Testimony
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Presented by:

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Chairman Peterson, Vice-Chairman Holden, and distinguished members of the Committee on Agriculture, thank you for inviting the Center for Dairy Excellence to be a part of this important hearing reviewing dairy policy. Since 2004 the Center for Dairy Excellence has been the organization in Pennsylvania which has served as the central office for dairy and have had as our mission to coordinate resources, create initiatives and partnerships, and grow both the size and profitability of our industry. One of the primary functions of the center is to coordinate the Pennsylvania Dairy Task Force which is comprised of over 100 producers and industry stakeholders.

Just 10 years ago in 2000, there were 83,000 dairy farms in the U.S.; today there are 55,000. 84% of the nations milk supply comes from 15,800 farms. Pennsylvania, while still the 5th largest dairy state, is generally comprised of smaller dairy farms. While we may not have the efficiency advantages of some of our western counterpart states, access to water supplies and forages for feed and access to the vast northeast and southeast population and markets make Pennsylvania a viable and critical state for future dairy production.

The core priorities of the center have included making resources available to dairy farm families to help them be more competitive. Resources like dairy profit teams and succession planning teams have enabled producers to assemble resources around the kitchen or office table and work through key decisions impacting the business. Dairy Decision Consultants and Practical Dairy Advisors are available for one on one consultation through the center. Hundreds of Pennsylvania dairy farms have used these resource programs to help guide them and chart a course for business direction. Educational programs like our annual Dairy Profitability Forums, Summer Dairy Tours, Mastering the Dairy Business Learning Series, and DAIRY PRO's seminars have helped thousands of dairy farm owners, employees, and industry support professionals navigate this increasingly volatile and challenging industry. The center has become a weekly source of information through our Markets and Management Report and Dairy Week in Review. In addition, dairy producers across Pennsylvania leverage the expertise of the center in helping understand the important resources available like LGM for dairy and other tools designed to protect margins and aid in marketing plans. Lastly, resources like on line business planning templates and costs of production calculators are valuable tools for dairy business management available through the center.

The center is optimistic about the future opportunities we see to support a growing and dynamic dairy industry. Our strategic plan includes a focus on modernization, technology, and innovation in dairy. Renewable energy systems and beneficial environmental practices pose tremendous opportunities for the region. However, the situation our dairy industry finds its self in has progressed in severity as margins remain significantly below break even for a majority of producers. To put this in perspective, I'd like to reference financial summary data from 2009. One such study which represented over 150,000 cows on dairy operations in the northeast reflects a "breakeven milk price" of $17.08; according to the CDE Pennsylvania Dairy Industry Scorecard, the average monthly all-milk price for 2009 was $14.45. This reflects a negative margin of $2.63 per hundred lbs. of milk (CWT) on these farms. According to Scott Owens of Ag Choice Farm Credit, "to cash flow these losses, new debt per cow increased an average of $600.00 and average farm expenses were cut $500.00 per cow, which represents a nearly 20% reduction in variable expenses like feed, labor, needed repairs, family living, reinvestment, etc." Not only can these "expense efficiencies" not be sustained long term, some of the added daily operating debt has been amortized longer term and has added in excess of $1.00 / CWT to annual Cost of Production (COP). The short term debt incurred is reliant on significantly improved margins which, even after 15 months, simply are not being realized. Mike Evanish from MSC Business Services commented, "our preliminary business performance data from 288 dairy farms suggests 16% showed positive net earnings in Pennsylvania." Clearly, we find ourselves as an industry in waters unchartered that could forever change the landscape of dairy farming. For short term immediate relief, I strongly recommend congress explore opportunities for low interest and additional guaranteed funds made available through the Farm Service Agency to support this new debt.

Long term needs are as complex for our industry. In 2006, the center participated in the roundtable discussion which led to the document entitled "Growth and Opportunity for the U.S. Dairy Industry." This document developed by former PA Secretary of Agriculture Dennis Wolff, highlights key priorities for dairy policy and addressed changes needed to maintain a viable dairy industry in the U.S. The priorities identified then, remain critical to the long term viability of our US dairy industry. I would like to comment on two of these here today.

1. In this report, improved systems of price discovery and market transparency were identified as being fundamental to any new dairy policy. Transparency in pricing is vital as markets need to both understand and have confidence in how prices are arrived at. This is the foundation for all critical marketing decisions. It has been my observation that U.S. dairy producers are eagerly anticipating improvements in a system which lacks transparency and the ability to deliver real time reflections of product value. Successful commodity markets have access to information from heavily traded markets. Livestock markets have cash market prices reported every day. Earlier this year, at the request of U.S. Senator Arlen Specter's office, we submitted a paper entitled "The Case for Mandatory Daily Reporting of Dairy Products." In it we referenced the U.S. beef industry, and the USDA Packers and Stockyards Act. This act was implemented "to assure fair

competition and fair trade practices, to safeguard farmers and ranchers . . . to protect consumers . . . and to protect members of the livestock, meat, and poultry industries from unfair, deceptive, unjustly discriminatory and monopolistic practices." This appears to be a model for consideration for our industry. In dairy, the Federal Milk Marketing Order's depend on NASS surveys of dairy commodities. The problem with the latter is that the NASS survey creates a lag in pricing information (1-2 weeks). What is needed are improvements in the NASS surveys; eliminate the lag, apply it to more dairy products sold, and make reporting on a daily basis mandatory in the same way other protein commodities report. The current system results in producer skepticism, and perhaps worst of all is an inadequate source from which to base risk management and investment decisions on. I know of no other industry which can be successful and make objective business management or investment decisions based on incomplete data – and dairy shouldn't have to either.

2. The 2nd area, from this report, I would like to discuss is the need to explore whether our current tools for Dairy Risk Management are adequate, accessible, and affordable. Currently, it is estimated that less than 5% of U.S. dairy producers utilize fundamental risk management tools. In part, I believe this is due to the lack of comprehensive and transparent data from which to base risk management decisions on. It is also based on a system which is more complex than need be. As Secretary Redding indicated in his testimony, progress has been made with tools like LGM for dairy. Improving this resource, providing subsidies as is done with other commodity protection programs and re-launching the Dairy Options Pilot Program would increase usage of this important aspect of dairy business management.

The Center for Dairy Excellence is involved in other discussions involving changes in dairy policy. We provide coordination for the Northeast Dairy leadership Team (NEDLT) which is comprised of the Secretaries and Commissioner of Agriculture from Pennsylvania, Vermont, and New York as well as approximately 50 producers and industry stakeholders from throughout the Northeast. This group has been meeting and working through issues impacting our regional dairy industry. As the economic recession has unfolded and has had a severe impact on our regions dairy industry, the NEDLT has intensified discussions and developed policy points of agreement.

Based on these discussions, the NEDLT developed a position paper last year outlining what we believe revised dairy policy needs to include; this document was updated in February to include the following.

The NEDLT believes any dairy policy or pricing structure should:

- Be market oriented to allow for growth both domestically & internationally
- Be responsive to quickly changing market conditions
- Have 100 percent financial participation by producers
- Be global in nature to consider the impact of imports and exports
- Be national in scope with the ability to implement regionally
- Have minimal government involvement.

The NEDLT has been reviewing policy and pricing proposals from across the U.S. to evaluate how each proposal would align with these objectives. Last month, the NEDLT committed to fund a comprehensive analysis of specific program options intended to reduce dairy price volatility. This analysis is to be completed by Dr. Chuck Nicholson of Cal Poly San Luis Obispo and Dr. Mark Stephenson of Cornell University by June 1st. The analysis will include, as part of the study, a Dairy Growth Management Initiative concept proposed by a US coalition including cooperatives, breed associations, and other stakeholder organizations. This initiative would include the establishment of a new dairy board made up largely of dairy producers, which would have at its disposal several tools to use to reduce extreme volatility. Some of those tools include:

- Herd reduction programs
- Export assistance
- Dairy commodity production incentives that allow for the displacement of imported dairy products, such as casein
- Programs to enhance risk management tools and opportunities among producers, cooperatives, and customers.
- Managing inventories of dairy commodities to limit price volatility.

In addition, the Board would have authority to implement a program to manage unbridled growth in milk supplies during times of low milk prices relative to feed costs. An example of this is the Marginal Milk Pricing plan proposed by Agri Mark Cooperative. This concept is intended to price “surplus milk” according to its marginal value only during those times when prices fall below a pre-set level.

In their analysis, Stephenson and Nicholson will look at the impact on volatility, exports, and revenue for producers and processors. The NEDLT will be reviewing the findings of this analysis and communicating them with our Northeast Congressional delegation.

I’ll conclude my testimony by relating a conversation I had last week with a very successful young dairy producer here in Pennsylvania, who said, “so far this year I have had three neighbors sell their herds; we are losing jobs and critical mass infrastructure and it is looking more and more like a lonely business to be in.” In summary, the U.S. dairy industry has been based on incentive, growth, and opportunity. Farmers have been fortunate to be able to begin each day with incentive to compete and to improve their dairy business and reap rewards for their effort. Communities have benefitted from infrastructure established in large part, to serve agriculture and in particular the dairy industry. However, the situation we face today will not remedy itself on its own; and change is not optional. The viability of this industry is at stake. Thank-you for this opportunity to speak on behalf of the Pennsylvania dairy industry and for your ongoing support of the U.S. dairy industry.