

TESTIMONY BY
Dane Lang
Brooklyn, IA

BEFORE THE
U.S. HOUSE COMMITTEE ON AGRICULTURE

Des Moines, IA
APRIL 30, 2010

Good morning, my name is Dane Lang and I am a sixth generation dairy farmer along with my father, uncle, brother and also my grandfather in Brooklyn, Iowa.

It is a pleasure to offer testimony today based upon my experience as a dairy farmer and a partner in the Lang dairy farm.

To give you a little background about our farm, in addition to the five family members we also have 7 employees. The farm includes 1300 acres of forage, corn, and soybeans, yet we also purchase much of our alfalfa from local farmers and corn gluten from a local ethanol facility. We are proud of our farming operation as we have strived to remain modern over the past six generations with modern genetics and facilities as well as utilize risk management tools to minimize our financial risk.

As you have heard in previous hearings dairy farmers have been challenged with one of the worst periods in lack of profitability. While we've seen some improvement in recent months -- milk prices rose above breakeven levels in January 2010 after 20 months of historic losses -- it appears that the volatility of the market continues into the near future. Economists are projecting another dip in prices in the near future. In the past few weeks, milk futures prices have dropped nearly \$2 per hundredweight. Forward futures prices for milk are now substantially below the prices USDA projected just a few weeks ago at the USDA Outlook Conference. In late 2008 and throughout 2009 reduced demand for exports, excess milk and dairy product supply, and high feed and energy costs created a perfect storm within the dairy industry, driving prices so low that the very survival of dairy farmers was -- and still is-- threatened. In the turbulent seas of the dairy market, dairymen got their heads above water just long enough to catch a breath, but now it seems were headed back under water.

To give you a perspective of the condition of the dairy industry over last few years, fellow dairymen and women have been tested. In March 2006 our milk prices took a negative swing taking profitability below breakeven costs for nearly a year. Difficult decisions were made by many dairy farmers in Iowa and across the U.S. in order to remain viable. Herds were

liquidated; costs were cut to the bone. Fortunately, our milk prices bounced back in 2007 which created an opportunity to get caught up and make necessary improvements to the farm. But that bounce did not last long. By early 2008 prices were falling again and this was also about the same time fuel skyrocketed, grain prices increased and virtually all other inputs followed suit, and our profitability was once again eroded.

As dairy prices plummeted again -- and this time beyond the levels seen in 2006 -- dairy farmers did every cost-cutting measure to stay in business. However, the red ink for many was beyond their control. To complicate the issue even more, our herd efficiency improved creating a 7%-8% increase in milk/cow over the last 5 years. When you think it can't get any worse, it does. Our exports also declined substantially. In 2008, the value of U.S. dairy exports were nearly \$4 billion, and today, U.S. dairy exports are just over \$2 billion.

My father began his career in our dairy operation in 1973 and he has said that this past year was the most challenging in his 37 years of farming.

If we step back a few years, the picture for the Iowa dairy industry was looking up. Milk cow numbers in Iowa stopped a multi-decade long slide in 2005 and there was optimism and hope as dairy cow numbers in Iowa grew from 190,000 head in January 2005 to more than 215,000 head by January 2008. This resurgence in milk cow numbers in Iowa coincided with the growth of the ethanol industry and the availability of new feed sources like dried distillers grains. Nationally, the prospects for the dairy industry were looking good in 2007. Production was increasing, domestic demand was growing and exports were booming. But the depth of the downturn experienced in 2008-09 and now resuming again is more than dairymen can endure. Iowa is losing dairy farms.

Iowa is an important dairy state. Iowa ranks 7th in the nation in the number of dairy herds; 12th in milk cow numbers; 9th in fluid milk bottling; 7th in cheese production and 4th in ice cream production. The dairy industry provides more than 26,000 jobs with a significant number of those jobs adding to the vitality of our rural areas. The dairy industry contributes more than

\$1.5 billion to the Iowa economy. But all that is at risk and in peril if the economic conditions facing the dairy industry don't improve.

A weakening in grain prices has helped stabilize the cost of production for most dairy producers. The current cost of production for many Iowa dairy farms including ours is in the area of about \$15-\$16 per hundredweight. While this is helping the dairy side of the business, it has taken away from the ability of the rest of the farm to help support the dairy enterprise through tough times. Without significant declines in crop input prices, Iowa's dairy farms are now facing shrinking (or even negative) margins on both the crop and milk enterprises. I wish I could be more optimistic, but the milk futures market holds out little hope of prices moving back above breakeven levels in the next year or two. The reality is that costs have shifted higher and that shift appears to be permanent. It is likely that the days of producing milk for \$9 or \$10 per hundredweight are over.

I appreciate the House Agriculture Committee examining this issue as a starting point for the next Farm Bill debate, and I also recognize that dairy policy is largely complex, divisive and regionally charged. There has been much discussion regarding what should be done to help dairy farmers weather this economic downturn. Some people have joked that if there are two dairy farmers in the same room, you'll hear three different opinions on national dairy policy.

While discussing the critical issues of milk price volatility and dairy farmer profitability, I would encourage the Congress to consider the following:

- The Federal Order structure, formulas and price classes used to compute milk prices must be modified so that they respond better to current market conditions and enhance transparency, as well as taking into account the regional differences in the cost of milk production.
- Changes are needed to ensure the long-term market development of value-added products, and encourage the domestic production of milk protein concentrates (MPCs) – mitigating concerns arising from the importation of these products.

- The development of a price discovery method that utilizes data from more milk production and expands mandatory reporting and auditing of prices and inventories, including penalties for inaccurate reporting. However, while seeking changes to the Federal Order system to reduce price volatility, Congress must also ensure that producer safeguards remain in place. Continuation of a counter-cyclical program like MILC, should be a key component to any future Farm Bill discussion.
- The California standards for solids-non-fat in fluid milk should be implemented at a national level. This would enhance product quality and improve promotion of the product.
- Current promotion mechanisms – such as the industry funded “Got Milk” campaign – should continue, and be complemented by an expanded national dairy product promotion program.
- It is also critical that we are providing adequate incentives to secure a reliable future of dairymen and women. Starting a new dairy farming operation takes tremendous resources and if an individual does not have a family member or mentor to provide financial and/or assistance with assets, the chances of starting a dairy to support a family is virtually impossible. That is why it is important that adequate basket of incentives and programs should be available for beginning farmers to access capital. There should be tax incentives for persons who sell or lease land, machinery, or other assets to beginning farmers.

Farmers are entrepreneurs who believe that dairy policy should be market oriented and consistent with expanded worldwide trade – global demand and exports contributed to the strength seen in 2008 prices. In order to see better prices ahead, American dairy farmers and processors need to be able to move dairy products around the globe and into the expanding array of new markets. We can no longer afford to have dairy policy be confined to the dairy farm – agriculture operates within a global economy and our dairy farms need to be a part of the effort to feed the world.

Current self-help programs for dairy producers show promise, but also have their limitations. The Cooperative Working Together (CWT) program is an industry driven (privately-funded) program that culls cows when the supply-demand imbalance needs to be corrected. CWT has done a tremendous job in reducing the national herd size; however, it is limited in resources as it has about 67% of milk production participating in the program. The program would be more effective if more producers were part of the program. However, I don't believe that the dairy industry is at a point to ask for – or even welcome – government intervention in the CWT program.

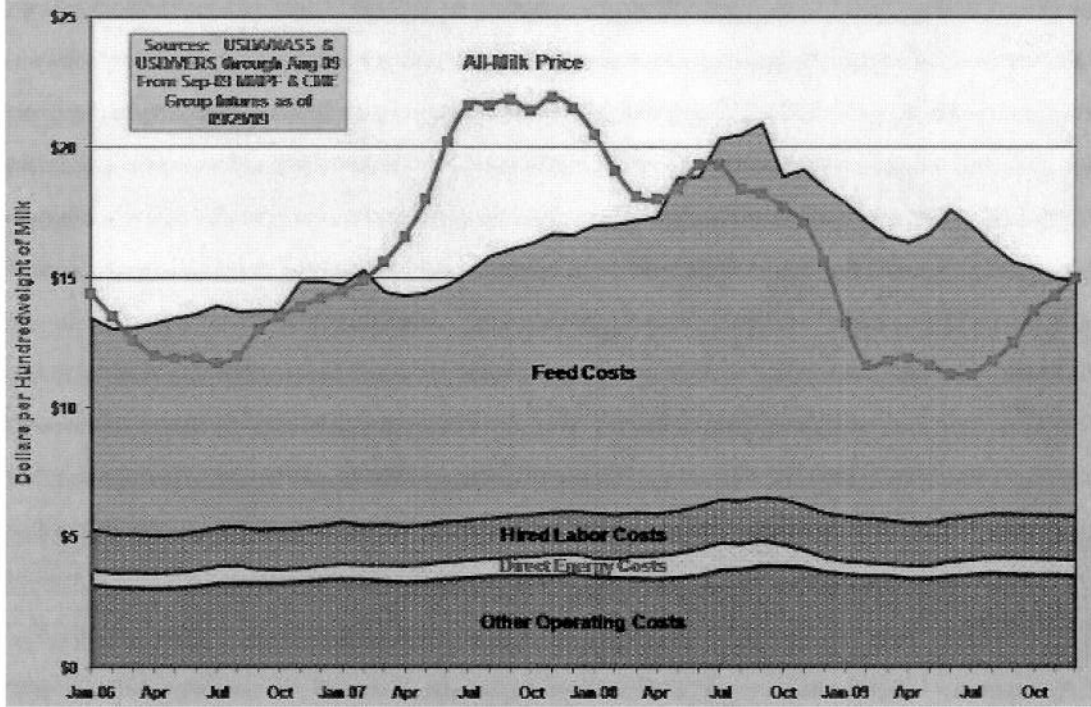
At the same time we have other tools such as forward pricing and milk futures. The availability of forward pricing is very dependent on the milk processor that purchases your milk. Not all processors offer this option. At times it can be very helpful in locking in an adequate price for a short-term period of time.

Additionally some dairymen can use the milk futures market. However, milk futures are fixed contract, which can be “lumpy” in size and the basis has been somewhat variable in recent months. This variability makes futures markets inappropriate for some producers. While neither of these options are a guarantee to dairy operations they can at times offer some relief.

In closing, dairy farmers are asking for market stabilization. Dairymen and women do a fantastic job at providing safe, healthy and quality dairy products and we will continue to do so. In return we need a market system that sends accurate market signals that tells us to reduce supply when it exceeds demand and provides us the opportunity to capture profitability when demand rises.

Thank you again for the opportunity to testify today. I would welcome any questions.

U.S. Milk Prices and Costs of Production, 2006-2009(?)



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: Dane M. Lang
2. Business Address: 1832 400th Ave
Brooklyn, IA 52211
3. Business Phone Number: 641-990-5096
4. Organization you represent: Yarrabee Farms, LLC
5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:
Dairy Farmer
USDA Rural Development
6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:
Graduated from the University of Northern Iowa
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:
Herd 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, 2007.

Name: Dane M. Lang

Address: 1832 400th Ave

Telephone: 641-990-5096

Organization you represent (if any): _____

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2007, 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: _____ 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, 2007, as well as the source and the amount of each grant or contract:

Source: _____ Amount: _____

Source: _____ Amount: _____

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

Signature: _____

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PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.