Statement of the
American Farm Bureau Federation

TO THE HOUSE COMMITTEE ON AGRICULTURE

SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY

REGARDING DAIRY

Presented by Craig Lang, President, Iowa Farm Bureau Federation and a Member of the Board of Directors of the American Farm Bureau Federation

July 28, 2009

Chairman Scott and Ranking Member Neugebauer, thank you for the invitation to be here today. I am Craig Lang, a fifth generation farmer from Iowa. My two sons comprise the sixth generation of my family to be involved in farming. Our farm is a three-generation dairy. My 83-year old father works on the farm everyday. My brother manages the dairy and two of my sons are working into ownership. They work full time on the farm because, unlike many farms, dairy is a full time occupation.

My oldest son is a graduate of the University of Northern Iowa with a degree in Political Communication. He has decided not to go to law school because he believes there is a good future in the dairy industry. My second son graduated from Kirkwood Community College with an Agriculture Production degree. He also believes agriculture holds a promising future and is specializing mainly in the crops and feed needs of the dairy animals. My two sons could find employment off the farm, however, their passion is to continue farming. With good policy and a little luck, they will succeed in growing our operation to a profitable and competitive size.

We milk 560 cows three times each day, producing roughly 35,000 pounds of milk per day. We plan to expand by building a new parlor and nutrient handling system when long-term profitability returns to the dairy sector. Until that time, we are only expanding enough to meet the needs of my two sons joining our operation. Our expansion includes a remodeled free stall barn, more cows in milk, expanding our silage storage capacity, dry feed storage and additional rented land.

Our break even cost for the milk we produce is around $14 per hundredweight, of which $7 per hundredweight is for feed. Our current mail box price is about $11 per hundredweight after you add in premiums for quality and volume.

Because of the historically low milk price, we have almost depleted all the cash we put away over the previous two years when the price was considerably higher. We are now using a bank line of credit to help pay for daily operations. We have about 40 percent of our 2010 milk production sold for a price between $14 and $18 per hundredweight using a buying tool through our milk cooperative.

This year, U.S. dairy producers have been caught in a classic “price-cost squeeze” with farm milk prices declining sharply from record highs while feed costs remain high. At the current time, public and private intervention measures are in place but are not yet being fully felt at the farm gate.

Dairy farmers enjoyed positive returns in 2007 and most of 2008 as strong international demand pushed up the price of dairy products and the mail box price of milk. In November 2007, the all-milk price hit a record $21.90 per hundredweight. In 2008, milk prices remained high and sent a signal to the market to “produce more.” Farmers responded by increasing U.S. milk production. Total U.S. milk production rose by 2.1 percent in 2007 and by 2.3 percent in 2008. This is close to the 2.1 percent average increase since 2000. Much of this supply increase was driven by cow numbers rather than gains in milk production per cow because of the pressure of rising feed prices – both concentrates and forage.

Last fall, converging factors led to an evaporation of the U.S. dairy export market. First and foremost, the global economic recession virtually halted the trade of products, while a stronger dollar also made our products more expensive in the marketplace. Finally, New Zealand was able to regain much of its drought-plagued milk production in late 2008.

Farm Bureau believes the major factors leading to the current economic stress in the dairy industry are the demand shock from the evaporation of the international marketplace, excess supply being thrust upon the domestic marketplace, and shrinking margins of income over feed costs.

Declining milk and dairy product prices in late 2008 and 2009 have reactivated government programs to support dairy prices and dairy farm income. USDA estimates that it purchased 170 million pounds of nonfat dry milk in the first six months of 2009. That is the equivalent of about 30 percent of production. USDA has said they expect to remove an additional 40 million pounds of nonfat dry milk during the remainder of 2009. In February 2009, milk prices dropped below the trigger for Milk Income Loss Contract (MILC) payments to dairy farmers for the first time in two years, triggering over $450 million in checks to dairy producers. In addition, USDA has allocated the maximum volume of dairy products the U.S. is allowed to export with Dairy Export Incentive Payments (DEIP) subsidies and yet be consistent with World Trade Organization (WTO) commitments. Farm Bureau has encouraged USDA to expand the Commodity Credit Corporation (CCC) purchasing authority, purchase CCC inventories for domestic feeding programs and expand dairy allocations via DEIP.

Yet, this declining economic picture has caused all of us to look at various options to determine what can be done to assist the dairy industry – in the short-and long-terms.

Short-term solutions include: (1) Maintaining the current safety net and letting existing programs work; (2) further use of DEIP; (3) expanding or enhancing the Cooperatives Working Together (CWT) program; and (4) altering existing programs to enhance dairy farmer income.

While Farm Bureau policy on dairy is lengthy, a few policy highlights include:

(a) We support "a market-oriented national dairy program that includes a national counter-cyclical income assistance component, such as the MILC program which is consistent with a worldwide fair and open trade policy. In addition, we oppose "discrimination against large producers in the MILC program."

(b) We support a "continuation of the dairy price support program <u>at the current level.</u>"

(c)We support "state and regional initiatives or compacts which are consistent with our overall goal of a market-oriented national dairy program, specifically the expansion and reauthorization of the Northeast Interstate Dairy Compact and authorization of the Southern States Dairy Compact."

(d)We support and encourage the use of CWT.

Given these policy positions, Farm Bureau would be supportive of at least three options to assist dairy producers in the short-term. The first, and probably best, option would be a further ongoing effort to reduce cow numbers through the CWT program. We applaud the efforts undertaken by CWT so far. The latest removal of 100,000 cows unfortunately, only represents about 1 percent of the U.S. herd. Our economists believe another 3 percent reduction in the cow herd numbers for an extended period of time will be required before dairy prices are likely to significantly rebound.

We fully understand that the buyout program may not have the funds to reduce the U.S. herd enough to boost milk prices back to a profitable level. This may mean that the only option is for more farmers to sell their herds on the open market. Eventually, that culling of the U.S. herd will reduce milk supply and boost prices. Cull cow markets have already softened considerably and are making this a difficult decision for farmers.

While fewer dairy cows would be useful in increasing dairy prices to farmers, we are adamantly opposed to a Federal Dairy Herd Buyout program similar to that used in the past. While that program did decrease production significantly and increase the price available to dairy farmers, it added to total meat supplies and had a negative effect on the beef industry. As a general farm organization representing farmers who produce all types of commodities, it is imperative that we do not support programs that may benefit one sector to the detriment of another sector.

Some in the dairy industry have suggested limiting milk supply by taxing increases in production. That would only serve to increase domestic milk prices and make U.S. dairy producers less competitive in world markets.

We know that some members of Congress and dairy organizations have asked USDA to raise the purchase prices under the Dairy Price Support program. While this would certainly raise prices, it is not something AFBF can support given our policy to continue the "dairy price support program at the current level." We also oppose increasing support prices because it has the strong potential to send the wrong signal to the market to increase or at least maintain, rather than to decrease, production.

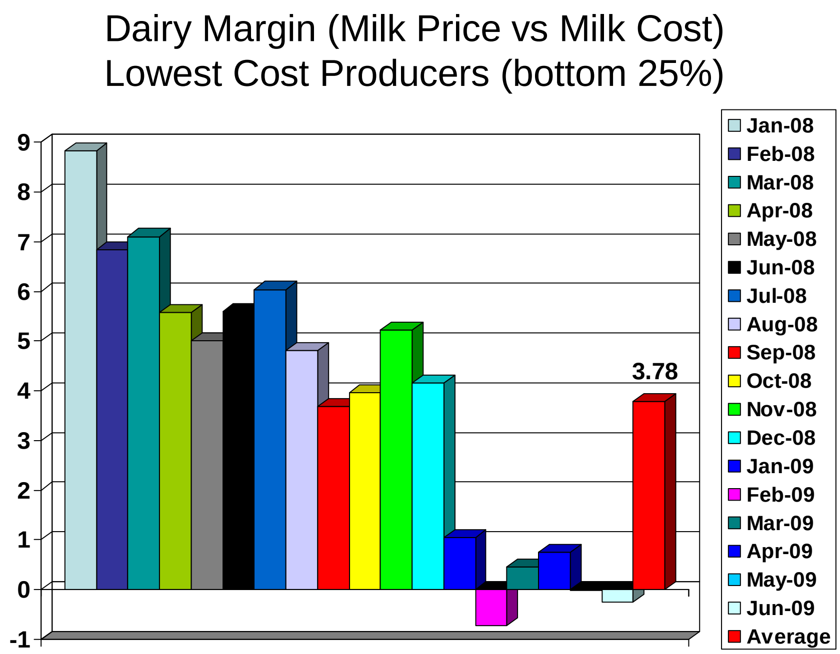
While our policy does not support increasing the price support levels, it does call for ending discrimination against large milk producers in the MILC program. The current program limits payments to an operation of about 160 cows. Farm Bureau would like to see this payment limitation removed. We would also support state and regional initiatives or dairy compacts, although we do not see much ambition for such an initiative at the current time.

DEIP pays cash bonuses to exporting companies, subsidizing the sale of U.S. dairy products to foreign buyers at prices less than cost and enables U.S. companies to compete in global markets where other countries may be subsidizing their own dairy product sales. DEIP has been dormant for several years but due to encouragement from AFBF and others, USDA reopened the program recently, setting allocations that could help move up to 1.5 billion pounds of milk to the export market. As of July 1, U.S. companies had received $2.3 million in bonuses to export dairy products. AFBF will continue to pursue future DEIP allocations in a timely fashion in order to continue to encourage more dairy product exports while operating within our WTO commitments.

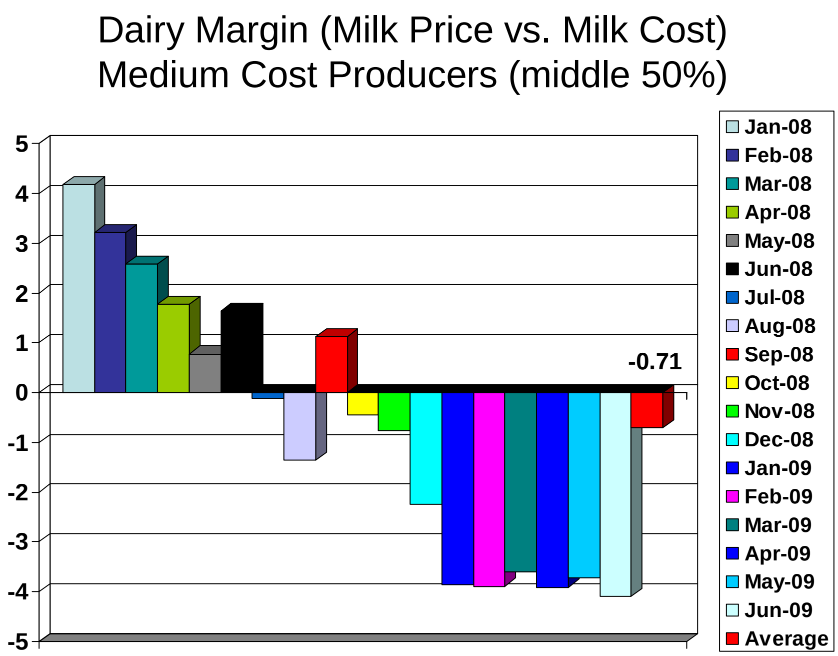
In the short-term, it is tempting to "do something" to help producers immediately. But, as USDA Under Secretary Jim Miller testified before the House Ag Committee two weeks ago, "USDA is currently forecasting the all-milk price to average $11.60/cwt in the third quarter and $13.10/cwt in the fourth quarter. For all of 2010, USDA is projecting an all-milk price of

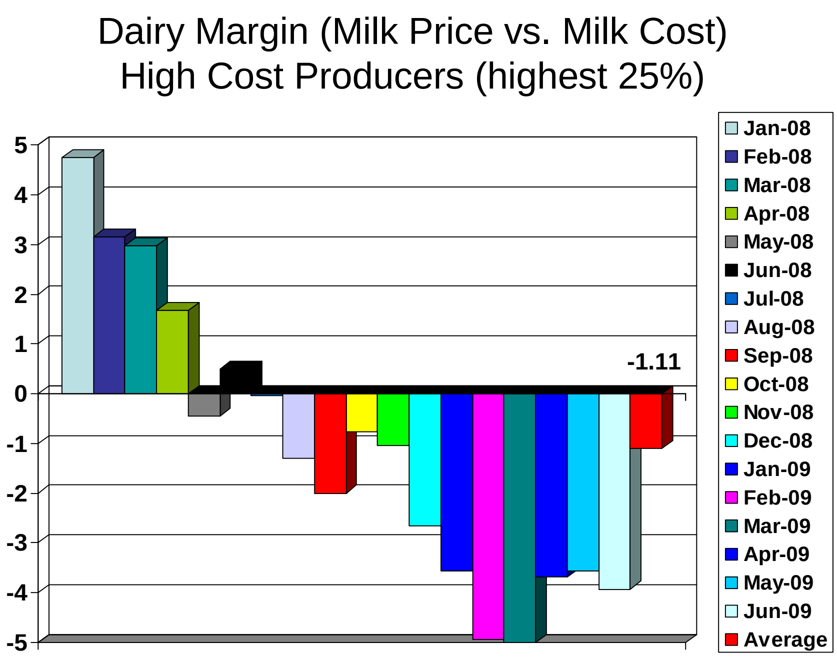
$15.30." We are working our way out of this severe crisis and must let the dairy sector return to a supply/demand balance as soon as possible.

I want to draw your attention to a few charts. Farm Bureau believes there is a huge problem in trying to "help" the dairy industry via increasing the dairy price support levels. The cost of producing milk varies widely around the U.S. The first chart is a graph of dairy margins (price minus cost) for each of the last 18 months for the 25 percent of producers who are the lowest cost producers in the U.S. These producers have actually made a profit over the last year and a half.

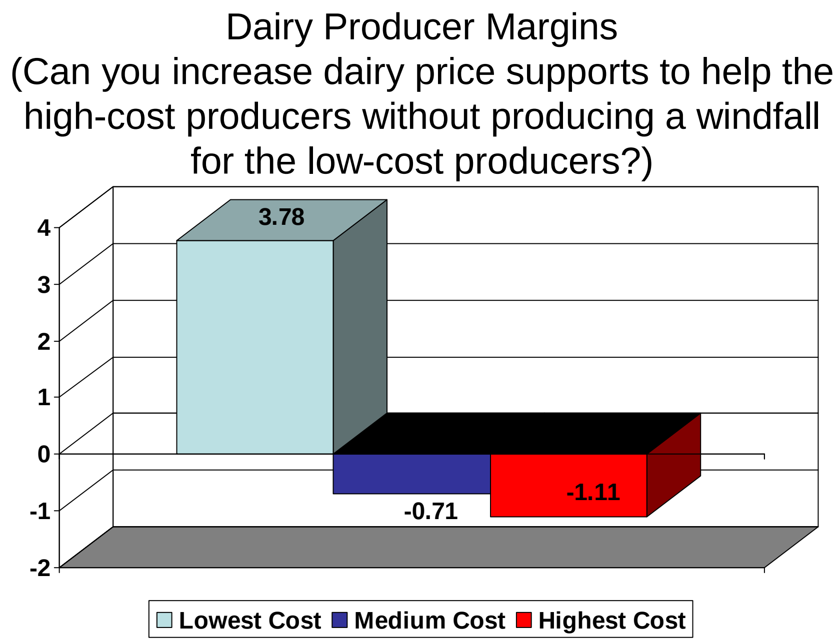


The second chart shows the results for the same 18 months for the 50 percent of producers deemed medium cost producers. The third graph shows the figures for those 25 percent who are the highest cost producers. For both of the last two categories, on average, producers have lost money over the last 18 months.





The final chart compares the profits and losses of the three categories. As we consider how to assist the dairy industry in either the short- or long-term, the question that troubles us the most is, "How do you help high-cost producers without producing a windfall for the low-cost producers?" In the short-term, we believe allowing the current program to work is the best answer. There is no question many dairy producers are in a crisis and have suffered greatly, but attempting to "do something" in the short-term would not be a wise investment.



In the long-term, AFBF is well-aware that price volatility has been a major issue for the dairy sector. While volatility may offer opportunities at high price levels, it also means price swings can be difficult to balance on the low end. However, AFBF policy is clear that reducing price volatility should not come at the expense of producer choice, and deviations from market-oriented pricing are unwise. AFBF has strong policy against supply management in all commodities.

A supply/growth management program is problematic for a variety of reasons: 1) It is predicated on the fact that someone can adequately and accurately predict domestic and world supply and demand for dairy products; 2) It limits innovation and incentives for efficiency gains in the industry; 3) It potentially offers an insurmountable barrier to entry for new producers; and 4) It takes away the U.S. dairy industry's ability to participate in the potentially lucrative world markets.

AFBF's policy is clear that greater market presence is needed in the dairy industry.
We support an expanded role for markets and private enterprise in establishing prices for all classes of milk; and a price discovery method which utilizes more milk and expands mandatory reporting and auditing of prices and inventories; including penalties for inaccurate reporting.

We also support modifications in the Federal Milk Marketing Order that will enhance the milk price received by producers and are encouraging USDA to appoint the task force to review the Federal Milk Marketing Orders as soon as possible. Many of our dairy producers see the need for improved price discovery and feel that federal orders could operate more effectively.

In conclusion, we are keenly aware that producers are facing significant income loss and that all of them may not be able to survive financially. We believe encouraging further CWT programs to reduce supply would be most beneficial. We do not believe increasing the minimum support levels in the current dairy price support program is a good idea as it would encourage additional milk production and slow the supply adjustment process needed to bring the dairy market back into balance.

We have encouraged USDA in the past year to increase dairy product purchases by the government. We will undoubtedly request additional buys in the future. We are willing to discuss long-term strategies to help stabilize the dairy sector; however, we do not see supply/growth management implemented by the U.S. government as a viable option.

As a general farm organization, AFBF must ensure producers of all agricultural commodities are treated fairly. It comes as no surprise to anyone here that the pork and beef sectors are undergoing as troubled a time as is the dairy industry. Certainly, there is reason to believe peanut producers are also suffering. If AFBF was to support additional assistance for the dairy industry, we would also need to be helpful to other sectors as well.

Farm Bureau appreciates the opportunity to share our views and we look forward working with you on these issues.

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