House Agriculture Committee
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Neal Rea
Dairy Producer – Salem, NY

Testimony of Neal Rea
Dairy Producer

Chairman Lucas, Ranking Member Peterson and House Agriculture Committee members: thank you for allowing me to testify today about dairy policy as it impacts me, my family, my farm, and my coop.

I am Neal Rea. My wife, Carol, and I own a dairy farm with our two sons, Thane and Travis, and daughter-in-law Karen. Our dairy is located in Washington County, and has been in our family for more than 200 years. It is because of the unselfish dedication of my family to the success of our dairy that I serve as the Chairman of the Board for Agri-Mark and on the board of directors for National Milk Producers Federation.

Agri-Mark is a northeast dairy cooperative with more than 1200 members in New York and the New England states. We have many members north of us along the St Lawrence river basin; from the Vermont border to Lake Ontario. Our members are the proud owners of McCadam cheese, an award winning cheddar produced in Chateauguay, NY- only a short distance from here. Our members also own our fabulous flagship brand Cabot of Vermont.

Very seldom does an Agri-Mark monthly board meeting conclude without the 2012 Farm Bill debate being mentioned, so on my behalf, and on behalf of the farmers I represent through Agri-Mark, we sincerely appreciate the House Agriculture Committee Members and staff traveling to New York to hear from dairy producers like myself.

First, I would like to share our farm experiences from 2009, and the progression of events leading up to today's very timely House Agriculture Committee hearing. We have very little new equipment; we rely on good used equipment which we maintain ourselves. We have milk cow facilities to house about 190 cows. Construction of these facilities was accomplished over many years; some of our housing is 45 years old. Our most recent addition was completed during the winter of 2010/11. Our milking center is housed in the original stanchion barn; the equipment was used and expanded over the years to a current double 9 herringbone.

As 2009 played out (progressed) we became the victim of negative cash flow. Our milk checks were considerably less than the corresponding bills. There were tears, sleepless nights, frustration and tension. Carol's philosophy then and still is: we must pay for the cows feed, we must pay for electricity, and we must pay for herd health. All other creditors were on an allotment program. Some months we could only pay $100 on a bill that was over $1000. Sometimes our own pay was delayed by months. It was extremely difficult to face our agriculture supply personnel with partial payments, knowing they had to borrow huge sums of money to cover their own operating expenses and deficit income. When the situation became overwhelming, we went to Farm Credit for operating capital. This had residual effects through much of 2010, because of extended credit and the need to pay back borrowed money.

Dairy farmers are a resilient breed, and I have a deeper appreciation for those who survived 2009.

Margins (difference between the feed costs and the milk price) became ever so important. This is exactly why Agri-Mark designed a program which later became a vital part of National Milk Producers Federation's Foundation for the Future, which is now the basis for the Dairy Security Act.

What has become clear to the dairy producer community from this extraordinary strain is that we need a combination of approaches to deal with the current situation. To address the underlying problems that caused this crisis and the many industry factors that contributed to its depth and protracted nature, we need to focus on solutions that avoid recurrences of this situation in the future.

Toward that end, NMPF created a Strategic Planning Task Force to seek consensus across the dairy producer community and create a solid "Foundation for the Future." I and my coop, Agri-Mark, have been an integral part of this process. The goal of the Strategic Planning Task Force was to analyze and develop a long-term strategic plan for consideration by the NMPF Board of Directors that would have a positive impact on the various factors influencing both supply and demand for milk and dairy products. It is extremely important to develop workable and realistic solutions that will garner broad support from dairy producers nationwide in order to unify behind an approach as this committee begins to consider the next farm bill.

I was extremely proud to be selected to the NMPF task force, designed to develop a new dairy policy for the 2012 Farm Bill. I truly believe it was the aforementioned adversity that brought dairy farmers from NY and New England together with dairymen from all over the country to design policy that would provide a better safety net, reduce extreme volatility and cost less to the government. I have gained friends and confidants from all across the country with the same goal.

<u>Margin protection is the key to the success of a dairy policy. The secret ingredient from my perspective now is compromise, consensus and commitment.</u>

Rather than offering just one solution, dairy policy must be multi-faceted: it must refocus existing farm-level safety nets; create a new program to protect farmers against low margins; and establish a way to better balance dairy supply and demand. I would like to touch on each aspect of this approach.

1. <u>Refocusing Current Safety Nets</u>

    Both the Dairy Product Price Support Program and the MILC program are inadequate protections against not just periodic low milk prices, but also destructively low profit margins that occur when input costs, especially feed prices, shoot up. The Price Support Program, in particular, has outlived its usefulness and hinders the ability of U.S. and world markets to adjust to supply-demand signals.

    Discontinuing the Dairy Product Price Support Program (DPPSP) would allow greater flexibility to meet increased global demand and shorten periods of low prices by reducing foreign competition. Additionally, shifting resources from the DPPSP toward a new margin protection program would provide farmers a more effective safety net.

As the Chairman and Ranking Member may recall, NMPF vigorously defended the importance of the price support program, albeit modified to make improvements in certain respects, in the 2008 Farm Bill process. But at the end of the day, it is clear that the dairy product price support program is not the best use of federal resources to establish a safety net to help farmers cope with periods of low prices and is not the most effective way of achieving this goal.

- **The DPPSP reduces total demand for U.S. dairy products and dampens our ability to export, while encouraging more foreign imports into the U.S.**
  The price support program effectively reduces U.S. exports, by diverting some of our milk flow into government warehouses, rather than to commercial buyers in other nations. It creates a dynamic where it's harder for the U.S. to be a consistent supplier of many products, since sometimes we have products to export, and at other times, we just sell to the government.

- **The Program acts as a disincentive to product innovation.**
  It distorts what we produce, i.e. too much nonfat dry milk, and not enough protein-standardized skim milk powder, as well as specialty milk proteins such as milk protein concentrate, that are in demand both domestically and internationally. Because the price support program is a blunt instrument that will buy only nonfat dry milk – and because that's what some plants have been built to produce, as opposed to other forms of milk powder – it puts the U.S. at a competitive disadvantage to other global dairy vendors.

- **DPPSP supports dairy farmers all around the world and disadvantages U.S. dairy farmers.**
  Further aggravating measures, the current program helps balance world supplies, by encouraging the periodic global surplus of milk products to be purchased by U.S. taxpayers. Dairy farmers in other countries, particularly the Oceania region, enjoy as much price protection from the DPPSP as our farmers. Without USDA's CCC buying up an occasional surplus of dairy proteins in the form of nonfat dry milk, a temporarily lower world price would affect our competitors – all of whom would be forced to adjust their production downward – and ultimately hasten a global recovery in prices.

- **The DPPSP isn't effectively managed to fulfill its objectives.**
  Although the DPPSP has a standing offer to purchase butter, cheese and nonfat dry milk, during the past 12 years, only the last of that trio has been sold to the USDA in any significant quantity. In essence, the product that the DPPSP really supports is nonfat dry milk. Even at times when the cheese price has sagged well beneath the price support target, cheese makers choose not to sell to the government for a variety of logistical and marketing-related reasons. We have tried to address these problems, but USDA has to date been unwilling to account for the additional costs required to sell to government specifications. Once purchased, powder returning back to the

market from government storage also presents challenges, and can dampen the recovery of prices as government stocks are reduced.

- **The price levels it seeks to achieve aren't relevant to farmers in 2012.** Even though the $9.90 per hundredweight milk price target was eliminated in the last Farm Bill, the individual product price support targets: $1.13/lb. for block cheese, $0.85 for powder, and $1.05 for butter – essentially will return Class III and IV prices around $10/cwt. But in an era of higher cost of production, that minimal price isn't acceptable in any way, shape or form.

In summary, discontinuing the DPPSP would eventually result in higher milk prices for U.S. dairy farmers. By focusing on indemnifying against poor margins, rather than on a milk price target that is clearly inadequate, we can create a more relevant safety net that allows for quicker price adjustments, reduced imports and greater exports. As a result of our DPPSP, the U.S. has become the world's balancing plant. As time marches on, so, too, must our approach to helping farmers. It is because of this that dairy producers and coops are focused upon a transitional process that shifts the resources previously invested in the dairy product price support program, to a new producer income protection program.

2. Dairy Producer Margin Protection Program.

As mentioned above, existing safety net programs (the price support program, and the MILC program) were created in a different era. Neither was designed to function in a more globalized market, where not just milk prices, but also feed costs and energy expenses, are more volatile and trending higher. In the future, the solvency of dairy farms will depend more on margins than just the milk price alone. In order to address this dilemma, dairy farmers and cooperatives are supporting a revolutionary new safety-net program called the Dairy Producer Margin Projection Program. It will help insure against the type of margin squeeze farmers experienced in 2009, and also at other points in the past when milk prices dropped, feed costs rose – or both conditions occurred in tandem.

In developing the Dairy Producer Margin Protection Program, a few important principles are being followed:

- Losses caused by either low milk prices or high feed costs need to be covered.
- A farmer's cost for basic protection must be kept low or nonexistent.
- The level of protection available should be flexible, and producers should be able to purchase a higher level of protection if they choose.
- The program should be voluntary, national in scope, and open to all dairy farmers, regardless of size.

- The program should not provide incentives to create artificial over-production.
- The program must be easy to access by all producers through a simple application process or through the assistance of their cooperative.

3. Market Stabilization

The Dairy Security Act contains a market stabilization program that prompts dairy farmers, only when absolutely needed, to adjust their milk output during periods of low margins.

To prevent steep and prolonged price declines – the likes of which we suffered from literally every day in 2009 – the stabilization program encourages farmers to temporarily trim their milk output. This allows supply and demand to more quickly align, prevents dramatic price volatility, and avoids a prolonged low margin environment. It also contains provisions that would make the program export-sensitive, meaning that if the U.S. risks losing its share of world dairy sales because of a misalignment of prices, the market stabilization program will trigger back out.

And it's also important to remember that in the absence of the price support program, U.S. and world milk prices will naturally be in much greater alignment.

Now, this type of system is not for everyone, and the best part is, it's voluntary. Only those producers who opt for the margin protection program would be subject to either reducing their output, or not receiving payment for their milk marketings above their temporary base. Those who don't want any government safety net won't be subject to the stabilization program.

All of these potential changes will ultimately require a new way of thinking about dairy economics. The dairy farmers I know recognize something has to be done before all the farms are gone and if there is one lesson to be learned from 2009; it's that change is needed.

Thank you again for your time and attention.