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Statement of
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Des Moines, IA
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Thank you for the opportunity to be here today. I'm Warren Erickson, Chief Operating Officer of Anderson Erickson Dairy Company in Des Moines, Iowa. This year AE is celebrating 80 years as a family owned and operated business. I am a third generation dairy operator and run the company with my sister and father. AE is one of the few remaining, large independently-owned dairies in the country. Congressman Boswell knows our company well, and I would like to thank him for his leadership as our Congressman on behalf of the Iowa dairy industry.

I don't need to tell any of you that today we are at a crossroads on U.S. dairy policy. For more than a year, this Committee has heard from hundreds, if not thousands of dairy producers who have been ill- prepared to deal with the tumultuous down turn in 2009 milk prices following the period of record high prices in 2007 and 2008. This dairy price volatility has driven some out of business. It creates difficulties for all dairy related businesses, from input suppliers to grocery stores and restaurants, in planning their business activities.

However, we compete in a food marketplace where others have just as much if not more agricultural commodity price volatility. What is different for them? To begin with, they do not have milk as their primary ingredient and therefore are not subject to the vagaries of USDA's milk price regulations and interventions in the marketplace under the dairy price support program. In addition, they have much better marketplace financial tools to mitigate risk. As a result their entire supply chain can, and usually does, use these tools to plan their business activities despite greater price volatility than seen in the dairy industry in recent years.

From what I can tell, after observing some of the proposals from dairy industry groups and the hearings this committee has held in the past year-- I'm encouraged that the dairy industry seems to be agreeing that we need significantly better risk management tools. But before I talk more about risk management -- I want to address the ill conceived notion that price volatility can be controlled, or avoided, by regulating the U.S. milk supply.

Can you imagine if today corn or soybean growers came in and asked you to write a law that would take us back to acreage set asides in an attempt to control production and limit their ability to meet growing domestic and export demand? Basically, that is exactly what some dairy producers and their organizations are asking for. Corn and soybean prices both experience more price volatility than dairy -- in fact most commodity markets have more volatility than dairy -- but these other commodity markets have two things the dairy industry does not.

First of all, government policy for other agricultural commodities focuses on providing subsidized insurance programs and direct payments as a farm safety net. In addition, there are not government programs that dictate prices that must be paid to farmers each month.

Second, they have market based risk management tools that allow them to **manage** price volatility. These other commodity industries understand the very negative market consequences of trying to **control** price volatility through government intervention; that is a key reason there are no longer acreage set asides. For these commodities, the last thing they would want Congress to do is limit their potential to meet growing demand, both domestic and abroad, with a mandatory, government run supply management policy.

In the past decade, the milk supply in Iowa has grown by over 11%. Today AE uses 100% Iowa farm milk - compared to just 65% three years ago when we imported farm milk from other states. **This growth in Iowa milk production, investment and job creation would not have been possible if the supply management policies being proposed by pockets of producers in a few states had been in place.** That's not to say that it's been easy for dairy producers in Iowa -- far from it, our dairy farmers both large and small have struggled like those everywhere. But the point I'm making is that the solution to managing price volatility is not to have the government manage the milk supply.

I get really nervous when I look north to Canada and see what has happened to their dairy industry since they implemented supply management in the 1970s:

- Canadian farm milk production is lower today than then; U.S farm milk production has grown by over 60% during that time.
- Per capita dairy consumption in Canada has been flat over the past 30 years; U.S. per capita dairy consumption has grown by 11% during that period.
- The total value of Canadian dairy exports is down in recent years; meanwhile, U.S. dairy exports have nearly doubled in recent years - in 2002, U.S. dairy exports accounted for about 5% of U.S. milk production only due to significant use of government export subsidies (DEIP), while dairy exports have accounted for about 10% of U.S. farm milk production since 2007 with very little use of export subsidies.
- Canadian dairy processors are expanding here in the United States, through acquisitions and new investments because their milk supply at home is constrained.

Government supply management in the U.S. dairy industry would take us in this same direction. If you restrict growth, no matter how cleverly designed a policy might be, or the rhetoric behind it, the U.S. dairy industry loses -- it would lead to job reduction and reduce incentives for this industry to reinvest in its infrastructure and cultivate new investment to meet growing dairy demand both here and abroad.

Now I want to get back to the discussion of risk management -- because I think that is where members of this committee can be most helpful in leading the dairy industry towards new and better policies.

USDA spent $5.4 billion on crop insurance premium subsidies in 2009, but none of that was spent on dairy revenue insurance premium subsidies. The one dairy-oriented program in existence today - the Livestock Gross Margin insurance program (or LGM-

Dairy) started in late 2008, but is hardly used by dairy farmers even though it is designed to protect against unexpected declines in gross margin (market value of milk minus feed costs) on a target quantity of marketed milk. This program certainly needs to be more affordable for producers, and USDA needs to focus on education and outreach to get more farmers protected. There are also other proposals, including one that the National Milk Producers Federation is proposing that focuses on margin protection, and we think that is an idea that looks promising.

This type of approach makes sense because it would allow producers to protect the margin between milk prices and feed and input costs. At AE, we have to protect the margin between what we receive for our packaged dairy products and the regulated minimum prices we pay our farmers. This fundamental agribusiness model should be the same for farmers. When milk prices are high and feed costs are also high, a price based farm safety net is completed outdated. There have been times when farm milk prices were higher than they are today, but feed costs were even higher and farmers still needed help then. There are other times when milk prices are lower, but feed costs are also low, and farmers may not need as much assistance during those periods. For this reason, I believe the concept of a farm safety net program that is designed around protecting a farmer's margin between their milk price and feed costs should be the central focus of this committee, and the resources currently used for other programs, such as the dairy price support program, should be redirected.

I would also likely to briefly address the Federal Milk Marketing Order (FMMO) system and the current mandatory price reporting we have in the dairy industry.
As I told this committee three years ago, I am not a fan of the FMMO system. It constrains our ability to innovate and price milk according to the highest value it has in the marketplace. But I recognize that this committee is not likely to throw the system out entirely. So I ask that you significantly simplify it and support efforts and discussions within the dairy industry on what the details of such a simplification would look like.

Recently a number of dairy groups asked USDA to consider requiring more frequent price reporting on a greater number of dairy products. I'm certainly all for better access to market price information, but frankly, over 70% of the milk in the US is priced off monthly announcements from USDA, using weekly average mandatory price reports. Until the marketplace is allowed to determine milk prices, and that would only come through significant changes to the Federal order milk price regulations, changing USDA's frequency and volume of price reporting requirements would only be window dressing.

The current weekly reporting is based on each day's sales, and is still only used to change Federal order farm milk prices once a month. What good would reporting and publishing that data more frequently do if the industry cannot use that information to change farm milk and other prices more often as desired by both buyers and sellers? The current system does not allow for tailoring procurement and sales price changes more often than once per month, so what good is having daily price information if we can't use it.

I am also concerned that, rather than simplify the Federal order price regulations, others would call for this newly reported data to be used to make the price formulas more complex or increase the number of classes of milk. More regulation and reporting will not help Iowa dairy farmers and Iowa dairy processors like my company stay competitive.

I feel optimistic about the future for dairy producers and processors in Iowa and across the country. I am proud to help supply AE’s customers with nutrient-rich dairy products. Our industry has great potential to prosper if our policies and regulations encourage rather than discourage creating new and innovative dairy products consumers are looking for, as well as not limit in any way our milk supply to grow and meet market demand both domestic and abroad. I respectfully ask that this committee focus on putting in place appropriate dairy farm safety net and encourage greater use of financial tools to mitigate risk while getting rid of current dairy policies that aren't working, and to simplify the Federal order milk pricing system. Supply management, in all its shapes and forms, is a threat to the future of AE and the entire U.S. dairy industry.

Thank you again for the invitation to speak today.