12 month period, a producer's base will be the recent past 12 months.
- The base is assigned to the producer owning the producer license for the dairy operation.

- Bases can be transferred to someone who takes over the dairy operation on the existing dairy facility.
- Producers can combine their bases from two or more facilities into one dairy facility provided each producer holding one of the bases to be combined remains engaged in milk production of the operation in the combined facility.
- In all other instances a producer's base evaporates once the owner of the producer license no longer is actively producing and marketing milk.
- The program will be administered by the U.S. Secretary of Agriculture with an advisory Board, hereafter referred to as Board, appointed by the Secretary from nominations. The Board will include two dairy producers from each of six regions—the West, South, Southeast, Central, Midwest and Northeast; one consumer representative, one representative of dairy product firms (cheese, butter, milk powder or other manufactured products), one representative of a fluid milk bottler, and a dairy economist advisor to the Board.
- The U.S. Secretary of Agriculture in consultation with the Board will forecast the market for fluid milk and manufactured dairy products (total commercial disappearance) that includes both the domestic market, any foreseen government purchases, and exports for each quarter of the next 12 months. Taking into consideration the current level of milk production, a determination will be made as to the needed change in U.S. milk production to fulfill the market needs for each quarter of the next 12 months allowing for a producer raw milk price that is positive over operating costs as determined by the Board. The Board will meet quarterly with the U.S. Secretary of Agriculture to revise forecasts and to forecast out by quarter for the next 12 month period. The market needs by quarter is referred to as "allowable milk marketings".
- Dairy producers who maintain their milk marketings by quarter within the "allowable milk marketings" are not directly impacted by the program. Recognizing that milk production is affected by weather, feed quality, herd health, *etc.*, a producer who exceeds the "allowable milk marketings" for a given quarter by two percent or less will not be impacted provided that their milk marketings for the entire 12 month period are within the "allowable milk marketings" and if so, any "market access fees" collected will be refunded.
- Dairy producers who produce at or below their "allowable milk marketings" will not be impacted with a reduction in base in the future marketing period/s.
- Dairy producers who wish to expand their dairy operation and exceed the "allowable milk marektings" will be assessed a "market access fee" per hundredweight on total milk marketings. This "market access fee" will initially be in the range of $2.00 to $3.00 per hundredweight on all milk marketed as determined by the U.S. Secretary and the Board. Based on historical performance of the program, this market access fee may be increased or decreased, but cannot be increased for dairy producers currently being assessed the "market access fee" for the current 12 month marketing period. If the market access fee would drop while a producer is expanding, the fee could go down (because we need more milk), but a fee would never go up once locked in for 12 months.
- For dairy producers who expand marketings beyond the "allowable milk marketings" and pay a "market access fee", their fees would be collected and redistributed back to the dairy producers who held their milk marketings within the "allowable milk marketings". Redistribution of "market access fees" will be done annually at the anniversary date of the inception of this program.
- Once it is determined that a dairy producer has expanded milk marketings beyond the "allowable milk marketings" for a given quarter, the dairy producer will have the "market access fee" deducted from their milk check in the following quarter and for the next three quarters. The dairy producer's higher milk marketings during the first quarter and following three quarters having a "market access fee" becomes the new and higher historical base to which milk marketings for the quarters for the next 12 months will be compared to. New dairy producers are those who are not the transferee of an existing dairy producer's base, but rather entering dairying as an entirely new dairy operation. New dairy producers will have the "market access fee" deducted for the first four quarters of their milk marketings. Thereafter, the milk marketings during these four quarters become the new dairy producer's base to compare the next 12 months' milk marketings to.
- As with Milk Income Loss Contract payments dairy producers will file their milk production history and monthly milk marketings with their area USDA Farm Service Agency (FSA) office to establish a milk base. Dairy producers will

authorize their milk plant or dairy cooperative to submit their milk marketings directly to the FSA office. If a dairy producer's milk marketings exceed the "allowable milk marketings" for a given quarter, the FSA office will notify the dairy producer's milk plant or dairy cooperative to deduct the "market access fee" starting the following quarter and for the next three quarters and submit the fees to the FSA office. Area FSA offices will submit "market access fees" collected to the national FSA office where they will be pooled and a value per hundredweight will be calculated for distribution to all dairy producers who had not exceeded the "allowable milk marketings".

- Transfers of bases from one dairy producer to another or the combination of bases must be approved by the area FSA office.
- The Federal Milk Market Administrator or State Market Administrator, will, if solicited, provide information to use to verify reported producer milk marketings from dairy plants.

Administrative costs:

- An assessment of no more than 2¢ per hundredweight will be assessed against all milk marketings to cover administrative costs of the program. Milk plants are to submit these assessments directly to the national FSA office.

For more information, please contact:

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ADAM GRIFFIN, *Dairy ID Programs Manager,* Holstein Association USA, Inc.;

LUCAS SJOSTROM, *Government Relations Specialist and Communications Assistant,* Holstein Association USA, Inc.

The CHAIRMAN. Thank you very much, Mr. Cook. Now we will hear from Mr. Thomas Suber.

STATEMENT OF THOMAS M. SUBER, PRESIDENT, U.S. DAIRY EXPORT COUNCIL, ARLINGTON, VA

Mr. SUBER. Mr. Chairman, Ranking Member, Members of the Committee, thank you for the opportunity to testify in a very serious situation facing our industry, due in large part to problems in our export markets.

My name is Tom Suber. I am President of the U.S. Dairy Export Council. In partnership with dairy farmers, dairy processors, cooperatives, and the Foreign Agricultural Service, our mission is to increase the volume and value of U.S. dairy exports.

Over the past several years, U.S. dairy exports expanded significantly, steadily setting new records. They grew from $1.1 billion in 2003 to $3.8 billion last year. Virtually all of these shipments sold without government or other assistance. The National Milk Producers have estimated this moves the producer prices by $1.69 per hundredweight last year, contributing $3.6 billion directly to producers' bottom lines.

We export a broad array of U.S. dairy products. Thanks to NAFTA, our number one market is Mexico. We also ship considerable volumes of product to Canada, Southeast Asia, Japan, the Middle East, and China. Our export competitiveness was not unexpected, sudden, or the result of luck. Long-term factors, such as the world's rising middle classes improving their diets, using dairy's many nutritious forms, as well as favorable trade agreements such as the Uruguay Round and NAFTA opened up greater opportunities worldwide. Milk supply from traditional new sources simply can not keep up with this demand growth.

To help our members seize these opportunities, we created a unified national research promotion trade policy and regulatory programs to help increase their sales. From 2003 to 2008, we exported almost 1 out of every 3 new pounds of milk we produced, doubling the percentage of exported milk production, reaching almost 11 percent by 2008.

Our farmers did what any market economy should, expanding production in the face of steadily increasing demand using our high quality mid-tier cost base as our strength. Then unfortunately came the global economic and financial crisis last year, dramatically and deeply depressing dairy demand globally. Despite the crash in demand, these new milk supplies from the U.S. and other countries simply cannot stop, resulting in huge inventories both private and public.

The soft global markets have resulted in recent declines in U.S. dairy exports. Through May of this year, exports represented only 8.1 percent of U.S. milk production. Much of the decline in this year's shipments comes from a drop-off in overseas sales of nonfat dry milk, exports through 5 months were 195 million pounds, down 53 percent. Cheese exports were similar, off 30 percent, totaling 90 million pounds for the same period. The reduced size of today's global market of these core products has forced them back into the U.S., depressing our product prices, as you have heard.

Entering the second half of this year, despite continued activities by U.S. exporters, recovering global demand remains elusive, leaving expectations for soft commodity markets for the rest of this year and into 2010. Dairy demand remains sharply lower in emerging markets such as China and Southeast Asia, where we saw much of the growth of the past 5 years. Ultimately the return of consumer demand will only come with the restoration of economic growth, which fortunately has the attention of policymakers worldwide.

In the medium and long term, however, virtually all forecasters see a return to dairy demand growth that exceeds the supply capacities of lower-cost exporters such as New Zealand and Argentina. The U.S. is well positioned to profitably meet this international market demand. Despite the declines in global markets, it is clear the processors and producers need exports for a healthy and growing industry.

Funded by our own farmers and processors, USDEC is assisting U.S. export suppliers to make the marketing and relationship investments needed to sustain these markets. To complement the industry's own efforts, Congress and the Administration could pursue a number of measures that would maintain and improve our global competitiveness, while permitting a more rapid return to global markets as our economies improve. I will just touch on just a few of these here, others being mentioned in my written testimony.

We should swiftly move towards approving pending FTAs with Panama and Colombia and especially Korea. We also need to swiftly and fully eliminate all export subsidies through a balanced and ambitious WTO round. However, until then, so long as the European Union continues to employ its export subsidies, the U.S. must use our own Dairy Export Incentive Program to its fullest extent. We also need to strongly enforce our rights under trade agreements to ensure that our exports have access that we have negotiated and won.

As we do this, however, it is equally critical that the U.S. both live up to its own trade commitments and base trade related food safety decisions on sound science.

In closing, I would call your attention to a forthcoming report by the Innovation Center on U.S. Dairy which will talk about the impact and consequences of dairy's increasing globalization. It calls out many of the issues that I mentioned before here, confirms them by a top-tier consulting firm about our global competitiveness as we will be able to reach late market demand that will exist internationally. As that report is done, we hope to be able to brief the Members of this Committee on it.

Thank you very much.

[The prepared statement of Mr. Suber follows:]

PREPARED STATEMENT OF THOMAS M. SUBER, PRESIDENT, U.S. DAIRY EXPORT COUNCIL, ARLINGTON, VA

Mr. Chairman, Ranking Member and Members of the Committee: Thank you for the opportunity to testify on the very serious situation facing our industry's ability to develop export markets and to present our recommendations for how to help improve these circumstances. My name is Tom Suber and I am the President of the U.S. Dairy Export Council. The U.S. Dairy Export Council (USDEC) is a nonprofit, independent membership organization that represents the export trade interests of U.S. milk producers, proprietary processors, dairy cooperatives, and export traders.

The Council's mission is to increase the volume and value of U.S. dairy product exports. Our programs are jointly funded through the national Checkoff by dairy farmers, with matching funds from the U.S. Department of Agriculture/Foreign Agricultural Service (USDA–FAS) and from industry members. The programs cover a wide range of activities, but stop short of actually selling or subsidizing any dairy products.

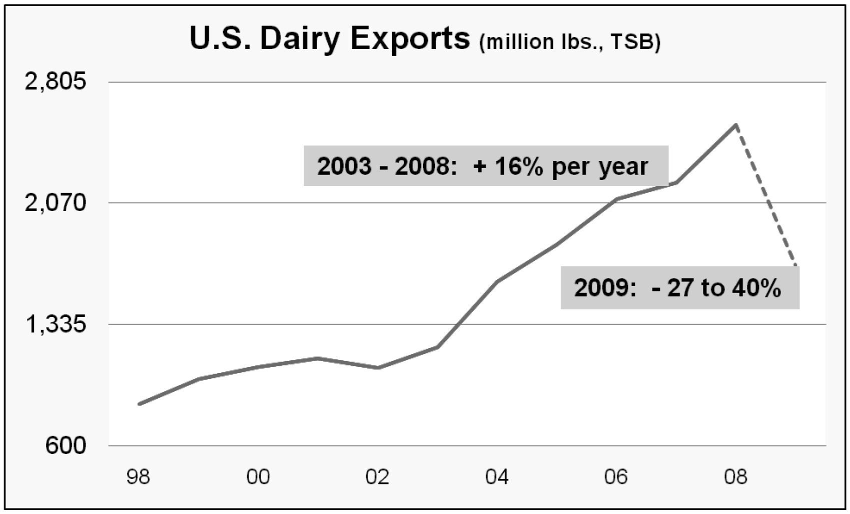
Both my preparation for testifying and my testimony today has been funded exclusively with non-Checkoff membership dues of the U.S. Dairy Export Council. The time I have spent preparing my written testimony and my appearance today have not been funded with any Checkoff dollars.

I'd like to begin by thanking this Committee for the deep interest shown in the challenges currently facing the U.S. dairy industry and for the steps many Members of Congress have supported to help address the situation such as full use of the Dairy Export Incentive Program (DEIP). We appreciate the concern about the grave circumstances facing many in our industry at the moment and we hope these hearings will help shed some light on various aspects of the challenges facing the dairy sector.

Global Dairy Market Dynamics and U.S. Export Situation

Over the past several years, U.S. dairy exports expanded significantly, hitting new record highs several years in a row. Over the past 5 years, U.S. dairy exports grew from $1.5 billion in 2004 to a high-water mark of $3.8 billion in 2008. By calculations made by the National Milk Producers Federation (NMPF), the impact of commercial exports boosted producer prices by $1.69 per cwt in 2008, thereby contributing $3.6 billion directly to dairy producer bottom lines.

We ship a broad array of U.S. dairy products all around the world. Our number one market is our full NAFTA (North American Free Trade Agreement) partner Mexico, a market where we have substantially benefited from the full elimination of dairy tariffs and quotas. We also ship considerable amounts of product to Canada (despite the lack of virtually any NAFTA benefits for U.S. dairy exports there), Southeast Asia, Japan, the Middle East and China. Our most competitive products have been those products such as whey proteins and lactose for which global market distortions—high tariffs and quotas, export subsidies and domestic support—are lowest. However, we also have seen strong increases over the last 5 years in our exports of nonfat dry milk (NDM) and cheeses, in addition to other dairy products. The chart below illustrates this robust growth in U.S. dairy exports over the past several years on a total milk solids basis.



This growth did not simply happen overnight nor was it just blind luck. In fact, a portion of this success was inevitable since it was based on an immutable trend that the rising middle classes in emerging markets will use their increasing disposable incomes to add animal proteins to their diets. In both traditional and non-traditional dairy consuming countries, the rising incomes of the 1990s and this decade brought tens of millions of new consumers into various good-tasting and nutritious dairy food categories. The influence of rising incomes was accelerated by increasingly westernized diets in the food service sector, improved cold chain infrastructures and the continuing removal of distorting trade practices with the GATT Uruguay Round, then NAFTA and other FTAs.

It was clear to the farmer leaders of Dairy Management Inc. when they founded USDEC in 1995 that these trends would inevitably lead to a favorable change in global dairy trade for the United States. Traditional suppliers from Europe, Australia and New Zealand would simply not be able to keep up with the demands of new dairy consumers. Consequently, the United States, as the world's largest cow milk producer with a high quality, mid-tier cost base, was well-positioned.

Yet, it fell to USDEC to work with our industry—including farmer-owned cooperatives, proprietary firms and trading companies—to capitalize on this opportunity. In short, we sought to maximize the upside and minimize the downside that underlying economic and trade circumstances would permit. Therefore, USDEC focused on carefully-planned programs that integrated efforts to increase sales by helping members resolve constraints based on information, commercial, trade policy and regulatory factors.

The steady increases in U.S. dairy exports over the last 5 years underscored the importance of this unified national strategy. As supply became strained either from temporary issues such as weather or currency value or from long-term trends cited earlier, U.S. dairy farmers had the capacity and the will to quickly expand production in response to marketplace signals.

From 2003 to 2008, this was illustrated by two benchmarks. First, during this time, we exported almost one out of every 3 new pounds of milk we produced. Second, U.S. dairy exports as a percent of total production went from 5.7 percent to 10.8 percent. Also notable is that the DEIP program remained dormant during these years, as were massive EU export subsidies.

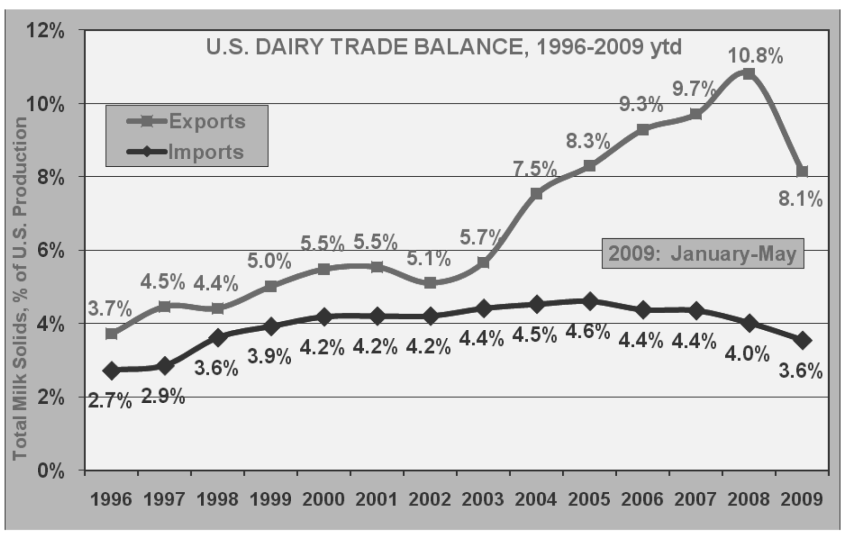
The 2007–2008 drought in New Zealand accelerated this gradual tightening of supply into an acute pinch, driving global dairy prices to record levels. Matched with a run-up of commodities such as oil and other food and feed products, net consumer incomes in important emerging markets began to erode. Then, just as high prices began to cap demand in early 2008, the global economic and financial crisis hit in the third quarter of 2008.

With these multiple factors, combined with the United States buying fewer goods from overseas, constrained or absent credit and trade financing, rising unemployment abroad and the dairy food scare brought on by China's melamine scandal, dairy demand simply crashed. During this same 2007–2008 time frame, record high milk prices worldwide fueled expanded milk production at the farm level. Oceania and European suppliers boosted production, as did supplemental global suppliers from South America and China.

Despite the crash in demand, these new supplies from various sources could not simply be turned off, resulting in a build-up of huge inventories, both private and public, for the first time in 2 years. World dairy prices ended the year down significantly from where they started. Export prices for milk powder, cheese and butter fell 40 to 60 percent in 2008, with the majority of the declines occurring in the second half. If this had been a more typical commodity cycle, we would surely have seen some weakening of demand such as that experienced in mid-2008. But the velocity and magnitude of the economic deterioration pushed the global market down far deeper than anyone expected.

The soft global markets have resulted in declining U.S. dairy exports in 2009. From January through May, the value of U.S. dairy shipments was $855 million, down 52 percent from last year's record pace, according to U.S. Department of Agriculture/Foreign Agricultural Service data released July 10. In the first 5 months of the year, exports represented 8.1 percent of U.S. milk production as measured on a total solids basis. This figure is down from 10.8 percent of production in 2008 and the lowest percentage since 2004.

The chart below depicts this trend line of exports as a percentage of total U.S. milk production through May 2009 (the most recent month for which data is currently available). For comparison, it also shows imports as a percentage of total U.S. milk production over the same time period. Both are calculated on a total milk solids basis.



A three percent change in the size of the market for milk that American dairy farmers produce may sound small. However, relatively small changes in total volume of milk production can result in huge changes in price as we've seen play out throughout this year.

Much of the decline in 2009 volumes comes from a drop-off in overseas sales of nonfat dry milk/skim milk powder (NDM/SMP), the largest U.S. dairy export commodity by volume and value. Exports from January through May were 195.2 million lbs., down 53 percent. Some exporters, however, have maintained shipments *in lieu of* selling to the Commodity Credit Corporation (CCC) by creating a standardized protein skim milk powder that is more desirable than our conventional NDM.

Cheese exports, which reached record-high volumes last year, were off 30 percent at 90.4 million lbs. for January to May 2009. However, based on good penetration and support from USDEC, U.S. exporters still are increasing sales to Mexico. As the largest overseas market for U.S. cheese, Mexico still gained 15 percent in the first 5 months of the year. Overall butterfat shipments for the same time period (January to May 2009) were just 18.6 million lbs., down 80 percent. Again, sales to Mexico were higher (+51 percent) as exporters focused on one of their core markets. I would be remiss not to mention the important role that the voluntary, producer-funded Cooperatives Working Together (CWT) export assistance plan. The strategic bonuses CWT has offered to participating members for exports to particular markets have helped support continued butterfat sales in particular as participants have shipped product in the early months of 2009 for which bonuses were granted in late 2008.

Exports of dairy ingredients like whey and lactose have held up well in 2009. Shipments of dry whey in the first 5 months of the year were 186.0 million lbs., up 15 percent from last year. Exports of higher-value whey protein isolates were up 51 percent, to 14.7 million lbs., while sales of whey protein concentrates were down 17 percent, to 105.4 million lbs. Overall, whey protein exports to key markets China and Mexico were higher, while shipments to South America and Oceania slackened. Exports of lactose were 182.0 million lbs., up one percent from January through May.

Dispelling Misconceptions

As an organization dedicated to trade and the promotion of U.S. dairy products overseas, USDEC would like to highlight some factors that it believes have contributed to current market pressures and proposals to avoid another crisis. We would like to take this opportunity to comment on a few of them in order to set the record straight on these trade-related issues.

- Imports: One charge repeated by some is the misconception that a surge in dairy imports has created or at least dramatically exacerbated the situation facing the dairy producer community. In a crisis such as we are currently experiencing, any imports can be damaging. Yet, in fact, we have not seen a significant surge in imported dairy products into the United States. In fact, on a total milk solids basis in 2009, year-to-date imports of dairy products are actually down compared to recent years. As I have stated above, the crux of the problem facing our industry is the swift and steep drop in global demand for our products, not an influx of foreign dairy products into the U.S. market.
- Isolationism: As supply management program ideas have begun to circulate, many have argued that isolationism would solve this crisis. The goal is seemingly to create a fully closed market like Canada's. However, by aiming to address this aspect, we would likely create even more complications. It is virtually impossible to forecast market twists and turns accurately enough to match production with domestic and export demand. Therefore, overwhelmingly likely decisions by a so-called Supply Management Board would tend towards undersupply in order to keep farm incomes on the high side. The consequence would be steadily rising imports in reaction to prices much higher than those that exist globally, which would steadily ratchet down our domestic production. In short, we would steadily shrink as an industry.
- In addition, building a supply management system replicating Canada's would mean substantially raising our tariff walls, thus requiring offsetting trade concessions to meet WTO obligations. We also would face substantial problems selling exports beyond DEIP, since the WTO ruled out the use of a two-tier pricing system in a case that the United States itself brought—and USDEC strongly supported—against Canada in 1999.

Although some may argue that our industry is better off abandoning the export market, USDEC would like to take the opportunity to remind this Committee that in 2009 to date, we have still exported approximately eight percent of U.S. milk production and that this swing in the demand for only three percent of our total milk production has been one of the most significant factors leading to the current market situation. If we were tasked with somehow finding swift alternate uses for approximately 11 percent of U.S. milk production rather than simply three percent, the crisis would be even deeper and more protracted.

Whatever the declines in global markets, it is clear that processors and producers have come to rely upon exports as fundamental to the health and growth of the industry. We're far removed from the 1990s, when the value posed by a vibrant export market was simply theoretical, and the low levels of exports that existed were mostly facilitated by government programs. Now, a forced retrenchment will hurt most everyone in the supply chain.

Expectations for the Future

Entering the second half of 2009, recovery in global dairy demand remains elusive, leaving expectations for soft commodity markets for the balance of the year and into 2010. Global economic activity is still almost universally down over recent years. Developed countries remain in a recession that has lasted more than a year, still struggling with a credit crisis that has sapped normal commercial activity, while substantially increasing unemployment. These factors and others have resulted in sharply less demand for dairy products in emerging markets such as China, Southeast Asia and Latin America, where we saw much of the growth of the past 5 years.

Ultimately, the return of consumer demand will only come with the restoration of economic growth. Some early signs of recovery are emerging, albeit slowly. For instance, the International Monetary Fund (IMF) believes the global economy is beginning to pull out of recession, though full recovery is expected to be sluggish. Leading lenders such as Rabobank International have cautioned however that a build-up of inventories could forestall a speedy price rebound in the dairy sector. The more product stored in U.S. and European Government warehouses or in private storage in Oceania, the longer depressed prices will persist. Thus, commitment of stocks to useful purposes such as domestic and international feeding programs is important in order to help shorten the current situation.

In the medium and long-term, however, virtually all forecasts foresee a return to dairy demand growth that exceeds the supply capabilities of lower cost exporters such as New Zealand, Australia, Uruguay and Argentina. Consequently, prices would increase to levels necessary to draw additional exportable supply from the next tier of producers. The United States is among the producers well positioned with the capability to profitably respond to this demand and provide additional exportable supplies to the international market. Because of this, USDEC is continuing to make the investments needed in overseas programs and relationships to pave the way towards that opportunity.

Recommended Government Actions

Congress and the Administration could pursue a number of measures that USDEC believes would help us maintain and improve our global competitiveness and permit us to more rapidly regain export markets as economies improve. Exports have already been shown to dramatically benefit farmer income; we cannot afford to ignore this part of the equation so critical to overall supply/demand balance of the U.S. dairy market. Some of these suggestions are short-term solutions such as full use of the DEIP. Others, such as passage of beneficial trade agreements, would help provide the medium to long-term growth our industry needs to continue to compete in the global market.

- We should swiftly move towards approving pending Free Trade Agreements (FTAs) with Panama and Colombia and, especially, South Korea. These agreements would remove barriers to our products and would either provide us with an edge over our competitors or at least allow us to remain on more even footing as many of these trading partners pursue FTAs with other important exporters. We recognize that the Administration and many Members of Congress believe that some work is needed to address issues of concern they have regarding each of the FTAs; however, we urge that this work be done with the degree of urgency befitting such important international agreements.
    - We would caution, however, against the pursuit of agreements that offer no prospect for a balanced outcome such as would be the case under a Trans-Pacific Partnership FTA, if dairy trade between the United States and New Zealand were included. There are very strong anti-competitive concerns USDEC has with the near-monopolistic structure of the New Zealand dairy industry. Given such concerns, our members have advocated for the full exclusion of U.S.-New Zealand dairy trade, should the TPP FTA move forward as currently envisioned.
- At the same time that we pursue genuinely beneficial bilateral agreements, we must not take our eyes off the bigger prize—a successful multilateral deal. We urge the Administration to continue to aggressively pursue an ambitious Doha Round agenda, which would prevent the backsliding that we are now witnessing on export subsidies and market access, particularly in developed countries that have become such a serious concern this year. We need to have a balanced market access package that calls on those with the steepest tariff barriers to do the most and does not undermine the access secured in key developing markets in the Uruguay Round. Additionally, the swift and full elimination of export subsidies is a particularly important aspect of the overall Round, as we've seen the impact this year's reactivation of the EU's massive subsidies has had on global markets.
- So long as the EU continues to employ its export subsidies, however, it is essential for the United States to use the tools available to it as well. We call on Congress to urge the Administration to maximize its use of the DEIP. This program

is small in comparison with what commercial trade can drive during more typical market conditions (150 million pounds of NDM annually permitted under DEIP *versus* an average of 660 million pounds of NDM exports annually between 2004 and 2008). Despite its relatively small size, in times like these it is an important way to help stimulate export demand for U.S. products in a global economy currently plagued by ever-rising EU export subsidies.

  - DEIP also helps counter the continuing practice by New Zealand to clear its inventories at virtually any price due to its need to export 95 percent of its production. New Zealand has now become the world price maker with its recent, almost panicked selling, which will resume upon the start of its production season in August. Full use of DEIP can help our exporters keep a foothold in key markets to help better enable them to maintain relationships that have been cultivated over the years but are facing heavy strain due to market dynamics this year.

- In a similar vein, we ask that Congress maintain funding for the Market Access Program (MAP) and the Foreign Market Development (FMD) program at their full farm bill authorization levels of $200 million and $35 million, respectively. We also urge Congress to direct the Administration not to make changes to the current eligibility parameters for the program. Wide consensus exists that they contribute to the great success of the program and overall U.S. agricultural exports. MAP and FMD are excellent examples of a successful industry-government partnership that can directly benefit producer incomes, as the dairy industry has seen over the past 5 years. USDEC has participated in these programs for several years now and has used the funding to help grow demand for U.S. dairy products abroad and cultivate receptiveness to supplies from the United States—until recently not one of the major dairy exporters to the world.
- The other critical part of the export support equation is the expertise the FAS team, both in Washington and many of the overseas offices, brings to bear on the many challenges facing our exporters. These range from the close cooperation between FAS and the U.S. Trade Representative's Office (USTR) on free trade agreements (FTAs) and World Trade Organization (WTO) issues, to resolution of important sanitary/phytosanitary (SPS) and technical barriers, to technical barriers to trade (TBT) challenges to addressing time-sensitive issues when product is detained in port. The knowledge of FAS and its dedication to helping facilitate the flow of U.S. exports and influencing the policy dynamics disadvantaging our products is absolutely critical. We urge Congress to fully support FAS's core mission of promoting U.S. agricultural exports by providing adequate funding to achieve this goal.
- As our hard-working FAS and USTR staff go about trying to make our trading partners adhere to their commitments, however, it is equally critical that the United States live up to the trade commitments it has made by adhering to our trade agreements and basing technical trade-related decisions on sound science. Very simply, how can we demand others abide by their deals when we simply refuse to do the same by inventing specious justifications?

  - One particularly important issue is our cross-border trucking obligations with Mexico under NAFTA. The United States was found several years ago to be in violation of NAFTA by refusing to allow cross-border trucking with Mexico, despite our ability to require Mexican trucks to adhere to the very same requirements U.S. trucks face while on American roads. In the spring of this year, Mexico finally retaliated against the United States for this trade violation, putting at risk $2.4 billion worth of trade. As Mexico is by far our number one dairy export market, we believe it is essential that the United States adhere to its trading obligations under NAFTA.
  - There are additional examples of a more technical nature as well that have given USDEC cause for concern. The health and safety of America's consumers has always been a major focus of America's dairy farmers and processors. However, it is vital that in making decisions regarding imported food products and various SPS trade issues, we apply the same rigorous adherence to sound science and uniform standards that we expect our trading partners to apply in their own countries. Safe food must be paramount, but we must let science run its course and then rely upon the results, rather than pre-judging the outcome of that technical assessment.

- Finally, I would leave this Committee with a request that it take an interest in a forthcoming report by the Innovation Center (IC) on U.S. Dairy on the impact on and consequences of the dairy industry's increasing globalization.

Staffed and supported by Dairy Management, Inc., the Innovation Center provides an unprecedented, high-level forum where top leaders from dairy farm groups, processors, co-operatives and trade associations can review major structural constraints to industry growth and prosperity. Work outcomes then represent an integrated, pre-competitive and collaborative set of analytical, policy, regulatory and market development programs across a range of issues.

- ○ In March, an Innovation Center task force retained an experienced management consulting firm to profile the present and future state of the global dairy trade, the competitive position of the U.S. industry, and a prospective set of integrated programs that could improve our ability to accommodate these changes. The task force is close to concluding its work on this "white paper" analysis. The report of its preliminary findings earlier this month to the IC board created considerable interest in its insights. The analysis showed a virtual certainty that, with a return to global economic stability, dairy's global supply/demand dynamics (as reflected in my earlier comments), would create a sizeable latent demand gap that the United States was well positioned to fulfill. Yet, the analysis also showed that this window of opportunity to grow both our internal and external markets against global competitors was finite. Success depends on making the right strategic choices.
- ○ Presented with choices ranging from "Fortress USA" to the *status quo* to moving towards a consistent, global exporter role, the Innovation Center board asked the task force primarily to focus its final recommendations on prospective programs to pursue the latter path. Once the Innovation Center board has reviewed and decided upon its work programs, we would welcome the opportunity to brief interested Members of this Committee on their objectives.

Thank you for the opportunity to provide comments to this Committee on such an important topic. USDEC appreciates the time and attention Members of this Committee have devoted to the concerns facing many in the dairy industry.

The CHAIRMAN. Thank you, Mr. Suber. I really appreciate that very much.

The gentleman from New York, Mr. Massa, is not a Member of this Committee but he has joined us today, and I have conferred with the Ranking Member and we are pleased to welcome him and permit him to join in questioning of the witnesses. Good to have you.

Mr. MASSA. Thank you, sir.

The CHAIRMAN. You are quite welcome. Let me start with the questioning. First of all, let me just—Mr. Cook, I just want you to very briefly give us that breakdown again of the pricing of a gallon of milk, who gets what. I think you gave that in your testimony real quick.

Mr. COOK. The average price—and I am sure that we could find differences in places. It is $2.99 a gallon.

The CHAIRMAN. Is this in California?

Mr. COOK. No. This is the national average. Of this $2.99 a gallon, the average price that the producer receives for that gallon is 91¢. And that would be $2.08 of the $2.99 that would go elsewhere.

The CHAIRMAN. It is 91¢ to the producer?

Mr. COOK. Yes, sir.

The CHAIRMAN. And $2.08 goes elsewhere. Do you know where that elsewhere is?

Mr. COOK. It would go to the processing and retail industry and any intermittent transportation, afterwards. And the farmer usually pays for the transportation to the first port.

The CHAIRMAN. Of the 2—let me ask you. The 91¢, what do you think would be a proper share for the producer if it is not 91¢?

Mr. COOK. The producer's share before a lot of other changes used to be closer to 50 percent of the consumer dollar. And I think that that is—it is significant as the erosion of the percentage of the consumer dollar—as the erosion of the percentage of what the farmer receives of the consumer dollar, it put the producer in a harder and harder spot without a doubt, and it certainly adversely affects the consumer as well. When prices go high it is the differential between and the lack of percent that hurts.

The CHAIRMAN. So it is 91¢—you think the fairer amount should be about a $1.45?

Mr. COOK. I think that would be correct, sir. And we are talking about fluid milk. That is right.

The CHAIRMAN. Thank you. Mr. Contente, you mentioned suicides and you gave a number. Could you elaborate on that? I think you said ten or two. Over what period of time? You said two?

Mr. CONTENTE. We have experienced two suicides in our immediate area since the middle of December until present.

The CHAIRMAN. So over the last 7 months?

Mr. CONTENTE. Correct.

The CHAIRMAN. And is it in your farming area?

Mr. CONTENTE. Actually the Tulare and Kings area is where I am speaking of. The Tulare County represents the single largest single county of milk production. Kings might be like fifth or something like that. So it is a pretty strong area of milk production in the United States.

The CHAIRMAN. Okay. And finally I want to make sure that we have this documented right. And without question, it is documented. These two suicides without question came as a direct result of the dairy situation?

Mr. CONTENTE. Most definitely because I know both of those people.

The CHAIRMAN. Okay. Thank you. I think that is very important to get on the record as to the seriousness of the issue. Let me just ask each of you if you could very briefly—I would like to go through this. If you could tell us regarding the current dairy situation if you had to prioritize those two things, of what could be done, the two most critical things that should be done in the short term to alleviate the current dairy market slump? And if you could, give us those two things that would not require a reopening of the farm bill. What would those two things be?

Let me start with you, Mr. Lang, and we will go straight down.

Mr. LANG. Thank you. First of all, we should look at increasing CCC purchases of cheese, dried fat milk, those things that are already allowed within the farm bill, increase that. Food for the Needy School Lunch Programs. The next important thing to do is remove cows from the market. We believe that three percent more of the cows need to be removed before we can have long-term stabilization of milk prices, and farmers and co-ops working together has been very effective in helping that happen.

So those are the first two.

The CHAIRMAN. Okay. Increasing the School Lunch CCC Program and thinning the herd. All right.

Mr. Bostwick.

Mr. BOSTWICK. Sir, I am not sure there is really anything at this point that can be done in the short term. The tide has already started to come back in. Prices are beginning to come back up. So I am not really sure that there is any short-term solution that would not do more harm than good.

The CHAIRMAN. All right. Mr. Contente.

Mr. CONTENTE. Yes. On a short-term solution, immediate attention should be given to the support prices I mentioned earlier in my testimony. It doesn't require opening up the farm bill. The Secretary has the discretionary powers to do that. That would almost fix the problem immediately. That would bring cash to the market immediately.

The other solutions I offered in my testimony are almost as important and for a second place, whether it is market transparency or supply management or dealing with the unregulated proteins.

The CHAIRMAN. So you would say pricing and supply; is that right?

Mr. CONTENTE. Pricing on the support mechanism which is lacking. The support mechanism that we have in place, which is a Federal mandate, is not adequate. It should be somewhat closer to the cost of production. So that would be the primary goal. Then, of course, we have these unregulated proteins that keep messing with our market. Those, of course, are not dealt with. At some point there needs to be some sort of a regulatory process there to bring them in line with the rest of the products that we have.

The CHAIRMAN. Dr. Guterbock.

Dr. GUTERBOCK. Mr. Chairman, I don't think there is anything that can be done in the short term that wouldn't perpetuate the problem in the long term. I think supply management and raising the support price would again make us less competitive on world markets, and unfortunately the answer is to allow prices to seek their levels so that the market is cleared, so that demand and supply can come back into balance.

The CHAIRMAN. So you——

Dr. GUTERBOCK. As hard as that will be, I think that is in the long term the best solution.

The CHAIRMAN. So you directly disagree with Mr. Contente?

Dr. GUTERBOCK. Yes, sir.

The CHAIRMAN. Ms. Hughes.

Ms. HUGHES. Mr. Chairman, as I mentioned, because we are in the organic dairy industry, we run separate from the conventional dairy industry. So for short-term solutions, I would have to defer to my colleagues at the table here. For longer term, I would look to the successes that we have been able to have, providing our farmers a stable pay price that covers the cost of their production and how they can expect what to get in the mailbox from one month to the next.

The CHAIRMAN. Thank you. Mr. Cook.

Mr. COOK. Yes, sir. I would think the Dairy Price Stabilization Program could probably alleviate a lot of the—I am sorry—the Dairy Price Stabilization Program, which would alleviate a lot of the peaks and valleys in this roller coaster ride that continues to bring these crises back in front of this body. I believe that that is probably the first and most stable thing that we can look at. It is for short term today. If you enacted this today, it would come into effect soon. But maybe a purchase by the government for the food supply, probably mostly cheddar cheese, would be the most effective thing to have an immediate impact. But the Dairy Price Stabilization Program would have the impact that would have the most effect over a longer period of time.

The CHAIRMAN. All right. Thank you.

Mr. Suber.

Mr. SUBER. As you can imagine our perspective being on trade matter, we would look at continuing rigorous activity in the Dairy Export Incentive Program as—it is important to keep us in our markets. I would also be cautious about playing with fire that we are doing with our existing exports on some of the trade actions that we have taken against others that are hard to support if they were to be taken against us. Specifically, I refer to the truck ban against Mexico, our biggest market, that they are currently retaliating to some degree, and have the right to do so. And it could spread to dairy and thereby exacerbate our situation here as well.

The CHAIRMAN. All right. Thank you. Thank you, each of you. I now turn to Mr. King for 5 minutes.

Mr. KING. Thank you, Mr. Chairman. I want to thank all of the witnesses for your testimony here today and look to just a piece of information that I need to know a little bit more about.

Just briefly, Mr. Cook, in your testimony you said that the first fourth of the transportation of milk is borne by the milk producer. Is most of the milk picked up on the farm? And then how does that ¼, where does that calculation come from?

Mr. COOK. I don't know what you mean by the fourth, but I did say that the first price—the farmer provides the transportation to the first port.

Mr. KING. That is the word I missed.

Mr. COOK. I apologize. The first port. So the first port. It would go from the farmer to its first stop, whether it is the processor or a cooperative trucking central station. But the farmer pays that transportation for that first ride.

Mr. KING. Even if the milk is picked up on the farm?

Mr. COOK. That is where it is always picked up.

Mr. KING. Is that billed specifically, then? Is it an itemization?

Mr. COOK. It is a deduction from your price.

Mr. KING. Okay. That is something I didn't know, and I am glad I clarified that. But I did mishear you as well. So I blundered into a little more knowledge and I appreciate it.

I would like to then turn to Mr. Lang. And with the recommendations that you have made here this morning to reduce the herd by three percent, in the bottom line of this, when agriculture, especially our livestock producers have—in the end they have taken a lot of swings up and down in the marketplace, and we have had a cow buyback operation going on in the past. That in my view has been at least to a marginal degree successful, if not more so. How do we balance this with our pork producer industry today and the stress they are going through? We are going to hear from them on—if we turn our focus on milk cows in Iowa.

Mr. LANG. Certainly. That is true. The pork producers and the beef industry are having a really challenging time as well. Just for your record, our farm, the co-op pays for our milk to be delivered to the first port. So not all dairy farmers pay for the milk transportation. So we don't pay that bill ourselves.

First of all, we do not support a whole herd buyout similar to the one we had in the mid-1980s because of the repercussions to the beef industry and the pork industry, or the entire meat industry. We don't support that. But co-ops working together, utilizing their own money to take herds out of the market system over an orderly time certainly should not interfere with the pork and beef industry, as much as a whole herd buyout would. Those cows are going to go to market one way or the other. So the co-ops working together is at least a way for the farmer to garnish some income into the future rather than just selling the cows.

The second part of your question is that we do not support managed supply of any kind. We believe that the volatility in the market gives opportunity to young farmers, such as my two sons, that when prices are the lowest it is their opportunity to get in the market and buy cows and work their way through.

So there are a lot of programs already that the dairy industry has differently than a lot of other industries, and we believe that we ought to let those pieces work and let the reduction of another three percent take place either through liquidation, or through a structured program like CWT.

Mr. KING. Mr. Lang, you mentioned two young sons coming into the operation, and I think you would be aware that there is a bill floating around this Congress, and we expect it to be on the floor today, that would have to do with USDA moving over and the FDA taking over on the farms. When your young sons are looking at the very real prospect that that might be law here in the United States, with the FDA regulating livestock production, milk production, and setting foot on our farms and making decisions bureaucratically about something that will be abdicated by the USDA, are they more or less likely to continue to invest and build their future there, or do they start looking over the horizon to start getting away from the FDA on the farm.

Mr. LANG. My sons will continue to work against that kind of regulation. We believe that we already have more than enough regulation in the dairy industry. On our farm today we have state inspectors, Federal inspectors, the Department of Natural Resources, and they look under every sink, in every refrigerator. They inspect all our wells, all our watering system and everything else. We believe we have enough regulation. So my point would be we wouldn't support more regulation by FDA.

Mr. KING. I thank you, Mr. Lang, and I thank all the witnesses, Mr. Chairman. I yield back the balance of my time.

The CHAIRMAN. Thank you, Mr. King.

The gentleman from California Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman, and as the Chairman of this Subcommittee and the Chairman of the full Committee, we do appreciate, those of us who come from dairy country, the attention and the focus that this Subcommittee has provided in the full Committee as it relates to what has been the meltdown of the dairy industry nationwide, and in California obviously it was ground zero where it first began.

Having been in the dairy business, my family, for three generations, it clearly is of great concern to me and my district when you look at the total impact that the dairy industry in California has in terms of our economy. This is the worst I have ever seen it, in our family, in my family's generation. The boom-and-bust cycles, unfortunately, seem to be becoming narrower. And as has been noted by a number of the testimony, we have done a lot of short-term efforts in the last 6 months to try to provide some relief with the purchase of the CCC and the DEIP Program, the Dairy Export Incentive Program, and one of you indicated that we ought to continue to do more.

But let me just suggest to all of you that if we are going to try to change this cycle, these boom-and-bust cycles continuing to be narrow, it seems to me that the industry has to come together, and that is never easy, having been a part of this industry for three generations. So let me give you that as a suggestion, as we look at how we deal with the supply-side aspects of this.

Let me get to a couple quick questions here. Mr. Suber, you indicated that obviously exports are an important part, going forward, in the future. On milk solid basis, exports exceeded .08 to 6.8 percent over the last 13 years as a percentage of the national dairy production, yet dairy imports were relatively flat, from 3.9 to 4.0 percent in 2008 with a high of 4.6. So we are importing about four percent of our milk product. We are exporting, we have as high as about six percent plus over the past 13 years. What barriers are existing there from us expanding on that export market?

Mr. SUBER. Just one thing on the statistics. Depending upon how you count them, fat basis, solids basis, we use a total solids basis.

Mr. COSTA. I was doing milk solid basis.

Mr. SUBER. We are exporting—we have bid as high as 11 percent and currently are down to around ten—eight percent *versus* the four percent that we are importing. So it is about twice as much that we are exporting as we are importing on a solids basis.

But directly to your question in the barriers that are there, the biggest barrier today, of course, is the economic situation, so let us move past that if we can, because that is the focus of many policy-makers, and we wish them Godspeed in fixing those. The issues are, many of them are, related to competitiveness, and the fact that we would be more competitive in the long run as you get the distortions out of the international trading system, and those are primarily export subsidies. We use ours and would throw them away in a minute if Europe would also outlaw theirs. Add as well high tariff barriers that exist in richer countries.

Mr. COSTA. I have a couple of other questions, so I want to move on.

Mr. Joaquin Contente, I thank you for being here, and as a constituent of my mine, obviously the role you play is important, and we appreciate that. You focus in your testimony on milk protein concentrates and state that these imports represent nearly six percent of the U.S. milk inventory. Why are we not producing more MPCs domestically since it could be a significant part of the market, in your view?

Mr. CONTENTE. Mr. Costa, I would say that the primary reason for those prices would be the primary reason for the lack of us not producing it here, because you can import that cheaper than you can produce it here. It is, traditionally, it has been a last residual product that is made overseas. In fact, the EU for many years subsidized the production of it to be exported, so you are competing against a national treasury.

Mr. COSTA. My time is running out here.

Mr. Cook, the Holstein Association has been working with producers around the country to deal with a program that would be more supply-side-sensitive. And how do you do that in terms of dealing with the base, and how do you get producers to participate in such a program?

Mr. COOK. I think the producers probably don't like the volatility as some of the other people testifying think they do. I think volatility primarily helps retail organizations that can price things higher and then maybe not fall quite so fast. The volatility is what is hurting dairy producers. It is hurting consumers.

Mr. COSTA. The boom-bust cycle.

Mr. COOK. Yes, sir. And the length of the time, the Vs have turned into Us and fairly long, long Us. And, it is this kind of a system that would stop that volatility. It would more make people supply the marketplace rather than trying to have the marketplace accept the supply. And, it is a means of making things be longer-term lasting.

The CHAIRMAN. The gentleman from Texas Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman.

I thank the panel for being here. Just a quick show of hands, how many of you are in favor of some sort of a government-run production management system? Two of you, three. One in the back. Thank you.

Mr. Cook, you mentioned some comments about increased—because of sexed semen, that you are seeing net increase in the size of the herds, you said about 161,000 head this year. What does that mean? Is that what you just said, or is that a segment of your business?

Mr. COOK. On a study done by Select Sires and other people who are in the artificial insemination business and sell sexed semen, they have said 8,000 heifers in 2008 were added to this herd over and above normal consequences. This year it is to be 63,000, next year 161,000.

Mr. CONAWAY. So I get it right, why in the face of, what all of you would agree is an oversupply of production, are there incentives? Where are the incentives to increase the size of your herd? If what we have been told everyone is losing $100 per head per month, what is creating that incentive to increase the supply of your herd?

Mr. COOK. Oftentimes there are two times when farmers try to make too much milk. One is when they aren't getting enough for it, and they try to cash flow to pay their bills. And the other one is when they get a response, a cost to—feed costs, a feed-cost-to-milk ratio of greater than three to one, it is called an expansion mode, and people expand and grow their herds, and when they grow their herds, you know what happens.

Mr. CONAWAY. I do. And I am curious as to the role the Federal Government should play in helping folks make decisions that are in their own best interests. What perverse things we are doing to perpetuate what—I am a CPA—what perpetuates decisions that aren't in either the individual's best interests or the system's best interests.

Mr. COOK. The CWT Program, which I believe has done a great job, is 67 percent of the people trying to take care of 100 percent of the problem. This milk supply program would be mandated, and everyone would participate.

Mr. CONAWAY. Speaking of that milk supply mandate, how would new producers get into the system?

Mr. COOK. They would get into the system like they always got into the system, but they would pay a market access fee to enter the system. But in any other kind of a business you wanted to get into, you would need to be an awful lot cheaper or an awful lot better to be able to sell your product. Here you come in, and the milk goes in at the level of anybody else's milk available, and if it is too much, everybody suffers.

Mr. CONAWAY. So in a closed loop you are going to be taking from some producers and giving to other producers in that system?

Mr. COOK. No. The beauty of this is it is open to anybody to make their own decisions. You can decide if you want to enter the business, if you want to expand the business.

Mr. CONAWAY. But once in, what I understand your system would do is you have ten producers, and three of them produce too much milk under the allowable, then they pay the seven that don't. So it is a closed loop, taking money from each other and swapping money around.

On your overproduction why wouldn't you just say everybody gets a fixed quota of what you can produce, figure out whatever management system you can work up with, everybody gets a fixed quota, and above that you just can't sell it? I come from the oil business, and there was a time when we had an allowable set each month by the Railroad Commission, and, again, oil and gas wells can be stopped and started a lot easier than cows can be stopped and started.

Mr. COOK. I understand that, but I don't know if that would allow for new producers to get into the business, and we do not want to stop that from happening——

Mr. CONAWAY. Have you ever seen a production management supply system run by a government—we have a production supply system that is called the market, and it is rugged, and it is harsh, and it is unrelenting, but it works over time, and we have heard several of the folks say that. A couple of the witnesses last week said that; in other words, don't do anything, just let the hard decisions that have to get made do that.

Have you ever seen a government-mandated supply system in any market, not milk, actually work to the benefit of the producers and the consumers?

Mr. COOK. Sir, I have seen the consolidation of the poultry and the hog industry go to vertical integration and actually just ruin that industry for many parts of this country, and I hope not to let that happen to the dairy industry. And I hope we can have a fresh, wholesome supply of milk all over this country, and I believe this program allows that to happen.

Mr. CONAWAY. Some of us would respectfully disagree with the fact that government could run markets that way over the long term, in which folks can come and go in and out of the market fairly, and that consumers could get a fair deal, and that producers could get a fair deal. I would argue that there has not been a government-mandated supply system ever that worked over the long term. It may work in a short term to keep folks in a business that may or may not be in the business, but these production management systems that are government-run I don't think work.

Mr. COOK. I understand your reluctance, but I do hope that the Secretary would pick a board that would be responsible.

Mr. CONAWAY. So what you are saying is the fact it hasn't worked ever is because we haven't had the really smart people putting it together?

Mr. COOK. I don't know that I have seen such a system in place.

The CHAIRMAN. Thank you.

The gentleman from Wisconsin Mr. Kagen.

Mr. KAGEN. Thank you, Mr. Chairman, for convening another hearing on the dairy crisis across America.

I want to thank everyone for coming here to Washington, leaving your farms and representing your best interests and the people that you work so hard to represent.

I have heard a lot of suggestions. Many of the suggestions, if not all of them, have already been taking place by the Agriculture Secretary Mr. Vilsack. Mr. Lang mentioned the purchase of cheese to the CCC. That has been done. Maintaining the safety net that we have, that is being done. The DEIP Program, Dairy Export Incentive Program, that is being invested in. So all three of these ideas have been thrown at this marketplace which has been collapsing before our very eyes.

Ms. Hughes, organic farmers seem to be doing okay, but then you have been controlling your supply; is that correct?

Ms. HUGHES. That is right, sir. We have been working very hard on supply management, and we have also put into place over the past 20 years a pay price system that avoids the volatility and is stable, so that not only can the farmers know how much to produce, they know how much they are going to get paid for that production.

Mr. KAGEN. But you are not controlling the market, are you?

Ms. HUGHES. We control what we can, sir, but, no, we are not controlling the market, but we work very hard to create the connection with the consumers so that the consumers understand our milk is coming from a certain group of producers. Those producers expect a certain price and are setting their price, and so the consumers understand that relationship and are willing to pay a premium for that milk that goes directly to our farmers.

Mr. KAGEN. Just for the record, let me ask you a couple of questions about your input costs, because the rest of the dairy farms I am familiar with in Wisconsin have an input cost anywhere from $18 to $21 per hundredweight. What is your average on an organic farm? Do you have numbers that you could submit?

Ms. HUGHES. I will be able to submit those numbers to you. I don't have them with me today.

I can say that our farmers have been challenged in the past with input costs for organic feed because they were required to feed 100 percent organic feed. The feed industry lagged behind the growth of the organic dairy industry in the past years, and in the past 2 or 3 years, we have seen very significant organic feed costs. Those have leveled out now as folks in the feed industry have provided more organic feed, so our farmers are better able to manage those costs.

In addition, a lot of our farmers at that moment of seeing the increased feed costs turn to their own systems and their own operations to grow their own feed and to pasture their animals. One of the fundamental principles of organic production is to try to keep as closed a system as you can, produce what you have on your farm for your cows without having to go too far off for input.

Mr. KAGEN. Thank you so much.

Mr. Suber, you mentioned that you are in favor of promoting all the free trade agreements available to help exports, but exports have been at a record high; have they not?

Mr. SUBER. They were through 2008, that is correct.

Mr. KAGEN. Until global demand was destroyed.

Mr. SUBER. That is correct.

Mr. KAGEN. And yet do you think our foreign trade, foreign exports of dairy products alone could pull us through this?

Mr. SUBER. They grew over a 5 year period and, in fact, delivered some of the highest prices that this market has ever seen. So, yes, they are a significant contributor to a healthy and growing industry. Exports are the way that this industry has grown for 5 years, and they are the future once the overall demand is robust enough globally.

Mr. KAGEN. And, Mr. Cook, you are not suggesting that what the Holstein group is trying to do is to produce the OPEC of milk, are you?

Mr. COOK. No, sir. We are trying to stabilize this industry for the benefit of the producers and the consumers.

Mr. KAGEN. Thank you very much. I see my time is about to expire, but I have this comment to make, that I am very impressed with the fact that throughout the farming community, Mr. Chairman, if you don't know it, it is legalized gambling. If you are in farming, you are a gambler. You are betting on the weather, you are betting on the commodity market and hoping that you can come out okay at the end of the day. But it is one of the only industries that I know of where if the price is going down, you produce more, which really chases down your own price. It is counterintuitive. Maybe that is why we have these countercyclical programs trying to support the industry. My hope is that we find the bottom of the demand curve, because you can produce the supply to meet the world's demand.

Let me get a quick comment from anyone on the panel with regard to the import licenses for cheese and for MPCs and the like. I am very interested to know if you are interested in seeing a study performed that would evaluate the role that the import licenses, the import of cheese and MPCs has on our domestic and foreign markets.

Mr. COOK. I would just like to know that if all of the imports that come in that are used in the dairy industry or in the processing are actually imported as dairy products, or if some of them come in under other labels such as industrial uses and things like that. I think that is an important thing to check on.

The CHAIRMAN. The gentleman from Tennessee Mr. Roe.

Mr. ROE. Thank you, Mr. Chairman, and thank you for holding these hearings.

I come from an area of a lot of small dairy farmers, and one of the things, the biggest complaints that I hear, and you all have very well stated the causes of this current catastrophe, and I was raised on a small farm in Tennessee, and it is a catastrophe. I met with about 60 of our dairy farmers 6 weeks, 7 weeks ago, and most of them are about out. We have had counties that had 50 dairy farms down to one. And one of the counties that I live in already has a 16½ percent unemployment rate, and dairy is one of the biggest employers in that county.

I think one of the complaints that I hear from my dairy farmers is what Mr. Cook brought up. They say, Dr. Roe, I go to the grocery store, Kroger's or Food City or wherever they shop, and milk hasn't dropped that much in price, and yet my price has dropped by over half. I am down from $21 to $9 or $10 or $11 per hundredweight. And it looks like—I don't know, and certainly I want everybody—I am a free market guy—to make money. But the folks between the producer, from the time he ships it out and pays that cost, which all of my farmers do, to the time you go buy a gallon of milk, and I realize that is just part of it, but liquid milk at the store, that hasn't dropped as much as his profit has dropped. And I think a fair question is, those companies are still very, very profitable, and the producer out there who is doing too good a job is about to go out of business. And so, Mr. Cook, would you comment?

Mr. COOK. It certainly is their alternative and opportunity to be able to price things how they see fit. Unfortunately we do not have that opportunity. I think a store manages the supply by what it orders, and it orders what it can sell. It is actually very inelastic. It has a certain demand, and it knows what that demand is, and it prices that demand for what it wants that aisle to make for money. And I believe it is a situation that—and when prices do go up, they will go up in price, but I don't think you will see the price go down nearly as fast as it went up. And usually when it goes up, it is the farmer that is blamed for its trip on the way up.

Mr. ROE. Again, a good point is that during this time that the milk price on the shelf that I go buy the milk, didn't drop nearly as much as the producers dropped, and that is a problem, and they are being run out. Do you see this as—you are a small dairy producer, and there are other larger dairy producers here, too. And, Mr. Lang, I want to compliment you on the testimony. It was excellent. I read it last night, and it was very good. Do you see this as a competition between the big producer and small producer? The folks in our area do.

Mr. COOK. Well, I refuse to throw a stone that way. I try to represent the members of ours, and we have some very, very large ones and small ones all over the United States. And we are all in the same situation together, and I believe this is something that everybody is going to have to really look at.

There are some of our people that are producers that have already vertically integrated and have the opportunity to create those situations you and I have just discussed within their own realm, and there are other people who are very, very large, who have reason to believe that they can make money with milk after the fact, even if they lose it now, and after this next washout of producers, which is going to eliminate the dairy producer landscape as we see it now. And at 57,000 people that are left in this business, it is getting down to we are in a critical mass, we are below our critical mass in realistic terms, and we are losing the associated industries. We are losing the local economic benefit of the farm suppliers and the open spaces that are maintained by those farmers staying where they are and where they currently can stay.

Mr. ROE. I agree with that, and I think that, as I told the Secretary here when he was here before, I said about a carbon tax, it affects you all. That is another price, a cost that may be coming along, but we all eat. And I want to be sure that the producers where we are can be seen through, and they told me, they said, look, we don't—we are not worried about a handout; we just want a fair price for the product that we produce, the quality product that we produce. And I totally agree with him.

I don't know, I have read here where herd size, I certainly understand that very well. I have a lot of beef producers in my area. If you flood the beef market in my area, you hurt another part, and you all don't want to do that.

I don't have much time left, but I certainly, Mr. Cook, was intrigued by your—and will contact you later about your comments about how you might help the farmer, the dairy farmer.

Mr. COOK. Thank you, and I welcome any questions you have.

Mr. ROE. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from Iowa, Mr. Boswell.

Mr. BOSWELL. Thank you, Mr. Chairman, for continuing to explore possibilities that we might do for this very important industry.

I want to address a couple of questions to Mr. Lang, because I have known him a long, long time, his family. I drive by their operation from time to time, and I appreciate what they are trying to do and over the years with the family.

But I would like for you to just—if you had this magic wand, Craig, that you could wave here for this industry, and we have talked short term and long term and all these things, it has been a great discussion, what would you do? What would you advise us to do? What would you ask us to go to the USDA with?

Mr. LANG. I think you need to hold steady on the programs that you have in place right now and let time work. As unfortunate as it is, there will be some dairy farmers that go out of business. But it is not only just price. If you are around your cows 24 hours a day, 7 days a week, Sunday before church, Sunday after church, milking cows, there is an inefficiency there. When the rest of the world takes weekends off and has a night out with their wife from time to time there is an efficiency that comes with a larger herd that allows you to have time away from the herd.

So it is not just price, and it is just not the size of the herd out of business because of price. And if you look at the charts that I submitted, 25 percent of the dairy industry, even with the lowest price, had some profitability in the last 18 months. So that makes it very, very difficult to find a price that fits all.

So I do believe that good policy is the pieces that we have in place now with DEIP, as long as they are WTO-compliant, with the MILC Program, the co-ops working together, the CCC purchases, will bring them around a stable price that gives us some long-term financial stability that gives an opportunity for those like my two younger sons—they are 22 and 24, they are not kids anymore—to grow the herd, to make a decision that probably what they will have to do is have a herd—rather than 500–600 cows, have a herd 800 to 1,000 cows in order to compete in the area.

Mr. BOSWELL. I assume—well, I know you had to—when you took those two young fellows into the operation, you had to figure another family income for each one, and it had to come from somewhere. I don't suppose there is a whole lot of lands for sale around Brooklyn, so you had to figure out how to do that. I just want to put that point out. You had to massage that pretty hard about letting them come into the operation.

Mr. LANG. That is right, and there is a certain amount of sacrifice on the part of grandparents and parents to say that maybe our retirement will be put off for a few years in order to make sure that the next generation has the opportunity to be there as well.

Mr. BOSWELL. I appreciate that.

Mr. Chairman, I want to recommend, Mr. Lang and others were cut short because of the time constraints which we have to do. I understand that, but I would recommend that staff and everybody carefully read the charts and look that piece over, because it was well put together, as they all were.

Another thing you bring up, Craig, is the cost of feed is the big factor. And we all know, we don't need to go into a lot of discussion about how it went up this last year, months, and now things have changed, but your costs are staying up. And, of course, we know what happened to the price of milk. So, how do we deal with that?

Mr. LANG. We own most of the land that we farm. That is fortunate. We paid the bill for high-priced land when the rest of the industry had cheap feed, and right now there is some benefit in that for us. But still we use the real price of $7 a hundredweight as our feed cost, but that is less than some other parts of the country because we do own the land; there is not the debt against it that would come if you are purchasing. The price has come down considerably from what it was certainly a year ago and from what it was earlier this spring.

Mr. BOSWELL. What about the cost of your inputs on the fertilizer and seed, have they come down?

Mr. LANG. Fertilizer is now down. Seed this spring was not.

Mr. BOSWELL. Go ahead. I am going to let you have my last 42 seconds.

Mr. LANG. And I would say energy costs are a big part of a dairy industry because unlike other parts of farming, we use the same amount of fuel every day. Energy costs, veterinary costs, labor costs, they are all high, but I do believe that if we hold on to the current practices of supporting milk in the way we have now, that this industry will come to better times in the near future.

Mr. BOSWELL. Thank you very much.

Mr. Chairman, I might just add this, because I recommend his testimony not because he is my constituent, but because occasionally when I get a new legislative assistant that is not really experienced, I send him out to their farm to get their hands dirty and also to sit around that kitchen table to talk about what it is all about.

Mr. LANG. And we show them how to haul manure.

Mr. BOSWELL. We call it getting their hands in the grease.

The CHAIRMAN. Absolutely. The value of each of these testimonies is just immeasurable, and I agree with you those charts on dairy margins will be very helpful to us. And the staff really leans very heavily on each of your testimonies, for they have been very, very helpful throughout each of these hearings, to help guide us forward in finding some help in the industry.

Now we will hear from the gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman. Thanks again for the privilege of allowing me to join you in this very important hearing as dairy prices are down about half of where they were before, and we are struggling.

I really appreciate Mr. Boswell's line of questioning in terms of inputs. I am not going to go too much further down there because that is a balance of cost, and supply and demand, and cost. Frankly, just to make a statement, one of the things we really could do to protect our farms and our farmers and our agriculture is avoid costs like some of those what I consider very ill-conceived programs, cap-and-tax, cap-and-trade, and frankly a food safety bill that is going to raise the cost on producers that we are going to be looking at here maybe even this week.

We have talked a lot about short term, and that is important because I see that is a life preserver for dairy farmers who are drowning, because we can ill afford to lose our dairy farms, any farm. Frankly, the biggest threat to our national security would be turning our food sources over to other countries.

But I want to focus just a little lit bit on the long-term side. We need to figure out what the life preserver is right now. But long term, just a show of hands of the folks on the panel, and thanks for being here, how many on the panel would support the fact that we need to simplify the pricing system?

Great. Those who—looking for just a real quick thought on what would you do to do that? What would you recommend? What would you implement?

Start with Mr. Lang and then any of those others who agree with that.

Mr. LANG. Well, certainly have more population buy fluid milk would help us in the Midwest, but a single order, we would be open to that. We would be open to certainly more transparency in the pricing of all dairy products both at a retail level and at a—certainly a store level, but what price really is the price of milk that farmers receive.

Mr. THOMPSON. So single order, transparency. Any additional thoughts on how we do that simplifying?

Dr. GUTERBOCK. Competitive pricing, allowing processors and producers and co-ops to arrive at prices based on their needs rather than based on the current system.

Mr. BOSTWICK. I agree with that; one order, and an all-milk price, transparency, and just simplification in the overall process.

Mr. CONTENTE. We have in the current pricing system, we have fixed values for cost production at the plants; however, the producers don't have those same values, so I believe that should be cleaned up one way or the other.

Mr. COOK. I think something to stabilize the amount of milk produced and to meet the market demand, and also perhaps more transparency in the marketplace. Maybe our product-pricing method is taking away milk moving toward the most profitable means for it. I know it stopped having tilts instituted for skim *versus* fat, but it has also caused other problems and maybe masked where milk really should go, and sometimes sent it in another direction.

Mr. SUBER. Without specifically citing a mechanic of the pricing, I would say the outcome that should be focused on is to diminish the volatility that is in the marketplace. We hurt our producers on the low side; we damage our buyers globally, domestically and internationally on the high side; and the peaks, valleys and the shortness between them is killing both ends of that equation. So dealing with that through these mechanics would be important.

Mr. THOMPSON. What is the industry doing in this? Is it doing enough to create demand and markets for our products, given the strains our industry now faces?

Mr. SUBER. The issue on demand is constantly under pressure. Dairy farmers invest 15¢ for promotion. Part of that goes in the export side, part of it is used domestically, and the attempts there to build demand in fluid and in cheese have reached new successes in a variety of ways that I can certainly provide to the Committee if it needs it.

But working with the processors and the people who control access to the market, meaning whether they are retailers or quick-service chains, are all part of trying to make sure that you build promotion in a way that moves product, not just simply building awareness.

So the issues there are important. There is always a need for processors to be listening to the market, though; not just promoting, but listening to what the market needs. And the issue of diversity of protein supply is very important. One of the other questions was about imported proteins. Those proteins can be made here if our pricing system adequately reflects the signals that the processors need to meet that demand.

Mr. THOMPSON. I see I am out of time. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

The gentleman from New York, Mr. Massa.

Mr. MASSA. Thank you very much, and thank you for conducting this, and a series of very critical hearings, probably one of the most important issues we face back in my home district.

Just by a show of hands if I could ask, please, lots of information to cover, do any of you support the concept of the execution of a single-dairy national pricing order starting immediately or as quickly as we could make that happen? Just a show of hands so I can just get a feel. I know there are lots of diverse opinions. It comes down almost on the same side as the previous question.

I would also like to explore two things that are critical to what I have heard. This is first, Mr. Suber. You mentioned from your point of view as a trade expert that we have seen a drop in exports from 11 to 8 percent. Is that a correct characterization of your testimony?

Mr. SUBER. As a percent of production, that is correct.

Mr. MASSA. You also characterized it has had a significant effect on the overall dairy environment in the United States?

Mr. SUBER. Correct.

Mr. MASSA. And I have heard others at this table discuss what is a near catastrophic meltdown in the dairy market. I am using words, but would anybody—perhaps, Mr. Contente, would you agree with that characterization that we are facing a truly dire dairy situation.

Mr. CONAWAY. Most definitely.

Mr. MASSA. So here back to you, Mr. Suber, I don't understand. From 11 to eight percent in dairy exports, that has been in some individuals' minds the driving factor. How could a three percent drop in dairy exports be so very responsible for everything from suicides, to families selling the farm, to the incredible hardship that I have witnessed firsthand? How do we let ourselves get into a position where foreign countries and our market access to them by a ratio of three percent could do this to us?

Mr. SUBER. Three percent is 6 billion pounds of milk and the various products that it turns into. If it cannot be sold like any commodity system, it now becomes priced against what a buyer will pay in the face of that amount of supply. Corn, oil, any commodity will have that issue if demand suddenly stops. The issue is that the export market became a growing part of our demand picture, and it will become so again when you have catastrophic circumstances happening in economies. We are a globalized dairy economy, much as we may not like to think of it, and therefore we are tied to it and bear the consequences of it.

Mr. MASSA. So just in summary, you are relatively certain in your position that that three percent drop is, in fact, as it had been characterized, a significant factor in the overall pain being suffered in the U.S. dairy industry?

Mr. SUBER. Yes, sir.

Mr. MASSA. Would you agree with the following statement that we have very little control over foreign governments to change that in the short term.

Mr. SUBER. The issue was not caused by the action of foreign governments, unfortunately, but——

Mr. MASSA. Foreign markets.

Mr. SUBER. Foreign markets. We generally cannot control markets, period.

Mr. MASSA. So whether or not individuals in foreign countries decide to eat our cheese or drink our milk is really a governing issue in this particular swing in the dairy industry.

Mr. SUBER. Yes, as we have to compete domestically for share of stomach at any time.

Mr. MASSA. I appreciate your candor. I don't disagree with you. For the record, however, you and I are very much in opposite spectrums of the world. I think that by engaging ourselves in these open-door, free-trade policies that have allowed this to happen is at the very core of negligence on the part of our Federal Government that has surrendered a great deal of our economic, agriculture, manufacturing sovereignty to the whims of foreign populations, whether they are intentional, or whether they are market-driven, or whether they are anything.

And, as I know, it counters your testimony, and I stand in fierce opposition to increasing these free market agreements that I think will grossly exacerbate the problem and the pain and suffering that I have to witness and deal with every single day, not to use a metaphor, back on the farm. And so I very strongly believe that my number one duty as a Member of the United States Congress is to protect the interests of the individuals of the United States of America, and not the proclivities of individuals in foreign countries, whether or not they want to buy or sell our milk or cheese.

So I believe that we must look aggressively in the immediate term to doing whatever is necessary to stabilize the situation, and then we can have all the philosophical arguments we want to have to figure out how to prevent this in the future, *et cetera*. But the pain is real. The call to action is right now. And frankly, I have had it up to my eye teeth as a new Member of Congress with ivory tower economists talking about what is going to happen 12 to 18 months from now. I will associate myself with any immediate action that will make the lives of our farmers better, and, frankly, double damn the consequences. We will figure that out 6, 7, 8 months from now.

Thank you, Mr. Chairman. I yield back the balance of my time.

The CHAIRMAN. That deserves a bow. Well stated.

Let me just ask a couple of questions right quick, and we will recognize a couple of more here. But, Mr. Suber, last week in our hearings, it was stated that imports such as MPC cause our domestic price of milk to be suppressed. What do you say in that regard?

Mr. SUBER. We analyze imports. We do not have programs directed at imports. When times are tough, any imports are a problem. Today they are less than what they used to be. But I repeat, at times of stress, any imports are a problem.

The CHAIRMAN. Thank you very much.

Mr. Cook, in your opinion, does the Holstein plan take into account the interdependence of regions, as Dr. Guterbock stated in his testimony.

Mr. COOK. Yes, it does. The Holstein plan does not affect any program that is currently in place. And the reason the Federal order system is in place is to make sure that there is a regional dairy production system. I think we are down to nine Federal orders from 30 some-odd just a little while ago, and I think that is probably a minimal number where we need to be if we are concerned with maintaining a production dairy industry throughout the United States.

The CHAIRMAN. Thank you.

Now, Dr. Guterbock, are there any short-term suggestions, short-term suggestions that you believe could help producers make it through these tough times?

Mr. GUTKNECHT. I am afraid I don't have any short-term solution that would not contribute to the long-term problem.

The CHAIRMAN. Ms. Hughes, may I ask you a question? Can you explain what the pending Agriculture Department's producer-handler hearing is about? And why do you believe it should be suspended?

Ms. HUGHES. We actually have not taken a position on the current producer-handler hearing.

The CHAIRMAN. You do not believe it should be suspended?

Ms. HUGHES. We just haven't taken a position on it.

The CHAIRMAN. Let me ask that question to you, Mr. Bostwick.

Mr. BOSTWICK. Well, we view the producer-handler controversy—producer-handler is really just a risk-management tool. It is a risk-management tool that has been in place for 70 some-odd years, which basically allows a producer and a processor, in essence, to be the same person so that we milk the cows, and we bottle the milk, and we also make ice cream and all the things that a producer does.

We have been free from the Federal Milk Marketing Order system as a producer-handler. There are those that believe that we should be part of the pool and be subject to these very archaic and unfair rules and problems that we have been discussing here all day long today. And that is why we kind of take a position that the producer-handler is a valuable tool, that they generally are closer to the consumer, they do things like grass-fed product, they put their product in glass bottles. We concentrate our nonfat solids in our lower-fat milks because our customers like that. So it is just a different business model, and on this particular issue reasonable minds are disagreeing.

The CHAIRMAN. All right. Mr. Contente, let me ask you if you think that California should be part of the Federal Milk Marketing Order?

Mr. CONTENTE. Most definitely. It is kind of like having a football game with two separate rules. I might get 11 players, and the guys in Federal order might only get nine players. So we should all play by the same rules.

The CHAIRMAN. Let me ask each of you very quickly and for the record if each of you supports a national supply management program?

Mr. Lang.

Mr. LANG. We do not.

The CHAIRMAN. Mr. Bostwick.

Mr. BOSTWICK. We do not.

The CHAIRMAN. Mr. Contente.

Mr. CONTENTE. Yes, we do. We support the Holstein plan.

The CHAIRMAN. Dr. Guterbock.

Dr. GUTERBOCK. No, we do not. No.

The CHAIRMAN. Ms. Hughes.

Ms. HUGHES. We do.
The CHAIRMAN. Mr. Cook.
Mr. COOK. We certainly do.
The CHAIRMAN. Good.
Mr. Suber.
Mr. SUBER. We do not.
The CHAIRMAN. All right. That is about three to four. That is about an even split. That is the big question we have, not only what to do, but what to do that the industry can agree on. But we will—we will find answers to these questions. Thank you very much.
Now we will recognize Mr. Thompson again.
Mr. THOMPSON. Thank you, Mr. Chairman.
I really appreciate the discussions between short term and long term. I think that there is a need for both, but it has to be the right one.
Dr. Guterbock, I appreciate the sense of caution that I hear from you, because it is not about just taking action, but it is the right action. We can't make matters worse. We really do need to look at the long term, and we need to be doing both at the same time, I believe. It is that kind of a crisis right now.
If Congress—there are a lot of proposals right now. I know there is one on the Senate side. It has to do with establishing kind of a price floor. If Congress were to enact an $18 per-hundredweight price floor, as some have proposed, what would the impact be on government purchases? Does anybody have an opinion of that?
Mr. LANG. It would be huge.
Mr. THOMPSON. In what way?
Mr. LANG. I believe that we support the current price floor as it exists today, but I believe that you will have production that is unbelievable because you have a lot of growers out there that can produce milk very, very profitably at a lower amount. And what happens when you have a price that is profitable, you get overproduction. And I believe that is exactly what will happen so that surplus needs to be purchased in some manner.
Mr. COOK. I agree with—I agree with him, very much so. I think something like that would help immediately and would do most of the farmers in this country an awful lot of good. But without a Dairy Price Stabilization Program, exactly what Mr. Lang said would happen. So, we are looking at something that must be done in concert. What you are talking about would certainly help this industry short term and be a quick fix, but let us look at something long term that will stop these quick fixes from becoming necessary all the time.
Mr. THOMPSON. Mr. Contente.
Mr. CONTENTE. I don't believe that the amount, the burden to the government would be that large simply for the fact that if you look at the last couple of weeks of CCC purchases, especially last week that was under 1 million pounds, so our production is coming in line with the market, and there is probably not as much production excesses as we suspect there is. So that would just bring the price up to a level that the market would have to pay. But I would agree with Mr. Cook that the supply management would be a necessary step further on.

Mr. THOMPSON. For those of you who advocate for that or a similar propose, do you have a cost estimate on what that cost would be?

Mr. COOK. The cost estimate for a Dairy Price Stabilization Program?

Mr. THOMPSON. Yes.

Mr. COOK. To the government, it would be no cost to the government for it. In fact, we expect that the government would reap huge benefits in the fact that they—we would hope that the MILC payment would not be necessary, we would hope that it would reduce requirements, we would hope that it would help an awful lot of things with the price support program as well.

Mr. THOMPSON. Now, how about with that type of a mandatory supply management, how do you envision such a program would manage domestic production with the prospect of additional imports, and setting that ceiling at $18 per hundredweight, and do you see where there might be potential for, unfortunately, more imports to flood in? And what would the impact of that be on our producers?

Mr. COOK. I think as far as—these are two separate issues. I think currently, it was said earlier, if we increased short term an $18 price, you wouldn't buy an awful lot more product. You would pay more for the product you bought, but you wouldn't buy an awful lot more product, I don't think, right now, because of the demand and supply is where it is. There is too much milk, but you are already buying it. You won't buy more, you will just pay more for what you buy.

But, if you institute the Dairy Price Stabilization Program, which, by the way, would be funded by no more than 2¢ by all the milk produced by the people producing milk today, you would stabilize these peaks and valleys and not have to continue going through this large purchase amount that you buy.

And as far as our exports, I just want to go on the record and say that our exports are at the level they are now, being very highly subsidized through DEIP, thank God. DEIP is a program that is mandated, and I am glad we are using it. But we are subsidized through DEIP, and we subsidize through some other methods a little bit lately as well. If it is eight percent, that is good, but it is not all eight percent just by free market trade. It is eight percent because of some of it is being subsidized.

Mr. THOMPSON. Any others have opinions on what may happen to potentially increased imports?

Dr. GUTERBOCK. I think an artificially high price in the United States would certainly encourage imports and increase them, and those would also increase purchases by the CCC, and all those surpluses eventually have to be sold and would depress future markets.

The CHAIRMAN. Thank you.

I will now recognize Mr. Costa of California.

Mr. COSTA. Thank you very much, Mr. Chairman. I once again want to thank you and Chairman Peterson. When the meltdown first began late last fall, we came back in January, we asked to put together a meeting with you, with Chairman Peterson and the new Secretary of Agriculture Mr. Vilsack, and we have been working continuously since that time to try to address both the short-term and the long-term aspects of this. So you are to be commended by the series of hearings, and we will have to stick with it.

Our friends with the Holstein Association nationally and other organizations that have been working together on the proposal that has been just discussed about a supply-side management, we hope to have a draft of that out here soon that can be vetted. A number of other dairy organizations around the country are interested in it, and we hope to continue to vet that with you during the month of August. And we want your feedback, because I really think that if we are going to deal with these long-term boom-and-bust cycles, that is going to have to be a critical part of the long-term solution, it seems to me.

I do want to ask unanimous consent for the record to submit information, I think, of data that is missing from the United States Department of Agriculture, USDA, on the role that caseins, caseinates, milk protein concentrate has on the U.S. dairy market that was produced by the National Farmers Union by Mr. Joaquin Contente and his organization. Without objection?

Mr. SCOTT. Without objection, so ordered.

Mr. COSTA. Thank you very much. We will submit that for the record.

[The document referred to is located on p. 243.]

My question is this, because we have covered most of the issues here today, and I heard—it gets back to supply and demand, and I heard it referenced earlier with same-sex semen, and I am getting conflicting information. And we know that it is a new technology through genetics that allows us to—and since I came from a dairy farm, it used to be kind of 50/50 between your young heifer calves and your bull calves, and now with same-sex semen, with the genetics, we are able to get 80 or 90 percent heifer calves.

And even if we do the herd thinning or the Herd Reduction Management Voluntary Program that has seemingly been working in a couple of months here, and we are reducing herd size, I have heard numbers say that we may have as much 4+ million heifers waiting as replacement heifers. Then I have heard other numbers that say that it is much lower than that recently.

Do any of you want to, on that question, have some information on that is most reliable to us? Maybe we will start with the Holstein guy.

Mr. COOK. I believe that Select Sires' information is recently available in *Hoards Dairyman* is at 8,000 in 2008, 63,000 this year, 161,000 next year, maybe as much as 300,000 year after that. I believe there is going to be—the government currently takes biannual reports of the heifers available, but usually they talk to the farmers themselves, and an awful lot of these heifer calves now are bought by heifer ranches. And I don't know if information that we will be receiving when the next level comes out will actually show these heifers in line yet, but I know they are there. And I know they are going to haunt us, and it will take maybe 6 months before we actually find that level.

Dr. GUTERBOCK. I don't know the exact number. I believe it is about 4.8 million heifers.

Mr. COSTA. I have heard 4.2.

Dr. GUTERBOCK. As a percentage of the milking herd, it is at a record high, and we do expect more of these same sex-semen heifers to be spawned.

Mr. COOK. Mine are only extra heifers, sir, extra heifers because of the use of sexed semen. I believe the actual number of replacement animals that is regarded now is about 3.9 million replacement availability.

Mr. COSTA. Mr. Chairman, we need to get a handle on this as we move forward on whatever long-term solutions we find only because the numbers I have been using—and I think they are in the ballpark, 9.3 million cows being milked in the country today, through the herd reduction effort we have been trying to reduce that below nine million—I have heard some numbers that say we are about halfway there. I don't know what the current count is on that, but if we get below nine million milking cows in the country by the end of this year, let us say, and that is an if, if we have anywhere from 3.2–4 million replacement heifers, I just don't understand how, in terms of the long term, we are not going to be back into the this boom-and-bust cycle.

I know dairies are very efficient. Sometimes after your third or fourth calf, you are culling and replacing and bringing these new heifers in. But I don't know that any of our dairies are that efficient or that we can export all that additional milk product. So, it is an area that we are going to have to get a better handle on.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Costa, and let me thank all of you, each of you, for your expert testimony. We have a very serious, serious problem, a critical one. Of course, it cannot be solved without your inputs. We have had over 20 witnesses to come before on our three panels. We are determined to hear from everybody. We want to get as much intelligence as we can before our Committee. We want to get the Agriculture Department back over here. We want to have conversations with the Secretary.

What we want to do is help the industry as quickly as we can, but as witnessed from the testimonies that have been given, that is not going to be an easy thing. We have to get agreement on exactly what the approach will be. But one thing is for certain that these hearings have done to this point, it has certainly dramatized the critical nature and the urgency of this issue. And it has been deeply felt by the Chairman of this Subcommittee as well as each Member of our Committee, and we are committed to helping the dairy farmers and to bring some price stabilization to this very critical, critical and important industry worldwide.

And so under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any questions posed by a Member to the panel.

This hearing of the Livestock Subcommittee is now adjourned.

[Whereupon, at 12:30 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED MATERIAL BY HON. JIM COSTA

The Role of Casein, Caseinates and Milk Protein Concentrate on the U.S. Dairy Market

The U.S. dairy market is the world's largest single commercial dairy market. This market last year reached and exceeded 200 billion pounds of milk including exports. However, the USDA ERS fails to include any usage data for casein, caseinates and MPC in its commercial disappearance of milk data. Therefore, the commercial disappearance or utilization reports from USDA ERS are not complete or accurate. An assessment of what information is used on supply and utilization ERS reports reveals the following:

1. total milk production for the year.
2. imports—added in.
3. beginning stocks—added in.
4. total supply—total.
5. ending stocks—subtracted.
6. total—total.
7. exports—subtracted.
8. shipments (to U.S. territories) subtracted.
9. fed to calves—subtracted.
10. human (domestic) final total.
11. per capita—per capita.

Lcnsd cheese	109,994.8 MT
Non Lcnsd cheese	38,938.5 MT
Lcnsd cheese items	21,386.7 MT
Total	170,320 MT

The flaw in the USDA ERS supply and utilization of all dairy products reports is in the information numbers for the import category. In order to recognize this discrepancy, first one must check the Foreign Agricultural Service (FAS) Imports Commodity Aggregations report. After careful analysis and calculations of this report it becomes clear that something is missing. The cheese imports on that report for 2008 total 170,320 metric tons of cheese imports. This is equal to 375,487,472 pounds of cheese imports. Using the basic standard of 1 pound of cheese is equal to 10 pounds of milk, this would translate to 3.75 billion pounds equivalent of milk imported in 2008 just for cheese.

Now the amount of imports on a milk equivalent basis as stated in the commercial disappearance: Milk in all products, 2008 report is 3.94 billion pounds. With the total imports of 3.94 billion pounds for 2008 and the cheese imports of 3.75 billion pounds, the flaw as you can see becomes quite evident that something is missing! Once all the different categories are included such as casein, butter, MPC, and lactose the total for imports surpasses 15 billion pounds of milk equivalent. Herein is the Missing Data!

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