

**United States House of Representatives
House Committee on Agriculture
Subcommittee on Livestock, Dairy, and Poultry
Witness Statement of
WALTER M. GUTERBOCK, DVM, MS
Columbia River Dairy and Sixmile Land and Cattle,
Boardman, OR
July 28, 2009**

Chairman Scott and Ranking Member Neugebauer. Thank you for giving me this opportunity to discuss with you and the committee the economic conditions that face dairy industry today.

My name is Walter M. Guterbock. I have been actively involved in dairying either in academia, veterinary practice, or operation of farms since 1979. I am the manager of Columbia River Dairy and Sixmile Land and Cattle Company, both in Eastern Oregon along the Columbia River. Columbia River is a very large dairy that supplies a nearby cheese plant. Our farm is not a member of a cooperative. It is part of an integrated farm that raises most of the forage crops that are fed to the animals and other food crops such as potatoes, onions, peas, and mint that generate byproducts that are fed to the animals. The animals in turn provide fertilizer for the crops. We take pride in the excellent quality of milk we produce, in the certification we have earned for animal welfare, in the responsible way we handle animal waste, and in our progressive labor management practices. Previously, I have been a partner in or managed farms in California, Michigan, and Washington.

The financial losses of family dairy farms in 2009 are unprecedented. No region, no operation size, nor any business model has been spared the impact of low milk prices and high input costs in the midst of a worldwide economic downturn. Almost all dairy farms, large and small, are owned by families, and it is the wealth of farm families that has been destroyed. There are very few corporate dairy farms.

Crises are the cradles of ideals and ideas. It is too late to prevent the loss of wealth to dairy families that has already occurred. But of course people in the industry are looking for programs that might avoid such economic losses in the future.

Some of these can generally be labeled as supply management programs. The details of these programs vary, but there are key elements that continue to emerge in all of them.

- (1) Individual farm and cooperative voluntary plans for growth, consolidation, and relocation will be replaced by government mandates and limitations.
- (2) Numerous decisions by independent producers and cooperatives involving the supply of milk will be replaced by a centralized decision making process determining where milk will be produced and how much.

- (3) Growth based upon farm family goals, available resources, current market demands, local opportunities, and other individual farm factors will be replaced by government-assigned quota based upon past production. Current national production patterns will be cast in stone and adjustments of milk producing capacity between regions will be difficult. This means that consumers will not benefit from regional efficiencies; the industry will be preserved in less efficient areas and will not be able to expand in more efficient ones.
- (4) Payments for milk will be taxed, reducing farm income. Either all producers will pay a tax that will benefit those who comply with restrictions, or substantial penalties will be imposed on milk from farms that do not. In some plans, the tax is on all milk produced, not just the milk that is over the limit, so that the farmer who milks one extra cow or whose production rises because of good luck or good management would pay a severe penalty on all his milk. The tax will reduce revenue to dairy farmers during a severe cash flow crunch, hardly a desirable goal. Any potential milk price increase resulting from the program will come long after the blow to revenue.
- (5) Business decisions and estate planning for dairy farmer families, already complex due to estate and income taxes, will become more complicated. Proposed rules will make it more difficult to combine operations, divide them, or expand them to allow younger family members to participate in the business. As in farm subsidy programs, ingenious ways will be found to hide common ownership of different herds to allow expansion to continue while appearing to comply with the limits.
- (6) Supply management creates a privileged class (current producers) and raises huge barriers to entry to entrepreneurs or young families who want to get started in dairying. The population of dairy owners looks about like me, and we need young, aggressive, progressive producers to enter our ranks to keep us moving forward.

Fresh milk is highly perishable. It must be processed within days of leaving the cow. Storage capacity at the farm is usually one or two days' production, so milk must be picked up promptly or the farmer can't milk because the tanks are full. Milk can only be stored long term in the form of finished products like cheese, butter, protein concentrates, and powder. This means that a farmer must have a processor who will pick up the milk reliably and promptly, and that the processor must then pay the farmer for it. Unlike the grain farmer, the dairyman can not store his product and wait for favorable markets. If the producer can't sell milk immediately, it quickly becomes worthless.

The processor, in turn, has to find a home for the milk or for the finished products. Surplus milk is freely traded and its value tends to fall until the market is cleared. The government support price provides a floor. Little milk is ever discarded. Unfortunately, our current pricing system of federal orders, pooling, and support prices does not allow these price signals to get back to the producer. The dairy producer gets paid the same price for all the milk

he produces, whether it finds a profitable home or not. While the coop or marketing order as a whole may pay some price for overproduction, the individual producer does not really feel it. A supply management system with an artificial floor price will encourage overproduction in relation to real demand and reduce further the transmission of price signals back to producers. The best way to rein in overproduction is to have local co-ops and processors pay farmers far less for milk that is surplus to their needs, sending a strong price signal not to overproduce.

A national supply management system would not recognize local needs for flexibility to adjust to changes in supply and demand. Consuming populations grow and shrink. Successful dairies tend to expand, because they generally produce more heifers (young cows) than they need to replace the cows they cull. There are also tax advantages to reinvesting income into herd expansion and new facilities. Dairy families use expansion as a way to create opportunities for young family members to stay in the business. Also, dairy farming tends to expand in areas like the Northwest where land and feed are reasonably priced and there are opportunities to market milk, and contract in areas where climate, urbanization of farmland, short growing seasons, the lack of processing capacity, or other factors make it less efficient. In the long run, efficient, successful producers of all sizes can supply dairy products to the public more cheaply than inefficient legacy producers. Certain areas of the country favor efficient dairy production more than others, and should be allowed to expand, while others need to contract.

Both the supply and the demand for milk, on a regional or national scale, are unpredictable, although there are patterns. In order to ensure consumers a consistent supply of fresh dairy products without sudden shortages, there has to be some surplus production. So any milk marketing system has to be able to accommodate changes in supply or demand and have enough capacity to accommodate the fluctuations. The idea of supply management is to bring supply in line with demand so that the excess milk does not depress the price of all milk. But milk supply is always out of line with demand somewhere in the country, and milk is moved from one area to the other at market-clearing prices. Surplus milk will find a home at some price in the current system, but if the price is not allowed to drop, there is no incentive to stop producing it.

The factors driving, or dampening, domestic demand are generally known—income, population, season, product availability, government feeding programs, prices, restaurant sales, and other factors. But knowing general trends does not provide anyone the ability to predict demand exactly even three months in the future. Milk is traded world-wide, and worldwide prices affect prices and demand at home. Worldwide prices change in response to currency fluctuations, climatic events in other countries (such as drought in Oceania), political events, market crises (like the melamine contamination scare in China), trade negotiations and treaties, the strength or weakness of other economies, dairy policies of our competitors, and other factors. The high dairy prices of 2008 were in part due to increased exports, related to drought in Oceania and high demand from Asia. The melamine scare, the economic collapse, and the end of the drought reduced our exports and are contributing to current low prices. Our current low prices are due to a collapse in demand, not to a great oversupply compared to historical levels.

The factors supporting supply are also well known. The trend is for production per cow to rise, overall milk production to increase slightly from year to year, and for America's dairy

producers to continue to provide more milk with fewer cows. Seasonal variations in milk yield are fairly well understood. But there are many variations in milk production that are hard to predict, caused by weather events, differences in forage crop growing seasons, changes in feed prices that drive ration changes, and other imponderables. Successful dairy managers of both small and large herds understand these factors and have learned to maximize profit. But their results vary, day to day, season to season, and year to year, and are not fully predictable.

I am sure there are witnesses who paint supply management as a defense of the small family dairy farm against the big farms that are claimed to have caused a glut of milk and the current low prices. Again, the current crisis is due to a collapse in demand, not a sudden rise in supply. The current crisis actually hurts the traditional farm that produces a lot of its own feed and relies on family labor *less* than it does the larger producer who recently expanded, has to purchase most of his feed, has high overhead, and is carrying a large debt load. The trend to consolidation and larger herds in dairying has been in place for a hundred years, and is driven by demographics and basic economics. When traditional dairy producers retire, their children often do not want to come back to run the farm. The average age of dairy farm owners is in the late 50s. At the same time, efficient, progressive producers of all sizes have expanded their businesses. There are many producers who started with 40 cows and now own thousands. As in any business, there are economies of scale that give a larger producer slight advantages, but smart small producers continue to be successful. The forces driving consolidation will not be stopped by a supply management program, although their effects will be distorted as aggressive producers find creative ways to skirt the rules.

Like other areas of the economy, dairying has gone through a period of overexpansion fueled by high milk prices and easy credit. The party is over and we are in a period of adjustment to new realities. A prompt world economic recovery will help us like everyone else. But there are economic threats to our industry from the large number of heifers waiting to join the national herd and the huge stocks of products in government storage that will have to be sold on the world market someday and threaten to hold prices down. Raising the drawbridge by artificially raising the US milk price through supply management will not do anything about either trend. It will make us less competitive on the world market, perpetuate the surpluses, and do nothing to increase demand. Again, ultimately only the operation of a free market can bring supply and demand into balance.

For supply management programs to succeed, someone must be able to predict production and demand accurately, not just for the next quarter, but beyond. A producer can not turn a spigot to raise or lower production at will. Adjustments are made over years, not over weeks or months, because the production cycle of a cow is so long (two years for a calf to come into production, and a four year productive life of an average cow). Production cycles in other food animals (chickens, hogs, beef cattle) are much shorter and capacity can be adjusted much more quickly than in dairy. There is no known model today which can consistently determine what production should be. We know that free markets are the most efficient way to match supply and demand. Managed economies usually create either shortages, because prices are held so low that producers lose the incentive to produce, or surpluses, if prices are kept artificially high and encourage overproduction.

Not only do supply and demand vary from time to time, they vary from place to place. As it stands now, milk demand exceeds supply in the Northeast, is somewhat balanced in the Southwest and in surplus in California. This summer, a heat wave in California will probably change this balance temporarily, but it may not. Shorting milk nationally because one region is overproducing makes no sense in other regions. The view from the West Coast is different. We have a favorable climate for crop production and dairy cows, and a large supply of feeds that are byproducts of the bounty of food crops produced in the area. We have access to West Coast ports and the Columbia River to get our products onto ships. We are a long way from Eastern markets and the bulk of the US population. After consumer demands in our region are met, we have little opportunity to send our milk East. Large and growing milk sheds to the East of us are supplying large and efficient plants that are closer to Eastern markets. The result is that the West Coast must look to Mexico and the Pacific Rim for its demand. To meet that demand we have to have the milk and we have to be able to compete in the world market. Penalizing efficient producers and limiting milk production to raise the US milk price artificially will, in the long term, doom the dairy industry on the Pacific Coast, which includes many small producers as well as big ones. .

Some would counter that the allowances could be made regionally, not nationally, but to what effect? There is a great interdependence between regions. The Southeast, for example, receives a substantial amount of its milk from the Southwest, Central, Mideast, Midwest and Northeast. Milk flows freely from region to region to fulfill demand and to pursue pricing opportunities.

Ultimately the design of any program will be affected by politics. Since there are many more consumers who vote than dairy farmers, it is likely that politics will demand lower consumer prices. Ultimately lower farmgate prices will result, which could result in milk shortages. Interregional politics will also come into play, and dairy production will be preserved in inefficient areas where it is dying out. Setting prices too high in the hope of preserving the family farm will encourage overproduction, raise consumer prices, reduce demand, increase government surpluses, and cause food processors to seek alternatives to dairy ingredients. Again, free markets (with appropriate safeguards) allocate resources more efficiently and accurately than any agency or political process can.

The major selling point of supply management has been that milk prices will be more stable. That is there will be no more lows like now, neither will there be any highs like last year. What this means is that American producers would receive a different price than the one that the world market would provide. Higher sometimes, lower sometimes. Those restrictions will not apply to milk produced outside of the United States. To support prices higher than those dictated by economics, there need to be barriers which protect the industry from outside forces. Outmoded political, physical, and sanitary barriers cannot protect the US dairy industry from the outside world.

The political barriers no longer exist. Just last year an Ontario court stopped shipment of milk from that province into the United States. Milk marketing orders, state health departments and other local, state, and federal agencies in the United States were unable to stop that milk coming in. In fact some, such as milk inspectors, helped it. Instead the milk was

stopped because the Canadian court held that all milk produced in Ontario belonged to Dairy Farmers of Ontario and DFO did not wish to market in the United States. That could change tomorrow and we would not be able to stop it. Under NAFTA it is virtually impossible to export milk and milk products into Canada and equally impossible to stop Canadian milk from coming into the United States. The proximity of Canadian milk sheds to US markets in the East and the Northwest makes this a major long term threat if our milk prices get out of alignment with world prices.

Our southern border also poses a challenge. Milk processed in Mexico, whether US milk exported to the plant or milk produced in Mexico, can come into the United States virtually without tariffs and free of Federal milk marketing orders and a supply management program. Large population areas in Texas and Southern California are ready markets if milk prices are out of alignment.

Physical barriers no longer protect us. The use of container ships and a massive, efficient, and speedy transoceanic transportation system mean that the cost of transportation on milk and milk products to the United States provides a lower cost barrier than before. US prices cannot be too far out of alignment with world prices plus those lower transportation costs. Added value products such as cheeses and creams and even UHT fluid milk would be attractive exports to the United States if milk prices were out of alignment with the world.

Over the years various trade agreements in addition to NAFTA have provided access to our domestic markets. We have attached a table showing the amount of dairy products are allowed under multilateral and unilateral trade agreements. Limits on imports from the European Union are not strong enough to prevent a misalignment of prices from attracting European milk and milk products to the US.

Sanitary rules provide no protection. To market products as Grade A anywhere in the United States, the product must come from a plant certified on the interstate milk shippers (IMS) list which in turn means that the plant must use milk that comes from farms meeting the Pasteurized Milk Ordinance (PMO) requirements. Though this is universal in the United States and is a US program, it is not limited to the United States. PMO certifying agencies in Florida, New York, and Vermont have inspected and certified plants in Greece, Spain and Canada. A current list shows that plants in Spain, Ontario, and Mexico are on the IMS list and certified by third party certifiers.

We are part of the world market and must meet that market. We are efficient producers of very high quality products. Our goal must be to sell American milk to the world, not provide opportunity for the world to sell milk in our markets. To do that we need a world based pricing system so that we can be exporters of milk and milk products.

Columbia River Dairy's contract with its customer is a good example of how milk can be produced to meet the challenges of the future. Our dairy was located specifically to be close to feed, water, and a market. The plant where we send our milk was built to accommodate the production of our dairy and two others in the area. Our contract was negotiated to meet our customer's needs, its customers' needs, and our needs. It creates a fair means for win-win-win,

although we are currently receiving less than our cost of production and are losing money like everyone else. The contract provides for surplus milk so that it does not become a burden for anyone. I agree with a witness from the first hearing who said that the way to get supply and demand into balance is at the farm to plant level. One of the reasons for the current oversupply of milk was the failure of co-ops to place limits on milk shipments from their members. They built new plants instead, to harvest the make allowance, and with the assurance that the government would be the ultimate customer for powder, butter, and cheese. An improved system would send clearer signals to co-ops and producers not to produce in excess of what their customers need.

Producers who would compete on the world market and still make a profit must be efficient. Current dairy programs such as the milk marketing orders and dairy product price support program create or encourage inefficiencies and discourage efficiencies. The make allowance formulas should be replaced with competitive pricing. Plants and producers need to be free to negotiate supply and price to maximize the profits of both. That negotiation requires transparency of information. Full and timely disclosure of volumes of milk and milk products and prices will help us achieve the efficiencies we need. The dairy product price support program needs to end. We need to be free to clear the market and to grow with the market. We certainly do not need a supply management program that taxes those who wish to locate and grow to meet demand efficiently and reward those unwilling to take on those opportunities. All the products the government holds eventually have to be sold to someone and will depress future prices. In the end it is producers, taxpayers, and consumers who pay the price for these programs.

In times like these, free markets look cruel, and it is tempting to try to temper their effects. It is painful to see families losing their life's savings and businesses that have become part of their identity. Businesses that supply dairy farmers also feel the pain and the risk of financial ruin.. Dedicated dairy workers lose their jobs and cows get loaded on trucks and go off to an uncertain fate. But in the long run, the market will win. Artificially raising the milk price will reduce our competitiveness, encourage overproduction, and cause even greater surpluses to hang over future markets from government storage.

Thank you again for giving me this opportunity.

I will be happy to answer any questions.

WALTER M. GUTERBOCK, DVM, MS

Personal Information

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E-mail: wmguterbock@earthlink.net; wguterbock@rdoffutt.com
Date of Birth: July 18, 1945

Miscellaneous: Married for 36 years with two children (29 and 27 years old).
French, German and Spanish spoken fluently.

Education

Yale University, New Haven, Connecticut: BA English 1966
University of Illinois, Chicago, Illinois: Pre-veterinary studies 1973-74
University of Illinois, Urbana, Illinois: Doctor of Veterinary Medicine, 1978
University of Illinois, Urbana, Illinois: Master of Science in Veterinary Medical Science (Parasitology), 1979
University of California, Davis, California: Nutrition Graduate courses, 1994
PAS (Professional Animal Scientist) through American Registry of Professional Animal Scientists.

Employment History

1966-1968: Peace Corps Volunteer in rural development., Mauritania and Senegal, West Africa

1968-69: Technical Studies Co-ordinator, Virgin Islands Training Center, operated by College of the Virgin Islands for the Peace Corps.

1969-1972: Assistant and Acting Country Director, Peace Corps, Ouagadougou, Burkina Faso. Main responsibility for rural development programs (livestock, ag extension, and well-digging) and overseeing the motor pool. Initiated programs in reforestation and lowland improvement for longer cropping seasons.

1974-1979 Research and Teaching Assistantships in parasitology, University of Illinois College of Veterinary Medicine.

1979-1989: Chino Valley Veterinary Associates, Chino, California: Practicing veterinarian and Partner, specializing in dairy cattle reproduction, milk quality and mastitis, herd health, and general dairy management. Practice manager for five years

1980-1989: Dairy Herd Health Management Seminars, Chino, CA: Partner. This company put on training seminars for dairy employees and managers.

1981-1984: Dairy Test Equipment Company, Chino, CA: Partner and Manager. Manufactured a vacuum recorder for testing milking equipment.

1986-2002: *Compendium on Continuing Education for the Practicing Veterinarian*: Editor of Dairy Production Management Series.

1985-1994: *Dairy Today*, a *Farm Journal* publication. Dairy columnist

1989-1994: University of California, Davis, Veterinary Medicine Teaching and Research Center, Tulare, CA: Production Medicine Clinician and Clinical Professor.

1994-1998: River Ranch and Dover Dairies, Hanford, CA: Veterinarian, Nutritionist, and Manager

1999: American Association of Bovine Practitioners: President.

2002-present: Adjunct Professor of Veterinary Medicine, Michigan State University.

1999-2004: Sandy Ridge Dairy, Scotts, Michigan: Managing Partner. Continued some nutrition and management consultation work for other dairy farms.

2002-2006: Manager, den Dulk Dairy Farm, Ravenna, MI

2007-present: Livestock Manager, Columbia River Dairy and Sixmile Land and Cattle, Boardman, OR

Memberships

American Dairy Science Association

American Registry of Professional Animal Scientists

National Mastitis Council (Board member, 2004-06) (membership expired)

American Association of Bovine Practitioners (President, 1999)

AABP Foundation Board (Founder and Chair, 2007-present)

AABP Nutrition Committee Member (2003-2007)

AABP Mastitis Committee Member, 1990-91 and 1993-1995

Academy of Dairy Veterinary Consultants (President, 1989) (no longer active)

California VMA Continuing Education Committee. Member, 1988-1992

Dairy Advisory Board, The Upjohn Company, 1989-95 and 1999-2001

Dairy Advisory Board, Pioneer Hi-bred International, 1996 to 2001.

Dairy Advisory Board, Pfizer, Inc., 1999 to 2001.

Dairy Advisory Board, Elanco Animal Health, 1999-2006.

Heifer International Southeast Asia Study Tour, 2003

Kalamazoo County Farm Bureau (County President, 2002-2004)

Speaker at numerous national and state meetings

Gave dairy management lectures in France in 1984 and 1986 and Japan in 2001 and 2007.

Honors and Awards

Yale University:

Graduated cum Laude

University of Illinois:

DVM with honors

Phi Zeta

Phi Kappa Phi

Dr. Sidney Marlin Award (excellence in epidemiology/public health)

Joseph O. Alberts Award (excellence in graduate study in VMS)

Voted an outstanding teacher by students in sophomore parasitology.

American Association of Bovine Practitioners

Distinguished Service Award, 1997

Publications (Available on request)

Clinical Research (Available on request)

Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: Walter M. Guterbock, DVM, MS
2. Business Address: Columbia River Dairy
75906 Threemile Road
Boardman, OR 97818
3. Business Phone Number: 541-481-2839
4. Organization you represent: Columbia River Dairy
5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:
10 years private veterinary practice specializing in dairy
7 years as a dairy farm owner
15 years as a dairy farm manager.
6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:
Leadership roles in various veterinary
and industry organizations
7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:
Dairy manager

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.

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.

Name: Walter M. Genterback
Address: 75906 Threemile Rd, Boardman, OR 97818
Telephone: 541-481-2839
Organization you represent (if any): Columbia River Dairy

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

Source: none Amount: _____

Source: _____ Amount: _____

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

Source: none Amount: _____

Source: _____ Amount: _____

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

Signature: Walter M. Genterback

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.