United States House of Representatives
House Committee on Agriculture
Subcommittee on Livestock, Dairy, and Poultry
Witness Statement of Donald DeJong
Northland Farms, Hartley, Texas
July 21, 2009

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 five 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 coop 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 two 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 cents 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 three 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 two 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 over-supply 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 one dollar per hundredweight instead of five or six dollars 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 US 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 US 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 US dairy industry into a consistent global supplier of high quality dairy products.

Eliminate the price support program. It is a burden to the US dairymen and tax payer. The US 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 US 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.

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EDUCATION

Bachelor of Science degree in Agricultural Business Management with a concentration in Marketing.
California Polytechnic State University, San Luis Obispo San Luis Obispo, California.
Graduated in June 1988.

BUSINESS EXPERIENCE

Owner and Manager, June 2002 to Present
Northside Farms, LLC, Dalhart, Texas.
* Control and supervise a 6600 milking cow facility.
* Purchase all hay and equipment.

Owner and Chief Executive Officer, December 2004 to Present
AgriVision Farm Management, LLC., Hartley, Texas.
* Management of dairy operations in total milking 14,000 cows both organic and conventional
* Management of farming operations totaling approximately 27,000 irrigated acres both organic and conventional

Owner and Manager, June 2005 to Present
Natural Prairie Dairy Farms, LLC, Dalhart, Texas.
* Control and supervise a 7500 organic milking cow facility.
* Purchase all hay and equipment.

Owner and Manager, October 2001 to Present
DJ Farms, Ltd., Dalhart, Texas.
* Control and supervise a 12,000 heifer raising facility.
* Purchase all hay and equipment.

Owner and Manager, May 1990 to May 2005
Rising Sun Dairy, Dublin, Texas.
* Control and supervise a 2000 milking cow facility.
* Purchase all hay and equipment.

Real Estate Broker, December 1988 to May 1990
Motte and Ashley Commercial Real Estate, Perris, California.
* Bought and sold commercial real estate.

Marketing Consultant, January 1988 to May 1988
California Milk Advisory Board, San Francisco, California.
* Presented marketing campaign for dairy products on university campuses.

PROFESSIONAL AFFILIATIONS

Select Milk Producers, Inc.
Board Member and Vice-President – August 2001 to Present
* Part of top 5 largest milk cooperatives in the country.

Greater Southwest Milk Marketing Agency
Board Member – November 1998 to Present

Texas Department of Agriculture, Organic Advisory Board
Board Member - June 2008 to Present

Elite Milk Producers, Inc.
Founder and President – February 1997 to August 2001

Texas Association of Dairymen
President, March 1991 to January 1994
* Founding board member of association.

Texas Department of Agriculture-Advisory Task Force on U.S. Farm Bill
Member, August 1994 to August 1995
* Issues involving environment and agricultural practices.

Texas Air Control Board Nuisance Odor Task Force
Member, 1992-1993
* Made recommendations to Air Control Board for odor nuisance of livestock operations.

UNIVERSITY AND PERSONAL AFFILIATIONS

St. Anthony's Catholic Church, Dalhart, Texas.
December 2004 to Present

Knights of Columbus - June 2000 to Present

Alpha Gamma Rho, National Agricultural Fraternity
National Alumni Association. 1985 to Present

ASI Vice President, June 1987 to June 1988
Associated Students Incorporated, Cal Poly, San Luis Obispo.
* Chair of student senate.
* Delegate for California State Student Association.

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

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2006.

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Organization you represent (if any): Northside Farms

1. **Please list any federal grants or contracts (including subgrants and subcontracts) <u>you</u> have received since October 1, 2006, as well as the source and the amount of each grant or contract. House Rules do <u>NOT</u> require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source: n/a **Amount:**

Source: **Amount:**

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) <u>the organization</u> has received since October 1, 2006, as well as the source and the amount of each grant or contract:**

Source: n/a **Amount:**

Source: **Amount:**

Please check here if this form is NOT applicable to you: ____________

Signature: Donald DeJong

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