

United States House of Representatives
House Committee on Agriculture
Subcommittee on Livestock, Dairy, and Poultry
Witness Statement of Everett Williams
President, Georgia Milk Producers, Inc.
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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 three 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 market place. 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 ten 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 cents 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.