



CROPP COOPERATIVE
INDEPENDENT *and* FARMER-OWNED

United States House of Representatives
House Committee on Agriculture
Subcommittee on Livestock, Dairy, and Poultry
Witness Statement of
Melissa L. Hughes
General Counsel
CROPP Cooperative
LaFarge, WI
July 28, 2009

Mr. Chairman, and members of the Committee, thank you for inviting our organization to appear before you and participate in this important, ongoing discussion of current conditions in the dairy industry.

Twenty years ago, eight farmers in the small town of LaFarge, Wisconsin came together at a moment not completely unlike this period in the conventional dairy industry, when milk was at prices well below the cost of production and farms were forced out of business everyday.

These farmers were schooled in the ways of the conventional dairy system. They had seen the roller coaster prices, and cooperatives who were supposed to serve the farmers, serving themselves. At a time when the small farmer was struggling to stay on the farm, this group saw organic management principles and the consumer demand as path to redesigning the relationship between the farmer and the customer, and reconnect the production of milk to the management of land and animals.

Our cooperative is built on the foundation that organic production of milk is the result of sustainable husbandry and farming practices and that these principles must yield a sustainable income. Our farmers have translated those principles into a business model that has democratically guided the cooperative over the last twenty years, and, we like to believe, influenced the organic marketplace to an extent that the principles are part of that marketplace.

Of course, front and center was the principle that organic farming worked. Appealing to every farmer's independence, and recognizing the connection between livestock and the land, the farmers chose to be as self-sufficient as possible – avoiding off-farm inputs, including feed and chemicals. The farmers had either farmed conventional and were looking for alternatives, or had never chosen that route. As one farmer said “it was easy for me to go organic. I was so far behind I was ahead.” Whichever path the farmer had come from, they now joined on a path towards organic production.

The next guiding principle is the farmers always get paid a target price first. It does not matter if the milk is sold on promotion, or if the milk is made to cheese, or powder. When a consumer purchases a gallon of Organic Valley milk, and that money is returned to the cooperative, the farmer is paid first.

The third guiding principle is a stable pay price. Each year, the farmer-governed Board of Directors sets a target pay price for the upcoming year, and although minor adjustments may be made, up or down, the farmer can expect that this pay price will be reflected in the milk check. The money left over from the sale of the milk goes to the cooperative for operations. The goal of the pay price is to pay the farmers a price that is economically sustainable in that it accurately reflects the farmers' costs of production. The pay price is not tied to conventional prices. The simplicity of stable pricing obviously benefits the farmers, and in addition, benefits, processors and retailers, as well as consumers by setting consistent expectations in price.

Attached to this testimony is a graph demonstrating the comparison of our Midwest base price to the conventional statistical uniform price. (Our Midwest base excludes quality components in excess of base and regional premiums.) Although not perfect, you will see that our price has been stable, growing and reliable.

To support the target pay price, if we are not able to sell their milk for the organic price we have set, we will not sell the milk as organic. We will not participate in a spot market for organic milk that drives the overall price down. If we cannot sell the milk for the organic price we have set, we sell it conventionally. We will not engage in a bidding war that lowers the price of our organic milk. Our farmers rely on a price that reflects, to the best of our ability, our farmers' cost of production and marketing. To sell organic milk for less would treat our principles as little more than a marketing ploy and defeats the purpose.

From the small beginning of eight farmers, CROPP Cooperative has grown into nation's largest organic dairy cooperative. We have over 1300 USDA-certified organic members, who collectively produce certified organic dairy products, eggs, beef, poultry, soy, produce and juice. In 2008, our total sales were \$527.8 million, representing 22% growth over 2007. In 2008, we paid our dairy farmers a total organic premium of \$85.0 million.

This is not to say that the path has been smooth. Throughout the years, we have experienced many difficulties involving matching supply and demand and the challenges of a fledgling industry. We, and the organic dairy industry, are not immune from the current economic crisis. After experiencing double digit growth for the last 20 years, our growth for 2009 is flat, if not in some cases, down. Prior to the downturn, for the last 9 years, we have been unable to meet the supply demands of the consumers. We continually worked to talk to farmers about the benefits of transitioning to organic, and many of those farmers became our members. At this time, we are no longer actively recruiting farmers to consider the transition to organic. We do have farmers approaching us to market their milk – whether newly transitioned, or existing organic farmers who have lost their organic market. For those farmers who come to us, we can make no promises that we will have a market for their milk. The cooperative has stopped capital projects, has slowed hiring, and is heavily promoting in our retail markets.

However, we do continue to pay our farmers an national average mailbox price of \$27/cwt. We have not kicked any farmers off our truck because of a market declines. We believe that we have seen the bottom of the marketplace, and hope to see sales stabilizing and growth returning in the next six months. For the most part, we believe our members will come through this economic crisis and stay on their farms. Many are suffering, as costs of health care, feed and other hardships are forcing farmers or their families to take positions off the farm to cover costs. Farming is a hands on job, and when farmers are forced to leave the farm, and in their absence, new problems can develop and existing ones can be exacerbated.

The current economy has challenged but not defeated our guiding principles. The low price of conventional milk has meant that when we sell organic milk conventionally, we have to make up the difference to our farmers some other way. As a cooperative, our farmers are committed to investing in the business, and so a strong equity structure has helped us weather this period financially. However, continued low conventional prices will put more strain on our cooperative.

In June, we chose not to lower the pay price, and instead chose to institute a supply management system within which *our farmers decided* to lower their production by 7%, and for any production over 93%, the farmers will receive the conventional price. You have heard many proposals to vitiate price volatility, and heard much about the concepts of *federal* supply management during these hearings. We are trying what has worked for use for twenty years, *farmer-based supply management*. We don't claim this is easy, each of our 1300 farmers has a family, and a story. Our process lets each farmer tell their story by appealing the quota, asking for relief because of the hardships unique to their story. Our own farmer-members hear the appeals and this means we are, together, writing the next chapter of each farm's story and the story of our cooperative. Like any collective effort, we find some farmers are willing to do more to help than others. But we are committed that collectively we can make supply management work to get through this time, and certainly believe it will be part of our marketing system moving forward.

As independent as we like to be, we know part of our story includes Congress, and the United States Department of Agriculture. An early chapter was written by the Congress in 1990; the enactment of the Organic Food Production Act, meant that organic, by federal mandate, is a separate and distinct category of products from “conventional.” By creating a production and handling system that is audited and verified at every step of the process as more environmentally sustainable, beginning on the farm and running all the way to the shelf, Congress authorized a parallel stream of commerce. We know that the organic community has not been easy to work with. This new way of producing products has led to new ways of doing business, like our cooperative. This that would not have happened without Congress’ continued support.

Today, the organic industry stands alone as one of the main engines of growth in U.S. agriculture and food sales. The 2008 Farm Bill included unprecedented recognition of the importance of this separate stream of organic. We appreciate that support, especially as its reflected in increased funding for the USDA’s National Organic Program, and its expanded influence that can assure that the organic certificate remains the gold standard among the world’s certification processes.

But the challenges to the National Organic Program are not easy to address. The rise of unregulated labels on products, like “natural”, “sustainable”, or “local” have the potential to undermine Congress’ seal. Some organic purists have argued that organic does not mean what it says. Our primary interest is that the USDA organic seal is seen as the first and last inquiry a consumer needs to make when purchasing an organic product. Without this level of certainty, the risk exists that consumers believe that some goods are “more organic” than others, or worse, that the USDA organic seal itself does not necessarily mean that goods were produced in strict adherence with organic standards.

To that end, we are working with the USDA to promulgate clear and understandable organic regulations as soon as practicable regarding pasture and other issues used to “threaten” the integrity of the organic seal. In addition, where necessary, the USDA needs to enforce organic standards swiftly and based on fact, not mere allegations. We ask for a full commitment from Congress and the USDA to the organic seal, and to reject labels that confuse the marketplace, and the consumers.

And although we are a separate and parallel industry to conventional, we are affected by the difficult times facing conventional dairies. Our neighbors are conventional dairymen, the processing plants we work with are conventional, the stores we sell to also sell conventional milk. A low and volatile conventional price has strong effects throughout our industry, and through the United States’ food supply. While we recognize that we cannot walk in conventional shoes, we do believe that lessons can be learned at this moment, and if the work is done in the upcoming months, the lessons will not be forgotten.

But these difficulties faced can only be avoided by creating the atmosphere for a cultural shift in the dairy industry. Short term cures like “more exports” or expanded purchase by government programs do not address fundamental structural problems in the

dairy industry. A traditional dairy farm of thirty cows was historically naturally restricted from growth by barn size and land base. These small family farms formed the basis of a vibrant and healthy rural community and diverse food supply. We feel it is good public policy to have tens of thousands of family farms provide diversity of farm operation and production, train tomorrow's farmers and support rural communities. A large group of moderately scaled farms supports this policy, rather than concentrating operations in hands of larger and larger farms.

Today, farms expand without check – adding cows in a milk parlor setting by simply lengthening milking time, and defying breeding variances by using sexed semen to select for heifers. These seemingly simple choices have led to increased supply without concern for the market, or penalty for the producer. The producers and processors who have grown without a market should bear the burden more than the farmer who has managed growth conservatively. Today's drive to find markets overseas does not recognize the growth of overseas supply, with low costs which US dairymen cannot compete against. In our cooperative's small microcosm, we have been able to have the farmer receive what the farmer needs to stay on the farm, we have shared the risk of changes in supply and demand, and we have always tried to build our production around the current demands of the market. The connection of land and animals has forced a natural boundary on supply increases, allowing for growth, but in reasonable, manageable increments.

We cannot offer the detailed short-term efforts that others have suggested for conventional dairy policy. But we can encourage the dairy industry to consider long term efforts that include supply management tools, quotas, or forward contracting. Our ideas, tested over twenty years, once seemed radical, and now seem conservative. But in the course of twenty years, most important of all, we have reconnected the consumer and the farmer. Our consumers purchase our product because they believe in the value of our production methods, and they believe that the value is reflected in a sustainable price that can be returned to our farmers. This might seem radical today to the dairy industry, but a short twenty years from now, the consumers could understand and value the dairy farmers of America in a manner that they deserve.



Dairy Pay Price Comparison

More than 20 years of organic partnership

