TESTIMONY BY

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BEFORE THE

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Good morning Chairman Peterson, Ranking Member Lucas and members of the Full House Committee on Agriculture. My name is Kent Heffner and I milk 160 Jersey cows with my brother in Pine Grove, Schuylkill County, only 35 miles from today's hearing in Pennsylvania. We grow our own forage crops on approximately 700 acres, part of which is rented land. It is a pleasure to offer testimony today based upon my experience as an individual producer. I also serve as President of the Schuylkill/Carbon County Farm Bureau.

As you will hear during today's proceedings, dairy farmers have struggled through one of the worst periods of dairy prices in memory, but the volatility of the market is certainly not behind us. Some economists are projecting another dip in prices in the near future. In late 2008 and throughout 2009 reduced demand for exports, excess milk and dairy product supply, and high feed and energy costs created a perfect storm within the dairy industry, driving prices so low that the very survival of dairy farmers was (and still is) threatened.

I think it is important to give you a bit of perspective on how the last few years have affected dairy farmers. In 2006, milk prices were extremely low, straining dairy farmers' budgets to the limit and forcing us to make difficult decisions around the farm. For example, we might consider how much we could reduce our fertilizer usage without a significant reduction in our crop output. As milk prices climbed in 2007 and much of 2008, we tried to get caught up on bills, and where possible, make improvements around the farm. However, higher input costs offset the gains from strong milk prices and we were again facing hard decisions.

In 2009, dairy prices plummeted beyond the levels seen in 2006. Across the industry, producers worked diligently to cut costs and increase efficiency. However the global price dip was beyond the influence of any individual practices a farmer can implement with his cows. Frankly, the efforts of dairy farmers across the nation to keep their own head above water – by increasing efficiency or producing more milk – contributed to the supply-demand imbalance.

As I mentioned earlier, my family milks Jersey cows. We sell our milk to a small, independent dairy that is not in a Federal Milk Marketing Order. The milk we ship for processing is highly desirable because of its 5% butter-fat content. While the price I receive is generally higher than that of other producers, the milk price alone does not tell the entire story. My farm still lost money.

My farm is not just a dairy. We also have a road-side stand and a winery. These direct-market opportunities add diversity to our operation and certainly keep things interesting on the farm. However, diversification was not enough to mitigate our risk. Across the entire operation, the farm still experienced a net loss in 2009, despite what would normally be a “good year” for the winery and road-side stand.

The margin between price received and input costs is critical. One does not need an economics degree to understand that milk prices must be higher than input costs for farmers to see positive returns. During 2009, as margins were seriously in the red, we saw farmers increasing their debt to pay for monthly operating costs – hoping their credit worthiness would last long enough to experience significantly higher milk prices and actually see profit margins.

Today, milk prices are higher than 2009. However we are seeing farmers think about selling off their cows, their land and going out of business. This not only has consequences on the farmer and his family, but also on the local economy and the agricultural infrastructure. The Pennsylvania Farm Bureau has data showing a 100 cow dairy farm has a local economic impact of $1.3 million. Farmers do business locally. Keeping dairy farms profitable and in operation keeps the local economy moving. In my world, cows equal jobs – cows create jobs – cows keep jobs.

On my farm, I have seen an average increase of 20 percent in price of alfalfa hay, feed concentrate and roasted soybeans per ton when comparing prices between 2007 and 2009. During the same period, seed prices increased by average of 30 percent, fertilizers and chemicals by as much as 125 percent.

Those increases are even more troubling when considering that the gross value of my milk check decreased by 41 percent from July 2008 to August 2009.

I truly believe that the worst may be yet to come for the dairy industry, unless we see some relief in significantly higher milk prices. I’ve read estimates that say dairy farmers have lost between $100 and $300 per cow per month in 2009. Based on Pennsylvania’s average sized herd of 68 cows, at $100, that’s $6,800 a month for a yearly loss of more than $80,000. And at $300, it’s over $228,000 a year.

2010 is showing a slight improvement in milk prices, but the futures market indicates a significant amount of volatility. Recent projections by Penn State University indicate that the price may continue a very slow rise throughout the rest of the year. However, the profit margin is not likely to be near enough for dairy farmers to pay-off the debt incurred last year.

I appreciate the House Agriculture Committee examining this issue as a starting point for the next Farm Bill debate, and I also recognize that dairy policy is largely complex, divisive and regionally charged. There has been much discussion regarding what should be done to help dairy farmers weather this economic downturn. Some people have joked that if there are two dairy farmers in the same room, you'll hear three different opinions on national dairy policy.

While discussing the critical issues of milk price volatility and dairy farmer profitability, I would encourage the Congress to consider the following:

- The Federal Order structure, formulas and prices classes used to compute milk prices must better reflect current market conditions and enhance transparency, as well as take into account the regional differences in the cost of milk production.

- Changes are needed to ensure the long-term market development of value-added products, and encourage the domestic production of MPCs – mitigating concerns of these products being imported.

- The development of a price discovery method that utilizes more milk and expands mandatory reporting and auditing of prices and inventories, including penalties for inaccurate reporting.

- The California standards for solids-non-fat in fluid milk should be implemented at a national level.

- Farmers are entrepreneurs who believe that dairy policy should be market oriented and consistent with worldwide trade – afterall, global demand and exports contributed to the 2008 prices. In order to see better prices American dairy farmers and processors need to be able to move dairy products around the globe. Dairy policy is no longer confined to the dairy farm – agriculture also operates within a global economy.

- While seeking changes to the Federal Order to reduce price volatility, Congress must also ensure that producer safeguards remain in place. Continuation of a counter-cyclical program like MILC, should be a key components to any future farm bill discussion.

- Current promotion mechanisms – such as the industry funded “Got Milk” campaign – should continue, and be complemented by an expanded national dairy product promotion program.

Current self-help programs for dairy producers show promise, but also have their limitations. The Cooperative Working Together (CWT) program is an industry driven (privately-funded) program that culls cows when the supply-demand imbalance needs to be corrected. CWT has done a tremendous job in reducing the national herd size; however, it is limited in resources as it has about 80% participation by producers. The program would be more effective if more producers were part of the program. However, I don’t believe that the dairy industry is at a point to ask for – or even welcome – government intervention in the CWT program.

On the other hand, a risk management tool is available to dairy farmers, but few people use it. Livestock Gross Margin (LGM) for Dairy is a crop insurance tool that shows great promise. Unfortunately, the federal premium subsidy does not apply to the very costly price tag. Additionally, the crop insurance “sticker-shock” grows exponentially when producers learn that the entire premium for the covered time period is due up front, in one-lump sum payment. Congress could and should direct changes to this product to make it more affordable and user friendly for producers.

In closing, dairy farmers are not looking for handouts. Producers in this industry choose to be dairymen because of a love of the work, the independence, the satisfaction of participating in the life cycle of cattle and putting food on the table in homes across the nation. Dairy farmers simply want the ability to continue making an honest living. It would be silly of me to ask for a economic climate within dairy that did not have volatility, but I do respectfully ask Congress to help lessen the volatility and help mitigate large swings between market highs and lows.

Thank you again for the opportunity to testify today. I would welcome any questions.