

**Testimony of Daniel Brandt
On behalf of the Dairy Policy Action Coalition
Before the United States House Agriculture Committee
April 20, 2010**

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

My name is Daniel Brandt and I am a partner in Brandt View Farms with my brother Karl and father David. My son Mark and my nephew Nathan are the fourth generation in our family to work on this farm. We currently have 370 registered Holsteins and market the offspring and embryos worldwide from top pedigreed cows. We have consistently rated in the top 10 herd averages in Pennsylvania and we raise all of our own forages on 155 acres of cropland. I am also the state director of the Pennsylvania Holstein Association, a board member of the Lebanon County Farm Bureau and vice chair of the DPAC charter board, a grassroots coalition of dairy producers in 23 states.

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

There are many opinions on how to improve our federal dairy policy and make it a better system. The suggestions range from supply management to formula changes and revenue insurance. The industry is divided on many of these issues, and we know the frustration this creates in Congress. There is, however, one issue all dairy producers agree on: The need for improved price discovery and market transparency.

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

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

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

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

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

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

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