Statement of

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The Next Farm Bill: Dairy Policy

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Chairman Conaway, Ranking Member Peterson, Members of the Committee,

Thank you for holding this important hearing today and for inviting me to testify about dairy policy.

My name is Michael Dykes and I am the president and CEO of the International Dairy Foods Association. As the new leader of this great organization, I am following two distinguished individuals, Tip and Connie Tipton, both of whom I have had the pleasure of knowing and working with for nearly 20 years. I plan to continue building this great organization by working collaboratively on shared interests with all stakeholders to realize a bright future for the U.S. dairy industry.

Let me begin by sharing a brief bit of personal background: I grew up on a small dairy and tobacco farm in the great Commonwealth of Kentucky. I milked my first cow at age 5 – and kept milking until age 17 when I became the first member of my family to attend college. After studying animal science and ag economics at the University of Kentucky, I attended veterinary school at Auburn University. I was an owner in a six-person veterinary practice for a number of years in Illinois and am still a licensed veterinarian.

I left the veterinary practice and joined the grain and feed industry, where I worked with farmers in the United States and all over the world – especially Europe, South America and China – during my career at Continental Grain and Monsanto. During those years, I saw firsthand just how important international trade and competitive global markets are for U.S. agriculture and our dairy industry. Although the U.S. dairy sector entered the global marketplace later, the development of exports over the last 10 years has been a primary contributor to several periods of prosperity and represents the single most significant demand-growth opportunity for our members and the dairy farmers who supply them.

I've worked in the world of agricultural policy and regulation for the past two decades, and during my time in Washington, I've seen and learned a lot – about politics, about the value of collaboration, about policy and about the industry that we all so dearly love, American agriculture. Before I joined IDFA, I thought I had a pretty good understanding of what this association does – and who it represents. But in my short tenure I've learned that IDFA is so much more.

I'd like to share briefly what I've learned since joining IDFA so there is a broader context to my testimony – one that I hope will help guide your perspective on what our industry has to say about the upcoming farm bill.

IDFA is a national trade association representing a $125-billion a year dairy manufacturing and marketing industry with 525 member companies. We are part of the U.S. food and grocery manufacturing industries which directly employ over 2 million Americans.

IDFA members are manufacturers, marketers and retailers of milk and dairy products, including beverage milk (Class I), yogurt (Class II), ice cream (Class II), cheese (Class III), and butter and dry products (Class IV). Our members range from the nation's largest farmer-owned dairy coops to multinational corporations to family-owned, single-plant operations. We also have member companies that supply the dairy industry with everything from ingredients to packaging to equipment.

IDFA members include national and regional grocery retailers that make their own dairy products; international foodservice chains; and innovative processors that produce ultra-filtered, high-protein, lactose free, fat free and low-sugar milks with extended shelf life. We represent every kind of ice cream company you can imagine; yogurt companies; infant formula companies; and cheese makers – all supplying customers around the globe. Other members are pioneers in providing innovative dairy ingredients that offer health and nutritional functions in foods, which are increasingly in demand. And speaking of increasing demand, we also have members in the rapidly growing organic dairy sector.

IDFA is governed by board members who represent leaders across the spectrum of the dairy industry. We are fortunate that this diversity provides our organization with a very broad view of the overall dairy industry. We know that to continue our success, we must innovate to keep up with the market, and to innovate, we must collaborate along every stage of the supply chain, from farmer to processor to retailer to consumer.

Consumers Crave New Products

Listening to consumers is a good place to start, and we know they crave new products. That's why American consumers today have far more choices in the dairy aisle and on grocery shelves than ever before. Greek-style yogurt, string cheese, shelf-stable milks and high-protein beverages and snacks have become consumer favorites in the past few years. But these products are just the tip of the iceberg.

When you think of traditional dairy, the terms "wholesome," "good for you," "most perfect food," "does a body good," "reliable," "affordable" and "tasty" all come to mind. But we're far more than a gallon of milk today. In fact, milk contains protein, as well as eight other essential nutrients, lactose, and calcium. These milk components can be used to make an ever-increasing range of specialized dairy products and ingredients for infant formula, protein drinks and many other specialty products.

How did we move from a gallon of milk to powerful protein beverages and more? Let's take a quick look at the U.S. dairy industry and its evolution over the years.

Evolution of U.S. Dairy Industry

Before World War II, the dairy industry was dominated by more than 4.5 million small, widely scattered farms and 22,000 processing plants. With the growing use of refrigeration and cross-country transportation, the U.S. agricultural sector realized that local production wasn't a necessity and economies of scale were a good thing. Today the dairy industry has approximately 47,000 dairy farms and slightly more than 1,500 processing plants that are much larger and serve a broader market.

Where does all this farm milk go? More than 40% is used to make cheese and just over 20% is used for beverage milk and cultured products like yogurt. That is a significant change from 1960, when just 10% went into cheese production and almost half was used for fluid milk products. As U.S. cheese production has increased, so has production of dairy ingredients from whey, (which is a protein-packed cheese by-product), and other milk components.

Cheese production reached a record high in 2016, as per capita consumption of cheese kept growing. Americans, on average, are eating 35 pounds of cheese annually, which is twice the amount we ate in 1980. Per capita consumption of yogurt has increased even more dramatically during this time period, growing from 2.5 pounds in 1980 to almost 15 pounds in 2015.

Overall, domestic demand for dairy products is growing, but the growth is not where it should be when you consider that the 2015 Dietary Guidelines for Americans state that “intakes of dairy foods are far below recommendations.” Per capita consumption of fluid milk products has been on a downward trend for decades as Americans have shifted to other beverages. USDA estimates that Americans, on average, drink 37% less milk today than they did in 1970. Forty years ago, per capita consumption was nearly one and a half cups per day; now it's closer to 3/4s of a cup. Per capita production of frozen dairy products has also trended downward for more than 20 years.

While our companies will continue to innovate and provide new products, new packaging and a variety of portions to gain the attention of American consumers, we’re increasingly looking to the global market for additional growth opportunities. Here’s why.

The United States is the single largest cow’s milk producer in the world. U.S. farm milk production has grown from 170 billion pounds in 2003 to 212 billion pounds in 2016, and more than 52% of that additional farm milk is exported to other countries in the form of various finished products. Indeed, exports are driving growth in demand for U.S. farm milk, and the potential for further global demand is huge.

As the world population grows by another 2 billion people by 2050 and continues to develop economically, the demand for protein and improved diets will increase the demand for dairy products. Dairy foods are uniquely positioned to meet the nutritional needs of a growing world with more disposable income and an appetite for higher-protein products. This will mean increased opportunities for global trade in dairy.

The International Dairy Federation estimates that world demand for milk and dairy products would double by 2030 if dairy consumption grew to match the actual nutritional needs of all global diets. That number would triple by 2050. The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that dairy consumption in the Asia-Pacific region alone – driven by China, India and Japan – should double by 2050.

Those estimates represent an amazing opportunity for American dairy processors, American dairy farmers and members of Congress to collaborate to bring enhanced nutrition to a growing world and new opportunities and prosperity to our industry. Ensuring that the U.S. dairy industry is globally competitive to capture this growing demand is imperative.

We are well positioned to achieve export growth: We have industry and regulatory standards to assure consumers that our products are safe, we have the technology to innovate and we have the infrastructure to deliver to our customers. Most importantly, we are blessed with the natural resources to expand milk production. On the milk supply side, we know the United States is incredibly competitive. To cite USDA, milk production in pounds per cow has increased by more than 20% since 2004. To emphasize this point, I would like to point out that the average cow in 1950 produced 5,500 pounds per year, and today it is nearly 23,000 pounds per year. American agriculture has a tremendous capacity to produce!

As these facts demonstrate, globalization provides important opportunities for the U.S. dairy industry. At the same time, global demand has also increased volatility in dairy markets. The question is: What do we do about it?

First and foremost, the dairy industry needs better mechanisms for risk management – and that's on both the farmer and processor side. The 2014 farm bill overhauled the farmer safety net, replacing the dairy product purchase program with the Margin Protection Program, a margin insurance program, in recognition of this new global environment. Farmers are now looking to improve the Margin Protection Program and the Livestock Gross Margin insurance program to provide them with access to effective risk management tools in this farm bill. We are looking forward to reviewing the details of their proposal but are supportive of fine-tuning the farmer safety net so that it functions effectively and is not market distorting.

At the same time, the 2018 farm bill should provide better mechanisms for processors to manage price volatility through the extension and expansion of the current forward contracting program. Both domestic and international demand is negatively impacted by price volatility. Global customers are accustomed to buying dairy products at fixed prices that cover multiple months of deliveries and are reluctant to take on the price volatility generally associated with the U.S. dairy industry. Domestic buyers, whether food formulators for consumer packaged goods or food service or restaurant menu designers, also prefer to use ingredients for which prices are less volatile or for which they can better manage the price risk. If dairy cannot meet that need, the industry loses that demand. And we risk permanently losing retail consumers who migrate away from fluid milk and dairy products during high price cycles.

The minimum regulated milk price provisions of the Federal Milk Marketing Orders (FMMO) translate the price volatility of the dairy commodities directly into the regulated milk prices. The establishment of the forward contracting program for manufacturers of dairy products other than fluid milk has provided an important mechanism for manufacturers to directly contract with individual farmers or their cooperatives at a fixed price, but the finite timeframe allowed in the program challenges its use as we approach each farm bill. This program should be made permanent and the same opportunity should be afforded to fluid milk processors so that they, too, can curb the negative demand impacts of price volatility.

The current forward contracting program allows farmers and cooperatives to voluntarily enter into forward price contracts with handlers for milk that is used to make ice cream, yogurt, cheese, butter and powder (Class II, III or IV milk). The program allows handlers regulated under the FMMO and farmers to agree on the terms of the contract, without having to pay the minimum federal order blend price. However, regulated handlers are still required to make payments or distributions from the farmer settlement fund into the federal order pool. To ensure that the program is voluntary, the farmer or cooperative is required to file a disclosure agreement with the FMMO market administrator.

In addition to proposing that all milk (Class I, II, III, IV), be eligible to establish forward price contracts, many other aspects of the current milk pricing regulatory system should be reviewed in the context of today's consumer trends and global marketplace. The system's underlying assumption that beverage milk can bear a significantly higher price burden may no longer be accurate in today's highly competitive beverage market in which fluid milk sales continue to decline.

Many of the milk pricing issues that are negatively impacting my members flow through in the form of decreased demand which negatively impacts farmers as well. We intend to start a dialog with NMPF and other farmer stakeholders about these concerns in an attempt to develop a consensus proposal. Although my hope is that we can work constructively through that process, I would be remiss not to highlight to the committee that these issues are important to address on a timely basis. We pledge to keep this committee apprised of our progress to develop a comprehensive solution to these issues that advances the interest of the entire dairy industry.

Mr. Chairman and Members of the Committee, I'd also like to briefly mention some additional policy areas that we are looking to you for support.

SNAP and USDA Nutrition Programs

I congratulate the Chairman and the members of this committee for your thorough, top-to-bottom review of the Supplemental Nutrition Assistance Program (SNAP). This was an important undertaking from both a fiscal and nutrition policy perspective. We have watched closely the success of the SNAP pilots authorized in the 2008 and the 2014 farm bills to increase fruit and vegetable purchases. The 2008 farm bill authorized $20 million for the "Healthy Incentives Pilot"; and the 2014 farm bill authorized $90 million for the "Food Insecurity Nutrition Incentive (FINI)" grant program to test incentives at the point of sale.

Given that only one out of 10 Americans consumes the recommended three servings of dairy a day, according to the 2015 Dietary Guidelines, we believe adding voluntary incentives to encourage SNAP participants to increase their consumption of milk and dairy foods would be nutritionally sound and a wise use of taxpayer dollars. We'd like the FINI program to be reauthorized and expanded to include milk and dairy foods in the next farm bill so SNAP participants would have even more incentives to purchase milk and dairy products.

Milk is not only under consumed in all U.S. households but also in schools. We've seen a disturbing decrease in school milk consumption over the past few years, and we are actively working with NMPF and Subcommittee Chairman Thompson on solutions that will help move the needle in the right direction. The same approach holds for other programs as well, including the Women, Infants and Children (WIC) program. Currently, USDA regulations limit milk options – and we'd like to see these regulations changed to expand milk options to encourage increased consumption, which addresses the 2015 Dietary Guidelines recommendations that point to significant under consumption of milk and dairy.

Product Labeling Changes

Product labeling for the entire food and beverage category is currently undergoing enormous change, and multiple compliance deadlines are placing a massive regulatory burden on the industry. Approximately 400,000 new products have been introduced since the original Nutrition Labeling and Education Act rules were established more than 20 years ago. To change essentially every food package in the United States requires adequate time, careful planning, significant resources, testing and analyzing of products, entering of ingredient information into databases, new label and packaging designs, new printing plates and queuing up with printing companies. The process requires coordination among software vendors, ingredient suppliers, graphic designers, printing companies and others on a magnitude of scale never before executed.

IDFA and the entire food and beverage industry recently asked Health and Human Services Secretary Price to extend the compliance deadline to May 2021 for FDA's new Nutrition Facts and Serving Size rules. Additional time will help companies avoid wasting billions of dollars on duplicative relabeling schemes. FDA's own Regulatory Impact Analysis found that the cost associated with a two-year compliance deadline could be as high as $4.6 billion, and the cost of a four-year compliance deadline could reach $2.8 billion. Unfortunately, FDA chose the option that is 39% more expensive, providing only two years for all but the smallest companies. The current compliance deadline is July 26, 2018.

Our request for more time to comply will also allow USDA to complete its work on the GMO labeling rule, which requires a standard format for disclosing ingredients produced with biotechnology. Without the extension from FDA, companies may redesign all product labels by next year only to learn they must do it again to comply with USDA's requirements.

Given the lead times required to comply with the Nutrition Facts label and the opportunity for complying with both FDA and USDA regulations with one set of label changes, we need immediate action on this request.

Organic Dairy Products

Dairy foods represent the second-largest and fastest-growing category of organic foods sales, totaling about $6 billion, or 15% of all organic sales, according to the Organic Trade Association. The National Organic Program (NOP) at USDA has provided a consistent and reliable platform for the organic industry to grow and thrive. We believe maintaining the NOP program as it is currently managed will ensure that consumers have access to organic dairy products that meet their expectations. We also support the current structure and functions of the NOP and the resources to ensure that the program accommodates continued growth of the US organic dairy industry.

Trade

IDFA and our member companies look forward to working with the new administration and Congress to achieve trade policy goals that will preserve and grow dairy exports. As I said previously, global trade represents the single most significant demand growth opportunity for our members and the dairy farmers who supply them.

Mexico is the number one export market for U.S. dairy, accounting for one-fourth of our total dairy exports. The United States has a 73% market share of Mexico's dairy imports, and we need to ensure that a renegotiation of the North American Free Trade Agreement preserves this important market.

I recently traveled to Mexico City with Jim Mulhern and former Secretary Vilsack to meet with Mexican dairy farmers, processors and government officials. NAFTA is very successful for both the United States and Mexican dairy industry; it provides exactly the type of "win-win" business opportunities that each country needs. We found support to preserve the current market relationship from the dairy farmers, processors and the government of Mexico.

Unfortunately, we haven't had the same success with our trading partner to the north. The Canadian government is violating its trade commitments with the United States under NAFTA and the World Trade Organization with respect to dairy. Recent Canadian efforts to create a new class of milk effectively prevents U.S. exports of ultra-filtered milk from Wisconsin and New York and will cost the industry at least $150 million, while threatening U.S. jobs on farms, in processing plants and throughout the supply chain. Canada recently expanded this new pricing initiative, and we need to address this issue immediately before further damage is done.

Finally, the Asia-Pacific region is the world's largest market for food and agriculture and is expected to grow rapidly in the years ahead. Reducing and eliminating tariffs and other restrictive agricultural policies in this region will allow our dairy industry to compete, creating an opportunity to supply Asian markets with high-quality dairy products. With more than 95% of our potential customers living outside our borders, expanded access to the Asia-Pacific region is critical if we are to attain our future export potential.

Conclusion

In summary, IDFA represents a broad cross section of the U.S. dairy industry. Our views are based on what is good for all our members and our entire dairy industry, from farmer to processor to input provider to wholesaler to retailer to the consumer. With our policy goals, we aim to ensure that our industry remains competitive and strongly positioned for growth, both domestically and internationally, to meet the demand for our nutrient-rich products in a way that benefits <u>all</u> our stakeholders and contributes so importantly to the health of Americans and our nation's economy.

Mr. Chairman, there is a common thread to all the issues I have outlined: enhancing demand for U.S. dairy products. The opportunities are clearly out there, and the U.S. dairy industry is poised to take full advantage.

With the proper policies and tools – such as lifting restrictions on the types of milk offered in school cafeterias, obtaining greater market access in Canada and opening new markets in Asia, maintaining our top export market in Mexico, offering incentives to purchase more dairy foods through SNAP or providing better mechanisms for risk management for both farmers and processors – I'm confident our industry will meet and increase the demand for milk and dairy products and provide economic prosperity and stability to American dairy companies, American dairy farmers and their communities throughout the country.

IDFA's board members will be meeting next month to take official policy positions on a number of the issues I've just outlined, and we will work collaboratively with NMPF on our many issues of mutual interest as we approach the upcoming farm bill. We look forward to working with the Committee on the various programs and policy recommendations under the purview of the farm bill.

Thank you, Mr. Chairman and Members of the Committee, for the opportunity to testify at today's hearing. I look forward to answering your questions.