

**LEGISLATIVE RESPONSES  
TO THE DAIRY CRISIS:  
REFORMING THE PRICING STRUCTURE**

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**FIELD HEARING**

**[BEFORE THE]**

**COMMITTEE ON AGRICULTURE,  
NUTRITION, AND FORESTRY  
UNITED STATES SENATE**

**ONE HUNDRED ELEVENTH CONGRESS**

**FIRST SESSION**

**AUGUST 27, 2009**

Printed for the use of the  
Committee on Agriculture, Nutrition, and Forestry



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**LEGISLATIVE RESPONSES  
TO THE DAIRY CRISIS:  
REFORMING THE PRICING STRUCTURE**

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**Thursday, August 27, 2009**

U.S. SENATE,  
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY,  
*Batavia, NY*

The Committee met, pursuant to notice, at 2 p.m., at Genesee Community College, Batavia, New York, Hon. Kirsten Gillibrand, presiding.

Present: Senator Gillibrand.

Also present: Representatives Lee and Massa.

**STATEMENT OF HON. KIRSTEN E. GILLIBRAND, U.S. SENATOR  
FROM THE STATE OF NEW YORK**

Senator GILLIBRAND. Good afternoon, everyone. Thank you for joining us. I am pleased to be here at Batavia, the birthplace of Western New York.

Since this is a formal Senate hearing, only the panelists will have the opportunity to present their testimony and participate in the question and answer period. However, anyone can submit written testimony within the next 5 days, which will be submitted for the official record.

There is no question that the dairy industry is in crisis. Imagine running a business where you are doing backbreaking labor 7 days a week and losing money every single day. That is exactly what is happening to our farmers in Batavia, across all of New York State and across the Country. Farmers are forced to sell their milk for less than it costs them to produce it, and the MILC government safety net program does not even begin to make up the difference.

I would like to welcome the distinguished panelists and thank them for making the time to come here and share their knowledge and personal experiences in testifying before the Senate Agriculture Committee.

I want to thank my colleagues from the House, Congressman Lee and Congressman Massa, for their work on this issue and for joining me today to address this crisis.

The current pricing system is simply not working for the hard-working dairy farmers of New York. Since February, prices per hundredweight have fallen over \$6 below cost of production. In New York, farmers are paying nearly \$18 to produce hundredweight and being paid around \$12.

As I travel the State, I see the despair on farmers' faces as they show me the balance books that simply do not add up. I hear stories of families that see generations of hard work simply vanishing into foreclosure.

Dairy farmers are the backbone of many of New York's rural communities. In fact, dairy farmers are responsible for the single largest share of New York's diverse and vital agricultural output, generating \$2.4 billion a year, stimulating local economies, creating jobs and supporting a cultural heritage and bright future for our communities all across New York State.

But beyond the agricultural communities in our State, the loss of locally producing, family owned dairies poses a huge threat to the safety of the American food supply. This trend will result in a race to the bottom. Instead of nourishing our families with products made by our neighbors, we will be importing food from wherever costs are lowest, places like China, where we cannot have the same confidence in the safety of consumer products. Giving up our ability to produce our own food is something we cannot afford to do as a Nation and is a grave national security risk.

Given the current crisis, it is important that we take action to help the farmers both in the short term and in the long term. I have introduced two pieces of legislation to provide farmers with immediate assistance to make up for money that they are losing every single day by improving the MILC program's ability to provide a true safety net during this crisis. However, there is certainly something fundamentally wrong with the way dairy farmers are paid for their work.

We must develop new solutions to address this problem over the long term and ensure that this crisis does not happen again. My colleagues in Congress and agriculture advocacy groups across the Nation have been working on a number of proposals to help remedy the many problems facing the dairy industry.

I hope this hearing will give us an opportunity to have a frank discussion about all of the proposals that are currently out there and help members of the community to develop a solution that works for dairy farmers, processors and American families. We will certainly discuss Senate Bill 889, a piece of legislation introduced by Senator Specter and Senator Casey, both from Pennsylvania, and Senator Schumer's legislation, Senate Bill 1542, which increases the tariff on milk protein concentrates, MPCs. I also hope to discuss the USDA's price support system, price support program, as well as the different supply management ideas that are out there.

Today's hearing will serve as a critical starting point for discussions as we begin working on the next Farm Bill, and I pledge to go back to Washington with these ideas and work with my colleagues to develop comprehensive legislation that fixes the problems in the industry, once and for all.

I would like to remind panelists that they have 5 minutes to deliver their testimony. When you have 30 seconds remaining, a yellow light will appear. When you have exceeded your 5 minutes, a red light will appear. Any part of your testimony that you are not able to get to, we can submit in writing into the record.



I also encourage all attendees not on the panel to see my staff at the end of the hearing if you are interested in submitting written testimony for the record. We will take your name and your email and your number to make sure that testimony gets in.

I now open the floor to Congressman Chris Lee to make his opening statement.

**STATEMENT OF HON. CHRISTOPHER LEE, U.S.  
REPRESENTATIVE FROM THE STATE OF NEW YORK**

Mr. LEE. Thank you, Senator.

It is nice to actually look around the room and see some familiar faces and people that I have had an opportunity to talk to and get to know over the past several months, and I truly appreciate your willingness to put this together because this is a critical issue.

I live and breathe this every day, based on my district, and how important dairy is to this part and truly throughout New York State. It is a vibrant industry, and, if we do not get our arms around it, we could quickly see it vanish.

The part that frustrates me as we are talking about small business owners, those, and what you find quickly about dairy farmers is these are some of the hardest working Americans in this Country, who have a job that is 365 days a year, 24–7, and it is not a day you can leave these cows. It is a very tough way to make a living, and it is unfortunate in the fact that the way this pricing scheme is right now is a deterrent. That is where we want government to come up and find ideas on how we can help you, not deter your ability to be successful.

I look at, right now, the projections, and that you talk about Genesee County potentially losing \$28 million this year in the dairy business, Wyoming County, \$60 million, Livingston County, \$23 million—all of these within my district. It is a major concern, and dairy being such an important economic driver for this community is something we have to get corrected now.

When I came to Washington in January, the one thing that I do know, I come from the private business sector and manufacturing, but I was not a dairy expert. I am not a crop farmer expert. But what I was smart enough to do was put together an advisory board so that I could hear from people like yourselves because that is where the true answers come from.

The solutions come from you, not a bunch of people in Washington. You are the ones who give us the ideas, and that is why again I am pleased to be a part of this function.

What I would like the panel to potentially comment on today are just a few topics that maybe you can make note of, but areas that I think have some promise, of somewhere along the lines making sure we talk about:

The California milk standard and whether or not to adopt that on a national basis and the need for the USDA to implement the 7.5 cents promotion fee that importers right now do not pay but our national producers of milk are paying 15 cents and talking about a fairness issue here, the fact that only 5 percent of our products are exported. Again, how do we get the government to help you, allow us to export more product which even a 1 or 2 percent

uptick in exporter produce will have a huge impact on the price of milk?

The MILC program is a safety net in case of large fluctuations, but it obviously is a system that is broken right now and talking about how to fix that.

And then, last, the USDA Federal Milk Marketing Order system, among other things, we need to find better price discovery transparency because right now it is a system that it penalizes producers in areas that have higher cost of production.

So, again, with that, I appreciate the Senator for calling this hearing, and I look forward to your testimony and coming up with some real ideas to help those people who I truly admire, who work in a very difficult industry, and we want to see it flourish here in New York State. So, thank you for having me here.

Senator GILLIBRAND. Congressman Eric Massa.

**STATEMENT OF HON. ERIC MASSA, U.S. REPRESENTATIVE  
FROM THE STATE OF NEW YORK**

Mr. MASSA. Thank you, Senator.

Thank you, Chris, for inviting me to your district and for inviting me to sit and listen and learn. My congressional district is adjacent to yours, running south throughout most of the New York/Pennsylvania border, where this industry is a particular cruciality, and I have the honor of serving on the House Agriculture Committee.

To all the farmers who are here, who may not have an opportunity to offer verbal testimony, I look forward to reading any written testimony that you submit or meeting with you, either one on one or as a group.

I have learned one overarching and critical factor about what we face today, and that is the incredible and often tremendously unfair impact that our import/export policies have upon local, domestic dairy production. Testimony before the House Agriculture Committee has shown us that a fluctuation of less than 3 percent in the total global market has put us where we are today.

Literally, if a butterfly sneezes in New Zealand, farmers in Western New York State go out of business, and, frankly, that is just not right. We need to put in place the kind of shock absorbers that are absolutely so critical, so that domestic production is not held hostage by fluctuations in foreign markets over which we have absolutely no control nor desire to have control over.

I understand we live in a very interconnected global market, but that interconnected global market has placed our domestic industries of all kinds and particularly those of a perishable nature, such as dairy. No product is more perishable on an hour-to-hour basis than milk. These kinds of unprotected fluctuations in New Zealand and in Australia absolutely are killing us.

We are being held hostage by the threat of being overrun from foreign imports that have absolutely no product safeguards associated with them at all, none. We have invested generations—generations of effort—into ensuring our food supply is safe for our children, and we do better, I believe, than anyone else in the world. Hats off to the USDA and to the cooperative nature of all those farmers across a broad spectrum that have given us a safe food

supply. Yet, now we are on the verge of importing more foodstuffs than we make ourselves.

Nowhere is that more dangerous than in milk concentrate. We have to figure out how to encourage a domestic market, a domestic production market capability. We all understand what we have to overcome to do that. It is very, very capital intensive. The margins are, at best, unpredictable and fleeting, and that is where a public-private partnership can help encourage domestic industrial growth in this sector.

So I look forward to hearing the opinions of the experts who will testify before us today, and I am exceptionally grateful for the leadership of both Senator Gillibrand in the Senate Agriculture Committee and for your Congressman Lee who has been very much involved in this and liaising directly with our office as we present that information before the sister committee in the House.

Thank you again for being here, and let's get started.

Senator GILLIBRAND. Thank you, Congress members.

I would like to turn it over to the first panel. Each panelist will introduce themselves. We have Barb Hanselman. We have Robert Church, Robin Keller, Bruce Krupke and Ron McCormick.

And, before we start, I just want to thank Dr. Stuart Steiner, our host, the President of Genesee Community College. Thank you, Doctor.

I also want to recognize two of our local elected leaders who have joined us. Senator Maziarz is here as well as Assemblyman Hawley. Thank you for joining our hearing. I appreciate it very much.

Barb, you can start.

**STATEMENT OF BARBARA HANSELMAN, DAIRY FARMER,  
BLOOMVILLE, NEW YORK**

Ms. HANSELMAN. Good afternoon. My name is Barbara Hanselman. My husband, Ernie, and I farm in Delaware County. We milk 60 cows. We have seven children who have contributed to the success of our operation. Because of the lows and highs of the dairy industry, we have also learned to be enterprises, and so, in addition to the dairy, we also have a crop enterprise. We do a farm stand, and I bake and cater.

With that, I would like to thank you, the very Honorable Kirsten Gillibrand, for allowing me to speak on behalf of dairy farmers. I would like to convey to you, Senator, Congressman Massa, Congressman Lee and other officials and my fellow dairymen, about my concerns and hope for the future of the dairy industry and all its breadth in the United States.

I must say, and I am the eternal optimist, that this is a very difficult time. There are forecasts that 25 percent of the current dairy farms will be forced out of their livelihood before our industry rights itself. As we struggle to survive through this time, we need to make changes to ensure our dairy industry's long-term strength and viability.

The variety, size and number of U.S. dairy farms located throughout our Country is key to homeland security and our Country's rural infrastructure. The U.S. dairy farmer provided over \$37 billion to the economy of the U.S. last year.

The greatest challenge I have today as a producer, is the disjunction between the price I am paid for the milk I produce and the expenses it costs me to produce it. I have no control over the price I am paid. In the first 8 months of this year, the average price paid me per 100 was \$13.22. My cost of production was \$15.79, and this was without being paid for our labor and management, which this is our cost of living.

If I have no guarantee of being paid for my production costs, I have no understanding of why Federal policy guarantees processors their cost of production. This is called the make allowance. If the price of milk falls below the level that will cover this expense, farmers have it deducted from their milk check. The price of this component was low enough from October of last year to May of this year, so that producers had money removed from their checks to cover the processors' guaranteed make allowances.

As our prices ride the highs and lows, the retail price bounces with it. When our price increases, the retail price surges with it. When our price slides backwards, the retail price never slides back to the low we are experiencing. Where does the excess go?

The farmer pays for the hauling even though we relinquish the risk at the time of pickup. We have very little say about the variability and the changes in our hauling costs. Producers pay a hauling charge, a stop charge and a fuel surcharge as their transportation costs. These costs are deducted from the gross pay in our milk checks.

The price of milk is decided by the trading of less than 2 percent of the milk produced in this Country on the Chicago Mercantile Exchange. The pricing structure is formatted so that the cheese traded today will dictate the price of milk 3 months from now.

The fact that such a small percentage of the Country's milk production is being traded to dictate the other 98 percent's price, as well as having so few participants in the trading—it is a very thinly traded market—it would seem that there could be a great change for anti-competitive conduct. There have been concerns of price fixing, price manipulation and predatory behavior.

There are four classes of milk. The blend price paid farmers is based on the utilization of these classes by the Federal order it is produced in. There are now way more products manufactured than can be clearly defined by these parameters.

Another concern in the dairy industry today is the role of the cooperatives and the role of the processors. I am not sure that the huge cooperatives that dominate our industry always have the farmers' best interest as their primary interest.

In the dairy industry, the mega-processors, such as Dean Foods, dictate a lot of how our cooperatives interact with us as producers. They have played a huge role in dictating how the consumer decides to buy what milk, what technology should be used in producing milk and what milk is good or bad for them. They have initiated changes in the standards of milk quality that help them have the ability to move milk around the Country and extend shelf life in the grocery, not to ensure a safer, better tasting product to the consumer.

I am not opposed to change, but I am opposed to it when it is at my expense and their increased profitability.

Relative to the global market, it is paramount that the standards of production of milk products be held to the same level for imports as they are domestically. They also need to be required to pay tariffs as a food when they are used in food manufacturing in this Country. I realize that it is a global economy, but we as U.S. consumers need to know that the same standards and regulations that U.S. dairy producers uphold exist for the products that are imported.

I am in support of a mandatory supply management system. The global and domestic market processors, cooperatives and, most of all, producers would benefit from a more stable milk supply and price. These highs and lows are killers for producers, but they cause issues with other parts of our industry, including the services that support dairy production. Each low time changes the infrastructure of our dairy industry that cannot be reclaimed or rebuilt during the highs.

History has shown that our Country usually has a year-over-year increase in demand for dairy of about 3 percent. Something needs to be addressed to stabilize our prices toward this.

Last, this is an industry that needs young people. Dairy farming is physically demanding. It is an industry filled with stress because you are not only at the mercy of the volatility in milk prices; you are also at the mercy of the weather, crop and animal health, volatility of input costs, and labor issues. An industry is only vital when there are young minds and strengths to fuel the future, to guarantee its perpetuation.

Thank you, and I would be happy to answer any questions.

[The prepared statement of Ms. Hanselman can be found on page 46 in the appendix.]

Senator GILLIBRAND. Thank you for your testimony.  
Robert Church.

**STATEMENT OF ROBERT CHURCH, HERD MANAGER,  
PATTERSON FARMS**

Mr. CHURCH. Good afternoon. My name is Robert Church, and I am a partner and dairy manager at Patterson Farms located in Auburn, New York. Our dairy currently is milking about 950 cows; we have 720 heifers; and we farm about 2,500 acres of land. We are a sixth generation farm and have demonstrated the passion for the stewardship of the land the cattle we care for.

Thank you for allowing me the opportunity to discuss with you the current economic crisis in the dairy industry. I commend your desire to address this issue by hearing firsthand from all parties involved regarding the current milk price that farmers are receiving.

The problem farms are facing today is that revenues are not large enough to cover the expenses necessary to produce milk. This is resulting in producers using the equity in their businesses that would have been saved for retirement to finance daily operations.

I would like to discuss the following points this afternoon: changing input costs, debt and financial health of dairies after extended down cycles, Federal Milk Marketing Order, Commodity Credit Corporation's usage of dairy products, imports and exports, and milk inventory management programs.

Escalating input costs have eroded our ability to produce milk for what would have been, a few years ago, an acceptable milk price. Purchased feed costs are typically the biggest line item expense in our budgets. In 2006, the average feed costs per cow were \$978. In 2008, the average feed costs per cow were \$1,445. This is a 47 percent increase.

Labor costs have risen 20 percent. Fuel costs have risen 63 percent. Increasing fuel costs have a twofold impact on dairy farmers:

We pay freight costs of both inputs and outputs, making our situation unique. Fundamentally, this is wrong. We should not bear the burden of hauling expenses on both ends.

When the expenses are greater than the income, there is only one option. That option is to borrow more money to pay for the expenses, and that is how most farms are surviving the current situation. It is only a matter of time before the lending institutions stop lending money to struggling dairy farmers.

Many farmers are now experiencing losses in excess of \$100 per cow per month. This is taxing our ability to remain in a financial position that will support sustainability. It will require strong prices for three to 4 years straight for farms to pay back this debt. Without some reform to our safety net levels and pricing structure, we will undoubtedly continue to see the dairy industry struggle for a prolonged period of time.

Changes that will impact both the short-term and long-term health of the dairy industry:

The need to evaluate the Federal Milk Marketing Order is necessary to support prosperity of the dairy industry. This system needs to reflect not only the utilization of our products but also the costs associated with producing these products. Changes to the FMMO might include ensuring all milk produced is pooled in the order, changing the make allowances to reflect our input costs, setting a floor support price for Class I milk and putting the burden of transportation costs on the processor.

Within the industry, there is a lot of disagreement about the effectiveness of the MILC program. I would suggest that a better use of the assets of this program would be to support the efforts of the Commodity Credit Corporation. Increased consumer usage of dairy products will be the best way to help farmers obtain a higher price for their product.

The Commodity Credit Corporation has the ability to affect the market in a profound way. The largest limiting factor in the efficiency of this program is the packaging. Processors have no real economic incentive to package solely for this program and therefore do not do so.

The solution to this problem seems simple. The CCC needs to have the ability to purchase products that are sized and packaged for consumer sales. Support of this program would result in prompt changes in the price received at the farm for milk sold and have no negative impacts on the product's consumers.

In respect to the global economy, the U.S. dairy economy must be positioned to both receive imported milk products and export them as well. The first issue to address is the enforcement of assessing imports the promotional fee. All milk and milk components

benefit from the use of this money. Imported milk products should not be exempt from this.

Second, milk protein concentrates continue to enter our domestic milk shed without regulation. These products need to become a part of the existing policies that regulate imports. In the short term, the USDA should fully utilize the Dairy Export Incentive Program.

The leaders of our industry, both producers and processors, should be selected and appointed to work on assessing the impact of a National Inventory Management Program. In the short term, supporting the efforts of risk management programs offered by our cooperatives will help dairy farmers secure their future.

In summary, the dairy industry is in a state of severe crisis. Food, air and water are the essential elements needed to support life. It is the farmers in this Country that provide the food. Without a united front to protect our natural resources, our citizens will go hungry.

Sustainability has become the latest buzzword and rightfully so. I would encourage all of us to band together, put aside the individual agendas and tackle the issues that threaten our ability to sustain our resources.

Thank you for your support.

[The prepared statement of Mr. Church can be found on page 38 in the appendix.]

Senator GILLIBRAND. Thank you for your testimony.  
Robin Keller.

**STATEMENT OF ROBIN KELLER, DAIRY FARMER AND  
PRESIDENT, GENESEE COUNTY FARM BUREAU**

Ms. KELLER. Hello. My name is Robin Denniston-Keller, and I am a proud American dairy farmer. My husband and I milk 100 Jersey cows and take care of another 100 young stock about 10 minutes from here in Byron, New York.

It is a privilege and honor to speak today.

I am not an economist or expert on milk pricing, but I do feel I have common sense and a strong work ethic which have served me well so far in life. I milk my own cows every day, and being up to my elbows' in the results of lactation and excretion, generally not at the same time, gives me a certain sense of reality.

On our farm, our paid price for our milk produced in July of 2009 was \$13.26 a hundredweight. Put in consumer terms, that is \$1.14 a gallon. This includes protein and quality premiums received from Sorrento, the cheese plant we supply with pure, fresh Jersey milk.

Last year, our July paid price was \$24.23 per hundredweight, or \$2.08 a gallon.

I could spend my next 3 minutes ranting about the volatility and injustice of this, but that is not constructive, and you can figure out on your own how I do the math. We pay for our own health insurance, groceries, feed for the cows and calves, fuel for the tractors, hauling and fuel surcharge costs to send the milk to the processor and the numerous other bills staring me in the face each month.

Our 100-cow dairy benefits from the MILC program. We are the perfect size to maximize our usage of the program. Our MILC gov-

ernment payments are currently a little more than 10 percent of our monthly income.

Solutions to milk pricing issues: Time heals all wounds. However, how do we stop the bleeding now?

My first suggestion is to increase solids-nonfat fluid milk standards. I like to call this the No More Blue Skim Milk suggestion. Since 1962, California has had higher minimum standards for non-fat solids in fluid milk than the rest of the United States.

Raising the United States standards to match the California standards will accomplish the following:

Improve the nutrition benefits of milk. For example, California 2 percent milk has 21 percent more calcium than does 2 percent milk in other States. In addition, higher solids result in better tasting milk. I am talking protein and calcium here, not fat.

Utilize more milk solids in consumer products and reduce the amount of nonfat dry milk produced for CCC purchase. This June, Dairy Farmers of America estimated that if the California standards had been in effect for the rest of the U.S. during 2008 an additional 300 pounds of milk solids would have been included in fluid milk sales. This represents more milk solids than were in all the CCC nonfat dry milk purchases through July, 2009.

And, finally, California retail milk prices have remained competitive with, not higher than, the rest of the U.S.

My second suggestion is urge Agriculture Secretary Vilsack to have USDA purchase cheese for nutrition programs. This single action would accomplish several goals: help to bolster milk prices and ease the current crisis faced by many dairy producers across the Country; reduce outlays in dairy safety net programs such as MILC payments and CCC purchase; by donating the purchased cheese to food banks and other charitable organizations, USDA would be providing humanitarian nutrition services.

Cheese inventories are poised to be much higher than normal, heading into this fall. This supply is weighing on the market and suppressing prices. A purchase of 100 million pounds of cheese would bring inventories more in line with the past and would help our farm milk prices.

Overhaul the dairy price discovery program. I believe that our current milk pricing structure is based on the trading of 2 percent of the cheese in this Country on the Chicago Mercantile Exchange. This small amount of cheese determines my mailbox price, or, in other words, what the check I get in the mail says I will be paid for the product I spent the last month getting covered in manure and other fine things to harvest.

This whole process goes against my good old common sense. Large milk processors were convicted for price manipulation as recently as 2006. Clearly, a more fair and broad-based pricing mechanism is needed. We need a new set of tools in our milk-pricing toolbox.

Sometimes I wonder why I am in a business where I buy everything retail and sell my product wholesale and the pricing mechanism is based on what I would call a house of cards.

Fourth, imports, charge a promotion fee on imports. United States dairymen contribute 15 cents for every hundredweight of milk we produce toward dairy promotion. I believe the Farm Bill



instructs USDA to charge importers 7.5 cents for every hundred-weight.

Dairy promotion basically helps us with a larger market. Importers benefit from the increased demand for dairy that our domestic producers have paid for, so it only seems fair to have importers contribute into promotion program.

Proceed with extreme caution implementing growth management or supply management programs. Some producers and organizations are promoting this, but I have some issues with it.

And, I have run out of time. So if anyone would like my issues, I would be happy to share them with you.

[The prepared statement of Ms. Keller can be found on page 54 in the appendix.]

Senator GILLIBRAND. Thank you for your testimony.

Ms. KELLER. Thank you.

Senator GILLIBRAND. Bruce Krupke.

**STATEMENT OF BRUCE KRUPKE, EXECUTIVE VICE  
PRESIDENT, NORTHEAST DAIRY FOODS ASSOCIATION**

Mr. KRUPKE. Senator Gillibrand, Congressmen Massa and Lee, thank you for the opportunity to appear before you today and provide you with statements regarding U.S. dairy pricing structure.

My name is Bruce Krupke. I am the Executive Vice President for the Northeast Dairy Foods Association which was formed in 1928. I am here representing the 111 member companies of our full-service trade association of fluid milk processors, distributors, manufacturers of ice cream, yogurt, cheese, sour cream, cottage cheese, cream cheese, butter, whipped cream and dips, among many others.

Collectively, these companies employ over 18,000 people here in New York State. Most importantly, these companies are the buyers of raw milk and the customers of dairy farmers.

As you and the United States Agriculture Committee consider the national dairy pricing system, I would like to provide you with our association's positions on a few critical issues.

Our association supports the current Federal Milk Marketing Order system. It is our position that the Federal Milk Marketing Order system is working as created and as intended. We support the system because the formulas USDA uses to calculate monthly producer prices is based on supply and demand factors.

Our association believes it is very important any system mandated by the Federal Government, which ultimately prices raw milk is based on competitive policies and encourages efficiencies within the entire dairy industry. Another policy we regard as very important for any pricing system is that it be fair for all participants—producers, processors and consumers.

We support the ability of dairy producers to compete for buyers of their raw milk, either as members of cooperatives or as independents.

We do not support policies that artificially inflate the raw milk price that is not based on supply and demand and is not fair and competitive. We do not support state programs that usurp or interfere with the Federal Milk Marketing Order program.

New York State has approximately 600 companies licensed and engaged in processing, manufacturing, hauling, distribution or that are bargaining agencies. Of those 600, about 300 distribute milk and dairy products to retail and food service locations. Of the 300, there are 31 pasteurized milk plants and 69 manufacturing plants.

For perspective, 25 years ago in 1983, there were 100 milk plants and 71 manufacturing plants. Our industry, like the number of dairy farmers, has dramatically contracted and consolidated.

Here in New York State and the Northeast U.S., we are blessed with an adequate raw supply of milk. There is not a milk shortage. In a week, schools across the State will open, and our milk plants will easily be able to service their customer. The reason there will not be a problem is because milk production overall per cow here in New York State and key areas of the Nation have steadily increased over time.

As customers of raw milk, our customers are similar to any customer. We need a consistent and adequate supply of quality raw milk for our processing and manufacturing plants. They want a good price, a good quality and sufficient supply to choose from, although these wants are really more like mandatory needs.

New York State, and the Northeast for that matter, are fortunate to be in close proximity to both the raw milk supply and to millions of consumers. We have a very good mix of all types of Class I, II, III and IV milk and dairy product plants that provide us operating efficiencies.

It is very important for you to understand our milk processing and dairy product manufacturing plants need to be competitive. We compete with companies from all across the United States. What we need is to have access to a good supply of raw milk, but, even more importantly, we need producers that are efficient and cost-productive.

Our members' survival requires them to produce and procure raw milk at the best competitive price. If other regions of the Country have lower priced raw milk, producers in our region, as well as our association members, will lose market share. We will be beat out by our competition from the West and Upper Midwest.

What should the Federal Government do when considering changes to the current system?

First and most important, any program, whether it is a government program or a voluntary industry initiative, needs to focus on increasing consumption and sales of milk and dairy products. We have lost sales of fluid milk to competing beverages, which has been the single largest reason why prices are lower for producers. Any program, law or regulation that stymies milk consumption should not be implemented or passed. This includes changes to the National School Lunch program or WIC.

Before any changes to the Federal Milk Marketing Order are proposed or enacted, they should be carefully reviewed by experts from the industry who clearly understand milk marketing from farm to consumer.

Any changes to the Federal Milk Marketing Order system should mandate and include all dairy producers in the Nation. How can a fair program be established if some producers are not participating while others enjoy advantages or protections, either regional

or by State? Participation should be mandatory for all U.S. producers in any milk marketing program.

Any program changes should be implemented to allow producers to compete on a world market. We cannot survive if we do not have a world marketplace to sell excess products at competitive prices.

Programs that try to manage raw milk supplies should be discouraged. Supply management only decreases cost efficiencies, technologies and growth. To be a world leader, we need all three of these examples to compete and survive.

And, in summary, if I may, dairy producers in other parts of the Country are currently finding and implementing new methods and technologies that will make them more competitive with New York producers. We encourage New York and Northeast producers to utilize the many public and private options to increase revenues, protect costs and lock in prices.

The dairy industry needs practical, market-driven solutions. The industry needs to build a consensus between producers and processors to find equitable solutions.

The government needs to listen carefully to the entire dairy industry, to help implement effective and lasting improvements for dairy producers, processors and manufacturers.

Thank you for your time.

[The prepared statement of Mr. Krupke can be found on page 58 in the appendix.]

Senator GILLIBRAND. Thank you, Mr. Krupke.  
Ron McCormick.

**STATEMENT OF RON MCCORMICK, FORMER  
REPRESENTATIVE, NATIONAL DAIRY BOARD**

Mr. MCCORMICK. Good afternoon, Congressmen, Senator. Thank you very much for being here today.

As you said, I am Ron McCormick. I am a dairy farmer. Our farm was established in 1854 when my great-great grandfather came over from Ireland. My wife and I formed an LLC with our two sons and their families. If we can survive this financial crisis, I can see the seventh generation, my two grandsons, continuing on my family farm.

We milk 400 cows 3 times a day, with 5 employees. My daughter-in-law raises all the calves. We raise all our own crops—corn and alfalfa—on 500 acres. And, our main mission on our farm is quality milk, cow comfort and leave the land and water in better condition for the next generation.

The problem: Too much of a good thing. The demand in the United States has remained the same or has increased a bit in the last years. Last year, however, the U.S. exported the equivalent of 11 percent of our milk that was produced in the United States—this year, only 4 to 5 percent, which leaves a difference of between 5 and 6 percent of the milk that we have to find a way to get rid of.

I, as a dairy producer, produce the most nutritious, safest food for our Nation. With thousands of starving people around the United States and around the world, it is hard for me to understand why we have to cut production or go broke.

The current milk marketing order is based on demand. Two proven ways to increase sales and demand for our dairy products are through the New Look of School Milk program and Breakfast in the Classroom program. Not only do these programs help sell dairy products now, but they will help build lifelong dairy consumers, which will improve our children's health and nutrition.

Another win-win for the farmers in the United States, and the consumers, is to require that all fluid milk in the United States be fortified with extra milk solids by using the California standards. Such fortification benefits the consumers by adding nutrients without adding fat to their diets. Furthermore, most customers would prefer the white color of fortified nonfat milk instead of the blue color of traditional skim milk. Farmers will benefit because more milk and milk solids will be consumed.

Another problem facing our dairy farmers is when consumers require us not to use modern technology that has been approved by the USDA as being safe, for example, when customers refuse to take milk from our cows which have been given rBST. This means that our farmers either have to pay more to produce the same volume of milk or pay higher hauler costs to transfer their milk to a processor who will take it.

Traditionally, milk orders enable farmers to be paid depending on the factors such as protein, butter fat, cell count that can be determined by lab tests. However, farmers need to be compensated fairly for their increased production costs when their milk must meet the requirements for rBST-free or organic and other such new demands that might come down in the future. If customers require producers not to use legal, approved farming technology, we have to find a way to pay for it.

In the last two Farm Bills, it was required that all milk, even imported, pay the 15 cents for promotion and research. As of today, the USDA has still not written the regulations to collect the 15 cents that was passed by two Farm Bills, which will help level the playing field. If the 15 cents is collected, U.S. processors will be able to make MPCs which will enable them to compete against world imports. We all know that our milk in the United States is the most regulated and the safest in the world.

Our government has to find a way to feed the hungry people of the world and the United States. Give food, not money. It will not only help feed the hungry but will help balance our budget, trade deficit.

This crisis is real—hitting my farm by the end of the year with a loss of approximately \$1,000 a cow or \$400,000. Thank you very much for stimulating the MILC payment. But, on my farm, I am \$400,000 in debt, and my payment was \$49,226.02, and I am done receiving it.

Most farmers are on interest only with their banks, but the bigger problem is how it is affecting the families and owners and the employees of other infrastructures of our community, such as feed dealers, vets and fuel providers. In Wyoming County, these families, accounting for more than 70 percent of the jobs directly or indirectly, depend on our cows.

Senator Gillibrand, your proposal to double the MILC payment from March to this November, although most of our farmers would

rather get the money from the marketplace, will sure help our farm and the many more farmers who are wondering how they are going to pay for their open accounts.

[The prepared statement of Mr. McCormick can be found on page 63 in the appendix.]

Senator GILLIBRAND. Thank you, Mr. McCormick.

Mr. MCCORMICK. Thank you very much for listening to us today and thank you for wanting to help our dairy farmers and our employees in all the small communities. Thank you.

Senator GILLIBRAND. Thank you.

We are now going to ask you some questions. I will ask a few, and then I will turn it over to my colleagues to ask additional questions.

I wanted to start with something that Barb raised about the make allowance, and I want to ask Mr. Krupke if he could please address the concern that came up through Barb's testimony and other testimony about having to pay the make allowance. What is the purpose of the make allowance and why should dairy farmers pay it?

Mr. KRUPKE. I am not an expert on the make allowance. I understand what it is and what it does.

It is designed more for manufacturing plants. As the cost of production goes up at a manufacturing plant, it is based in the Federal Milk Marketing Order formula, that allows an increased cost production to go to manufacturing plants. That is my basic understanding of what it does.

It has been changed occasionally, most recently within the past year or so. It had taken a good year or so, year and a half, after it was proposed by a regional company for a change in that make allowance. It went through a series of hearings.

What we find is as the make allowance is proposed to be changed, it takes quite a long time for it to actually go through the approval process, so that by the time it actually gets changed the cost of production has actually increased even more so. So it always seems to be in arrears. But, basically, the make allowance is the factor that is allowed in the Federal Milk Marketing Order formula, that allows a change for the cost of production built into the price that the farmers paid. That is my general understanding.

Senator GILLIBRAND. I am sorry. I do not understand what you just said.

[Applause.]

Senator GILLIBRAND. I am sorry. We will start again.

The concern that is raised is why should it be paid by the producer?

Mr. KRUPKE. Well, it basically comes out of the price that the producer is paid. It is not actually something that they would pay, but it is a deduction.

Senator GILLIBRAND. It gets deducted. But why does that cost? In your view as a representative of the industry, why should it be a cost that accrues to the producer?

Mr. KRUPKE. The way, from my understanding, the way it is just built into the price, it is a formula. It is part of an overall formula. It can be debated whether or not it is good or bad.

A manufacturing firm has the basic cost of doing business. All I can say is it is built into the formula and that it is something that was approved as part of the Federal order process system.

Senator GILLIBRAND. A long time ago.

Mr. KRUPKE. Possibly, Dr. Novakovic or Mr. Wellington could give you a further explanation.

Senator GILLIBRAND. We will ask the next panel as well.

Similarly, the other question that came up a lot was the cost of transportation. In your view, why should the producer pay both parts of transportation?

Mr. KRUPKE. Transportation is, if you look back in history, again, that is debatable. It is something that is within the industry that is debatable and can be discussed.

If you look back in history, how did milk get from the farm to the milk plant, the dairy farmer would put it in milk cans, put it on the back of the truck and haul it to the milk plant.

Over time, evolution, better trucking, refrigeration, highways, firms that developed that haul milk for a living—it is what they do. It is another part of the business or it is part of the overall distribution system. So a farm that belongs to a cooperative would either have the cooperative hauling milk for them or they will hire a firm to do it for them or the milk plant will have a truck and go and get it. But it is just the standard within the industry.

If you use other examples, if you have a lobster fisherman and they are out on the boat in the ocean, they have got to get the product from the ocean back to store. They are paying for their hauling.

It is a standard within the agriculture industry that the producer pay to get their products to market. If a producer goes to a farmer's market in the middle of a city, they have to pay to get their product to market. So it is just the standard.

If there is a discussion whether or not hauling should be paid for by the buyer, that is something that could be discussed in the national forum.

If it is eventually decided upon that it should be paid for by the processor or the manufacturer, it can easily be done universally through the whole Federal order system. You could not have just one State, for instance, implement a law that says, well, in this State, the processor is going to be mandated to pay for hauling. Well, then that would just create a competitive disadvantage for the processor in that particular State. They would be forced to go in another State and buy the farm milk there. So that is why it would have to be done on a national basis.

Senator GILLIBRAND. So if we are looking between now and the next Farm Bill, on all of these issues, could you see a world where the farmer did not absorb the costs of hauling and the farmer did not absorb the costs of the make allowance?

Mr. KRUPKE. I think the general point of a manufacturer or processor is that is current law and we abide by it. If it changes, then we will have to abide by it.

Somebody has got to pay to get the milk from the farm to the consumer, and, ultimately, it is going to be built into the price, one way or the other. Currently, the system is just set up so that the farmer, producer pays for the price to get it to market.

Senator GILLIBRAND. The last issue I would like to raise, and then I will turn it over to my colleagues, is many of you mentioned this issue of requiring milk solids to be in milk. What is the downside of that?

We had some testimony on this in front of the Agriculture Committee on the House side in the last 2 years, and some people opposed the idea, although it is a good way to make money, because it was affecting what is actually in the milk. So you are not having milk as produced being offered for sale. It was milk that was affected and changed by adding more protein solids.

What is the downside?

Go ahead, Robin.

Ms. KELLER. From a dairyman's perspective, I am not sure there is a downside.

From your processor or your middleman, they are going to have to get different equipment, I believe. I am not a processor, so I cannot speak for them. But I think they are going to have to purchase more milk solids in order to fortify the milk.

But, as far as the consumer goes, they are going to get a better quality tasting glass of milk.

From the producer's perspective, we are going to be able to minimize the excess milk in the Nation. The powdered milk that we will fortify the liquid milk with, California is a strong producer of powdered milk.

Senator GILLIBRAND. Is it better tasting though?

Is it, Barb? Barb told me about this taste test she did, and she could tell which milk came from a Jersey cow, which milk came from all the different cows she had in the taste testing. Some had higher fat content. Some had other protein content. She could tell by the nature of the cow.

Are tastes not more regionally based?

Ms. KELLER. Taste is a personal thing.

Senator GILLIBRAND. Right. So why would it necessarily taste better if it had more protein?

Ms. KELLER. I think my answer to that is, from talking to neighboring dairy farmers who have been on vacation or at conferences in California and their kids go with them, the kids will sit at the table at breakfast with them and say, dad, this milk tastes different than ours at home.

Senator GILLIBRAND. Different or better?

Ms. KELLER. Better, different.

Senator GILLIBRAND. OK.

Ms. KELLER. It has a creamier mouth feel.

Senator GILLIBRAND. Barb?

Ms. Hanselman? From that standpoint, protein provides a lot of flavor and mouth feel to milk and because we have taken away butter fat. Butter fat is an enhancer, but our public wants low fat, non-fat milk.

But, interestingly, in Texas, they were having huge issues with kids buying or participating in the school program and drinking their milk. And so, in Texas, they have something called Texas Two-Step Milk, and that is where they did this same process where they put the solids, protein solids back into the milk. It increased consumption hugely, and this was no fat milk, which was a very

positive thing there because there were huge issues with concerns with obesity because people were drinking high fat milk but then also refusing milk, and so there were the health issues on that side.

Senator GILLIBRAND. Bruce, any thoughts?

Mr. KRUPKE. Yes, I do.

This is a perfect example of the differences between standards throughout the United States. You have one State, California, that sets a standard for milk and another standard for the rest of the United States.

What happens in California, I am not an expert in this area either, in California, but it is my understanding that the fortification of protein in milk, in Class I, when you ask what are the downsides of something if you implemented that program nationally. It costs more for the consumer. It costs more to put that into the product. It is more of something that is there that has got to be paid for and gets passed on to the consumer.

So I guess a simple answer is the downside is consumers pay for it.

But the other part that you all see, that you all probably in the room recognize is when you see a happy cow commercial from California, why are they advertising happy cows in New York State? It is really not the happy cows; it is the happy farmers and the happy processors in California that have a price advantage.

The reason they have a price advantage is because the Class I sales in California, because of this protein-fortified product, it helps subsidize their manufactured products in California and allows them to manufacture them, ship them all the way out here in New York State, in New York City, Buffalo, Batavia, and you will see California cheese here. The reason they can do that is because their pricing system in California is outside of the Federal order system.

And, this gets back to my testimony that you need to question whether or not that system in California should be allowed to continue. Why do we not have a national Federal order program and allow one State to do it and have different standards of identity and products and pricing where there are different competitive levels throughout the Country?

Senator GILLIBRAND. Robin.

Ms. KELLER. I can discuss that a little further. In my testimony, from sources that I have, California retail milk prices have remained competitive with, not higher than, the rest of the U.S. So I think that kind of goes against what Mr. Krupke said. So I am not sure who is right and who is wrong, but I want that to be on the record.

Senator GILLIBRAND. Right.

Mr. KRUPKE. I did not mean necessarily retail prices that the consumer buys. I am talking about the formula price for Class I milk in California.

Senator GILLIBRAND. You are saying the formula price for Class I milk in California is higher than the Class I price for New York milk?

Mr. KRUPKE. Yes, that is correct. It is my understanding that the way the formula works in California is it is higher and it helps to



subsidize the manufacturing process, but it does not have anything to do with retail.

Senator GILLIBRAND. We can ask the next panel. They will have some data on that.

Mr. CHURCH. If I can comment on that real quick, as farmers, our primary objective is to get product usage by consumers. If we have a tool that we can provide a better product or a healthier product and we can market it that way and have consumer acceptance of it, those are all good things for our industry.

Senator GILLIBRAND. Thank you.

I am turning over to Congressman Lee.

Mr. LEE. I think I am going to stay on that line of questioning because I guess at the end of the day what we can do to help drive demand and provide a better product to the market seems like a win-win, where we can. I like white milk, I like brown milk, but I do not like blue milk, and I have had that in New York State. So the opportunity to put real solids and make it a better tasting product that, by the way, that helps drive demand, helps our producers, it seems like an area that we definitely want to explore.

We hope that outside of California it sounds like a very simple way and a healthier way to get people to drink skim way. So I think that is a very worthwhile point.

Another area, and I just want to make sure, and maybe I can direct this toward—I think a few people brought it up—maybe to Robin. On this issue of the fact that we have a promotion fee, I want to make sure I understand this for the rest of the panel as well. My understanding is that U.S. producers pay a 15-cent promotion fee. I believe it is 5 cents of that is going nationally and 10 cents locally, and that is used to go out and actually promote the values of milk and try to increase the market.

I am one who believes in fair competition, but what you are doing here is actually helping to grow the market, which is a wonderful thing. That is what we want.

But you are saying importers right now, who are going to benefit from all of that promotion, both locally and nationally, do not have to pay a penny. Is that correct?

Ms. KELLER. That is my understanding, yes.

Mr. LEE. Then I think what you also said is that the USDA has been instructed through the 2002 and 2008 Farm Bills to enact this, but no such legislation or ruling has occurred.

Ms. KELLER. Correct. I think that is our issue, that USDA has not implemented the legislation that is on the books. The speediness of that activity is not impressive. It is on the Farm Bill for two times now, and it has not been done.

I guess I support Senator Schumer's suggestion to tariff or tax milk protein concentrates, MPCs. However, I think this promotion fee on all imported milk products may be a more WTO-friendly way of getting around that.

Mr. LEE. I would agree.

Ms. KELLER. No promotion fees come back to dairy farmers in expanded markets. Whereas, a tariff, I am not sure whether that comes back to us as dairy farmers at all.

Mr. LEE. Do you know what the instruction was, the full 15 cents or was it 7.5 cents? Do you know what that instruction was?

Ms. KELLER. I think the instruction was 7.5 cents.

Mr. MCCORMICK. It was 15 cents, but during negotiations they cut it down to 7.5 cents, and that 7.5 cents would go right to the National Dairy Board, and then they use it for research on what else we could you use our milk for—MPCs or development or develop new products.

Ms. KELLER. Ultimately, I would like to see the 15 cents. I would like to have it be a level playing field rather than slightly lopsided. But I will take 7.5 cents if that is what is on the books already.

Mr. LEE. Let me ask one other question. This is open too. We have 5 minutes here, and I want to make sure that we are fair to the other panelists as well and make sure Mr. Massa has time.

The one thing I am also a huge believer in is that it is government's role to help support businesses in this Country but not deter their ability to succeed. One thing I get concerned about is, as I said, I am not on the Agriculture Committee. But I sit on an advisory board, and I sit on financial services, and we are creating a whole host of regulations. My concern is regulation that, at the end of the day, does not help farmers or dairy farmers, based on EPA or Clean Water or the COFA.

Can anybody elaborate on areas that you think really are non-value added, because what you talked about is we only export 5 percent of our product? Is it putting us at a cost disadvantage so that we are going to ultimately continue to be pressed by imports?

I am curious if anyone has any thoughts on areas that you think that, from a regulation standpoint, should be relooked at, that truly are non-value added. Anyone have any thoughts?

Mr. CHURCH. I would comment on some of the environmental regulations and that whole train of thought. As dairy producers, we make our living with the land, and I do not think there is another group of people out there that want to conserve our resources as much as this group does.

You know in terms of are those programs bad, no, none of those programs are bad. When we can protect our resources, all those things are good, and they are going to benefit us at the end of the day, and we know that. It may not be tangible dollars that we can put our hands on today or tomorrow, but we know that is going to protect us.

To abide by some of those regulations comes with a cost. If we can find ways to help offset that cost, that would be a big advantage to us, whether it is low-interest loans or grant funding, some of that, some of the regulations that come down on local businesses and particularly dairy farmers.

Mr. LEE. Something specific, like Clean Water, to get there, the initial capital funding?

Mr. CHURCH. Yes, that is exactly the kind of thing that I am speaking to. Grant funding and may very low-interest loans or no-interest loans will go a long way in helping us fund those projects and meet the requirements and live up to being good stewards of the land.

Senator GILLIBRAND. Thank you, Congressman.

Congressman Massa.

Mr. MASSA. Thank you.

Mr. Krupke, you and I are going to tangle a little bit here because I was a little concerned about some of the things I heard. I have never milked a lobster in my life. I am not quite sure of the analogy.

But you did say very specifically that you want to move toward market-driven solutions. Got it. Market-driven solutions would lead me to believe that there is an ability for a dairy farmer to choose from where that dairy farmer is going to take his or her product to try to obtain the best deal possible.

Yet, as you are a student of history, as illustrated by your analogy of milk in cans, I think we can all understand that the whole reason we have a hyper-regulated dairy market is because milk is so incredibly perishable, and dairy farmers have been historically held hostage by a take it or leave it policy that leaves them only one choice—to accept a price that is given to them regardless of their choices or to destroy their commodity.

So the entire concept of market-driven solutions favors those that you represent, but in my opinion has absolutely nothing to do with the reality that actual dairymen face. So I am not sure that I understand how we implement market-driven solutions for dairy farmers in the Northeast.

The second thing I would like to bounce back off you, sir, you have said at least four times that you are looking for homogenous national policies, one size fits all. Having visited and gone to many dairy farms in, yes, go figure, New Mexico or in the deserts of Arizona or in the plains of nontraditional dairy farming areas in California, I can tell you that what they do there in dairy farming is about as similar to what we do here as Mars is to Pluto. Dairy farming in California, New Mexico and Arizona, maybe there they do in fact milk lobsters because that would be something that would be in fact more similar.

And, I am not in favor of one size fits all. My job is to protect New York. Let me be very clear about that. That is what I am here to do.

[Applause.]

Mr. MASSA. I am absolutely, positively not interested in happy California cows. I am absolutely committed to thriving and surviving New York farms. And, if that makes a lot of Pennsylvanians angry, well, then maybe we can figure out how to work across borders.

But, you get west of the Mississippi, sir, and it has got nothing to do with what we do here. So I need to express that very clearly to you because these arguments are at the base of a lot of things that are hurting us.

And, I do not think one size fits all is benefiting what we deal because we do not even begin to farm the same way. The farms in New Mexico, California and Arizona do not have contiguous cropland because, guess what, they do not have water, and they do not even begin to fit the same problems that we fit as far as producing those kinds of costs. I lay that as a marker for the record.

Now, having said that, my question to you is this: We have heard, and I will just use the numbers today although there are many others available, that milk went from \$24.23 a hundred-weight to \$13.22. That is roughly a cut of 50 percent. My wife tells

me that we have seen no such drop in the price of a gallon of milk at home. So where is the money going?

Mr. KRUPKE. I have an ad here—upstate farms, half gallon of milk, 1 or 2 percent or skim for 99 cents. It is happening here in New York State.

Mr. MASSA. Not by 50 percent, sir.

Mr. KRUPKE. Well, that is \$2, less than \$2 a gallon. If the dairy farmer is getting a dollar—

Mr. MASSA. So you are saying that the retail price of milk during the same period of time reflects the drop in the wholesale price.

Mr. KRUPKE. The retail price is reflective.

Mr. MASSA. I am sorry. It is a yes or no.

Mr. KRUPKE. Yes.

Mr. MASSA. It does?

Mr. KRUPKE. Yes, sir.

Mr. MASSA. OK. For the record, you stand on that?

Mr. KRUPKE. Yes.

Mr. MASSA. All right, fair enough. Thank you.

Senator GILLIBRAND. Well, I would like to thank all our panelists for their very helpful and informative testimony. We are extremely grateful for your time and your expertise, and I invite you to stay along for the second panel. We are going to be hearing from a panel of economists that will continue this conversation.

So, thank you for your time and your attention.

[Applause.]

Senator GILLIBRAND.—Andrew Novakovic, Bob Wellington and Kim Pickard-Dudley.

Dean, why do you not start us off.

#### **STATEMENT OF DEAN NORTON, PRESIDENT, NEW YORK FARM BUREAU**

Mr. NORTON. Thank you, Senator Gillibrand, Representative Lee, Representative Massa, for inviting me to testify before you today.

My name is Dean Norton, and I address you as a dairy farmer, agricultural consultant and President of New York Farm Bureau, the State's largest general farm organization. I represent more than 30,000 family farm members, including many dairy farm families struggling under the weight of this economic crisis.

Dairy farms throughout New York, the Northeast and the Nation are indeed facing the worst economic crisis they have ever experienced. This crisis is impacting every farm regardless of size or geography. The combination of extremely low milk prices, well below those of 25 years ago, along with very high fuel, feed, energy, fertilizer and other operating costs have resulted in unprecedented losses for all dairy farms.

Even with the inclusion of the feed cost adjuster in the Milk Income Loss Contract payments, which we owe to your efforts during the negotiations of the 2008 Farm Bill, farmers are not able to cover their costs of production. In simplest terms, farm families are getting paid nothing to cover their living expenses and bills and then losing money per hundredweight on top of that.

It is important to remember that dairy cows are not like a water faucet. You cannot turn them on and off when you need or do not need milk. Production takes a relatively long time to gear up, and

after production has increased lower demand can result in over-production and, thus, lower prices. For this reason, it is critical that there be price stability at the farm level.

There is enormous frustration that the Federal Milk Marketing Order system does not offer adequacy or stability in pricing. It is clear that a systemic review and overhaul of the Federal Milk Marketing Order system and its relationship to the Chicago Mercantile Exchange should be undertaken in an effort to avoid extremely cyclical downturns so that dairy farmers are not forced to seek emergency government assistance simply to survive.

While the Milk Income Loss Contract program has helped New York dairy farmers, a regional pricing program that extracts its value from the market instead of the taxpayers, similar to the Northeast Dairy Compact that expired in 2001, would be far more effective.

Because of the movement of milk and milk products across state lines, no State acting alone can solve the milk price issue within its boundaries. The Northeast Region is a major milk shed to some of the Nation's largest population centers. Under the milk marketing order, our dairy farm families are currently reliant upon a nationally based pricing system which balances national supply and demand but does not always recognize the regional production needs throughout the entire Nation. This system also tends to penalize areas with higher costs of production which are closer to existing population centers, such as in our geographic region.

Recognizing this, the Northeast State Farm Bureaus and their producers are working together to capitalize on our assets and ensure that milk pricing structures work for our region. It is clear to the Northeast Farm Bureaus that the Federal order system must be reformed to accommodate regional variations in fluid milk production, in order to keep milk supply near population centers. Several weeks ago, New York Farm Bureau and 12 other Northeast State Farm Bureaus sent a joint letter to USDA Secretary Tom Vilsack, making such a request.

We ask that you consider other options that accomplish profitability and stability within the dairy industry. New York Farm Bureau suggests that the congressional authority be granted to legislatively allow two or more States to work cohesively to best utilize their milk pricing laws. Allowing States to work together to establish over-order prices for fluid milk will prevent disruption of movement of manufactured dairy products but achieve some stability and retention of farms in the region.

Dairy promotion fees are dedicated to building consumer demand for dairy products. They should also be collected on all imported MPCs, casein, dairy and cheese products. Our foreign competitors are currently enjoying the benefits of national dairy advertising being paid by our U.S. dairy farmers. It is like we are giving away our retail market to our foreign competitors and paying them to take it from us.

U.S. dairy farmers have been contributing 15 cents each hundredweight of milk they sell to fund national advertising and nutrition research, to increase U.S. milk product consumption. The USDA is currently delaying implementation of regulatory proposals to assess 7.5 cents per hundredweight on all dairy imports, includ-

ing cheese and butter products as well as dry ingredients such as casein and MPCs. Statutorily authorized under the 2008 Farm Bill, we recommend that USDA enact this promotion assessment on all imported MPCs immediately and require that this fee on imports be equal to what is paid by U.S. farmers, which is currently 15 cents.

In order to fill the workforce gap, passing and enacting a viable agricultural guest worker program, either as a standalone initiative such as AgJOBS or part of comprehensive immigration reform, is one of our highest legislative priorities. NFYB asks for your co-sponsorship of AgJOBS and advocacy within the Senate leadership to bring the issues of agricultural guest labor to the Senate floor by the end of this session.

If you will allow me to finish, please, in closing, there is no question that finding a solution to the cyclical dairy pricing crisis is a significant challenge, but I am confident that enough people, from producers to consumers, recognize that something must be done so that the depth and length of price downturns can be avoided in the future.

Thank you, and I would be happy for any questions that you may have.

[The prepared statement of Mr. Norton can be found on page 69 in the appendix.]

Senator GILLIBRAND. Thank you, Mr. Norton.

Mr. Novakovic.

**STATEMENT OF ANDREW NOVAKOVIC, DIRECTOR, CORNELL PROGRAM ON DAIRY MARKETS AND POLICY**

Mr. NOVAKOVIC. Madam Senator and Congressmen, thank you. Thank you for coming. Thank you for being in New York. Thank you for inviting me to participate.

If I may, I would like to say I am pleased to see that this meeting is both bicameral and bipartisan. We New Yorkers are not always used to that kind of behavior, and so it is a pleasure to see it at least in our U.S. Congress.

My name is Andrew Novakovic. I am the E.V. Baker Professor of Agricultural Economics at Cornell University. I am also the Director of the Cornell Program on Dairy Markets and Policy. I have been working on dairy policy issues for about 30 years, professionally, and was interested in it for a bit before that, before I became a professor.

I provided you with a packet of information. This includes written remarks, a short paper that I did which looks at a history of dairy prices, just for the basic data, and also a rather lengthy PowerPoint type review of basic programs. Obviously, I will not be reading those, but they are there for your information if that is useful.

I have been asked to discuss current dairy policy and some options, and I would like to briefly do that.

Let me begin by getting just a wee bit philosophical. As you know and as you have heard, the situation for dairy farmers today is dire indeed. I do not know exactly how you measure how bad is bad, but my feeling is it is probably the worst situation for dairy farmers since the Great Depression.

I will not try to recount the different ways you might measure this; you have heard testimony. But, before I begin jumping into policies, let me say a couple things about how we might work to understand the nature of the problem.

My colleague used two words that I am fond of. When I talk about pricing, I remind people that there are three dimensions to pricing that are important to understand: stability, certainty and adequacy.

We often use the word stability as some kind of proxy for the other two, but that in fact can be misleading. A price can be stable and totally inadequate, and the problem today really is adequacy. People are associating the fact that we have highly unstable prices, with prices that occasionally dip really low, but let's not lose sight of the fact that the problem we have to solve is adequacy. Stability is an issue but probably not the most important issue today.

When we think about it from that perspective, we begin to understand that some programs, either ones we have or ones we might have, may work really well on one issue, maybe not so well on another.

Federal orders: Federal orders have been much cussed and dis-cussed. They are complicated. They are described often as incom-prehensible. I think they are comprehensible; you just have to work really hard at it.

We have been discussing reform in Federal orders for about 20 years. Let me simply say you will hear many proposals for reform-ing Federal orders. I do not believe any of those will address the problem of adequacy now. They may deserve discussion on their own merits, but I do not believe they are the appropriate tools to be dealing with the current issue.

The price support program is in fact the perfect tool for dealing with low prices. It is exactly what it is supposed to deal with. Un-fortunately, we found this tool incredibly heavy to lift recently. There are budget issues that have prevented us from using this program for 20 years until August 1st. There are WTO issues. We may ask, are we using it enough or should we use it longer, but at least it is a tool we ought to think about.

MILC is also a help. One of my concerns with MILC is the very thing it is intended to do to help you get through a bad time may actually prolong how long it is bad. I think we have to give some serious thought to how well we wield that tool. As you have a chance to read my testimony, you will understand that I have some ideas about how we might improve that.

Others have talked about growth management. I am going to skip over that, and I want to introduce one topic that is controver-sial.

Let me be most clear. I am not an advocate, but we had a pro-gram 20 years ago called the Dairy Termination program, more popularly known as the buyout. It lives today as a voluntary pro-gram under CWT. If we wanted to have a rather rapid effect on the price of milk and give at least some group of farmers some dig-nity in exiting of their choosing, we might consider dusting off that set of regulations and doing another buyout program. Now that conversation could unfold in a much longer discussion, and, if you would like to talk about it further, I would be happy to do so.

I look forward to your questions later or at any other time in the future. Thank you.

[The prepared statement of Mr. Novakovic can be found on page 74 in the appendix.]

Senator GILLIBRAND. Thank you, Doctor.  
Bob Wellington.

**STATEMENT OF BOB WELLINGTON, CHIEF ECONOMIST, AGRI-MARK**

Mr. WELLINGTON. Thank you for this opportunity to appear before you.

My name is Bob Wellington. I am the Economist for Agri-Mark dairy co-op. Agri-Mark is a co-op that just markets milk here in the Northeast. We have about 1,250 dairy farmer members. Our members milk, on average, about 100 cows, so our average is not very large. We do have all size members. However, our largest member is still smaller than the average size member in California.

And, I cannot miss the opportunity to say that I have been to many farms in California. The type of farming they have, if those are cows are happy, then they must be eating what other people are smoking out there. It is a different type of agriculture.

[Laughter.]

Mr. WELLINGTON. Our farmers, our biggest block of farmers is here in New York, and we own four plants because we are trying to get closer to consumers. Three of those plants were closing by their owners, and so we ended up buying them. The farmers in our co-op bought them, and we operate them.

We turned one of them into a business called Cabot Cheese, that has won the world cheese championship twice in the last 10 years. The other one was the most recent up at McCadam Cheese in Chateaugay, New York. We are pleased to say that was struggling because of their quality when we bought them, and last year they won the award for the best cheese in the U.S. So farmers have been able to turn around these things quite well.

I just want to go over a couple quick points. I believe that the problems and the legislative responses we should be looking at should be looked at two levels. The first is the fundamentals of supply and demand that affect price. The second is the pricing structure itself that determines prices paid to farmers.

Small differences in supply and demand can result in large differences in prices. A general rule of thumb that I have used is that a 2 percent discrepancy in supply and demand balance often leads to a 20 percent change in price. This has worked to both moving milk prices up and down. While there is no documentation that this 10-fold price increase still applies at larger imbalance levels, that certainly appears to be the case when growing international demand for U.S. dairy products drove farm prices above \$20 per hundredweight in 2007 and then declining demand and small supply increases collapsed prices below \$12 in 2009.

Most dairy farmers have the freedom to choose how many cows they wish to milk and how much milk they wish to produce. Unlike in other commodities, dairy farmers in most areas, such as the Northeast, have rarely been hampered by the need to find a market if they planned on expanding. Federal orders and cooperative



marketing have played a role in these freedoms. However, because farmers have not taken into consideration demand for their production, they pay a bitter price of severe price volatility and a depressed income when more milk is produced than demanded at acceptable price levels.

Most farmers recognize this problem but are very independent dairymen and do not like others restricting their farm business decisions. What many do not recognize is that the lack of any production discipline likely created more price-related restrictions on their business than anything else.

When there is too much milk in the marketplace relative to demand, the market needs to send a low price signal to lower supply. Unfortunately, the farmers' reaction to lower prices is if the price goes down, they make more milk to keep up their cash-flow; if the price goes up, they make more milk because they try to get more profit and return back to their farm. So they are in Catch-22. We need to send the right signals back to farmers.

In terms of the price support program, that has been operating since 1949. Those prices actually peaked in 1980 to over \$13. Currently, they are less than \$10—so, an older program that has been going downhill.

I usually describe the price support program as a safety net lying untethered on a concrete floor. If the price hits that level, the damage done to farm operations is usually extreme. Efforts by many legislators, including our own Northeast Senators, to urge Secretary Vilsack to temporarily raise support prices for cheese and powder were needed and greatly appreciated.

We also support the amendment to the Senate Ag Committee that would give USDA an additional \$350 million. It is important that USDA use these funds to actually purchase dairy products, to increase demand and lessen the burden of high inventories built up early this year.

It was a great disappointment to see the market price for cheese fall below the support price for much of the year, yet not a pound of product was sold to the CCC. I believe that the support price was used by many in the industry as a benchmark to set the market price, not as an alternative outlet for milk supplies.

Had the cheese price been 20 or 30 cents higher throughout the year, I estimate that little, if any, cheese would still have been bought by the government. With food banks and other low income feeding programs clamoring for product donations, CCC cheese purchasers would have found a welcome home and would not be around to further aggravate supply and demand imbalances today. We do believe there need to be changes in the Federal order system, but we also believe that that system is really more of a messenger of the problem. But there are some other changes that need to be made, and I would be happy to talk to you about them in the question period or beyond this meeting. Thank you.

[The prepared statement of Mr. Wellington can be found on page 89 in the appendix.]

Senator GILLIBRAND. Thank you, Bob.  
Kim Pickard-Dudley.

**STATEMENT OF KIM PICKARD-DUDLEY, CHIEF DAIRY  
ECONOMIST, UPSTATE NIAGARA CO-OP**

Ms. PICKARD-DUDLEY. Good afternoon and thank you for giving me the opportunity to testify today on behalf of Upstate Niagara and for your steadfast work in support of our dairy industry, especially through these difficult times.

My name is Kim Pickard Dudley, and I am Chief Dairy Economist of Upstate Niagara Dairy Cooperative. We are made up of 400 dairy farm families. We market about a billion and a half pounds of milk annually, and we also own and operate four dairy plants in Western New York and employ about a thousand people in Rochester, Buffalo and Batavia.

In my role as Chief Dairy Economist, I have direct access, direct responsibilities and direct involvement with our dairy farmer members, with our commercial operations and sales staff as well as with our commercial customers. I interact with all these stakeholders on any and all issues relating to milk pricing, including price forecast and risk management strategies.

My full testimony is set forth in my written testimony. In my oral remarks, I will focus on actions that the Senate can take to improve the U.S. dairy industry, discussing primarily changes in the Federal Milk Marketing Order system which I will refer to as the Federal Orders.

Since Upstate Niagara is owned by dairy farmers who operate plants, we are well suited to seek real-world solutions for all stakeholders in the dairy industry, from dairy farm families to processors to retailers to consumers.

We strongly believe that while there are some changes that need to occur in the Federal Orders, it is essential not to overlook the many benefits that the orders provide to all dairy industry stakeholder. Federal Orders provide a regulatory framework in which the industry has functioned for decades while serving consumers with a broad array of delicious, wholesome and safe dairy products. Federal Orders help to maintain a system of orderly marketing by establishing minimum prices that processors pay and blend prices that farmers receive for their milk.

Right now, the dairy industry is in crisis. That is why we are here. However, it would be wrong to assign the blame for the current dairy prices to the Federal Orders. Rather, this crisis is the result of the greatest financial and economic collapse since the Great Depression which, in turn, led to a collapse in dairy demand for our products both here and abroad.

The dreadfully low milk prices announced by the Federal Orders have been the messenger of this bad news. So we should not kill the messenger when in fact the grim message behind the terribly low milk prices spells out this stark reality: Demand for dairy products has collapsed, and, therefore, painful reductions in the supply of milk must occur.

We do, however, have suggestions for how the messenger can more appropriately deliver the message so that farmers, processors, retailers and consumers are not whipsawed every time a change in market conditions occurs. Our suggestions deal with improving price discovery.

We believe that the core of the price discovery problem is this: On the CME, only a scant amount of product is bought and sold by a scant number of buyers and sellers. This very small, seemingly insignificant sample has huge economic significance because it is the basis of all Federal Order pricing. In other words, it is a small quantity of milk that is used to set pricing that all federally regulated processors pay and that all dairy farmers ultimately receive for their milk.

What we see therefore as being a solution to this pricing structure dilemma is to find ways to use a broader basket of price discovery tools that are more reflective of the current and future supply/demand situation to be the basis of the price that processors pay and dairy farmers receive for their milk.

For example, we could use additional products in the pricing formula such as mozzarella cheese. We should use additional markets in the formula such as futures markets. We should use actual prices paid for dairy products such as in pricing surveys. And, last, we should use gauges of input costs in the pricing formulas, by using such indices such as CPI and others that track certain costs such as corn and energy.

Such a basket of price discovery tools has several benefits:

First, by using a variety of price discovery tools from a variety of sources—cash and futures markets, pricing surveys and indices—you inherently improve the integrity of the marketplace by, one, adding liquidity to the market and, two, smoothing out random, extreme and perhaps unwarranted price fluctuations.

Second, by using a variety of price discovery tools, it allows the industry to learn the advantages and disadvantages of each factor gradually. The benefit of this gradual learning curve in developing price discovery tools is best seen from the unintended adverse consequences that have developed since the last major change to price discovery 10 years ago.

At that time, the Federal Orders started using a system called end product pricing to determine minimum prices. The USDA's decision was based on much learned testimony from experienced dairy economists. Nevertheless, real-world experience has revealed a number of harmful drawbacks to producers and processors as a result of end product pricing.

I spell this all out in detail in my written testimony, namely the problem of make allowances, but, suffice it to say, this system is causing huge problems for both processors in recovering real costs from the marketplace as well as blatant unfairness to producers.

To summarize, and I know I am out of time, it is my view that a necessary first step in reforming the pricing structure of the Federal Orders is to fix the flawed system of price discovery. This system has created huge problems for processors, blatant unfairness to producers and has fostered extreme price volatility—\$20 milk 1 day and \$10 milk the next is unhealthy and destructive for dairymen, processors, retailers and consumers alike.

I would be glad to answer questions.

[The prepared statement of Ms. Pickard-Dudley can be found on page 83 in the appendix.]

Senator GILLIBRAND. Thank you all for your testimony.

I would like to start with you, Dr. Pickard-Dudley. One thing you said struck me. You said that the current crisis is due to the economic collapse. But if we are getting paid \$12 a hundredweight, that just does not seem consistent with the volatility we have seen over the last 25 years.

Just to note that this is the price volatility, we have had \$12 a hundredweight of milk on and off since the eighties, the last of which was being in the 2005–2006 cycle it got down to about \$12 a hundredweight.

Ms. PICKARD-DUDLEY. Right.

Senator GILLIBRAND. That is so soon to see it go from \$12 to \$24 in a very short time.

I guess my question is everyone always says it is supply and demand. Are we taking on so many cows so quickly that we are very much ratcheting up production so that demand cannot keep up or is something at work? It does not seem that this kind of volatility could be possibly caused by supply and demand.

Ms. PICKARD-DUDLEY. The reason that prices rose so rapidly and have fallen off so rapidly, is that we have just experienced back-to-back years of extreme situations. In 2007, we rode on the tails of emerging markets, and the export business of the United States grew from about 4 to 5 percent of the total U.S. milk supply to 11 percent. Now that is a lot.

In 2007, the world could not produce enough dry milk powder to serve the world, and so what happens in that regard is that milk prices respond. They get very, very high to attract, to send signals to producers to produce. There was literally not enough milk powder to serve the world. So that was one very extreme situation, and that is just part of the story.

Just as dairy farmers responded across the world to this price signal, just like this, the rug was ripped out from under them when we had the financial collapse, the economic collapse, in the same way that oil prices went from \$147 a barrel to \$34 a barrel over dinner.

Senator GILLIBRAND. Right, but there has been so much testimony developed over the last 2 years that supply and demand in fact was not the cause of those wild swings in oil, that manipulation and speculation had some role.

So the reason why I question that testimony is because we have the same fluctuation from \$19 a hundredweight in February, 2004, through July, 2005, and then back down to \$12 by December, 2006. So that is not the collapse. Was there a great shortage of milk at the end of February, 2004?

Ms. PICKARD-DUDLEY. There are so many factors that impact this business and yield price volatility. There is a huge seasonal variation in milk production patterns. There is also a huge seasonal variation in when consumers buy products, right? For example, when kids go back to school, we see a huge influx of demand.

So you have these forces really working in the opposite way. When producers make less milk, it is demanded more. And so, that is a part of the story.

But also, there is another part of the story, and that is, in the year 2000, when we went through this Federal Orders reform process, we changed the system from what was then a competitive pay

price system called what used to be the MW and then the BFP, the Basic Formula Price. In 2000, we switched over to a system called "end product pricing," which I have laid out in much greater detail in my written testimony.

From the time that we switched over to that system, certainly, the markets have been more volatile simply because of the way that the pricing formulas work.

Senator GILLIBRAND. Thank you.

Congressman would you like to ask some questions?

Mr. LEE. Sure. Thank you.

It has been very enlightening, and I appreciate again your coming in here today and trying to educate us on a few of the ideas that you had.

If I can start first briefly with Andrew. I know you had said you outlined it in your testimony, but I have not had a chance to read it. I was curious on the MILC program, in terms of you said you had some ideas. I am just curious because I want to get to one other question, but if you give me one or two of the major ideas, if it is anything like indexing to inflation or whatever, that would help ensure that we do not have this same stagnant formula.

Mr. NOVAKOVIC. There are several things that potentially could be useful, that are sort of technical details, but let me focus on a couple of key items.

One is the fundamental concept of the MILC program is to pick some trigger price that somehow represents something good and compare it to what you really have and try to make up the difference. For various historical reasons, we have picked a certain trigger, and we have taken a percentage of the distance between actual and that trigger.

Personally, I think it would be more transparent, easier for farmers to understand, and operationally more successful to modify that somewhat. Instead of using our current trigger, which is based on a portion of the market in one part of the Country, to look at the U.S. average all-milk price as our trigger and figure out an appropriate level at which to trigger those payments, at which point you can talk about 100 percent payment difference between the gap as opposed to some percentage.

I also think that it might be helpful, particularly realizing there is just only so much money to spend, to think about a graduated scale of payments. So maybe if the distance between the trigger and the actual is relatively small, you do not have full restitution. But, at some point, you say we are going to completely make up the difference between the actual and the trigger so that as the gap becomes greater you help more. I think clearly that current percentage is feeling like we are falling short.

Mr. LEE. Andrew, excuse me, I want to make sure with my time I have left. But, thank you, and I will go through the rest of the details you provided.

I wanted to go over to Mr. Wellington because I liked his approach. I think you talked a little bit about it is an interesting market because the high degree of price elasticity. As you mentioned, a 2 percent fluctuation in supply can have a 20 percent change in price, and that is a difficult situation to deal with.

To your point, if we can somehow push demand up, we can get to a much better price point. I am curious. You were starting to mention a few ideas that you had. Is there anything else that you thought was of value that we should be hearing and to the audience?

Mr. WELLINGTON. Well, I think that 2 percent rule is a horrible situation when the price is going down, but it is also a tremendous opportunity when the price is going up. It is the reason why farmers had prices exceeding \$20 in 2007 and had one of their better years.

And so, what we have to do is look at both supply and demand and try to drive demand any way we can. That is why farmers give money for promotion.

On the other hand, farmers have to look at the supply and produce for the marketplace, and farmers are really good at increasing their production, from a cow, number of cows, whatever, and sometimes they are their own worst enemy because what they do for their farm, OK, that is good for their farm, is bad for the marketplace. That is why we have to try to coordinate that.

So we are looking at saying, is there a way that we can send the right message to farmers? If it is 3 or 4 percent too much milk, why have that drop the price 96 percent? Why can we not say, that milk is worth less?

So maybe you do not want to produce that milk if it is worth three or four dollars. Get rid of that in the marketplace and bring that supply and demand in balance again.

So there are ways we are looking at trying to do that, but the biggest issue we have is farmers agreeing on what kind of program to do and getting a consensus because farmers are independent-minded, as you guys know, and they do not like restrictions on their farms, which we all understand. But they have to start producing for the marketplace because, otherwise, they create their price imbalance.

Mr. LEE. Thank you.

Senator GILLIBRAND. Congressman Massa.

Mr. MASSA. Thank you, Senator.

Just very quickly, Mr. Norton, we have had a wonderful relationship. I literally flood your office with legislative questions. Is it true—and this gets back to a real pet peeve of mine, and it was brought up earlier—that the 15 cents per hundredweight advertising fee is in fact funding the California happy cow program here in New York?

Mr. NORTON. Here in New York?

Mr. MASSA. Yes.

Mr. NORTON. The 15 cents is mandated.

Mr. MASSA. Is that what funds those advertisements?

Mr. NORTON. No, no.

Mr. MASSA. I mean can we do the same thing, just out of curiosity? Let's get some Steinbrenner cows over in California.

It is a rhetorical question because I do not understand what we get in New York out of California cows. I mean I do not. Why?

Mr. NORTON. Keep in mind that there are two promotions. There is a part of the money that goes nationally for everything, like Got Milk, milk mustaches, things like that.

Mr. MASSA. Right.

Mr. NORTON. And then, there is part of the milk that stays local. OK. That California milk stays local. The California money that stays local is the happy cows. You see a little tag line.

Mr. MASSA. Yes, but I do not see a lot of locality between Sacramento and Batavia. So that is where I am.

Mr. NORTON. Well, we have some money in New York, in the Northeast, that stays local.

Mr. MASSA. So let's invade California. I mean that is my point. I am interested in regional things we can do, but that answers my question.

Mr. NORTON. Well, keep in mind California also is the biggest dairy State in the Country. So they have the most money out of anybody too.

Mr. MASSA. OK.

Mr. NORTON. They need a way to spend it.

Mr. MASSA. That is a good point.

Bob, if I could have a follow-up question with you, sir, so you talk a lot about supply and demand. Would I be correct to open and re-examine—and I will not ask the question in a way that taints my opinion—would I be correct to open and examine the incredible, obnoxious, negative, counterproductive program that we have now to flood our schools with Coca-Cola and soft drink products?

Mr. WELLINGTON. I think they are addressing some of that now.

Mr. MASSA. Again, I do not want to flood my personal opinion on it.

[Laughter.]

Mr. WELLINGTON. I saw that, but I am just saying that I think we are starting to address that. OK?

But I would caution you on one thing with the California milk standards. We support that at my co-op. OK? But when you add those extra solids, you are also adding lactose, no sugar.

Mr. MASSA. No. I understand that.

Mr. WELLINGTON. I am just saying, there are a lot of different pros and cons, but we would support that effort.

Mr. MASSA. Bob, I would rather have a fight between different kinds of milk rather than a fight between milk and Sprite. And, I do not mean to single out products, but when I go to a high school and I realize that high school students are drinking three, four, five sodas a day because there is an agreement between soft drink distributors and manufacturers in funding school boards, I find that to be hideously counterproductive to our national health standards.

So I would rather have a fight about what kind of milk we are supplying in schools.

Mr. WELLINGTON. There is a problem in New York City that you guys should be aware of, and that is New York City has started taking out any of the whole milk or 2 percent milk. So they all want to do is leave the skim milk, the blue milk. OK? And, you can say, well, that is good, it is healthy for them, but a lot of students do not drink it.

Mr. MASSA. No one has died from drinking 2 percent milk.

Mr. WELLINGTON. That is what I am saying. So I mean we have issues ourselves, even locally, on how to try to address that.

Mr. MASSA. Last question, Doctor, you are probably very erudite in this. But I have listened all day to experts who know a lot more about this than I do, and I opened my remarks by saying, gee, is it not odd that something went wrong in New Zealand and now all of the dairy farms in my congressional district are getting ready to go under?

I have not heard anyone tell me what I can do to stick it to our international competitors. I am sorry. I am just a plain-spoken Navy guy. I do not have a Ph.D. in economics. I spent my whole life going to war in the United States Military. I kind of frame things that way.

And, I am a little bit concerned that everything we come up with is a form of self-flagellation, and we are not going after our foreign competitors. So here is an idea I would like you to tell me about.

I was asked to sign off on God only knows how much money. Chris keeps track of these things because he holds me accountable for everything we spend. It was about a, who knows, \$500 billion foreign aid bill where we give stuff away all over the world. What I come to find out is some of that U.S. foreign aid buys foreign food to be delivered as emergency aid in foreign ships to foreign countries.

Why should we not create a law that says every dollar of emergency U.S. foreign food aid has to come out of a U.S. farm and why can we not do that? Is that a bad idea or a good idea?

Ms. PICKARD-DUDLEY. It sounds like a great idea to me.

Mr. MASSA. All right. Everybody here in concurrence?

[Applause.]

Ms. PICKARD-DUDLEY. If I may—

Mr. MASSA. Doctor, here is the problem. I cannot ship whole milk to India or to some other country that needs it badly. What I need is some help about what we can ship, and that comes back to you need to come tell me, or you all do, what do we do to incentivize the creation of milk concentrate plants here in the United States.

Ms. PICKARD-DUDLEY. I am so glad that you asked. Actually, I do have about a paragraph and a half in my testimony that I was hoping to get to.

USDA needs—desperately needs—to resolve the Federal Orders product classification issue that has been tied up in the hearing process now for about 5 years. We need a decision out of the USDA that will encourage the production of dairy proteins, the domestic production of dairy protein ingredients such as MPCs.

We see tremendous opportunity in all sorts of dairy-source protein ingredients that are lower in carbs and calories, and we would like to see the production of those protein ingredients be produced right here in our own borders, so that dairy farmers right here in the United States of American can benefit, and not foreign dairy farmers.

Mr. MASSA. Doctor, if I could just ask because this is where the rubber hits the road—a lot of erudite things we have to do. I would like you to draft a letter that I will sign, and I think I can find other people to help, and we will sign it out to the head of the USDA, to a little building on Pennsylvania Avenue called the White House and wherever else we have to go to force that action to happen quickly, if you think that that will help the situation.



Ms. PICKARD-DUDLEY. Yes. I will absolutely do that.

Mr. MASSA. Good. OK.

Ms. PICKARD-DUDLEY. Also, as it relates to this aim issue of domestic MPC production there has been a capital expansion project at the O-AT-KA Milk Products plant right here in Batavia, New York, that has been on hold since 2005, awaiting a decision out of USDA.

Mr. MASSA. OK, so the call for action. I do not know if I can speak for the Senator and Chris on this, but I struggle at hearings with, all right, give me the action that I want.

You know you put 200 dairymen in a room, you get 250 opinions. And, if you stay for 3 hours, you have a civil war.

So what I want is tell me my homework, and I will take a bite of the apple, and we will do it. So thank you very much, and we will make it happen.

I yield back my balance, Senator.

Senator GILLIBRAND. Thank you.

Thank you so much for your testimony. Thank you for your expertise. Thank you to our audience for your participation as well.

And, again, anyone who wants to submit their own testimony, you have 5 days to do so, and my staff is around the room. This is Cheyenne Roy. Please stand up, Cheyenne. He is our agriculture specialist in our Senate office. Please speak to him directly before the end of the day.

Thank you so much.

Hearing adjourned.

[Whereupon, at 3:45 p.m., the Committee was adjourned.]



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**A P P E N D I X**

AUGUST 27, 2009

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# Testimony of Robert Church

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## Legislative Responses to the Dairy Crisis: Reforming the Pricing Structure

Robert Church

8/27/2009

Thank you for allowing me the opportunity to discuss with you the current economic crisis in the dairy industry. I commend your desire to address this issue by hearing first hand from all parties involved regarding the current milk price that farmers are receiving.

I am a partner and manager for Patterson Farms Inc. We are a 950 cow dairy and raise about half of the feed needed for our cattle. This farm has been in the Patterson family for 6 generations. The mission statement for our dairy has 3 key components that guide the decisions we make daily.

The 3 components are:

1. Profitability
2. Being an excellent place to work
3. Being good stewards of the environment and respected in the community

The last two of these key components we directly control. We can and do hold ourselves personally accountable for our performance. The first component in our mission statement (profitability), is much more difficult to control and has a direct effect on our ability to achieve excellent performance of the other 2 components. Milk price received at the farm level is the largest factor in the profitability equation. Our dairy family strives to attain a respectable profit. This is the single most important factor in our ability to sustain farming operations. Our situation today is not unique. The thoughts that I have outlined can be heard from almost all producers trying to market their milk in today's environment.

Fundamentally, the current problem facing farms is that revenues are not large enough to cover the expenses necessary to produce milk. This is resulting in producers using the equity in their businesses that would have been saved for retirement to finance daily operations. The only way to stay afloat at this time is to leverage more of our assets to support cash flow. This strategy will only work for a very short period of time. Many of our colleagues and friends have exited the dairy business because they have either run out of assets to leverage or have simply decided that they do not want to continue fighting the fight. Many of these farmers that have had or will have to exit the business are excellent managers and businessmen. A sad day has come when some of the best performers have to cut the show short because of circumstances out of their control.

My purpose here today is to provide a dairyman's view of the current situation and to express my opinions and suggestions for some options that may help dairy farmers experience some relief, both in

the short and long term. The industry as a whole would benefit from more moderate milk price cycles. This is a very complex issue, finding a solution will require time and patience.

I will address the following issues outlined below during this testimony:

- Changing input costs
- Debt and financial health of dairies after extended down cycles
- FMMO's changing dynamics
- CCC usage of dairy and beef products
- Imports and Exports
- Milk Inventory Management Program

#### Changing Input Costs

Escalating input costs have eroded our ability to produce milk for what would have been a few years ago an acceptable milk price. Purchased feed costs are typically the biggest line item expense. Based on Farm Credit's Northeast Large Farm Benchmark Study we can see how dramatic these changes in feed costs have been. In 2006 the average purchased feed costs per cow were \$978. In 2008 the average purchased feed costs per cow were \$1445. This is a 47% increase just to this single line item in our budgets. With purchased feed costs making up approximately 30% of our total expenses, that one single factor erodes our ability to make milk economically. While farmers have seen a small amount of relief in the costs associated with feeding our cattle, the prices paid for our feed products are still at historically high levels. With the increased emphasis on ethanol, corn prices are still being held at high prices. Soybean prices typically trend like corn prices and are still at very high levels. Both of these commodities are staples in a cow's diet.

Labor costs are the next biggest line item in our budgets. It takes a reliable and compassionate workforce to care for our animals. In the same study referenced above we can see that labor costs per cow in 2006 were \$639. That same number for 2008 was \$770. This is a 20% increase. During that same time frame fuel costs have increased from \$143 a cow in 2006 to \$226 a cow in 2008. This is a 63% increase. This has a two-fold impact on dairy farmers, as we pay freight costs of inputs and outputs, making our situation unique. When we make purchases of inputs we pay the freight costs to have the goods delivered. When we sell our product we pay that freight cost as well. All invoices for goods received at our dairy have some sort of a fuel surcharge added that we must pay. We also have to pay

an additional fuel surcharge for the goods that we are selling. Fundamentally this is wrong, we should not bear the burden of hauling expenses on both ends.

Increasing environmental regulation is another expense that we cannot underestimate. While I wholeheartedly support the efforts to protect our environment and natural resources there is a large expense that we burden to accomplish this task. Many farmers have had to take on large amounts of debt to adhere to these new standards. All of this increased attention to the environment is good; however it is an expense that is new and must be accounted for in the prices received for the milk we sell. In an effort to provide an acceptable standard of living for the owners and workers we must address the disparity between the price received for the milk we sell and the costs associated with the production of said product.

#### **Debt and Financial Health**

When the expenses are greater than the income there is only one option! That option is to borrow more money to pay for the expenses and this is how most farms are surviving the current situation. It is only a matter of time before the lending institutions stop lending money to struggling dairy farmers. Perhaps this time has come for some and will soon come for others. The effect of this cycle of low prices will have a profound impact on the future of dairy farms that survive. Many farmers are now experiencing losses in excess of \$100 per cow per month. This is taxing our ability to remain in a financial position that will support sustainability. For a dairy with 950 cows that equates to \$95,000 a month of capital usage solely for the purpose of paying regular occurring expenses, and no end is in sight. It will require strong prices for 3-4 years straight for farms to pay back this debt. Given the past performance of the dairy price cycle this is not likely to happen. Without some reform to our safety net levels and pricing structure we will undoubtedly continue to see the dairy industry struggle for a prolonged period of time.

Without changes to our current system our ability to support the needs of our citizens will be greatly hampered. This will result in the need to import more of our food ingredients from other areas of the world. It is this anticipated importation that will eventually lead the consumer to lose confidence in the safety of dairy products. This single thought process could have profoundly negative impacts on not only the dairy industry but all food supply industries as well.

Now is the time to address the financial health of our dairy industry. With rising input costs and record low prices the necessity to act is imminent. We as producers of America's nutrition cannot survive much longer without changes to the way milk is priced.

There are a number of existing policies and programs that should be modified to impact the short term and long term health of the dairy industry.

#### **Federal Milk Marketing Order System**

The price that farmers receive for their milk is primarily driven by the Class III milk price (milk used for cheese manufacturing) and the cheddar cheese spot prices as traded on the Chicago Mercantile Exchange. In the Northeast (Federal Milk Order I) we have seen that the utilization rate of Class III milk has increased over time. This change reflects the consumers using more cheese products in their diets. The original intent of the Federal Order System was built on the premise of Class I milk (fluid) being the primary use of dairy products. With changing marketing outlets and changing diets of the consumer we have seen over time that the usage of cheese products has increased and displaced some of the usage of fluid milk. This is normal market evolution and represents the changing needs of our consumers. The need to evaluate the Federal Milk Marketing Order (FMMO) is necessary to support prosperity of the dairy industry. This system needs to reflect not only the utilization of our products but also the costs associated with producing these products and raw ingredients. Changes to the FMMO might include; ensuring all milk produced is pooled in the order, changing the make-allowances to reflect input costs, putting the burden of transportation on the processor, and setting a floor support price for Class I milk.

#### **MILC Program**

Within the industry there is a lot of disagreement about the effectiveness of the MILC program. This program has surely help some farms during low milk price cycles but many other farms have not experienced much help from this program during low milk cycles. I would suggest that a better use of the assets from this program would be to support the efforts of the Commodity Credit Corporation. Increased consumer usage of dairy products will be the best way to help farmers obtain a higher price for their product.



**CCC usage of dairy and beef products**

The Commodity Credit Corporation (CCC) has the ability to affect the market in a profound way. With the current economic situation in the U.S. there are a large number of people relying on the government for their source of food. This factor is one that we should take advantage of for two reasons. The first is that it will help feed hungry people who cannot afford to provide for themselves and the second is that it will help use up some of the excess dairy inventory. Support of this program will benefit all parties involved. The largest limiting factor in the efficiency of this program is the packaging. The CCC can only buy products that are packaged to their standards. Processors have no real economic incentive to package solely for this program and therefore do not do so. The solution to this problem seems simple. The CCC needs to have the ability to purchase products that are packaged to the standards that are currently being applied to processing facilities. Support of this program would result in prompt changes in the price received at the farm for milk sold and have no negative impact on the product's consumers.

**Imports and Exports**

In respect to the global economy the U.S. dairy economy must be positioned to both receive imported milk products and export them as well. Many of the free trade agreements have helped to foster this global exchange. There are a few issues that should be addressed with these agreements however. The first issue to address is the enforcement of assessing imports the promotional fee. The money generated from the promotional fee that is assessed to all U.S. produced milk is used exclusively for the purpose of supporting and enhancing our domestic and international markets. All milk and milk components benefit from the use of this money. Imported milk products should not be exempt from this. Another issue to address would be assigning tariffs on milk product imports when we cannot compete in the global market. Our farms are held to higher environmental and quality standards than are many other dairy farm producers in the world. It is the cost associated with these standards that gives America's producers a competitive disadvantage. Milk Protein Concentrates continue to enter our domestic milk shed without regulation. These products need to become a part of the existing policies that regulate imports relative to U.S. demand. These will not be easy issues to tackle and will require careful planning and thought. There must be ways to narrow the disparity in prices without violating the agreements. In the short term the USDA should fully utilize the Dairy Export Incentive Program.

**Milk Inventory Management Program**

Numerous attempts have been made by leaders in our industry to better balance the production and the consumer usage of milk. Cooperatives Working Together (CWT) has been the most successful of these ventures. The acceptance of this program by producers highlights our willingness to help ourselves. Unfortunately CWT has not been able to prevent the current crisis that we are in today. Enhanced inventory management is a necessary component for a successful future in the dairy industry. This is an issue that will require a great deal of time to plan and execute. Long term a solid and reactive program will ensure that dairy producers can remain productive and competitive. A committee should be formed to assess the potential impact on the dairy markets and suggest a path to follow. This may or may not be a government run program but will require an intense oversight to ensure the outcome is desirable for all parties involved. It is too soon and much more information needs to be collected on this issue before a clear path can be seen. The leaders of our industry (both producers and processors) should be selected and appointed to take on this challenge. In the short term, supporting the efforts of risk management programs offered by our cooperatives will help dairy farmers secure their future.

In summary, the dairy industry is in a state of severe crisis. Food, air, and water are the essential elements needed to support life. It is the farmers in this country that provide the food. Without a united front to protect our natural resources our citizens will go hungry. Sustainability has become the latest buzz word and rightfully so. I would encourage all of us to band together, put aside individual agendas, and tackle the issues that threaten our ability to sustain our resources. Listed below are the key areas that need to take a high priority in our daily lives. I would invite and challenge each and every one of us to take control of our future and pave the path for sustainability.

**Key Focus Items**

- Address the FMMO, Make-Allowances, and entire pricing structure so that the cost of production at the farm level is taken into account.
- Put the burden of transportation costs of raw milk onto the processors.
- Set a Class I floor support price independent of the Class III price.
- Channel the resources currently applied to MILC in the CCC.
- Allow and encourage the CCC to purchase milk products as they are currently being packaged.
- Assess all imported milk and milk products a promotional fee.
- Classify Milk Protein Concentrates so that they are regulated by existing policies and are subject to an appropriate tariff structure.
- Encourage the USDA to fully utilize the Dairy Export Incentive Program.
- Form a committee to evaluate the concept and effects of a national milk inventory management program.
- Support risk management programs already in place for the dairy industry.

**Testimony of Barb Hanselman**

Good afternoon. I would first like to thank the Honorable Kirsten Gillibrand for allowing me to speak on behalf of dairy farmers. I would like to convey to you, Madam Chairwoman, Congressman Massa, Congressman Lee, and other officials about my concerns and hope for the future of the dairy industry in the United States.

My name is Barbara Hanselman. I am a New York dairy farmer with a deep concern for my fellow dairyman, and for the continued strength of the dairy industry, in all its breadth, in the United States. My husband, Ernie and I farm in Delaware County. We milk 60 cows in and our farm is located in the New York City Watershed. Our farm has a whole farm plan that protects the water that our downstate friends drink. We have seven children who have contributed to the success of our operation. It is truly a family operation. Without our children, or the ability to share a line of machinery and family labor resources with Ernie's parents, or the support and advice of both sets of parents, or the comradery of a farming community, we would have never made it. The **challenge** to be profitable as a progressive dairyman has been difficult. In order to stay in business during the low times that our dairy industry is plagued with, we learned to be enterprisers. I have baked and sold pies, sticky buns, breads, and cakes for thirteen years. I have taught sewing to young children in an arts and education program. We started a roadside market, offering sweet corn and pumpkins. This is in addition to being a full-time dairy farmer. Our oldest son, Seth, chose to return to the farm after his college graduation. This was exciting, but brought about a new challenge- we needed his strength, his new ideas, his youth, but we needed to be able to make it worth his while. Land came available to rent, and now we also have a crop enterprise, growing corn silage and hay for neighboring dairymen. It appears that we have additional children who wish to return to our operation in production agriculture. It is not because we have made tons of money and this seeds their want to become what we are- it is because we have a rich life.

I must say, and I am the eternal optimist, that this is a very difficult time. Presently dairy farmers are besieged by the worst financial crisis in history. A booming dairy export

market with a huge heifer herd to fuel it has now been crushed by the dismal national and global economy. In addition, high input costs, especially feed, fuel, and fertilizer, big business dairy processors and cooperatives, and a framework dairy policy that is archaic and no longer serving its purpose has set our industry up for the perfect storm. I am most anxious during this dairy crisis about how many dairymen will be forced to exit this business. It will not be because of poor management or lack of ambition, it will be because of our archaic federal milk marketing system, our national cheap food policy, our government's lack of concern for the domestic producer replaced by the stronger concern of global market share, and the takeover of big business in the dairy arena, that allowed their demise. There are forecasts that 25% of the current dairy farms will be forced out of their livelihood before our industry "rights itself". As we struggle to survive through this time, we need to make changes to insure our dairy industry's long-term strength and viability.

The strength of a country rests on its ability to feed itself, and feed itself well. Food is the most basic necessity, the first in need after water for a human. The fact that the farmers of the United States insure our government the ability to feed its people, as well as many other nations' peoples, grants this country the super power status that we enjoy. We are a nation built on peace, because our basic food needs are met. Because of this, we have large domestic social programs, we send troops to other parts of the world, and we extend humanitarian efforts to other nations in need. With less than less than 2% of this country's population involved in food production, there is a large share of the population that does not understand agriculture. Although this is true, we all share a common ground. We all need to eat.

The United States Dairy Farmers, in all of their breadth and diversity, are key to this country's homeland security and rural community's infrastructure. Dairy farmers produce a food that is highly regulated, and therefore safe for our country. The number and variety of size and type of operations, located throughout the US, helps provide homeland security to our country. The US dairy farmer provided 37 billion dollars to the rural infrastructure of the United States last year. A dollar earned by a dairy farmer is

turned over four times in its community, helping nurture and secure the economy of our rural towns and counties.

Several sectors of agriculture have struggled with the monopolization of their industry. Grains were the first commodity, followed by poultry, pork, and then beef. Dairy presently risks the same demise. Several industries in our nation, the textile industry to name one, have all but vanished from American soil. Other industries have outsourced large shares of their business to other countries that have less restrictions on labor and manufacturing in order to be more profitable. Do we as a country, do we as a government, want to outsource our food? Do we want to depend on other countries to insure that the people of our country are fed, fed well, and fed safely? Do we want just a small handful of the population control the entire population's food? As a dairy producer, I want to see an ample supply of quality milk produced throughout the United States.

#### PRODUCER ISSUES

The greatest challenge as a producer I have today, is the disjunction between the price I am paid for the milk I produce, and the expenses it cost me to produce it. The ag policy in our country allows the value of ag commodities to be based on their global market value, not on the domestic cost of production. This gives the United States huge strength in trade. Ironically, although I am the base of the pyramid, I have no insurance that my costs of production are covered, nor do I have any control over the price I am paid for my high quality product. In the first eight months of this year, the average price paid me per hundred pounds of milk produced was \$13.22. My cost of production per hundred was \$15.79 without being paid for our labor and management. This is just to cover our expenses, not to live.

If I have no guarantee of being paid for my production costs, I have no understanding of why processors are guaranteed their costs of production. Through federal policy, processors are insured that their costs of production will be covered. This is called the make allowance. There were federal hearings two years ago that allowed for their upward adjustment. If the price of milk falls below the level that will cover this expense,

farmers have it deducted from their milk check. The make allowance is covered in the “solid not fat component” of our milk check. The price of this component was low enough from October of '08 to May of '09 so that producers had money removed from their checks to cover the processors guaranteed make allowances.

As our price rides the highs and lows, the retail price bounces with it. When our price increases, the retail price surges with it. When consumers ask why, the response is that farmers are demanding for the price of their milk. We do not demand, federal policy dictates our price. When our price slides backwards, the retail price never slides back to the low we are experiencing. Where does the excess go? Presently dairy's largest processor, Dean Foods, has posted profit gains for the first two quarters of 31%. DFA, our country's largest dairy cooperative has posted first and second quarter profit gains of 147% and 45% respectively.

I tried to find out how much it cost to process a gallon of milk. It is not information that is easy to get. The best I could do was from one year ago, when a fellow farmer was involved in news report about the price of milk. The TV news team research showed that it cost 81 cents per gallon to pasteurize, process, package, and deliver one gallon to the grocery store. There were 45 cents indicated for federal fees and store overhead on the retail end. The average grocery store price in New York for a gallon of milk last month was \$3.16. This means there is an approximate profit margin for the processor and retailer of a dollar a gallon. Remember, I receive 92 cents a gallon right now, with a negative profit margin, and I pay for the hauling to the processor out of my 92 cents.

That brings us to the issue of who pays for the hauling. The farmer pays for the hauling even though we relinquish risk at the time of pickup. We have very little say about the variability and changes in hauling costs. Producers pay a hauling charge, a stop charge, and a fuel surcharge as their transportation costs. These costs are deducted from the gross pay in our milk check. This month's milk check paid us \$ 11.71 per hundred pounds produced (the price is based on the level of protein, butterfat, and other solids

components, as well as a producer's location in relation to Boston in this Federal Order). But this is misleading- we had \$.77 per hundred deducted for transportation, as well as \$.15 per hundred for promotion through the dairy check off program, and \$.10 per hundred for the CWT program. So our adjusted pay was \$10.69 per hundred.

The United States legal limit for somatic cell count is 750,000 cells per milliliter. The legal limit for the European Community, is 400,000 cells per milliliter. I feel that our limit should be changed to be in synch with the rest of the major dairy producing countries in the world market, especially if there is too much milk in the United States. At the very least, the standard should be enforced.

#### MARKET ISSUES

The price of milk is decided by the trading of less than two per cent of the milk produced in this country on the Chicago Mercantile Exchange. The pricing structure is formatted so that cheese traded today will dictate the price of milk three months from now. Do vegetable growers get the price decided for their lettuce, and paid them, by the cost of the salad it produced three months later? The fact that such a small percentage of the country's milk production is being traded to dictate the other 98%'s price, as well as having so few participants in trading, would seem that there could be a great chance for anti-competitive conduct. In fact, there has been investigation by the Justice Department in some of the activities of members of the industry. There have been concerns of price fixing, price manipulation, and predatory behavior.

There are four classes of milk - Class I is fluid milk, Class II is soft cheeses and yogurt, Class III is hard cheeses, and Class IV is butter and nonfat dry milk. The blend price paid farmers is based on the utilization of these classes by the federal order it is produced in. There are now more products manufactured that can not be clearly defined by these parameters. Are drinkable yogurts a Class I product or Class II product? What category is whey concentrates, milk protein concentrates, and milk protein isolates? The ability to separate milk into many components has been positive for the milk industry and



its utilization, but the federal pricing system needs to change in order to address the flexibility of milk and milk products.

Another concern in the dairy industry today is the role of cooperatives, and the role of the processors. I am a cooperative member, because there are services available to me by being a cooperative member. I am not sure though that the huge cooperatives that dominate our industry always have the farmers' best interests as their primary interests. In the dairy industry, the mega processors such as Dean Foods, which process 30% of the fluid milk in the country, and as much as 90% in some states, dictate a lot of how our cooperatives interact with us as producers. They have played a huge role in dictating how the consumer decides to buy what milk, what technology should be used in producing milk, and what milk is good (or bad) for them. They have initiated changes in the standards of milk quality, that helped them have the ability to move milk around the country and extend shelf life of milk in the grocery, NOT to insure a safer, better tasting product to the consumer. I am not opposed to change, but I am opposed to it when it is at my expense and their increased profitability.

Relative to the global dairy market, it is paramount that the standards of production of milk and milk products be held to the same level for imports as they are domestically. There are milk protein concentrates and milk protein isolates imported into the US and used in domestic cheese and other dairy product processing from countries that have lower standards of production than the United States. They are less regulated, and therefore cheaper than domestic product for the processor to use. They also are imported into this country as a nonfood, and therefore do not have to pay a tariff that other foods do. I encourage our Senate to support and pass Bill 154, the Milk Import Tariff Equity Act, so these products that are used as foods, pay tariffs as foods. This will level the playing field between the US dairy producer and imported products. It is a global economy, but we as US consumers need to know that the same standards and regulations that US dairy producers uphold, exist for the products that are imported. This alone will be the guarantee of high quality dairy products and food safety for the US consumer.

I do feel that one of the issues relating to the oversupply of milk in this country is the same problem that is facing a large share of America today. That is the huge extension of credit to some dairies, without regard to liquidity, but only to cash flow at a snapshot point in time. That is, that the financing institutions in this country were allowed liberties in loaning money, as well as the people who borrowed it, without being forced to assume the risk of it. We live in a time where people no longer say, I can pay this off in X years, but instead it is the ability to cash flow the payment *at the time that the money was extended to the individual*. There is no thought on some individual's minds of ultimately paying off what was extended them. Too much of a lot of things are banked on huge risk, not responsible risk. In the dairy industry this meant that during a time of high pricing, millions of dollars were extended for expansion of the industry, banking on risk, not historic data, only to see it now on the verge of crumbling.

I am in support of a mandatory supply management system. The global and domestic market, processors, cooperatives, and most of all producers, would benefit from a more stable milk supply. These highs and lows are killer for producers, but they cause issues with other parts of the industry, including the services that support dairy production. Each low time changes the infrastructure of our dairy industry, that cannot be reclaimed or rebuilt during the highs. History has shown that our country usually has a year over year increase in demand for dairy of about 3%. Presently for the year, there is an increase in commercial disappearance of fluid of just over 1%, yogurt, an increase of 5%, and cheese of 3%. This is during poor economic times. I would encourage a supply management system that is two tiered. All dairymen would receive a base that is reflective of their historic production. Tier I pricing of the base would be highly dictated by the costs of production and Class I and II utilization. Tier 2 pricing would be dictated by the more volatile portion of our milk supply, the portion of the milk supply that is now covered by the make allowance, the hard cheese, butter, and powdered portions, the portion that is most dictated by the global economy. I am not an economist, and I do not feel that I can draft a policy. I do know that for the strength and viability of this industry, there needs to be a new federal milk marketing policy that keeps our dairy industry strong through out the United States.

Lastly, this is an industry that needs young people. Dairy farming is physically demanding. It is an industry filled with stress because you are not only at the mercy of the volatility of milk prices, you are also at the mercy of the weather, crop and animal health, volatility of input costs, and labor issues. It is a rough industry for young people to enter because there is way too much capital needed to start up without borrowing large sums of money, and there is no way to budget accurately, or cash flow the huge price deficits that dominate our industry. It is very hard to get credit extended to a dairy farmer at this time unless they have substantial equity, or they are guaranteed by the Farm Service Agency. An industry is only vital when there are young minds and strengths to fuel the future, to guarantee its perpetuation. As we go forward, we need policy that encourages young progressive farmers to enter, and allows them to survive.

Once again, thank you for this opportunity. The United States needs to keep the dairy industry and all of agriculture strong. It is a matter of feeding our population safely, a matter of homeland security, a matter of strong rural communities and open spaces, and a matter of positive trade balance.

I would be happy to answer any questions.

Legislative Responses to the Dairy Crisis: Reforming the Pricing Structure  
 Robin Denniston-Keller Dairy Farmer  
 Thursday, August 27, 2009 Genesee Community College, Batavia, New York

Hello, my name is Robin Denniston-Keller and I am a proud American Dairy Farmer. My husband and I milk 100 Jersey cows and take care of another 100 young stock on our farm 10 minutes northeast of here in Byron, New York. It's a privilege and honor to be asked to speak today. I'm not an economist, or an expert, but I do feel I have common sense and a strong work ethic, which has served me well so far in life. I milk my own cows every day, and being up to my elbows in the results of lactation and excretion (generally not at the same time!) gives me a certain sense of reality! I also feel it's important to volunteer. While my work life is full, I enjoy getting off the farm between chores to meet with fellow dairy farmers locally and nationally. My role as the Genesee County Farm Bureau President has opened my eyes to the legislative lobbying world as well as shown me the power of grassroots advocacy for agriculture. As the New York State Director for the American Jersey Cattle Association, I have had great opportunities to share my part of the world with Jersey dairymen from around the globe; we hosted 50 international Jersey enthusiasts at the farm this summer as a tour stop on the World Jersey Cattle Bureau world tour. I don't mention these activities to brag, but to indicate my voluntary support of ag organizations working towards a stronger future for American agriculture.

Getting back to the financial basics- our "producer blend price" for our milk produced in July 2009 was \$12.89 per hundredweight. Put in consumer terms, \$1.11 a gallon. I could spend my next three minutes ranting about the injustice of this, but that's not constructive and you can figure out on your own how I do the math to be able to pay for our own health insurance, our groceries, feed for the cows and calves, fuel for the tractors, hauling and fuel surcharge costs to send the milk to the processor, and the numerous other bills staring me in the face each month!

Our 100-cow dairy benefits from the MILC program. We are at the perfect size to maximize our usage of the program. Our MILC government payments are currently a little more than 10% of our monthly income. My fellow dairymen in western New York generally milk more cows, and thus have maxed out their "production caps" for the MILC program, and don't receive the full benefits of the MILC program, however they do have economies of scale on their side in the purchasing of inputs and the costs of production, such as volume premiums.

#### Solutions to milk pricing issues

Please remember, as I said before, I'm not an economist, or an expert!  
 Time heals all wounds-however- how do we staunch the bleeding now?

1. Increase solids-non-fat fluid milk standards. I like to call this the "No more blue skim milk" suggestion. Since 1962, California has had higher minimum standards for nonfat solids in fluid milk than the rest of the United States. Raising the United States standards to match the California standards will accomplish the following:

- Improve the nutrition benefits of milk. For example, California 2% milk has 21% more calcium than does 2% milk in other states. In addition, higher solids result in better tasting milk.
  - Utilize more milk solids in consumer products and reduce the amount of nonfat dry milk produced for CCC purchase. This June, Dairy Farmers of America estimated that if the California standards had been in effect for the rest of the U.S. during 2008, an additional 300 million pounds of milk solids would have been included in fluid milk sales. This represents more milk solids than were in all the CCC nonfat dry milk purchases through July 2009.
  - California retail milk prices have remained competitive with, not higher than, the rest of the U.S.
2. Urge Agriculture Secretary Vilsack to have USDA purchase cheese for nutrition programs. On July 23, Western United Dairymen wrote to Secretary Vilsack requesting that USDA make a large purchase of cheddar cheese. This single action would accomplish several goals.
- Help to bolster milk prices and ease the current crisis faced by many dairy producers across the country.
  - Reduce outlays in dairy safety net programs (MILC payments and CCC purchases).
  - By donating the purchased cheese to food banks and other charitable organizations, USDA would be providing humanitarian nutrition services.

Cheese inventories are poised to be much higher than normal heading into fall. This supply is weighing on the market and suppressing prices. A purchase of 100 million pounds of cheese would bring inventories more in line with their 2004-2008 levels and would bolster farm milk prices. Even a modest rise in milk prices will provide relief for dairy producers; reduce MILC expenditures, and lower CCC purchases of cheese. Also, the nation's food banks and other nutrition programs are severely stressed due to the continuing recession. An influx of cheese to these providers will help to reduce hunger and improve the health and nutrition of families across the country.

3. Overhaul the dairy price discovery program. (I was pleased to see Dr. Novakovic on the list of speakers today. I sincerely wish I had been a more attentive student in his class on Dairy Markets and Policy, years ago at Cornell.)

I believe that our current milk pricing structure is based on the trading of cheese on the Chicago Mercantile Exchange. I'm also under the perception that 2% of the cheese in this country is traded on the CME. This small amount of cheese determines my mailbox price. Or in other words- what the check I get in the mail says I will be paid for the product I've spent the last month getting covered in manure and other fine things to harvest. This whole process goes directly against my good old common sense. We need a new set of tools in our milk pricing toolbox. My pessimistic side of my common sense questions whether there might be some manipulation of the market occurring? With the small 2% volume of cheese trading, and only a few buyers and sellers on this exchange, from my "out in Byron, New York" perspective and a healthy dose of reality, I wonder why I am in a business where I buy everything

retail and sell my product wholesale, and the pricing mechanism is based on what I would call a “house of cards”? Way of life, being my own boss, pride of ownership, producing good food for an expanding world; they’re all good reasons, but if I am not treated fairly, it’s time for me to wake up and find another life. I digress. Back to my suggestions.

#### 4. Imports

Charge promotion fees on imports. United States dairymen contribute \$.15 for every hundredweight of milk we produce towards dairy promotion. I believe the new Farm Bill instructs USDA to charge importers \$.075 for every hundredweight of dairy products imported into the United States. Dairy promotion basically helps create a larger market for dairy products. Importers benefit from that increased demand for dairy that our domestic producers have paid for, so it only seems fair to have importers contribute into the promotion program. At issue here is the fact that USDA has not implemented this fee, and it discourages me to see the lack of timeliness on legislation implemented into law. Seven and a half cents is not much, but I think charging importers this fee (which is already legislated) would decrease the amount of imported dairy products flooding our domestic market. I believe in fair trade, and I feel this fee charged to importers would level the playing field, and I’m encouraged that this promotion fee works for WTO reasons as well. In regards to imports, I am a strong supporter of Senator Schumer’s bill to properly identify imported Milk Protein Concentrates (MPC’s) and charge a tariff on them as dairy products. This loophole may not affect a lot of MPC’s currently, but imports of MPC’s have gone up and down in the past, as they will in the future, and I for one don’t have a lot of trust that these imported dairy products are safe or healthy. Food sovereignty is the saying bandied around when people get scared about imports, I say it to myself, every time I put a Kraft “American” Cheese (processed cheese food?) single on a sandwich or make mac & cheese out of a box.

#### 5. Proceed with Extreme Caution before implementing Growth Management or Supply Management Programs.

While some producers and organizations are promoting growth management or supply management plans as a long-term solution to the dairy economy problems, I have some issues with these plans. Again, not an expert, and applying my common sense, I’m concerned about the lack of any robust economic analysis of the potential impact of these plans. Without a solid knowledge of the impact of any such plans, I am not in favor of “jumping out of the frying pan and into the fire”. Supply management goes against all my gut instincts, and my belief in the efficiency and productivity of the American Dairy Farmer. Last year’s high milk prices at the farm level resulted from a booming export market for American dairy products. We live in a global economy, and putting handcuffs on the American dairy industry with mandatory supply management seems to me to set us up for future failure. We only have to look “across the pond” to see Europe struggling to get away from their quota system. Perhaps I’m a naïve humanitarian, and I have big goals, but I sure would like to produce safe American made dairy products for the babies in China or other milk deficient countries around the world. Perhaps I shouldn’t use that warm fuzzy feeling

of providing a safe and nutritious food for my fellow earthlings in regards to our business here in New York, but, with the price of milk we're currently getting, and the mountains of bills coming in each month, holding onto that warm fuzzy feeling gives me comfort in a time of need.

Speaking of a time of need, a sincere thank you to Senator Gillibrand and your staff for your efforts on increasing the MILC rates and indexing these payments for inflation. I am a proud American Dairy Farmer, and taking handouts does not please me, but this is truly a time of need for my fellow dairymen and me. Thank you for your efforts and your interest in the intricacies of dairy pricing.

Thank you for listening to my suggestions, and I'm looking forward to working together to resolve the dairy pricing issues we currently are facing and those in the future.



**Northeast Dairy Foods  
Association, Inc.**

201 South Main Street, Suite 302  
North Syracuse, NY 13212

Statement of  
Bruce W. Krupke  
Executive Vice President

on behalf of

Northeast Dairy Foods Association, Inc.

Before the  
United States Senate  
Committee on Agriculture  
August 27, 2009



Senator Gillibrand, thank you for the opportunity to appear before you today and provide you with statements regarding the U.S. dairy pricing structure. My name is Bruce W. Krupke, I'm the Executive Vice President for Northeast Dairy Foods Association, Inc. which was formed in 1928. I am here representing the 111 member companies of our full service trade association of fluid milk processors, distributors and manufacturers of ice cream, yogurt, cheese, sour cream, cottage cheese, cream cheese, butter, whip cream and dips among many others. Collectively these companies employ over 18,000 people here in New York State. Most importantly these companies are the buyers of raw milk and the customers of dairy producers.

As you and the United States Senate Agriculture Committee consider the national dairy pricing system I would like to provide you with our association's positions on a few critical policies. Our association supports the current Federal Milk Market Order (FMMO) system. It is our position the FMMO system is working as created and intended. We support the system because the formulas USDA uses to calculate monthly producer prices is based on supply and demand factors.

Our association believes it is very important any system mandated by the Federal Government which ultimately prices raw milk is based on competitive policies and encourages efficiencies within the entire dairy industry. Another policy we regard as very important for any pricing system is that it be fair for all participants, producers, processors and consumers. We support the ability of dairy producers to compete for buyers of their raw milk, either as members of cooperatives or as independents. We do not support policies that artificially inflate the raw milk price that is not based on supply and demand and is not fair and competitive. We do not support state programs that usurp or interfere with the FMMO program.

New York State has approximately 600 companies licensed and engaged in processing, manufacturing, hauling, distribution or that are bargaining agencies. Of the 600, about 300 distribute milk and dairy products to retail and foodservice locations. Of the 300 there are 31 pasteurizing milk plants and 69 manufacturing plants. For perspective 25 years ago in 1983 there were 100 milk plants and 71 manufacturing plants. Our industry, like the number of dairy farmers have dramatically contracted and consolidated.

Here in New York State and the Northeast U.S. we are blessed with an adequate raw milk supply. There is not a milk shortage. In a week, schools across the state will open and our milk plants will easily be able to service their customers. The reason there won't be a problem is because milk production overall and per cow here in New York State and key areas of the nation have steadily increased over time.

As the customers of raw milk our member's are similar to any consumer. We need a consistent and adequate supply of quality raw milk for our processing and manufacturing plants. They want a good price, good quality and sufficient supply to choose from. Although these wants are really more like mandatory needs. New York State and the northeast for that matter are fortunate to be in close proximity to both their raw milk supply and to millions of consumers. We have a very good mix of all types of Class I, II, III and IV milk and dairy product plants that provide us operating efficiencies..

It is very important for you to understand our milk processing and dairy product manufacturing plants need to be competitive. We compete with companies from all across the U.S. What we need is to have access to a good supply of raw milk but even more importantly we need producers that are efficient and cost productive. Our members survival requires them to procure raw milk at the best competitive

price. If other regions of the country has lower priced raw milk, producers in our region as well as our association members will lose market share. We will be beat out by our competition from the West and upper Mid-West.

There is no question, prices dairy producers being paid over the past 6 months have been unusually low, painfully low. Although, those prices have been tempered with additional income from the enhanced Federal MILC program and recent adjustments to dairy price supports. Dairy producer prices have been further enhanced by buyers of raw milk who pay voluntary premiums, this is extra money paid to the dairy farmer that is over and above the minimum mandated FMMO price. These payments are paid based on quality, quantity, competition and loyalty.

With a strong dairy industry in the state and region, why is it that raw milk prices dairy farmers are receiving now are low? The simple reason is due to a basic national over supply and reduced domestic and export demand. Too many of the same people are doing the same thing all at the same time. If allowed, the system will eventually correct itself without further government intervention. In fact we believe the low price cycle has passed and increased demand has begun.

What should the Federal government do when considering changes to the current system?

- First and most important, any program whether it is a government program or voluntary industry initiative needs to focus on increasing consumption and sales of milk and dairy products. We have lost sales of fluid milk to competing beverages which has been the single largest reason why prices are lower for producers. Any program, law or regulation that stymies milk consumption should not be implemented or passed. This includes changes to the National School Lunch program or WIC.
- Before any changes to the Federal Milk Market Orders are proposed or enacted, they should be carefully reviewed by experts from the industry who clearly understand milk marketing from farm to consumer.
- Any changes to the FMMO should mandate and include all dairy producers in the nation. How can a fair program be established if some producers are not participating while others enjoy advantages or protections, either regional or by state? Participation should be mandatory for all U.S. producers in any milk marketing program.
- Any program changes should be implemented to allow producers to compete on a world market. We cannot survive if we do not have a world marketplace to sell excess products at competitive prices.
- Programs that try to manage raw milk supplies should be discouraged. Supply management only decreases cost efficiencies, technologies and growth. To be a world leader we need all three of these examples to compete and survive.
- Although the volatility of raw milk prices have been dramatic, they are a direct result of government intervention dating back to the Regan administration. The whole herd buyout in the late 80s started the cycle of reducing herds, leading to decreased supply, then higher prices then eventually to over production and lower prices. Less, not more government intervention should be the policy. The law of supply and demand will work if left alone.

We do not support the U.S. Senate's recent move to add \$350 Million for programs under the Farm Service Agency. Additional government purchases of commodities will have a number of consequences. New York State producer raw milk prices will be harmed further if passed into law while California dairy producers will benefit from this program. If passed California producers will continue to over produce raw milk and Class IV products flooding the markets. This will further prolong or force raw milk prices down even lower for New York milk producers.

Dairy producers in other parts of the country are currently finding and implementing new methods and technologies that will make them more competitive with New York's producers. We encourage New York and northeast producers to utilize the many public and private options to increase revenues, protect costs and lock in prices.

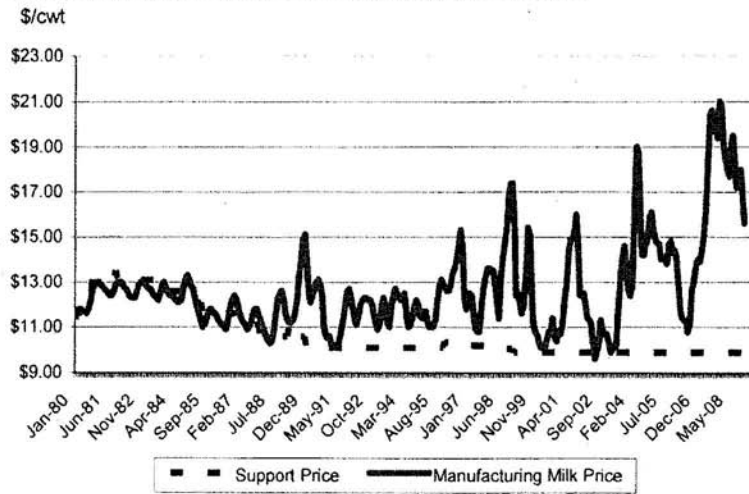
The dairy industry needs practical market driven solutions. The industry needs to build a consensus between producers and processors to find equitable solutions. Government needs to listen carefully to the entire dairy industry to help implement effective and lasting improvements for dairy producers, processors and manufacturers.

On behalf of the Northeast Dairy Foods Association, Inc., our members, and affiliates I thank you very much for inviting us to comment.

Respectfully,

Bruce W. Krupke  
Executive Vice-President

Price volatility has increased as support price has fallen



Source: ERS, AMS.

August 27, 2009

I'm Ron McCormick -Dairy farmer, past member National Dairy Promotion Board, NYS Advisory Promotion Board, Local Milk For Health and NYS Farm Bureau dairy committee.

Our farm was established in 1854 when my Great Great Grandfather came over from Ireland. My wife and I formed an LLC with our 2 sons and their families. If we can survive this financial crisis, I can see the 7<sup>th</sup> generation, my 2 grandsons, continuing on this family farm. We milk 400 cows , 3x a day with 5 employees to help milk. My daughter-in-law raises all the calves.

We raise all our own forage (corn & alfalfa) on our 500 acre farm plus rent an additional 400 acres. Our mission on our farm is: **Quality milk, cow comfort and to leave the land and water in better condition for the next generation.**

The problem - Too much of a good thing -milk

The demand in the US has remained the same or has increased a bit , however last year the US exported the equivalent to 11% of the milk - this year only 4 to 5%, which leaves a difference of 5 to 6 % excess that we have to find a way to get rid of. I, as a dairy producer, produce the most nutritious, and safest food for the nation. With thousands of starving people not only in the US, but all over the world it is hard to understand why we have to cut production and go broke.

The current milk marketing order is currently based on demand.

Two proven ways to increase sales of & demand for dairy products are through New Look of School Milk Program & the Breakfast in the Classroom program. Not only do these programs help sell dairy products now, but they also help build life-long dairy consumers which is essential if we want to ensure future generations of dairy farmers. As the Government funds school meals, your assistance in helping with the growth of this program is essential.

The New Look of School Milk program replaces the traditional cardboard containers with plastic, resealable, round containers. These recyclable containers are more appealing to kids and can increase sales by double-digits - sometimes as much as 35%. Not only is the increase in consumption helping to improve our childrens' health and nutrition, but it is also helping to increase the sales of and demand for our nutritious product.

Children who eat a healthy breakfast have been shown to improve academic achievement and behavior all day long. This is why we need to encourage schools to adopt the Breakfast in the Classroom program. Traditional breakfast, usually served before the school day begins in the cafeteria, has low participation rates, (usually less than 20%). When breakfast is brought directly to the students through "Grab n Go" system or directly in the classroom during morning announcements, participation increases to more than 90%. Not only does this program help support our local dairy farmers, but it is also increasing the overall nutrition of our students as well as giving them the ability to achieve more academically.

A win-win for farmers and consumers is to require that all fluid milk in the United States be fortified with extra milk solids using the California Standards. Such fortification benefits consumers by adding nutrients, without adding fat to their diets. Furthermore, most consumers prefer the white color of fortified nonfat milk instead of the blue color of traditional skim milk. Farmers benefit because more milk and milk solids are consumed in fluid milk.

Another problem that dairy farmers are facing is when consumers require us to not use a technology that has been USDA approved as safe. For example, when consumers refuse to take milk from cows that have been given rBST, this means that farmers either pay more to produce the same volume of milk or pay higher hauling costs to transport their milk further to a processor who will take it. Traditionally, milk orders enable farmers to be paid more depending on factors such as protein, butterfat, and somatic cell count that can be determined by lab tests. However, farmers also need to be compensated fairly for their increased production costs when their milk must meet the requirements for rBST-free, organic and other such situations that may arise in the future, when some customers require producers to not use legally approved farming technologies.

In the last 2 farm bills it was required that all milk, even imported, pay 15 cents for promotion and research. As of today, the USDA still has not written the regulation to collect the 15 cents that was passed by Congress which will help level the playing field. If the 15 cents is collected, US processors will make MPC's (Milk Protein Concentrates), which will enable them to compete against imported products. We all know that our milk is more regulated and safer than **from** any other country.

Our government has to find a way to feed the hungry in the US & the world. Give **food** not money which would not only help feed the hungry but also help US farmers and the balance of trade deficit.

The way milk is priced is **outdated**.  
NASS ( ) which is not accurate or months late and the CME (Chicago Mercantile Exchange) for the main pricing. Only 2 or 3% of the cheese is sold on the CME- this sets the price we get on our milk. We need to reflect the other increased costs of production such as feed costs, fuel, electric, health ins., labor, interest, CAFO regulations and taxes.

I, as a dairy farmer, would love to have the processors pay for milk hauling. They **can** in turn pass the cost on to the end product, but every processor in the US has to pay or it will create an unfair advantage or disadvantage. All milk has to be picked up, even in remote areas.

**This Crisis is Real** - hitting my farm by the end of the year with a loss of approx \$1000/cow or \$400,000 -- my MILC payt. is only \$49,226.02. Most farmers are on interest only with the banks but the bigger problem is how it is affecting the families of the owners and the employees of the feed dealers, vets, fuel providers etc. In Wyoming Co, these families account for more than 60% of the jobs directly or indirectly dependent on cows for their livelihood.

Senator Gillibrand- Your proposal to double the MILC payment from February to Oct would sure help our farm and many more who are wondering how they are going to pay even a little on their open accounts.

Thank you very, very much for listening to us today  
Please help our dairy farmers and all employees & their families of the community businesses that depend on our cows. Ron  
McCormick



PS: Other important ideas I didn't have time to mention  
Keep DEIP ( Dairy Export Incentive Program) going and increase funding.

Government should have a committed supply of milk, dairy products and cheese and a plan ready to execute delivery to natural disaster regions.

Educate leaders (how)- Dairy farmers have science-based research facts - how do we get Senators and Congressmen to listen to the facts and not the myths of the Humane Society and PETA.

Example 1 - Farmers know cow comfort- some use mattresses, some use sand - each farm is different but cow comfort is #1.

Example 2 - Antibiotics- Farmers use only what they have to and almost always after consulting with vets. The milk is tested and retested before it can go to market. Antibiotics cost too much for the farmer to unnecessarily waste. I wish Washington and Albany would ask us before they make rules from behind a desk affecting our livelihood.

Congress should allow states(2 or more) to work together for over order pricing.

Risk Management- Very good idea but who's got the time to get educated. We're a family farm - we work more than 8 hrs every day and we don't have time to study the futures, options & puts. What with trying to keep up w/ all the regulations, CAFO, manure management, pesticide licenses, nutrition meetings so that we are feeding our cows balanced and healthy rations, fighting Washington & Albany because some of them think they know how to run a farm, we just don't have time or money to hire someone else so that we can track futures or options day in and day out. We are sustainable and have learned through common sense how to deal with mother nature.

For any supply management or 2-tiered pricing, the WTO should be consulted to make sure these do not violate the rules of the WTO. Tom Suber, CEO of the US Dairy Export Association, says that some of these things violate the rules and regulations of the WTO.



**Statement of the  
New York Farm Bureau**

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**To the Senate Committee on Agriculture, Nutrition and Forestry  
Subcommittee on Domestic and Foreign Marketing,  
Inspection, and Plant and Animal Health**

**“Legislative Responses to the Dairy Crisis: Reforming the Pricing Structure”**

**Presented by Dean E. Norton, President, New York Farm Bureau  
Thursday, August 27, 2009**

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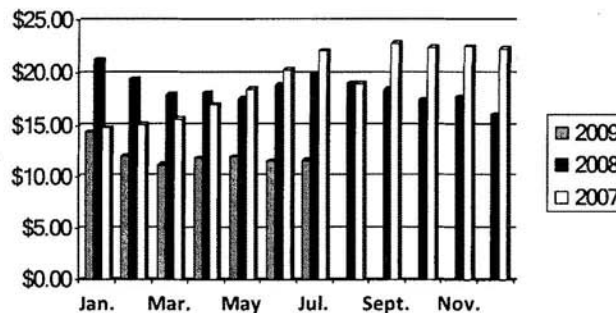
Thank you for inviting me to testify before you today. My name is Dean Norton and I address you as a dairy farmer, agricultural consultant and President of the New York Farm Bureau, the State's largest general farm organization. I represent more than 30,000 family farm members, including many dairy farm families struggling under the weight of this economic crisis.

You have just heard from a diverse group of dairy farmers. The impact of low milk prices on entire communities could not have been more eloquently expressed and I know that you and your colleagues have been affected by these real-life experiences. Our dairy farmer-members share their blunt assessment of this dairy crisis and the sheer determination needed to survive these cyclical pricing downturns.

#### FARM MILK PRICE AND PRICING STRUCTURE REFORM

Dairy farms throughout New York, the Northeast and the nation are indeed facing the worst economic crisis they have ever experienced. This crisis is impacting every farm regardless of size or geography. The combination of extremely low milk prices well below those of 25 years ago along with very high fuel, feed, energy, fertilizer and other operating costs have resulted in unprecedented losses for all dairy farms. Even with the inclusion of the feed cost adjuster in Milk Income Loss Contract (MILC) payments, which we owe to your efforts during negotiation of the 2008 Farm Bill, farmers are not able to cover their costs of production. In simplest terms, farm families are getting paid nothing to cover their living expenses and bills, and then losing money per hundredweight (cwt) on top of that.

#### New York Farm Milk Price



It is important to remember that dairy cows are not like water faucets—you cannot turn them on and off when you need, or do not need milk. Production takes a relatively long time to gear up to meet demand, and after production has increased, lower demand can result in overproduction and thus lower prices. For this reason, it is critical that there be price stability at the farm level.

There is enormous frustration amongst our producers that the milk price paid to farmers is based on a price discovery mechanism dependent on the Chicago Mercantile Exchange (CME). Both complex and erratic, price stability for fluid milk has been elusive under this pricing mechanism based on CME's cheese and butter markets. Because of this, NYFB recommends decoupling of Class I or beverage class milk from manufacturing milk in price determination.

Similarly, there is enormous frustration that the federal Milk Marketing Order System does not offer adequacy or stability in pricing for fluid milk. It is clear that a systemic review and overhaul of the federal Milk Marketing Order System and its relationship to the CME should be undertaken in an effort to avoid extreme cyclical downturns so that dairy farmers are not forced to seek emergency government assistance simply to survive. While the Milk Income Loss Contract program has helped New York dairy farmers somewhat during this price downturn, a regional pricing program that extracts its value from the market instead of the taxpayers, similar to the Northeast Dairy Compact that expired in 2001, would be far more effective.

Because of the movement of milk and milk products across state lines, no state acting alone can "solve" the milk price issue within its boundaries. The Northeast region is a major "milkshed" to some of the nation's largest population centers. Under the FMMO, our dairy farm families are currently reliant upon a nationally-based pricing system which balances national supply and demand, but does not always recognize the regional production needs throughout the entire nation. This system also tends to penalize areas with higher costs of production which are closer to existing population centers, such as in our geographic region.

Recognizing this, the Northeast State Farm Bureaus and their producers are working together to capitalize on our assets and ensure that the milk pricing structure works for our region. It is clear to the Northeast Farm Bureaus that the federal order system must be reformed to accommodate regional variations in fluid milk production in order to keep milk supply near population centers. Several weeks ago, New York Farm Bureau and twelve other Northeast State Farm Bureaus sent a joint letter to USDA Secretary Tom Vilsack making such a request (please see attached addendum).

Senator Gillibrand, we also make this request of you and the Senate Agriculture Committee. Please use the Committee's position and authority to examine the federal order system in depth with the intent of making it more responsive to fluctuations in farm milk prices and regional variations in fluid milk production. We need our order system to be transparent, projective and more suitably reactive to markets.

We also ask that you consider other options that accomplish the same goals of profitability and stability within the dairy industry. New York Farm Bureau suggests that Congressional authority be granted legislatively to allow two or more states to work cohesively to best utilize their milk pricing laws. Allowing states to work together to establish over-order prices for fluid milk will prevent disruption of

movement of manufactured dairy products but achieve some stability and retention of farms in the region.

#### **BUSINESS CLIMATE**

Volatile and inadequate milk prices are not the only impetus for this crisis. While not a root cause, a contributing factor to our current quandary is the influx of imported Milk Protein Concentrates onto our domestic markets at the most inopportune time. While MPC imports were not great in volume, they were received by U.S. markets in November and December of last year when U.S. and global demand was waning due to the worldwide recession. When our dairy industry could least afford it, our dairy supply/demand relationship was compromised by these imports. At the very least, MPC imports should be restricted as to how much may be received by the U.S. in a one month period to prevent flooding of our domestic markets.

Dairy promotion fees which are dedicated to building consumer demand for dairy products should also be collected on all imported MPCs, casein, dairy and cheese products. Our foreign competitors are currently enjoying the benefits of national dairy advertising being paid by our U.S. dairy farmers. It is like we are giving away our retail market to our foreign competitors and paying them to take it from us! U.S. dairy farmers have been contributing 15 cents for each cwt of milk they sell to fund national advertising and nutrition research to increase U.S. milk product consumption. The USDA is currently delaying implementation of a regulatory proposal to assess 7.5 cents per cwt on all dairy-based imports, including cheese and butter products, as well as dry ingredients such as casein and MPCs. Statutorily authorized under the 2008 Farm Bill, NYFB recommends that USDA enact this promotion assessment on all imported MPCs immediately and require that this fee on imports be equal to what is paid by U.S. farmers, which is currently 15 cents.

New York's business climate makes it difficult for the family farm to survive these pricing lows and continue to grow the next generation into the business. Farmers face and comply with a multitude of regulatory and statutory requirements – on the state and federal level. Adding to this burden would make New York's business climate more onerous than it already is. This is unacceptable for our farmers that compete in a global market to sell dairy products with foreign and domestic competitors who do not have to tolerate such rigorous and expensive mandates. As you take up climate change, health care reform and food safety legislation during the remainder of Congressional session, please be judicious in your consideration and hold our farm businesses harmless from overreaching policy.

Outside of New York's hostile business climate, access to adequate and reliable farm labor is a priority concern for our dairy farmers. Our state's dairy industry will look considerably different if our farm families are not able to access a skilled and willing workforce which cannot be found in the U.S. U.S. residents do not want to endure the long hours and hard labor that our dairy farmers require of themselves and their families to run their farms. In order to fill this workforce gap, passing and enacting a viable, agricultural guest worker program either as a standalone initiative, such as AgJOBS, or as part of comprehensive immigration reform is one of our highest legislative priorities. NYFB asks for your

cosponsorship of AgJOBS and advocacy with the Senate leadership to bring the issue of agricultural guest labor to the Senate floor by the end of this Congressional session.

Lastly, many New York's farm families survived the last pricing downturn in 2006 by relying on credit to pay their operating costs. Farm families once again find themselves turning to this last resort to pay farm operating expenses, make payroll and milk cows for another day. While farm milk prices are predicted to rise through the end of the year, they will not be sufficient for many farmers to satisfy their debts and pay for current expenses needed to run the farm.

While we sincerely appreciate and applaud USDA's and your efforts to increase dairy support prices under the Dairy Price Support Program, the financial impact of these actions may not be reflected in farm milk checks until March 2010. Presently, if not in the coming months, many farms will have neither the cash nor the ability to borrow the funds needed to purchase necessary feed for their cows and seed, fertilizer, fuel and other seasonal costs if emergency assistance is not provided for the dairy industry immediately.

Our farm families cannot stomach the milk price roller coaster ride any longer. NYFB recommends that retroactive MILC payments for 2009 continue to be pursued. NYFB also asks for an increase in the annual production cap for MILC payment eligibility to allow for more producer participation. NYFB also recommends that the Senate Agriculture Committee ensure a strong and adequately-funded Farm Service Agency loan guarantee program make it through the 2010 budget process. All of these measures would allow for business recovery for dairy farmers who would not be able to do so otherwise.

#### **CLOSING**

In closing, there is no question that finding a solution to the cyclical dairy pricing crisis is a significant challenge. But I am confident that enough people, from producer to consumer, recognize that something must be done so that the depth and length of price downturns can be avoided in the future.

NYFB looks forward to working with you and Committee staff on what I know is a common objective: ensuring the stability and long-term viability of the dairy industry here in New York and nationwide.

Thank you for giving me the opportunity to speak to you today. We appreciate your immediate attention and concrete actions to assist our dairy farm families.

I would be happy to answer any questions you may have at this time.



## Comments on Federal Dairy Policy

### Briefing Paper Number 09-2

August 2009

by **Andrew M. Novakovic\***

It is my pleasure to appear before you today to provide testimony and background information pertaining to federal dairy programs, particularly as they relate to farm milk prices. The situation facing dairy farmers across the US is quite likely the most difficult since the Great Depression. It is characterized by not only low milk prices but also high input costs and very weak demand due to the very weak US and international economy. While the federal government has all the tools at its disposal that it has had in previous difficult periods, such as the early 1970s, early 1960s, and late 1940s, we find ourselves less politically able to wield these tools for the benefit of dairy farmers. I have included with these brief written comments an annotated slide set that I have used for a variety of purposes. This document is intended to provide a fairly concise survey of existing policy tools, including their legal and historical background and their economic operation and effects. I also highlight some alternatives, including a couple that are being discussed at present.

Before I begin this discussion, I would like to state for the record that I am here in my capacity as a professor of agricultural economics at New York's Land Grant University – Cornell University. In addition to my teaching duties in agricultural market economics and policy and in business management, I have served as the Director of the Cornell

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\* Andrew M. Novakovic is the E.V. Baker Professor of Agricultural Economics and Director of the Program on Dairy Markets and Policy at Cornell University. The author copyrights this paper, but permission is granted to quote from the paper or use figures and tables, provided appropriate attribution is made in the reprint.

This paper was presented as oral testimony before a Field Hearing held by Senator Kirsten Gillibrand, Chair of the Subcommittee on Domestic & Foreign Marketing, Inspection, & Plant & Animal Health of the Committee on Agriculture, Nutrition and Forestry. The Hearing was held in Batavia, NY.



Program on Dairy Markets in Policy since 1978 and, since 1989, as a co-Director of the National Institute for Livestock and Dairy Policy, in partnership with the Agricultural and Food Policy Center of Texas A&M University. NILDP, a Congressionally funded project, aims to provide policy analysis and market education focusing on the various sectors of animal agriculture in the US. Working with Members of Congress and the House and Senate agriculture committees is something we consider to be among our most important responsibilities.

### **Major Existing Dairy Policies**

Dairy policy is often described as incomprehensible. It is assuredly complicated, especially if one wants to get into the details. In my brief time today, I can only provide a sketch of existing programs, but I would like to take some time to very quickly comment on what our major programs do, what they don't do, and how well they accomplish their goals.

#### Federal Milk Marketing Orders

Among the tools currently active, Federal Milk Marketing Orders are chronologically the first. The essence of Marketing Orders is Classified Pricing and Pooling. In other words, the government enforces minimum monthly prices for milk according to classes of dairy products. Pooling means that these different values for milk are combined in a weighted average that is shared back to farmers regardless of the specific destination or use of any one farmer's milk. Marketing Orders are organized in regions of the US that the Secretary has determined constitutes a definable and separable market based on competition for the sale of fluid milk products. The current 10 Federal Order areas, combined with similar pricing regulations in 7 states, result in the price of milk being regulated for over 90% of producer milk in the US.

Industry members, analysts, commentators, proponents, and critics have ascribed many purposes to Marketing Orders. In my opinion, the primary purpose of classified pricing is to enhance returns to producers. This system is a form of price discrimination in which high prices are charged to users whose demand is most inelastic, i.e., least sensitive to price increases, and correspondingly lower prices are charged to other users as necessary to clear the market. A byproduct of this system is to ensure that all buyers of farm milk have the same minimum price obligation and thereby reduce their incentive to compete with one another by seeking lower milk prices.

The primary purpose of pooling, in my opinion and as I understand its historical evolution, is to eliminate "horizontal competition" or what history has labeled "destructive competition." This system seeks to eliminate incentives that farmers otherwise might feel to compete with one another for the highest returns. This type of competition among producers seeks to result in the best price for each individual but typically results in a lower average price for all participants.

Much can be said about Federal Milk Marketing Orders. They have been much cussed and discussed in the past 20 years, and I anticipate that they will continue to be a part of the current conversation. I would like to limit my remarks to these few observations or opinions.

1. I do not believe that Marketing Orders, the basic tools of Classified Pricing and Pooling, have much to offer as a solution for the current pricing situation. Ideas have been proposed to try to use Marketing Orders to enhance prices or otherwise effect certain price results. In my view, these proposals are ill conceived or would not be as effective as their authors hope.
2. When Classified Pricing was first introduced by Cooperatives in the late 1800s, and when it was first implemented by Government fiat in the 1940s, it had a sizable effect on average milk prices received by farmers. The degree of overall price enhancement achieved by federal orders today is very small, perhaps in the vicinity of 15¢ per cwt. This is true primarily for two reasons. First, fluid milk products, which are the high-priced Class I, have shrunk relative to the total use of milk. Second, the average Class I differential, which determines the spread between the high Class I price and the lower manufacturing class prices has not been significantly adjusted since the 1970s. With inflation moving the underlying milk price up significantly since then, this means that we are not trying as hard to leverage Class I demand as we once did. Combined, we are swinging a smaller hammer and hitting a smaller bell.
3. The reduction of buyer's incentives to seek lower milk costs by the establishment of minimum Class prices continues to benefit producers.
4. Pooling continues to reduce the perverse incentives for destructive competition among producers, but the definition of marketing areas, over which milk prices are pooled, may not be optimal. Pooling equalizes prices within a region but there is no similar mechanism to moderate competition across regions.

#### Dairy Price Supports

The notion of buying up surplus dairy markets in periods of low milk prices was first conceived as an industry initiative in the 1920s. It was done on an ad hoc basis by the US government during World War II, as a way to ensure an adequate supply of dairy products during the war. In 1949, it became a part of permanent agricultural law. The means of establishing the overall price goal, setting operational prices, and managing accumulated stocks has varied over the years, but the fundamental design of this program has not changed significantly since 1949. Under the Food, Conservation and Energy Act of 2008, for the first time the law specified purchase prices for dairy products and makes no mention of a support price for farm milk. Nevertheless, this change in the law had no practical effect on how USDA operates the program or the effect of the program on market prices, with one subtle but important exception. Since 1989, the Secretary of Agriculture

has had no flexibility to change the basic farm price goal, typically referred to as the Support Price. Under current legislation, the purchase prices for cheddar cheese, butter, and nonfat dry milk are specified as minimums. Thus, the Secretary now has the authority to increase these purchase prices, which have the effect of increasing the positive impact on farm milk prices. As you know, the Secretary has very recently used his authority to increase purchase prices for cheese and nonfat dry milk between 1 August and 31 October. These increases equate to an increase in the Support Price under the previous system of about \$1.50 to \$2.00 per hundredweight. An increase of this magnitude is insufficient to address the current needs of US dairy farmers but it should be acknowledged as a bold and significant move. The Support Price for milk was essentially constant from December 1989 until the Secretary's recent announcement. During previous periods of very low prices, in 2006, 2002-03 and 2000, it was generally recognized as politically impossible to increase the support price, even though a case could be made that doing so would be helpful.

The Dairy Price Support Program remains a very potent tool for effecting the farm price of milk; however, the US faces constraints on the use of this tool that have only come into play since the conclusion of the Uruguay Round Agricultural Agreement in 1996. With the opening of the US to greater amounts of imports and new rules limit the disposal of surplus commodities, even for genuinely humanitarian purposes, the US now finds it much more expensive to support the price at a given level and much harder to find a useful home for surplus dairy commodities that won't undermine the effort to raise prices. These will be elements to watch as the Secretary's higher purchase prices begin to have more effect in the next couple of months.

#### Milk Income Loss Contract

The Milk Income Loss Contract program, or MILC, is dairy's version of Counter Cyclical Payments, which has become a major agricultural policy tool since 2002. The MILC provides supplemental cash payments to farmers based on a percentage of the difference between a target or trigger price and the actual value of that benchmark price in any given month times the amount of milk marketed by a farm entity. A cap on marketings limits total payments. This design is similar to the CCP for program crops but differs in a couple of meaningful ways. The CCP for an annually harvested crop is not paid on actual sales but on a farmer's program base acres. Payment limitations are implemented according to total dollar values paid, not measures of production or marketings. In addition, crop farmers face eligibility requirements based on their Adjusted Gross Income.

Because of these differences, to a greater degree than would be true for program crops when the CCP is in effect, MILC probably prolongs periods of low milk prices simply because it mutes the low price signal to farmers. Of course, that is the whole purpose of the MILC price supplement, but it is nevertheless the case that a long market that is causing low prices can only regain balance if supply contracts and/or demand

expand. If producers are shielded from the full price effect, their response is muted or postponed. If market pricing practices delay the transmission of lower prices to consumers or other final buyers of dairy products (export markets, foodservice, etc) then the demand response is also retarded. These two very different effects combine to prolong a low price regime.

The payment limit on MILC payments is effective. I do not have access to the actual data, but it is simple math to determine that there are many farms in the US that could qualify for payments on every pound of milk they can sell in one year. There are at least a few producers who exhaust their limit with one day of milk production! And, of course, there is every possibility in between. Producers must decide at the beginning of the marketing year the month in which they will begin making an MILC claim. The actual start of payments and the clicking of the limitations meter begins in the month they pick or the first month when prices qualify for a supplement, whichever comes later. Once they begin farmers will receive payments for every month that follows and during which prices are low. In other words, farmers can't leap frog months. This is important insofar as the level of the price supplement can vary considerable over a year when prices are fluctuating. Farmers who can't qualify their entire annual marketings have to spend some time guessing when the price supplement will be largest if they want to maximize their payment. Unlike program crops that have a dollar limit on payments, milk payments are limited by quantities. This means that in some years or for some farmers, the actual dollars received can vary considerably, even with the same volumes of milk.

#### The New Idea

Without question, the new idea that is receiving the most attention across the US is the so-called growth management plan. Originally proposed and developed by a group of California dairy farmers, this idea has been grabbed and further developed by other groups across the US. I will not dwell on the several proposals based on this approach, but I would like to characterize the essence of this program, what it hopes to accomplish, and how well it might work.

Obviously, this idea was developed at a time of great price distress, but the stated purpose of this program is not so much to alleviate low prices in the short term but rather to improve longer-term price stability. Naturally, a part of that goal is to ensure that future lows are not disastrously low.

The fundamental mechanism of this plan is to tax milk producers on each hundredweight of their marketings in years when they increase their annual marketings beyond a previously announced maximum percentage. These funds would then be distributed to all other farmers in proportion to their marketings. In a sense, milk producers who add to production beyond an approved growth rate would compensate milk producers who do not grow faster than the approved rate. The design of this program recognizes that some growth in milk production is generally warranted by increases in

total demand. It also acknowledges that individual producers may have very good reasons for wanting to grow and should be allowed an opportunity to do so. However, the fundamental justification is that unrestrained growth can have negative consequences for producers who have not contributed to overall growth. Lacking any discipline in growth, there are incentives to increase milk production to increase income even as milk prices decline in long markets. This plan thus seeks to brake that downward spiral.

Because the annual growth targets are subject to annual revision, the authors of this plan hope to allow more growth when demand is expected to be strong and restrain growth when demand is expected to be weak. Research done by my colleagues at Cornell has demonstrated that this approach could work to moderate price fluctuations over time; however, there are some important caveats. Perhaps the most obvious is that it is not so easy to predict annual market “needs” in advance. And, this is all the more vexing when one admits that seemingly small differences between annual production and annual demand can have remarkably large price effects. Being in the ballpark won’t be enough. Another aspect of this plan that the Cornell analysts were not able to study as thoroughly as they would have liked is the implications of more open markets, both in dairy exports and imports. Fundamentally, what dairy trade does is make it all that much harder to estimate total supply and total demand in setting a growth target. If the program results in higher prices, it will likely invite imports. If it results in lower prices, it will enhance exports. The former undermines the domestic dairy program. The latter invites political and legal trouble from global dairy competitors under the WTO.

#### Are There Other Options?

Over the last 30 years, I have been frequently asked, “what would you do” or “what new idea do you have”. After some 80 years of public regulation, there actually aren’t a lot of new ideas for dairy policy. There are assuredly many ideas that we haven’t actually used before, but even the current growth management proposal has antecedents in ideas that have been floated or even experimented with going back to the 19<sup>th</sup> Century. I confess that I have not been harboring a secret new idea and cannot announce it today.

What I would like to discuss are some possibilities for leveraging current tools. I do this not because I necessarily think these are the best ideas. Rather, my thinking is that 1) we do have an array of tools in the toolbox already and 2) we could probably deploy our current tools more quickly than we can create a new toolbox.

The Secretary’s increase in purchase prices is a good example of leveraging existing tools. Indeed, in many ways, using the Price Support Program is the most obviously appropriate tool if the problem is low milk prices. We might suggest that this increase should have occurred sooner. We might suggest it could have been larger and/or longer. The Secretary can consider extending or expanding this effort in the next couple of months. Congress could enable this process by providing encouragement in the form of price goals or signals that budgetary considerations will not be a roadblock. An increase

in USDA purchase prices has the potential to cost US taxpayers in the form of purchases of surplus products; however, the far larger expense is borne by consumers and other buyers who will see higher market prices. To the extent that this action causes farm prices to increase, there should be a reduction in MILC payments that offsets the Treasury cost.

It has been suggested, and many in the Northeast have advocated, that the MILC payment rate (\$/cwt) be increased. This would not necessarily change the production limit on which payments could be made but it could sizably increase the unit price supplement. This would provide much needed cash to dairy farmers who desperately need it, but it would only treat a symptom, not cure the problem.

Another option I would like to mention was an approach that was floated in some circles earlier this year but now appears to have been withdrawn in favor of getting behind a growth management plan. This approach would more or less resurrect the programs of the Food Security Act of 1985 and perhaps the following Farm Bill of 1990. In particular, this would be to reinstate, perhaps with some adjustment for lessons learned, the Dairy Termination Program, more commonly known as the buyout. Organized in 2003, Cooperatives Working Together, representing the majority of dairy marketing cooperatives in the US, has implemented a farmer-funded version of the buyout program, as well as a private version of the Dairy Export Incentive Program, created in 1990 and still active, although not much used by USDA. The CWT version of the buyout approach is ongoing, or perhaps I should say able to be used periodically as needed, and it is more flexible than the old DTP. Both versions operate by inviting dairy farmers to exit the business in return for a cash payment. A bidding process determines the amount of the payment. Farmers can submit whatever bid they like, but some review exists to accept or reject bids.

History remembers the DTP with some skepticism and even derision. While I do not wish to appear an advocate for that program, I think it deserves a more generous eulogy. The criticism of the DTP boils down to "it didn't work". This of course begs the question what does one mean by working. The DTP absolutely did result in lower milk production in the US and this absolutely had a price effect. The effect was felt over a period of a couple of years. What the DTP did not and could not do was remove the underlying incentive to overproduce milk relative to demand that was still in place due to a support price for milk that was too high given market conditions.

The situation today is entirely different. Today's low prices are primarily the result of a collapse in market demand, not an overly aggressive artificial demand in the form of the Price Support Program. Low market prices now are struggling to encourage less production and more consumption, but farmers have yet to significantly reduce production. Instead they are hanging on for lack of any better alternative and taking a horrible beating in the process. Consumption has not responded as much as we might have hoped largely because the consumer's problem is income, not the price of milk.

Thus, I would expect a DTP in 2010 to have much more potent and enduring effects than it did in 1987 because the underlying price and market situation is so very, very different.

One way in which the DTP was undeniably successful is that it gave farmers who were struggling financially a chance to make an exit decision with some personal dignity and financial equity. In the current climate, many farmers feel that they may not survive, but there is no Plan B that seems feasible to them. Selling cows, even selling the farm, generates some short-term cash, but it is not enough by itself.

A government incentive to exit via a buyout program would not be free, but the fact is that we are going to spend a lot of money on price supports and MILC payments anyway and neither will deal with the underlying market problem. If we believe that demand is on the verge of rebounding, then a buyout may be too strong a medicine for the problem. In my opinion, this is not the case. I believe a market solution to the current economic condition, both broadly in the world economy and nationally in dairy is not around the corner or even in sight. If this is the case, then the strong medicine of a buyout program may be a very appropriate, helpful and humanitarian cure.

Three final comments.

First, as you probably can tell, I do not believe Federal Orders and the tools of classified pricing and pooling are the right tools for dealing with the market and price situation that is paramount today. If we wish to look at changes to Federal Orders, and there will be proposals to do so, we must do so for longer-term reasons related to what Federal Orders do and how they work. We should not confuse Federal Order reform with solutions to the current market situation.

Second, some have demonized dairy imports as the cause of our current problem, or perhaps at least as something we need to turn off as part of the solution. We need to look carefully at the import data to be sure we aren't misled about their magnitude and likely effect. Secondly, we need to consider very seriously the unintended consequences for our exports and broad trade retaliation if we become more strongly protectionist. There is a serious danger of cutting off our nose to spite our face.

Third, the US Department of Justice, in conjunction with USDA, has been encouraged by President Obama to proactively investigate the competitive effects of consolidation and concentration in the US dairy sector. Large-scale farms are mentioned in public discussions of this anticipated investigation, but it seems these are seen as results of downstream concentration more so than as a problem to be investigated. Large-scale milk processors are certainly in the sights, with Dean Foods always at the forefront as an example. However, large-scale dairy marketing cooperatives are receiving as much attention as non-cooperative processors. The obvious magnet for this discussion is Dairy Farmers of America. To my knowledge, no one has conflated this discussion with

concentration further downstream, in food retailing, foodservice, or other major buyers. Recent news reports suggest that DOJ intends to be aggressive in this investigation, that dairy will be one of three agricultural sectors in the spotlight, and that the default assumption is that things got out of hand under the laissez faire approach of the Bush administration. I have no particular comment on the merits of these concerns, but I want to draw them to your attention as something that could have a bearing on the central problem we face in terms of disastrously low prices.

Whatever DOJ does or determines, any action is likely to be years away. Whatever they might do cannot be mistaken as a possible solution for today's problem. Secondly, there is a considerable potential to begin treating large-scale cooperatives and processors as scapegoats. Whether or not their competitive behavior needs to be restrained is something DOJ will determine, but banishing a few large organizations to the wilderness with a bag of sins tied to their backs may relieve some mental stress for producers but the process could distract from the greater underlying need to relieve economic stress.



United States Senate  
Committee on Agriculture  
Hearing in Batavia, New York

**Legislative Responses to the Dairy Crisis:  
Reforming the Pricing Structure**

Oral Testimony of  
Kim Pickard-Dudley  
Chief Dairy Economist  
Upstate Niagara Cooperative, Inc.  
Buffalo, New York  
August 27, 2009

Thank you for giving me the opportunity to testify today on behalf of Upstate Niagara Cooperative, and for your tireless work and support of our dairy industry, especially through these difficult times.

My name is Kim Pickard-Dudley and I am Chief Dairy Economist at Upstate Niagara, a dairy cooperative made up of 400 dairy farm families who market about 1.5 billion pounds of milk annually, and who own and operate four dairy plants in Western New York that employ about 1,000 people in Rochester, Buffalo and Batavia.

In my role as Chief Dairy Economist, I have direct access, direct responsibilities, and direct involvement with our dairy farmer members, with our commercial operations and sales staff, as well as with our commercial customers. I interact with all of these stakeholders on any and all issues relating to milk pricing, including price forecasts and risk management strategies. I also interact regularly with other dairy economists on Federal Order and dairy pricing and other policy issues.

My full testimony is set forth in my written testimony. In my oral remarks, I will focus on actions that the Senate can take to improve the U.S. dairy industry, discussing primarily changes in the Federal Milk Marketing Order System (which I will refer to as the “Federal Orders”). Since Upstate Niagara is owned by dairy farmers who operate dairy plants, we are well suited to seek real world solutions for all stakeholders in the dairy industry—from dairy farm families to processors to retailers to consumers.

We strongly believe that while there are some changes that need to occur in the Federal Orders, it is essential not to overlook the many benefits that the Orders provide to all dairy industry stakeholders. Federal Orders provide a regulatory framework in which the industry has functioned for decades, while serving consumers with a broad array of delicious, wholesome, and safe dairy products. Federal Orders also help to maintain a system of orderly marketing by establishing minimum prices that processors pay, and blend prices that farmers receive for their milk. For farmers, the blend price is a fair way to spread the benefits and burdens of supplying milk to dairy plants.

Right now, the dairy industry is in crisis. However, it would be wrong to assign the blame for the current dairy crisis to the Federal Orders. Rather, this crisis is the result of the greatest financial and economic collapse since the Great Depression which in turn led to a collapse in demand for dairy products internationally and, to a lesser extent, domestically.

The dreadfully low milk prices announced by the Federal Orders have been the messenger of this bad news. So we should not kill the messenger when, in fact, the grim message behind the terribly low milk prices spells out this stark reality – demand for dairy products has collapsed and, therefore, painful reductions in the supply of milk must occur.

We do, however, have suggestions for how the messenger can more appropriately deliver the message – so that farmers, processors, retailers and consumers aren't whipsawed every time a change in market conditions occurs.

Our suggestions deal with **improving price discovery**.

We believe that the core of the price discovery problem is this: on the Chicago Mercantile Exchange, only a scant amount of product is bought and sold by a scant number of buyers and sellers. This very small, seemingly insignificant sample has huge economic significance because it is the basis of all Federal Order pricing. In other words, it is this small quantity of milk that is used to set pricing for all federally regulated processors and that ultimately drives the price that dairy farmers receive for their milk.

What we see as being a solution to the pricing structure dilemma, therefore, is to find ways to use a broader basket of price discovery tools – that are more reflective of the current supply/demand situation – to be the basis of the price that processors pay and dairy farmers receive for their milk.

For example, we should use additional products in the pricing formulas, such as mozzarella cheese.

We should use additional markets in the pricing formulas, such as the futures markets.

We should use actual prices paid for dairy products in the pricing formulas, such as pricing surveys.

And lastly, we should use gauges of input costs in the pricing formulas, by using indices, such as the CPI and others that track certain costs, such as corn and energy.

Each factor would be assigned an appropriate weighting; for example, 20% cash spot prices, 20% futures markets, 30% pricing surveys, and 30% selected indices.

Such a basket of price discovery tools has several benefits.

First, by using a variety of price discovery tools from a variety of sources – cash markets, futures markets, pricing surveys and selected indices, you inherently improve the integrity of the marketplace by (1) adding liquidity to the market, and (2) smoothing out random, extreme (and perhaps unwarranted) price fluctuations.

Second, by using a variety of price discovery tools from a variety of sources, it allows the industry to learn the advantages and disadvantages of each factor gradually. The benefit of this gradual learning curve in developing price discovery tools is best seen from the unintended adverse consequences that have developed since the last major change to price discovery about 10 years ago.

At that time, the Federal Orders started using a system called “end product pricing” to determine minimum prices. The USDA’s decision was based on much learned testimony and analysis by some of the most experienced dairy economists in the country. **Nevertheless, real world experience has revealed a number of harmful drawbacks to both producers and processors as a result of end product pricing.**

I’ve spelled out these harmful drawbacks resulting from end product pricing in my written testimony – namely, the problems of make allowances – but suffice it to say – these drawbacks have created huge problems for processors in recovering real costs from the marketplace as well as blatant unfairness to producers.

To summarize, it is my view that a necessary first step in reforming the pricing structure of the Federal Orders – is to fix the flawed system of price discovery. This system has created huge problems for processors, blatant unfairness to producers, and has fostered extreme price volatility. Twenty dollar milk one day and ten dollar milk the next is unhealthy and destructive for dairymen, processors, retailers, and consumers alike.

In addition to price discovery, I want to very briefly highlight a few other items relating to Federal Orders that warrant your attention.

First, USDA needs to resolve a Federal Order product classification issue that has been tied up in the hearing process now for years. **We need a decision out of USDA that will encourage the domestic production of dairy protein ingredients, such as MPCs.** We see tremendous opportunities in the marketplace for products that are rich in dairy-sourced protein and lower in calories and carbohydrates. And, we would like to see the production of such dairy protein ingredients occur domestically, rather than be imported; and, for U.S. dairy farmers to benefit from such opportunities, rather than farmers from foreign countries.

Right here in Batavia, New York, the O-AT-KA Milk Products plant has a several million dollar capital expansion project to produce such dairy protein ingredients, but, that several million dollar capital project has been on hold since the summer of 2005 awaiting a USDA decision on this unresolved issue.

Second, dairy farmers need help and support in learning how to use risk management tools, such as futures and options to protect themselves from price volatility. The federal government should sponsor pilot programs to enable dairy farmers to test certain risk management tools much the same as the federal government has

long helped farmers determine whether new seeds and farming techniques may benefit them.

Again, thank you for this opportunity to appear before you. I'm glad to answer any questions that you may have.



## LEGISLATIVE RESPONSES TO THE DAIRY CRISIS: REFORMING THE PRICING STRUCTURES

U. S. Senate Agriculture Committee Hearing  
Batavia, N.Y. on August 27, 2009

Testimony by Robert D. Wellington  
Sr. Vice President, Agri-Mark Dairy Cooperative

On behalf of the dairy farmer members of Agri-Mark Dairy Cooperative, I would like to thank you for holding this hearing and allowing farmers, their representatives and others to express their views on this important issue. This financial crisis has created serious problems for the current and future existence of the U.S. dairy industry.

Milk and dairy products pricing is already one of the most complex mechanisms in the marketplace, yet it remains unable to adequately address the problems of extreme price volatility and financial distress at the farm milk production level. Initially, I believe that the problems and legislative responses should be looked at from two levels. The first is the fundamentals of supply and demand that affect price levels. These include milk production decisions and actions on the farm, dairy product demand and the net impact of product mix and volumes of imports and exports. The second is the pricing structure itself that determines the prices paid to dairy farmers. These include the Chicago Mercantile Exchange (CME), USDA's National Agricultural Statistical Service (NASS) price survey and USDA's Federal Milk Marketing Orders.

### **Fundamentals of Supply and Demand**

The relative relationship of the supply of raw milk relative to the demand for the dairy products made from that milk is the major factor in moving farm milk prices up or down. Because of the perishability of milk and the inelastic (almost fixed) demand for many of its derivative products (such as fresh drinking milk), small differences in supply and demand can result in large differences in prices. A general rule of thumb that I have used is that a two percent discrepancy in supply/demand balance often leads to a 20 percent change in price. This has worked in both moving milk prices up and down. While there is no documentation that this tenfold price impact still applies at larger imbalance levels, that certainly appeared to be the case when growing international demand for U.S. dairy products drove farm milk prices above \$20.00 per cwt. in 2007 and then declining demand and small supply increases collapsed those prices below \$12.00 in 2009.

Most dairy farmers have the freedom to choose how many cows they wish to milk and how much milk they wish to produce. Unlike in other commodities, dairy farmers in most areas, such as the Northeast, have rarely been hampered by the need to find a market if they planned on expanding. Federal Orders

and cooperative marketing have played roles in those freedoms. However, because farmers have not taken into consideration the demand for their production, they pay a bitter price of severe price volatility and depressed income when more milk is produced than demanded at acceptable price levels.

While most farmers recognize this problem, they are very independent businessmen who do not like others restricting their farm business decisions. What many do not recognize is that the lack of any production discipline likely created more price related restrictions on their business than anything else.

When there is too much milk supply in the marketplace relative to demand, the marketplace sends a low price signal to lower supply. However, at each individual farm business, the message of low milk prices is often translated into a need to increase milk production in order to maintain cash flow. While this makes sense for a farm under the current pricing system, it makes the low price problem even worse. We need to find a system to send the correct signal to dairy farmers that allows them to make the best decisions for their farms and marketplace milk pricing. The industry is trying to reach a consensus on such a program as we speak. Almost assuredly, any such program would involve a mandatory participation program that could only be achieved by Federal legislation. We will keep the Agriculture Committee informed as this process moves forward.

On the demand side, dairy farmers and processors both contribute their own funds toward milk promotion. This is allowed through Federal legislation and our farmer cooperative supports such endeavors. The failsafe for milk prices on the demand side is supposed to be the dairy price support program that has been in operation since 1949. However, such prices peaked in the early 1980's at over \$13 per cwt., but were lowered to below \$10 per cwt. and have remained there for more than two decades until USDA acted a month ago.

I usually describe the price support program as a safety net lying untethered on a concrete floor. If the price hits that level, the damage done to farm operations is usually extreme. Efforts by many legislators, including our own Northeast Senators, to urge USDA Secretary Vilsack to temporarily raise the support prices for cheese and powder were needed and greatly appreciated.

We also support the amendment to the Senate Agriculture Appropriations Bill that would give USDA an additional \$350 million beginning in October to further strengthen the price support program. We appreciate all the efforts of our Senators to achieve this and are urging their counterparts in the House to support it. It is important that the USDA use these funds to actually purchase dairy products to increase demand and lessen the burden of high inventories built up earlier this year. It was a great disappointment to see the market price for cheese fall below the support price for much of this year, yet not a pound of product was sold to the CCC. I believe that the support price was used by many in the industry as a benchmark to set the market price, not as an alternative outlet for milk supplies. Had the cheese support price been 10 or 20 cents higher throughout this year, I estimate that little if any cheese would have still been bought by the CCC. With food banks and other low income feeding programs clamoring for product donations, CCC cheese purchases would have found a welcome home and would not be around now to further aggravate supply and demand imbalances this fall. Perhaps offering to buy under the support program is no longer enough and actual purchases need to occur.

International markets for U.S. dairy products offer a great opportunity to increase the demand for domestic milk supplies. However, they can also backfire on the industry as when those exports were the first to be cut back during the international recession. Overall however, we believe that there remains great opportunity in exports markets over time. While there is great concern over imports of



dairy products into this country, the problem is likely not as severe as some people believe. New York Senator Schumer's bill to restrict casein and other imports is well meaning, but may cause more harm than good as a backlash from other countries may occur. We look forward to working with him and other Senators to address any problems that may develop with that bill.

### **Milk Pricing Structure**

Currently, most of the milk in the country is priced relative to the Chicago Merchantile Exchange's cheese and butter markets. While Federal Orders use a dairy product weekly survey price from USDA-NASS, the plants who are surveyed use the CME prices to set their own prices, plus or minus a product or quality differential. If CME prices fall a dime, almost assuredly the NASS prices will fall a similar amount within the two week lag period. The problems do not so much lie with the CME as it does with an industry that accepts CME price changes on marginal loads of product as the price indicator on all loads of products. We absolutely need more work done to address this issue.

Federal Milk Marketing Orders use a complex set of formulas administratively set as a result of public hearing and industry testimony and evidence. However, Federal Orders are primarily the messenger of prices changes, not the cause. The one exception, however, involves Class I pricing for fresh drinking milk. Federal Orders were originally enacted to assure an adequate supply of fresh drinking milk for consumers through orderly marketing of milk and farm prices that would sustain that supply. We have tried several times to amend Federal Orders to raise the effective Class I price as milk production costs have risen and floor the Class I prices as huge swings in cheese and other dairy products prices have caused Class I prices to fall even farther below milk production costs. While we appreciate the provisions of the 2008 Farm Bill that speed up the Federal Order decision making process, we also need USDA to take into consideration milk production costs when setting Class I price levels.

Supplemental to the pricing structure are programs such as the Milk Income Loss Contract program in effect since 2002. This was a program that originally took many aspects of the highly successful Northeast Dairy Compact and used them to set a direct payment program for dairy farmers. This program has been crucial to most farmers during the severe price downturns over the past seven years. The MILC feed price adjustor also helped this year, but could be crucial if the feed price levels of 2008 return. However, the program would be further improved if it used a cost of production indicator as the price trigger in place of the \$16.94 Boston zone Federal Order Class I price. Keep in mind that that price came from the Northeast Dairy Compact program and was set over 12 years ago! In addition, we support Senator Shaheen's amendment to allow larger volume payment caps for multi-family dairy farms.

Agri-Mark members appreciate all of the efforts of our Northeast Senate delegation and particularly those serving on the Agriculture Committee. Much work needs to be done and we are confident that our elected leaders are up to the task. Thank you.



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**DOCUMENTS SUBMITTED FOR THE RECORD**

AUGUST 27, 2009

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## U.S. Dairy Price Policy Options and Consequences

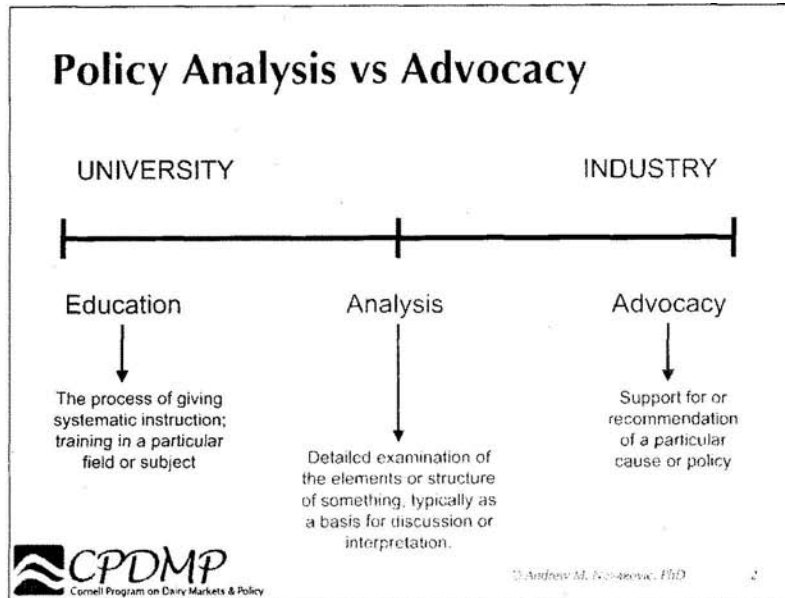
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August 2009



This paper is intended as a summary of Federal policies that regulate or otherwise directly impact farm milk and/or other dairy product prices. This includes existing Federal programs and some possible alternative programs. The alternatives include programs that were used previously but are no longer active as well as new proposals. This summary provides background information including any enabling legislation, historical context, and current activities. It also provides a conceptual framework for evaluating what various programs do or could do and how they work. It is not my intention to directly or implicitly endorse any existing or potential program; however, I will offer some comments on aspects or elements of these programs that I believe can be effective in dealing with some problems and those which are not so successful.

This material has been used as the basis for various extension presentations and was also provided as supplemental information for a field hearing organized by Senator Kirsten Gillibrand, Chair of the Subcommittee on Domestic & Foreign Marketing, Inspection, & Plant & Animal Health of the Committee on Agriculture, Nutrition and Forestry, held in Batavia, NY on 27 August.

The work behind this presentation and participation in Congressional hearings or similar events is enabled in a very significant way by the ongoing Federal grant which supports the National Institute for Livestock and Dairy Policy, which is a partnership between the Cornell Program on Dairy Markets and Policy and the Agricultural and Food



There are several steps and roles in the policy-making process. From the outset, I believe it is important to emphasize that my role as an academic, particularly one at a Land Grant University, is quite different from the role of someone who is an active participant in a dairy business. While industry members and academics may both be able to offer analytical insights about the performance of an existing program or the possible outcomes or effects of a new program, it is, in my view, inappropriate for me to be an advocate for a particular policy, program or course of action. In commenting on or suggesting the possible effectiveness, or lack thereof, for a particular program, I may seem to imply favor for one approach over the other, but it is not my intention to advocate for any particular policy. Rather, it is my purpose to assist industry, legislative, and governmental decision-makers as they look for new ideas, consider proposals, and evaluate the merits of alternative solutions.

## The Policy Development Process

Problem Identification

Problem Elucidation

Establishing/Describing Desired Outcomes

Possible Solutions

- A. To what extent do they solve the problem(s) and achieve the desired outcomes
- B. To what extent do they result in undesired outcomes

Selecting a solution

- A. Based on objectively measured analysis
- B. Based on subjectively determined values and objectives

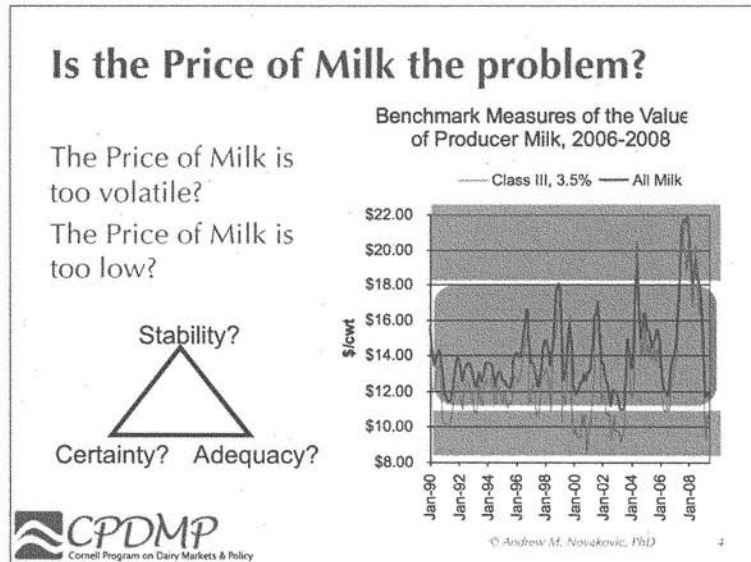


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Policy development is a process. It involves steps of creation, action, and evaluation, that can be described in a variety of ways. I would especially like to draw attention to the need to first very clearly identify 1) "the problem" and 2) the desired outcomes. What is that is broken and what does it look like or do when it is fixed. In my experience, to many policy debates involve people arguing about the "best policy", without comparing notes on whether they have the same understanding of what it is that they are trying to fix and what kinds of solutions they are hoping to achieve. While there are times when "the problem" may seem so blatantly obvious that there is no need to discuss it, even then it is probably useful to make sure we have some common understanding about the dimensions of the problem (it's big, it's long-lasting, etc.) and the ways in which "the problem" effects different participants in the marketplace (it's a big problem for A and not a problem for C, etc.)

The ultimate question for a policy proposal is "will it work". This question is meaningless if there is not a common understanding of what "working" means, i.e, what it is that one expects to accomplish.



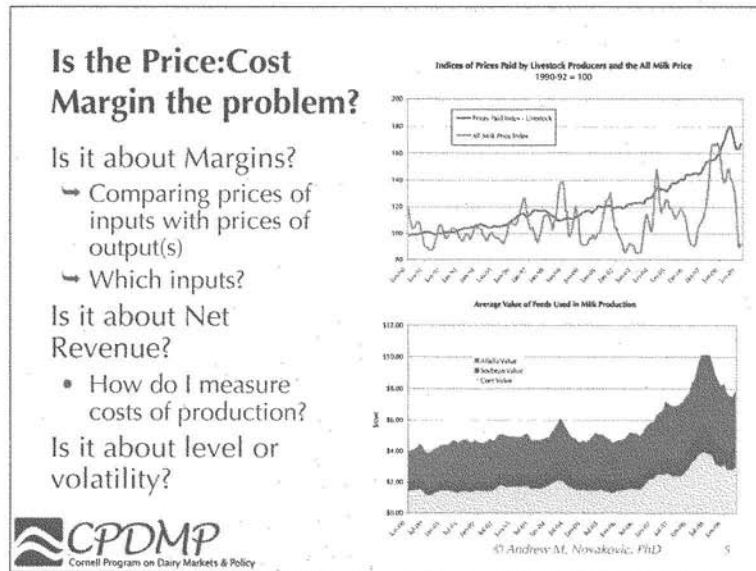
At one level, we can probably all agree that, today - in 2009, the problem is the price of milk. And, we can probably all agree that the farm price of milk for most if not all producers is too low to allow them to cover their direct or cash costs, much less their total costs. Nevertheless, it is important to ask ourselves several questions about this problem.

Is this a problem confined only to dairy farmers, or is there a price problem for dairy food processors or consumers or some other agent in the marketing chain? Is the problem for these downstream agents the same problem that farmers perceive? Is it the case that the problem for the dairy farmer is the boon for someone else?

What is it about the price of milk that we want to change? Is it that it is too low? Is it that it is too low relative to costs? Is it that it is too unpredictable? Is it that it is too volatile; it changes too quickly and/or by too much for producers (or buyers) to make appropriate, compensating management decisions?

I describe three innate characteristics of prices that I think are related but in fact very different.

Many current or historic discussions of "the price problem" use the term *Stability* (or *instability*) to describe the problem. Perhaps this is



Perhaps a better way to describe the current problem is that net returns to dairy farming are horribly low. It is often the case that farmers or analysts will take about prices and returns or profits as if they were the same thing or at least always moved in the same direction. As the recent explosion in corn, fuel and fertilizer prices made abundantly clear, it is quite possible to have negative returns with high prices and acceptable returns with seemingly low prices. What makes the current dairy farm situation so bad is that milk prices are historically low at the same time that prices of many inputs are very high. This double whammy may well prove to be the worst period for returns to dairy farming the lifetimes of anyone now actively engaged in dairy farming.

The price of milk can be measured in several ways - the Class III price, the All Milk Price, the Statistical Uniform Price for a Federal Order, the Mailbox Price, etc. Perhaps even more price, returns to dairy farming can be measured in many ways.

The charts above show feed prices and USDA's Prices Paid Index for all Livestock operations. Both are measures of the prices of inputs. One quick indicator of net returns is to take a simple ratio of price(s) received vs price(s) paid or to similarly calculate a margin based on the price per hundredweight of milk vs the cost per hundredweight of milk. The margin gets closer to net return, but this calculation typically falls short of a proper net return in that it only looks at a few key inputs (typically feed costs).



## Once I Identify the Problem....

What data or knowledge can I bring to bear to better understand it?

- Causes of price volatility
- Extent of low net revenues across farms
- Are certain events or factors correlated, e.g.
  - ✓ Is feed price a good proxy for feed costs
  - ✓ Are feed costs a good proxy for total costs

What could I do about it anyway?

## Desired Outcomes?

cf. what is the problem...

Price doesn't go below  $\$X/\text{cwt}$ ?

Milk:Feed doesn't go below  $Y$

Net Revenue doesn't go below  $Z$

Price doesn't deviate from  $P_1$  by more than  $\Delta$

I can predict Price within  $\pm 50\text{¢}$  one year in advance

I can lock in a price one year in advance

**How we achieve a solution vs What outcome we seek?**

**Degrees of Control in Markets and Governments**  
(behaviors vs results)

Free ——— Restrained ——— Regulated ——— Planned  
*(behavior) (outcomes)*

*To the extent we have a choice, a fundamental question, explicitly or implicitly, is how much control can we tolerate - how much freedom are we willing to give up in order to achieve the desired results.*

Pure Representative  
Anarchy Democracy Democracy Socialism Totalitarianism Authoritarianism

## **Desired Objectives, Objectionable Methods, and Unintended Consequences**

In evaluating alternative policy solutions, it is well to keep in mind:

- To what degree is the solution likely to solve the problem, to achieve the desired solution?
- Is the medicine worse than the illness?
- Are there side effects that we can anticipate?
- What is the distribution of benefits and side effects?

## Prospects for Change?

If not now, when? How bad does it have to get before “we” do something?

Is Congress, or perhaps more to the point, are the leaders of the agriculture committees, prepared to re-open dairy policy?

Is there something we can do in the short run (eg., cash payments) and something else we can prepare to do in the long run (eg., policy reform for the 2012 Farm bill)?

**Existing Tools -  
Federal Milk Marketing Orders,  
Marketing Agreements,  
Dairy Price Supports,  
Milk Income Loss Contracts**

## Key Elements of U.S. Dairy Laws or Programs

1. Cooperative Marketing
2. Federal Milk Marketing Orders
3. Dairy Price Supports
4. Import Quotas and/or Tariffs
5. Demand Stimulation
  - a) domestic
  - b) export
6. Cash Subsidies - Milk Income Loss Contract
7. Production Reduction Incentives



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I have been asked to talk about the future of US dairy policy. Before that, it is good to make sure that we have a common understanding about what are the components of US Dairy Policy.

Dairy industry members and observers tend to think of US policy in terms of price supports and federal orders. To be sure, these are the most obvious manifestations of US dairy policy and have the most direct intervention in dairy markets, but they do not represent all of what is done or what has been done. The list above probably could be expanded, but it gives a more complete representation of the breadth of US dairy policy.

Some of these policies relate to the infrastructure of dairy markets, providing for a structure in which it is believed desirable outcomes are more likely.

Some are forms of direct regulation or intervention designed to encourage positive outcomes or discourage negative outcomes.

Some are designed as long term measures to deal with ongoing issues or problems. Some are or were designed as a short term response to a particular problem.

## MAJOR FEDERAL DAIRY MARKET PROGRAMS

### I. Agricultural Cooperatives

#### Objectives:

improve bargaining power or competitive position of farmers relative to processors

#### Methods:

legally permit collective action by producers, which otherwise might be treated as collusion or anticompetitive; cooperatives are allowed the implied market power this provides but they may not abuse it.

#### Law: Capper-Volstead Act of 1921

Current Status: Cooperatives are alive and well -- consolidating but still competitive. Very large scale producers are independent minded. CV challenged as unnecessary and egregious benefit to privileged few in a recent report to Congress, but no consequences to date.



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The Capper-Volstead Act, which allows farmers to band together and market their products collectively without running afoul of other US antitrust law, preceded direct government intervention in dairy markets by almost 20 years. Cooperative marketing actually began in the early 1800s, well before there were any antitrust laws to worry about. Many farmers believed that the low price problems they perceived were the result of an imbalance of market power and abuse by buyers. Cooperative marketing was seen as a way to rebalance market power. Prior to the development of government programs, legislation was focused on strengthening the ability of farmers to work cooperatively for their own benefit. The Great Depression persuaded government that cooperation alone was inadequate.

Cooperatives were the vehicles for developing and trying new approaches to milk pricing. Some of these concepts were later adapted for implementation under federal law. Then and now, cooperatives have typically led policy development and change; however, they have seldom been able to control or dictate it.



## MAJOR FEDERAL DAIRY MARKET PROGRAMS

### II. Milk Marketing Orders

Objectives: create market conditions that will encourage:

1. orderly marketing activity; markets that function smoothly, predictably, and at a reasonable cost
2. orderly pricing (predictable but not necessarily stable or adequate)
3. adequate and wholesome supplies of fluid milk
4. equitable returns to farmers, equitable prices for processors

Methods:

regulate and supervise the terms of trade between farmers and processors, i.e., set minimum farm level prices and trading rules that determine who qualifies for what price, so as to create market (price) incentives that result in desired market behavior or performance

Law: Agricultural Adjustment Act of 1933, Agricultural Adjustment Act of 1935, Agricultural Marketing Agreement Act of 1937, various modifications introduced by subsequent "farm bills"

Current Status: operating daily but feeling across both sides of the market that changes are needed in provisions, operating procedures and regulatory framework. There is significant disagreement on degree of change.



Dr. Andrew M. Noyakova, PhD

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Federal Milk Marketing Orders are often described as incomprehensibly complicated. Actually, their essential elements involve categorizing quantities of milk sold by farmers according to the type of product into which it was made (classification), setting prices for milk based on these classes (pricing), and sharing the gross proceeds that result from the various quantities and prices more or less equally across all farmers (pooling). This concept was developed by cooperatives in the late 1800s, implemented as a permissive law in federal and various state laws beginning in the 1930s and slowly became adopted across the US. In the 1950s, less than 1/4 of the milk was priced by a Marketing Order. Today, virtually all the milk in the US is.

Although minimum prices are announced, Marketing Orders don't enhance prices so much as they regulate and coordinate them. They create a well-defined pricing system under which prices become more predictable and incentives or opportunities for "destructive competition" are reduced. This may refer to seller-buyer relationships, but it also relates to sellers competing amongst themselves so vigorously for a buyer that they end up driving prices down to their mutual detriment.

## Federal Milk Marketing Orders

Can imagine almost any adaptation to Orders, but this is a fairly unwieldy tool for price stabilization and probably completely unworkable for price guarantees or serious price enhancement.

### Price stabilization

- Class III and IV prices (with Classes I and II following)
  - ✓ Moving average or snubber on product prices
  - ✓ Competitive pay price<sup>2</sup>
  - ✓ Some other price mover, eg. Cost of production based or indexed to price(s) of input(s)
- Class I only (presumably at a high level)
  - ✓ Moving average or snubber
- Blend Price or SUP
  - ✓ Moving average or snubber
  - ✓ Like the old Takeout/payback plan, leave the total dollars untouched but redistribute them to level out payments (similar to Farm Savings Accounts)

### Price Enhancement

- S. 889 (Specter/Casey), tie prices to cost of production

## **Federal Milk Marketing Agreements**

Already authorized by AMAA, although may be desirable to focus or add to existing language.

Provides for USDA oversight of an agreement (contract) negotiated by buyers and sellers in a marketing area.

Could serve as a transition to private, forward contracts.

## MAJOR FEDERAL DAIRY MARKET PROGRAMS

### III. Dairy Price Support Program

#### Objectives:

farm price stability  
farm income enhancement  
(market security)

#### Methods:

purchase storable products (cheese, butter, and skim milk powder) at prices that will yield farm price goal (i.e., the support price). 2008 Farm Bill introduced trigger mechanism to adjust support down in times of high surplus.

Law: Agricultural Act of 1949, various changes introduced by subsequent farm bills, effectively neutered since 1989

Current Status: sporadically effective; but at low price level. Likely to continue as low level "safety net" but Secretary has the authority to increase product purchase prices above the minimums required in the Act.



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Efforts to support farm milk prices by purchasing manufactured dairy products actually began with programs to purchase surplus butter by dairy cooperatives in the 1920s, in the wake of the collapse of butter markets following World War I. Federal efforts to support farm prices were used throughout World War II and tied to the concept of parity prices established in landmark agricultural legislation of the 1930s. Following WWII, dairy markets suffered as US production was restored with the influx of returning farm boys but US export sales fell as European agriculture recovered. Thus, the Agricultural Act of 1949 made intervention in dairy markets permanent. The Secretary of Agriculture was instructed to support farm milk prices at no less than 75 percent and no more than 90 percent of their parity equivalent. He was empowered to achieve this by buying butter, skim milk powder and cheddar cheese at wholesale prices designed to result in the desired farm milk price.

The support program has always been justified as providing farm price stability, but inherent in this has always been some notion of achieving higher farm prices than would otherwise likely occur, even if just providing a shallower bottom to the market. The system of guaranteed, unlimited purchases also has had the effect of guaranteeing, to a considerable degree, an outlet for all milk produced (market security).

## Dairy Price Support Program

Historically, we know this can be used for

- Price stabilization by establishing a fairly low price floor
- Price enhancement by establishing a high price floor

The ability to remove surpluses is essential to managing prices that exceed market clearing levels

- Ability to distribute government stocks is practically essential
- However, this ability is seriously undermined in an open economy
  - ✓ WTO limits ability to distribute overseas
  - ✓ Can we distribute internally in a way acceptable to industry?

## MAJOR FEDERAL DAIRY MARKET PROGRAMS

### VI. Milk Income Loss Contract - a Counter-Cyclical Payments (Federal)

#### Objectives:

augment dairy farmer income, especially for smaller scale farms, when milk prices are low

#### Methods:

establish milk price trigger, when benchmark market price falls below trigger, taxpayer funds used to make up part of the difference, up to a maximum amount based on production. Overall design patterned after CCP for crops. Price trigger patterned after Class 1 premiums that existed under NE Dairy Compact.

**Law:** Food, Conservation and Energy Act of 2008 (originated with 1995 Farm Bill)

**Current Status:** was slated to expire on month before end of 2002 Farm Bill, now looking like it has achieved permanence as part of overall CCP approach

**Lessons and Implications:** "We prefer fair market prices, but we'll cash the check"  
Hard to restrict payments based on farm size. Can be VERY expensive. Cost falls on taxpayers rather than consumers. Despite payment limitations, creates incentive to produce (or disincentive to retire) that results in more milk production and even lower market prices.



## MILC – the Counter Cyclical Payment

Could use different triggering mechanisms, eg.,

- ↳ US all milk price or FMMO average blend price
- ↳ price:cost ratio
- ↳ margin
- ↳ net revenue

Could pay out differently, eg.,

- ↳ Payment limits or payment eligibility
- ↳ Progressive payments
  - ✓ A% of difference when actual is within x% of trigger
  - ✓ B% when actual is within x-y%
  - ✓ C% when actual is less than y%

## CWT Buyouts or New Plans to Manage the Supply of Milk

Charles F. Nicholson, PhD  
Cornell University  
June 2009





## What Can We Say About CWT?

“Historically, CWT has not addressed volatility directly

- ↳ Helps producers in periods of low prices”

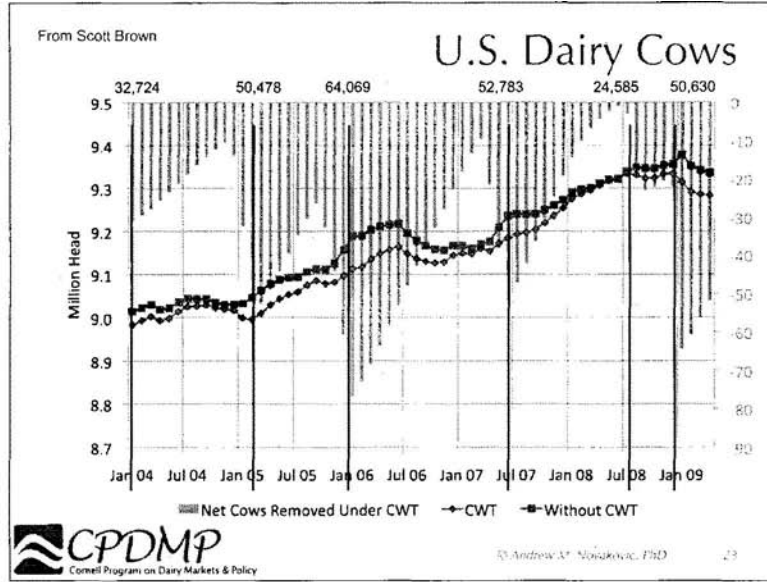
“Ability to address volatility with the current program depends entirely on the timing of events relative to future market changes

- ↳ A hard task to correctly look ahead

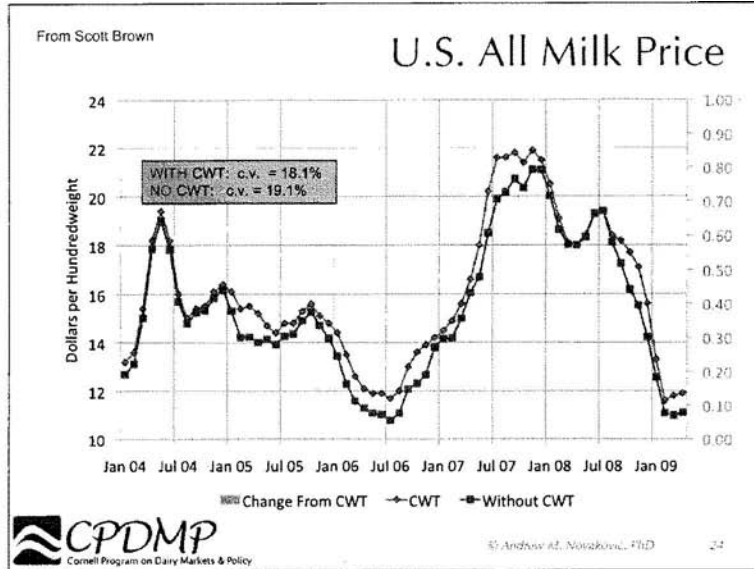
- ↳ A hard set of rules to follow may limit effectiveness of the program”

*Scott Brown, PhD*

*Food and Agricultural Policy Research Institute (Missouri)*



Milk yield growth has been slowing as a result of high feed costs and declining use of rBST. The February 2008 data is not adjusted to account for leap year.



Milk yield growth has been slowing as a result of high feed costs and declining use of rBST. The February 2008 data is not adjusted to account for leap year.

## CPDMP Analysis of Dairy Farmers Working Together (DFWT) Program

### DFWT Program Elements

- National program, similar to CWT but mandatory
- Collect assessment from all farmers
- Use funds for herd buyouts and export subsidies (kind of like old DTP plus DEIP)

### Could also use government funds

- Replaces MILC and DEIP
- Assumed savings of \$250 million per year

## Analysis of DFWT Program: Results

DFWT program reduced price variation

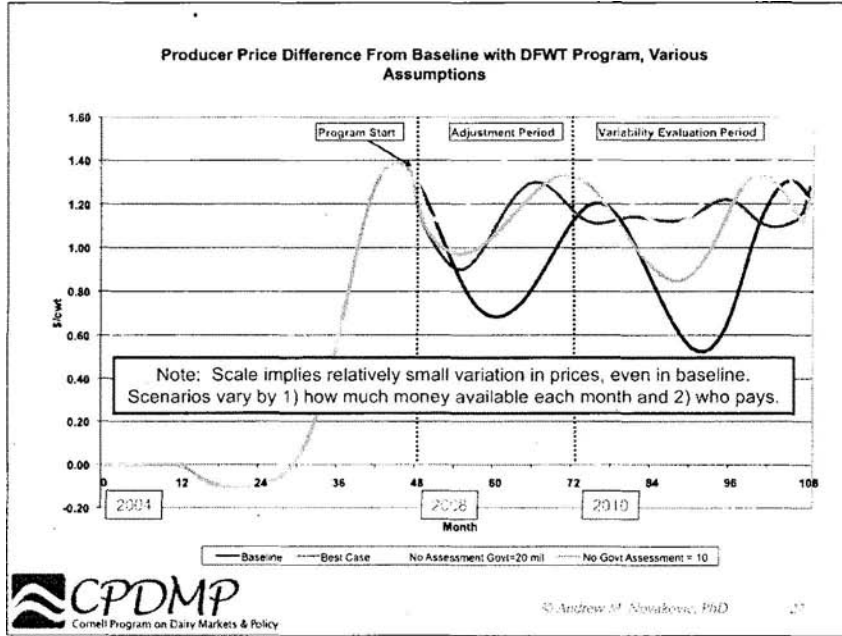
- After two-year "adjustment period"
- With assessments \$0.10 to \$0.15 per cwt
- \$0.12 to \$0.20 / cwt *reduction* in average deviation

DFWT program increased average all-milk price

- \$0.16 to \$0.34 per cwt
- A bit less than Dr. Brown's estimate for CWT (different analysis, different model)

Increased net imports of NDM, cheese, whey

DFWT program would need to operate continuously to reduce price variation



## CA MPC Growth Management Plan

Set an allowable annual % growth in milk  
 If milk is more than the amount a year ago  
 plus allowable growth, the farm pays a  
 "market access fee" per cwt on all milk  
 produced

Pool the money collected as market access  
 fees

Pay refunds to farms that did not exceed the  
 allowable growth



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The Growth Management Program would be mandatory but producers can choose to produce any amount of milk for the market. An allowable growth rate would be announced perhaps quarterly, possibly yearly, or maybe just set and not changed very often—we examine each of those scenarios. An individual farm (facility identified by pool number or bulk tank unit) would compare their quarterly milk production against their production in the same period the prior year. If that production exceeded the allowable annual growth rate, that facility would be assessed a "market access fee" per cwt on all milk produced at that facility. The allowable growth rate would be selected to minimize milk price volatility. Under most circumstances, the growth rate would be positive and accommodate the growth in demand for dairy products. Under an extreme circumstances, it could be negative to recover from a price shock.

## Key Decisions for GMP

What is the size of the Market Access Fee?

What % production increases are allowed?

- Should these, could these change over time?
- Who gets to decide?



## CPDMP Analysis of GMP

Three basic questions:

Can it make milk prices more stable relative to regular variation due to cycles?

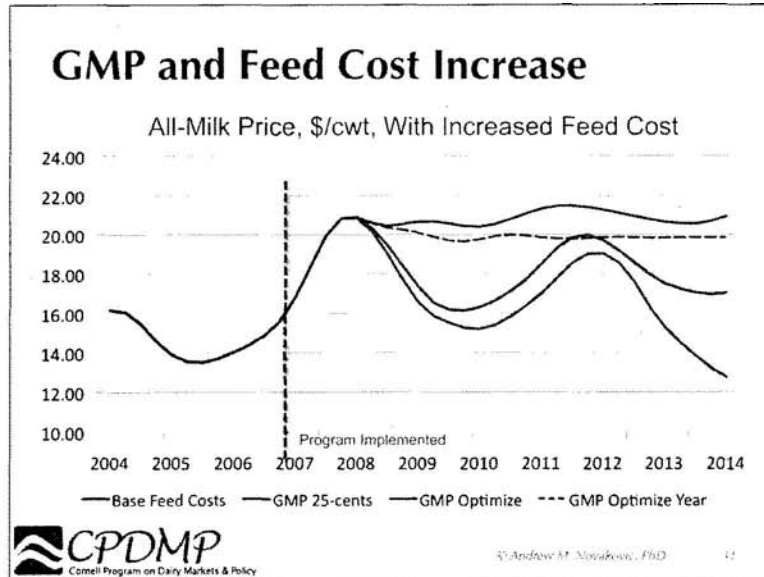
Can it make milk prices more stable relative to unexpected shocks?

→ Feed Costs, Demand

What are the levels of Market Access Fees and % growth that achieve more stable prices?

→ How often might need to change them?

→ How stable



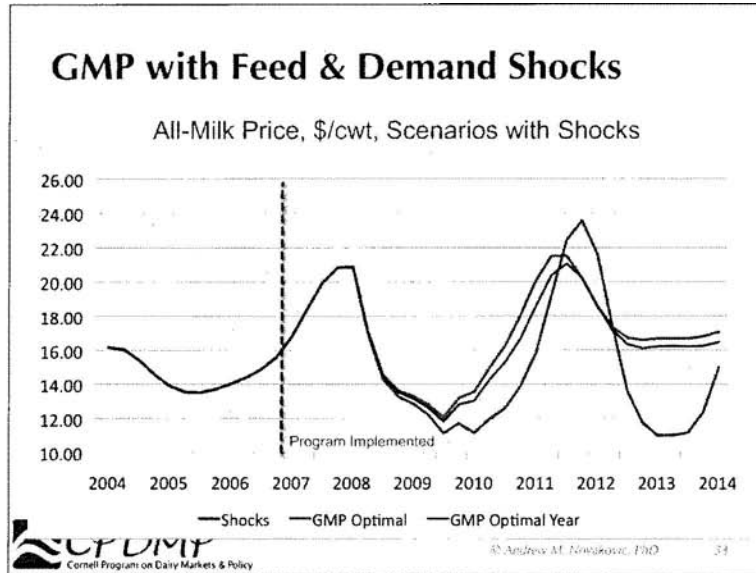
This set of scenarios differs from the previous graph in that the feed price shock of 2006-2007 was included. You can see the impact with a 2008 price peak that is much higher than baseline scenarios without the feed price shock. Again, the GMP significantly reduces the price volatility in all cases but the ability to alter the market access fee and allowable growth provides the most stability and rapid recovery from this magnitude of shock.

## GMP and Feed Cost Increase

	Baseline with Feed Cost Increase, No GMP	Baseline with Feed Cost Increase Minimize Variation with Annual Changes	Difference from Baseline with No GMP
Market Access Fee, \$/cwt	--	0.74*	--
Allowable Growth, %/year	--	2.7%*	--
Refund, Qualifying Milk, \$/cwt	--	0.61	--
Average all milk price, \$/cwt	17.02	19.84	2.82
Coefficient of variation, %	12.9%	3.6%	-9.3%

\* Indicates varies over time

Reduction in variation, increase in all-milk price



Lastly, we combine the underlying price cycles and the feed shock with the demand shock of 2008-2009 (global recession). You can see that the impact of the demand shock causes the price drop to be nearly \$4.00 lower than before—it is a severe shock. It is also the case that while the GMP elevates the trough somewhat, it cannot provide complete protection from such an unanticipated event. Although it may be somewhat difficult to detect from the graph, a shock of this magnitude partially “resets” the underlying cycles which begin again at a slightly different time period. The GMP does substantially aid in the recovery after the shock (years 2013-2014) by again smoothing the price variation from underlying volatility.

## GMP with Feed & Demand Shocks

	Demand and Feed Costs Shocks, No GMP	Demand and Feed Costs Shocks, Minimize Variation with Annual Changes	Difference from Baseline with No GMP
Market Access Fee, \$/cwt	--	0.32*	--
Allowable Growth, %/year	--	1.5%*	--
Refund, Qualifying Milk, \$/cwt	--	0.46	--
Average all milk price, \$/cwt	15.34	16.44	1.10
Coefficient of variation, %	26.0%	16.5%	-9.5%

\* Indicates varies over time



Still fairly large variation

Reduction in variation, smaller increase in all-milk price

## GMP Summary

### Basic findings:

GMP could decrease variability

- Less effective for a demand shock

GMP would increase farm prices

- 8 to 21%, depending on scenario
- Larger % increases under Holstein Association proposal (larger MAF)

### Issues:

Impacts on trade

Impacts of price enhancement

- Asset values
- Sales and growth

Implementation

- Cheating!
- Transfer of "base"
- Setting growth and MAF

Regional distribution

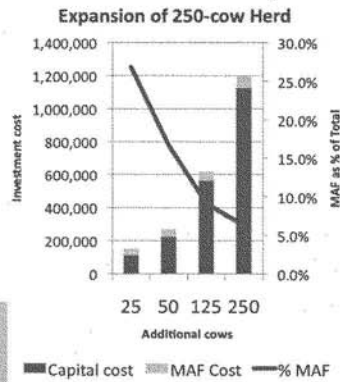
Interactions with CWT

Incentives for expansion?

## Incentives for Expansion?

Payment of MAF is on ALL milk, rather than "extra" milk  
 MAF as a proportion of expansion cost decreases for larger expansions

Will this encourage expansions to be larger?  
 Should MAF be based on changes in production?



## Concluding Comments

A GMP could reduce price variability

Additional analyses of growth management programs should be undertaken to address the unresolved issues

- Broader perspective on impacts and implementation challenges is needed

For more information:

Nicholson and Stephenson. An Analytical Review of a Growth Management Plan for Dairy Producers. Cornell Program on Dairy Markets and Policy. May 2009

[www.cpdmp.cornell.edu/CPDMP/Pages/Publications/Pubs/GMP\\_Report.pdf](http://www.cpdmp.cornell.edu/CPDMP/Pages/Publications/Pubs/GMP_Report.pdf)



## Personal Firm Strategies for Risk Management

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June 2009



**Basic price risk management tools:**

**Hedging:** To establish a fixed base milk price.

**Put Options:** To create opportunity to establish a floor base milk price.

**Cash Forward Contract:** To establish a fixed base milk price, or floor base milk price for one or more months.

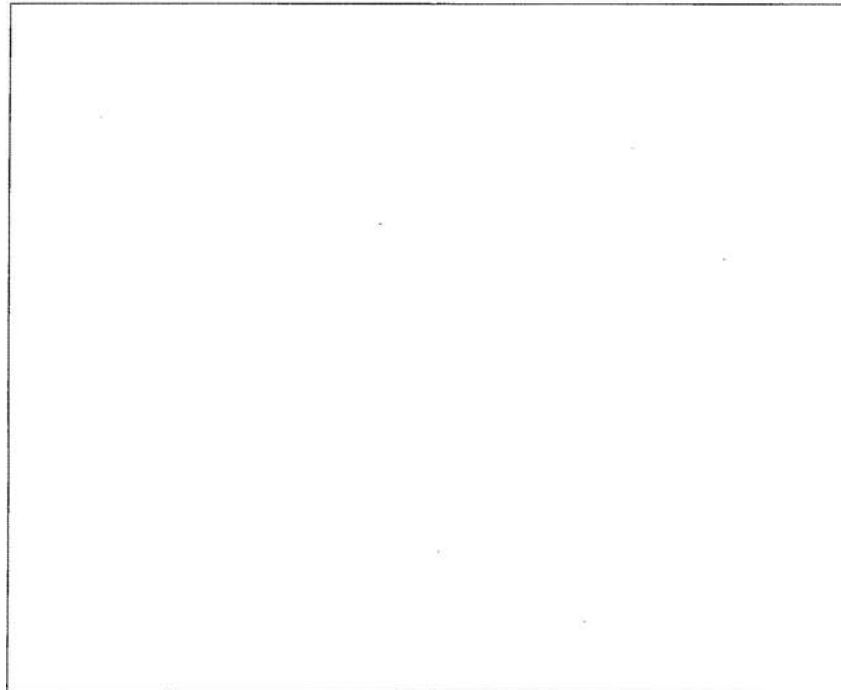
**Forward Contract - an alternative:** establish both the price and the quantity

**Advantages of hedging as a risk management tool:**

Achieves a “specific” price or profit objective  
Can get out if market changes, or use an advanced strategy  
Not tied to a milk buyer

**Disadvantages:**

Margin account and margin calls  
Forgo opportunity for rising milk prices.



**Advantages of buying a Put option as a risk management tool:**

Protects against a price decline and leaves open the opportunity for higher prices.

No margin money or margin calls.

**Disadvantages:**

If prices fall, net mailbox price usually lower than if hedged because of an out-of-the-money PUT plus premium paid.

## Cash Forward Contracting:

Milk plants have recently offered producers two types of cash forward contracts:

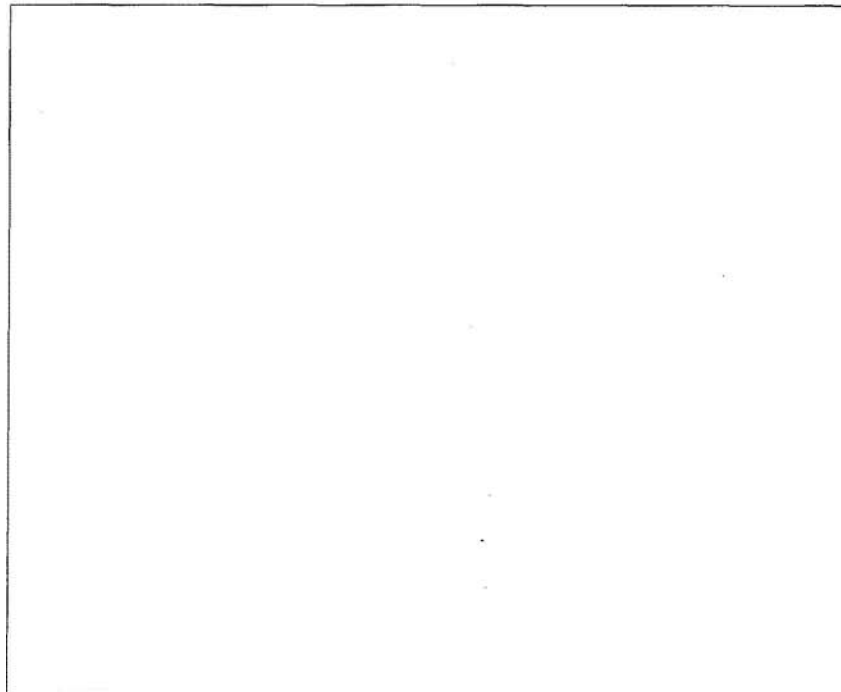
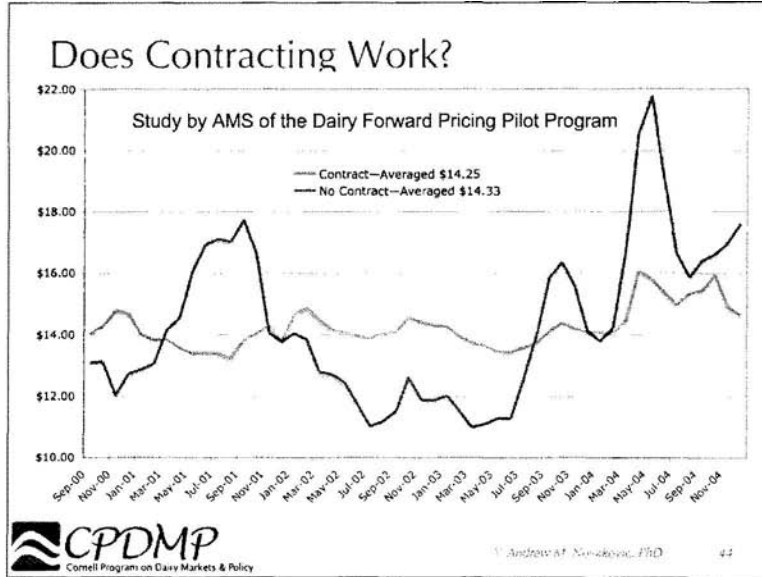
1. **Fixed base contract:** This is a Class III base contract. The producer receives all other premiums and discounts as before. This is similar to if a producer hedged.
2. **Floor base contract:** This establishes a floor on the Class III price. The producer receives all of the premiums and discounts as before. This is similar to if the producer bought a PUT option.

### **Advantages of cash forward contracting as a risk management tool:**

Flexible in terms of quantities of milk protected  
Can protect a specific milk price or profit objectives; or a  
floor mailbox price.  
Simple to use—no broker account or margin money

#### **Disadvantages:**

Locked into a milk buyer  
With fixed price contract, can't get out if market changes  
Forgo opportunity for higher prices with fixed price contract.



## **Most Significant Need**

Dairy Farmers should have a Marketing Plan!

- Firms should have a roadmap for action, what I will do if/when
- Think through a course of action when you have time to think rationally and thoughtfully

A Marketing Plan is part of and consistent with an overall business plan



## **An Overview of the Livestock Gross Margin Insurance Program for Dairy**



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Associate Professor  
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June 2009

*Understanding Dairy Markets*

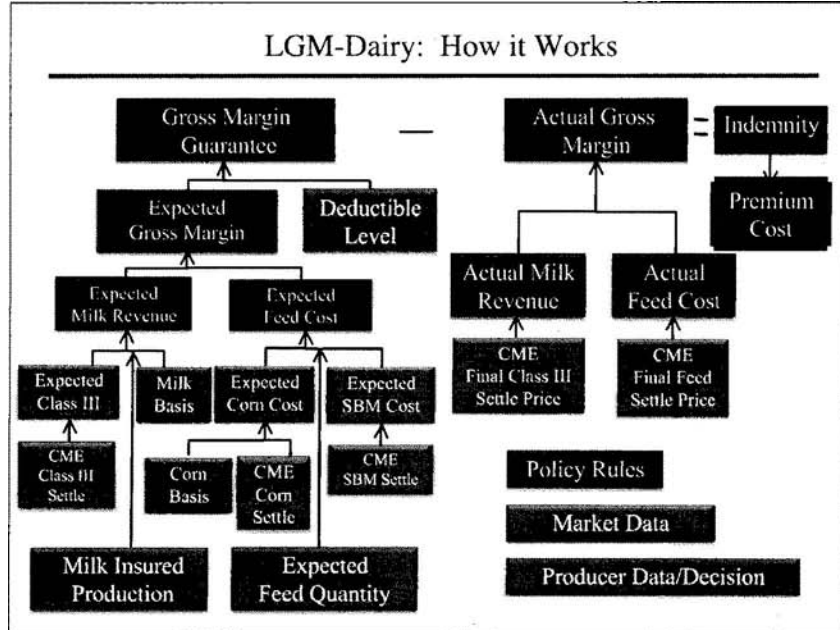
Your Source for Market Information and Price Risk Management Principles

### LGM-Dairy: An Overview

- Unlike traditional dairy price risk management system LGM-Dairy establishes a floor on *Gross Margins*
  - $GM \equiv \text{Imputed Milk Revenue} - \text{Imputed Feed Costs}$
  - ✓ Manages risk from both milk price and feed costs
- Class III, corn, and SBM futures settlement prices determine expected prices at insurance sign-up and actual prices when contract matures
  - Prices received/paid by producer not used
  - No actual futures/options market activity
- 11-mo. insurance period (*up to 10 covered mo.*)

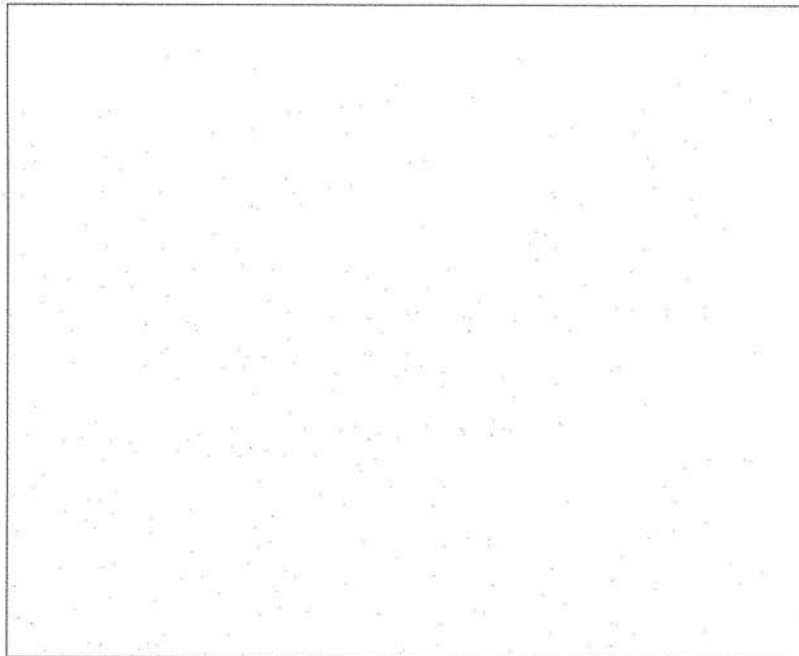
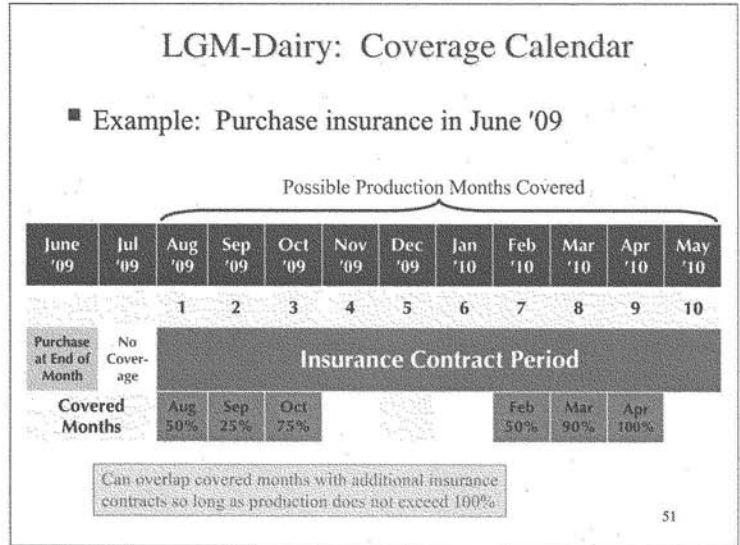
## LGM-Dairy: An Overview

- *LGM-Dairy* similar to use of a bundled option risk management system
  - Sets milk revenue *floor* and feed cost *ceiling*
    - ✓ Put option limits milk price downside risk
    - ✓ Call option limits feed cost upside risk
- Unlike use of Class III, Corn or SBM options:
  - No contract size lumpiness
    - ✓ *LGM-Dairy* is customizable as to amount of milk covered
    - ✓ Upper limit of 240,000 cwt over 10 months: Approximate production from farm with 900 cows and 22,500 lbs/cow
    - ✓ Any portion of a month's production can be covered
  - Can use *LGM-Dairy* to insure *any month(s)*



## LGM-Dairy: Insurance Premium

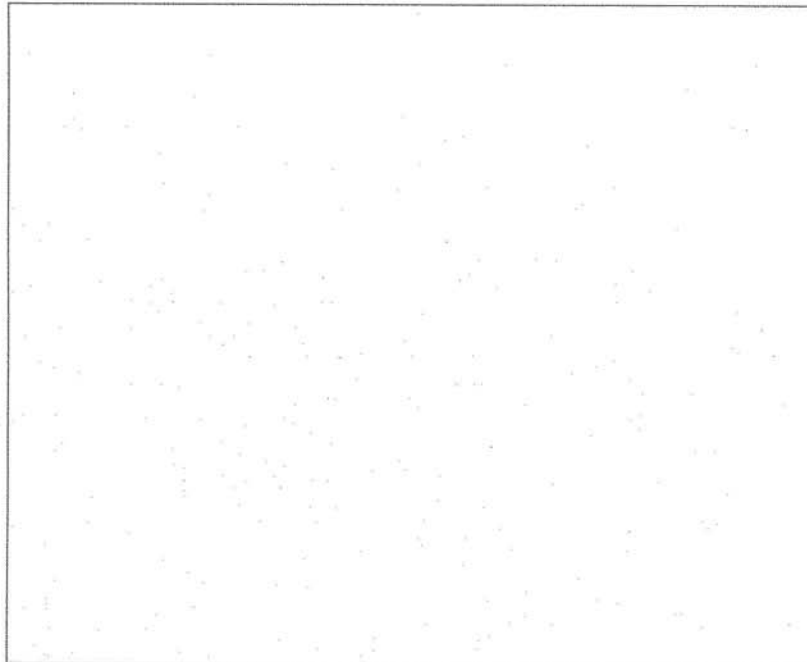
- Unlike Crop Insurance *No Producer Premium Subsidy*
  - USDA uses a complex process, developed by Iowa State agricultural economist to determine an “actuarially fair” premium that is based on an expected payout at the time of sign-up
- UW analysis indicates that LGM-Dairy is much cheaper than use of traditional options to floor dairy net revenue under most circumstances/deductibles



### LGM-Dairy: June 2009 EPM Period

■ Insurance contract purchased on June 26<sup>th</sup>

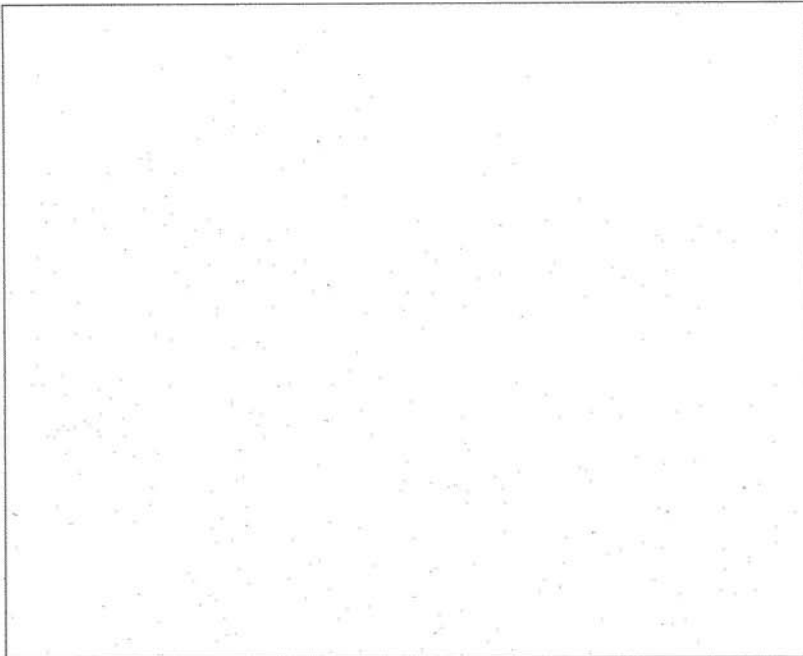
June 2009						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1	2	3	4	5	6
7	8	9	10	11	12	13
14 Day	15	16	Average Settle Prices Over These Days to Determine Expected Prices		15	20
21 Father's Day Memorial Day	22	23	24	25	26 Insurance Purchase Day	27
28	29	30 Last Business Day	3 <sup>rd</sup> to last business day			



### LGM-Dairy: An Overview

- Who is eligible to purchase LGM-Dairy?

LGM-Dairy eligible states shown in yellow, future states (July 2009) in gray





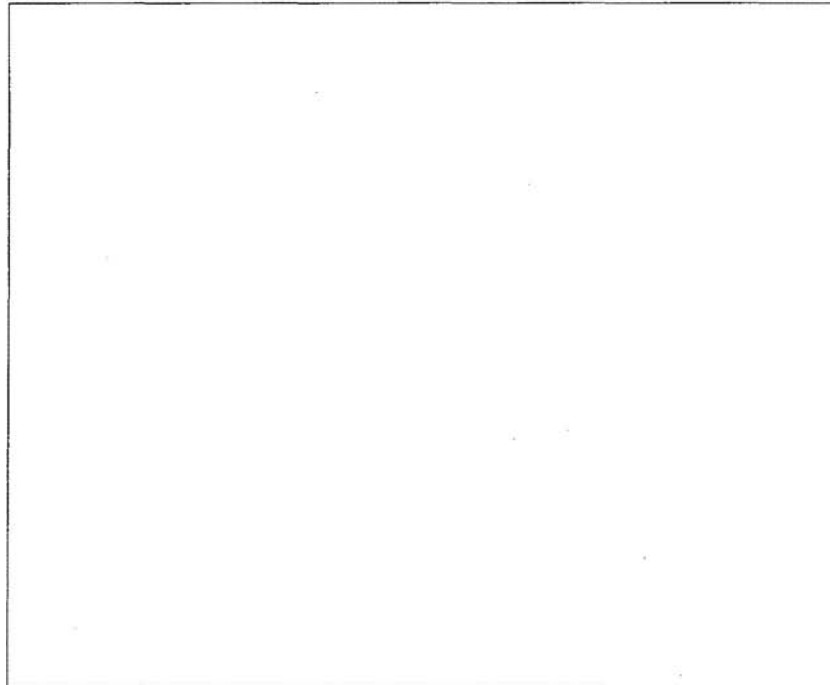
### LGM-Dairy: Summary

- LGM-Dairy is a flexible insurance program
  - Need not insure all months or all monthly production
  - May make sense to overlap contracts for same month
- Covers Margin, not milk price
  - Analogous to simultaneous use of Class III puts and corn/SMB call options
  - Premiums compared to option costs are reasonable
  - Premiums are very sensitive to deductible
- LGM-Dairy drawbacks
  - Short sign-up window at the end of each month
  - Total contract premium is due at sign-up

### **Contact Information**

- **University of Wisconsin Dairy Marketing Website:**  
<http://future.aac.wisc.edu>
  
- **Livestock Gross Margin Insurance:**  
[http://future.aac.wisc.edu/lgm\\_dairy.html](http://future.aac.wisc.edu/lgm_dairy.html)
  
- **To join the LGM-Dairy Mailing List:**  
[http://future.aac.wisc.edu/lgm\\_dairy.html#5](http://future.aac.wisc.edu/lgm_dairy.html#5)
  

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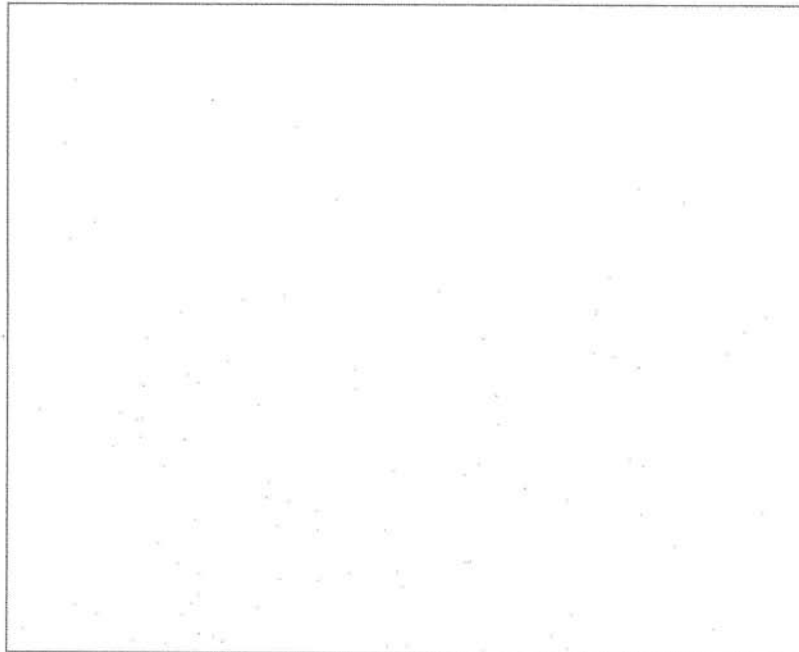
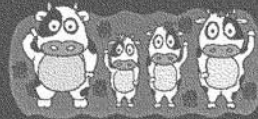
## Cornell Program on Dairy Markets and Policy

For more information or a copy of this presentation:  
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David Paterson  
 Governor

Patrick Hooker  
 Commissioner

August 27, 2009

Testimony from New York State Department of Agriculture and Markets  
 Senate Agriculture Committee Hearing  
 Batavia, New York

***The Situation***

Dairy prices have plummeted in 2009 and dairy farmers are now coping with price levels not seen since the 1970's. We all know the numbers, so I will cite just a few to highlight the urgency of this situation. Based on recent numbers provided by Farm Credit, dairy farmers are losing about \$4 per each hundredweight of milk that they produce. This means that they are losing as much as \$100 per cow per month. For a farm milking 100 cows, that is \$10,000 per month and well over \$100,000 for the year. Total receipts for dairy farmers in New York are estimated to be down almost \$700 million, a whopping 30% decrease.

And how are dairy farmers coping? They are either eating into their hard earned equity or they are borrowing money to cover the operating losses. Farm Credit reports that dairy loan balances are up over \$170 million (over 20%) - an additional and unproductive drain on limited cash flow as a result of low milk prices this year. Obviously, the industry is headed for a major meltdown this fall if nothing is done to help dairy farmers.

***What is at Stake***

First and foremost, we should recognize that New York's dairy farmers are a nonrenewable resource that will be lost if we lose dairy farms. Any loss of human capital in this industry in New York State will be irreplaceable.

Second, the dairy industry is the major driver of the agricultural economy across the Northeast, when you combine farm receipts, distribution and processing, contributing over \$50 billion regionally and over \$10 billion here in New York State. Farm receipts are down over 30% for 2009 and the impacts are being felt in communities all across upstate, like Batavia.

Third, agriculture generally and the dairy industry specifically, defines the working landscape across the Northeast - over 50% of the farmland in New York and the

Testimony from New York State Department of Agriculture and Markets  
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August 27, 2009

Northeast supports dairy farming. Dairy farming is the anchor tenant of our landscape. Simply stated, we need our dairy farmers to maintain and steward the working landscapes that our tourism industry relies upon. As one observant dairy farmer said, "Visitors are not going to drive a long way from the city to look at weeds and brush."

Last, but certainly not least, dairy is the cornerstone of the Northeast's regional food system. New York state and the Northeast have a long history of supplying fresh and nutritious fluid milk and other dairy products to consumers in our metropolitan areas and up and down the eastern seaboard. As Congress and the Obama administration recognize the importance of sustainable local and regional food systems, they must also recognize that for the Northeast, this must include the dairy farms that supply milk and dairy products to the over 50 million consumers within the region.

***Why should Congress take action***

The economic impact of the dairy industry is substantial and if prices do not improve drastically, dairy farms will be devastated financially and may not recover.

Market consolidation, especially in the fluid market has created a relatively small pool of buyers in the region. In New York State, the top 5 fluid processors account for almost 65% of sales. The level of concentration in New England, where a substantial amount of New York milk is shipped, is far greater. While we may be able to debate the degree of impact that consolidation has on farm prices, it is disturbing to see that fluid processors are reaping record profits at the same time that dairy farmers are suffering record losses.

Compounding the trend in market consolidation is the fact that milk is a uniquely perishable product. It is produced daily and must be transported and processed within several days of production. Unlike commodities like corn or soybeans, milk can not simply be stored until prices rise. In fact, fluid milk is usually consumed within days of its production and transport from the farm to the consumer.

Dairy farming is critical to the Northeast regional food system and should be a key component of national efforts to promote sustainability and food security. The Obama administration is on record in support of strengthening regional food systems for these very reasons. The moderate climate and rain-based agriculture of the Northeast is ideally suited for dairy production that is sustainable for the long term, both economically and environmentally. New York's 6,000 dairy farms are diverse – located around the state and come in a wide range of sizes and production practices. However, all are located within several hours of consumers and require fewer "food miles" and create a smaller carbon footprint than the ultra large dairies west of the Mississippi. Would we really rather rely on a single 60,000 cow dairy operation or on hundreds of

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smaller dairy farms spread across an entire state and region producing milk and dairy products for the Northeast.

***What needs to be done***

*Immediate Financial Assistance*

First, dairy farmers need immediate financial assistance. We would like to first thank Senator Gillibrand and Senator Schumer for their leadership and advocacy in convincing Secretary Vilsack to raise the support price for cheese, butter and nonfat dry milk. We also greatly appreciate their hard work, along with Senators Leahy and Sanders from Vermont and Senators Casey and Specter from Pennsylvania to add \$350 million to the Senate Agriculture Appropriations Bill to assist dairy farmers. However, in the short term, more must be done to alleviate the dire financial circumstances of many dairy farmers. We have requested payment forbearance from the Farm Service Agency on its loans; FSA should immediately increase its loan guarantee program; and we need an immediate and retroactive MILC increase, both of the utilization rate and the production cap.

And we urge you to convince Secretary Vilsack to implement an immediate Class I base price floor at \$18 per hundredweight. This would not only increase the pay price to producers across the country, but it would reduce the future cost of the MILC program and create budget savings that could then be used to offset retroactive increases to the MILC payments and increases in the DPSP.

*Change Pricing System to Reduce Volatility and Better Reflect the Cost of Production*

Second, we must change the pricing system to reduce volatility and better reflect the cost of production. There is no question that the current pricing system needs to be overhauled. The price swings in 2006 made a strong case for this and this year's price disaster only serves to emphasize the urgency for change. We believe that several of the options outlined below would help to achieve the consensus objectives of reducing volatility and reflecting cost of production. And we recognize the challenge of building a sufficient consensus on these solutions. That said, we can not afford to do nothing – the status quo is unacceptable and will profoundly reshape the dairy industry if we do not act.

Supply management – Several proposals are under discussion, including the Specter/Casey bill (S. 1645), the Dairy Price Stabilization Program from the Holstein Association and mandatory CWT to reduce the dairy herd size. Each of these proposals would use a combination of financial incentives and disincentives to limit production to more closely align with demand. We believe that the industry should and will take a close look at these proposals to determine if they would be both effective and

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acceptable to the majority of the industry. In fact, I plan to convene the New York State Milk Marketing Advisory Council in September to discuss these options.

Price adjustments to reflect increased production and transport costs – Under the current Federal Milk Marketing Orders, the market administrator has the authority to adjust differentials to reflect increased costs (including but not limited to feed and fuel). In fact Congress specifically authorized a feed adjuster in the MILC target price and Senator Gillibrand has proposed indexing it for inflation. The fact is that costs of production have risen significantly over the past several decades and we need a mechanism – perhaps using the existing authority in the FMMO – to adjust minimum prices to better reflect these increasing costs.

Establish a floor for the Class I base mover at \$18 per hundredweight – Class I fluid milk is the most perishable dairy product and one that is usually consumed within several hundred miles of where it was produced and within several days of when it was processed. As an essential staple for most households, it is one of the least price sensitive dairy products and offers the potential for a stable pricing base for milk. Granted, a national price floor for fluid milk will not benefit lower fluid utilization regions as much as higher utilization regions in the short term, but over time we believe that the markets heavily reliant on Class III and IV sales will learn to manage both production and inventory to accommodate to the underlying world market for these commodities.

For those producers and consumers of fluid milk, the benefits of a more stable price – at the farm and at the store – will both stabilize consumer *and* producer prices for a product that can and should be consumed close to home, within a regional “food shed”. By relying on the market for a more stable price, the Federal government will save a considerable amount of tax dollars and the consumers will pay only pennies more at the store. The present price volatility and extended low price for farmers has simply meant that a significantly greater percentage of the retail food dollar for fluid milk is captured by the processing, distribution and retail parts of the chain.

In sum, the dairy industry here in the Northeast and across the country is on the brink. Decisions made by public policy makers in the next few months to either take action – or stand idly by -- will profoundly shape the future of dairy farming. While it may be challenging to sift through the many options and diverse opinions from the industry, the fact remains that doing nothing is in fact a choice – and one that will have potentially disastrous consequences on New York’s dairy farmers. We need to act and need to act now.

We appreciate the opportunity to provide input and will be happy to provide additional information on any of the points that we have raised.

I have opted to forward you several emails, in which I believe may be of great value to you. They include testimony, facts, and extended research on all of your topics discussed at Senator Gillibrand's Dairy Hearing on Thursday, August 27 in Batavia, NY.

As I understand, you are accepting testimony through September 1st, and therefore, I will try not to inundate you with a plethora of emails, but rather only send the most pertinent emails I have on file pertaining to these matters.

I hope the information aids you in your quest to help dairy farmers keep their farms and their livelihoods.

In addition, it is my strong belief that Processors and Co-ops, along with the Chicago Mercantile Exchange are bankrupting the dairy industry in exchange for corporate greed. Simply put, the dairy industry is facing a parallel to the Bernie Madoff scandal. Dairy farmers are the investors/victims and the Processors and Co-ops, along with CME are Bernie Maddof and his high-powered attorneys and crooked accountants.

Please help to expose the Processors and Co-ops and the CME for who they really are.

Evelyn Borba  
evelyn\_borba@yahoo.com



Submitted by Evelyn Barton



- **Return on investment greater than cost of production for producers, PLUS a profit from the market as a result of public policy.**
- **Reform Federal Milk Marketing Order system.**
- **Restore competition to a non-competitive dairy market.**

#### SHORT TERM OPTIONS:

- Establish safety net support price that is fair and equitable to all producers – Establish an emergency Class III floor price of \$18/cwt by existing authorities of the Secretary for a period of 6-9 months. During this period, USDA should launch the FMMO review as established in the 2008 Farm Bill and CFTC should launch investigations into potential manipulation on the spot cheese market at CME. A long-term supply management program must be established in tandem with the emergency floor.
- Continue counter-cyclical MILC safety net – Endorse Sen. Gillibrand's legislation to double MILC payment rate.
- Eliminate make allowance. If not eliminated, make it variable and tied to producers' cost of production.
- Require the NASS survey to be audited periodically.
- Maintain standards of identity on dairy products and move to increase fat content standards in fluid milk.
- Deploy low-interest and emergency loans, including a foreclosure mitigation program to stem the tide of loan foreclosures.
- Product purchase for donations to food banks and other nutrition programs.
- Allow producers to label milk as free of artificial growth hormones.
- Accurate recording and publishing of import data from ERS.
- Ensure imported dairy protein blended products are accounted for and categorized appropriately according to the common or commercial meaning of the term "milk protein concentrate," not allowed to disguise skim milk powder MPC to avoid tariffs and the tariff rate quota.

#### LONG TERM OPTIONS

- Efficient transmission of price signals should be established. Today's market is non-functioning with imbalance of buyers/sellers.
- Pass the Milk Import Tariff Equity Act to address unlimited imports flooding U.S. domestic market.
- Include California and all regions/areas in the FMMO.
- Correct pooling/de-pooling provisions in the FMMO.
- Eliminate bloc voting.
- Allow "no" vote on amendments, yet maintain FMMO.
- Do not place financial burden of transportation onto producers.
- Establish three-part pricing formula to include: cost of production, Consumer Price Index and Chicago Mercantile Exchange.
- Resolve distribution and supply management challenges.
- Repeal forward contracting authority.
- Support funding for academic antitrust research.
- Intensify review process for proposed mergers.
- Promote smaller coops and increase oversight of coop management to ensure interests of producers are met.
- Implement concepts of S. 889
- Eliminate authority for dairy import promotion assessments.

# Dairy Farm Crisis

2009

A Look Beyond Conventional  
Analysis

**Abstract**

By the third week of February 2009, nearly everyone with some knowledge of dairy farming recognized, to some degree, the financial crisis dairy farmers now face. Many people feel there is a surplus production of milk and therefore of dairy products. Most who imagine the “surplus” is the problem, also feel “market” economics will deal with the problem without any government intervention.

Those who are better informed realize the current dairy crisis is connected with the world financial meltdown. A significant problem leading up to, and perhaps a lead cause of the world financial crisis, is that we mistakenly equated free markets with unregulated markets.

Dairy markets are run by an oligarchy —a few elite players — with little or no governmental oversight. As such, the current financial situation provides an opportunistic moment for key players to unduly depress farm milk price and reap both profits and market power.

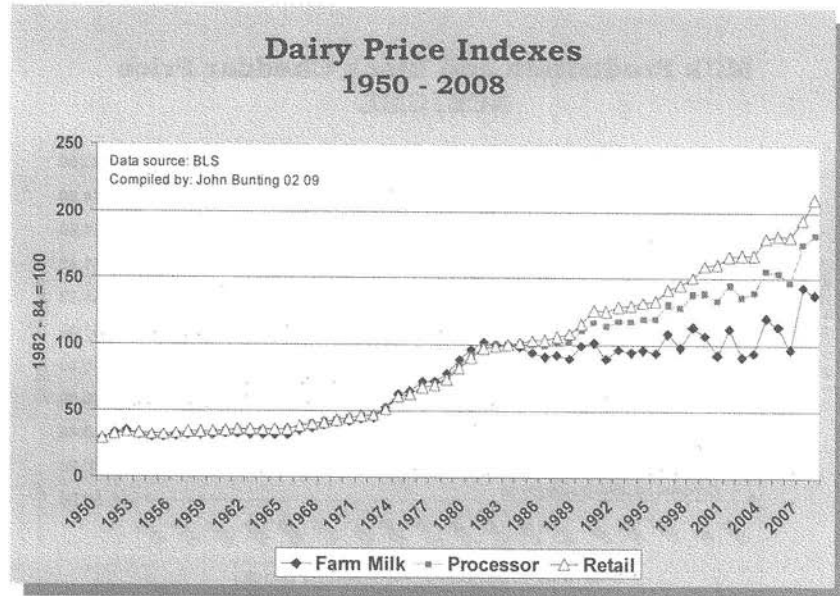
Farm milk prices began to fall in late 2008, in spite of data which suggests it should not have happened.

- Nearly as much nonfat dry milk was exported in December 2008 as was exported in December 2007.
- December 2008 imports of milk protein concentrates were massive.
- Imports of casein, another dairy derived protein, also increased in December 2008.
- “Butter and other milkfats” imports increased nearly 60% in December 2008 compared with December 2007.
- Cheese imports for December 2008 increased 15% over December 2007.
- Commercial disappearance of dairy products increased in December 2008 and for the 2008 year increased 2.6% according to USDA data.

If, indeed, as most experts believe, too much milk drove farm milk prices down, there is no easy explanation of the dairy exports and imports of December 2008.

### Farm Milk Price

Contrary to popular belief, government policies, not market forces are responsible for dairy farm milk prices. Government policy in early 1981, turned dairy farm milk pricing over to a handful of powerful industry firms.



In the 30+ years from 1950 to the early 1980s, dairy farmers, processors and retailers were profitable with prices for all segments rising at the general rate of inflation. Price signals moved from the dairy farm through to the consumer perfectly correlated, which could be expected in an actual market scenario.

Government policy changed dramatically with the elimination of parity pricing for dairy farm milk. Parity pricing kept the price of farm milk moving at the general rate of inflation. Eliminating parity was sold under the guise of creating a more "market oriented" pricing system.

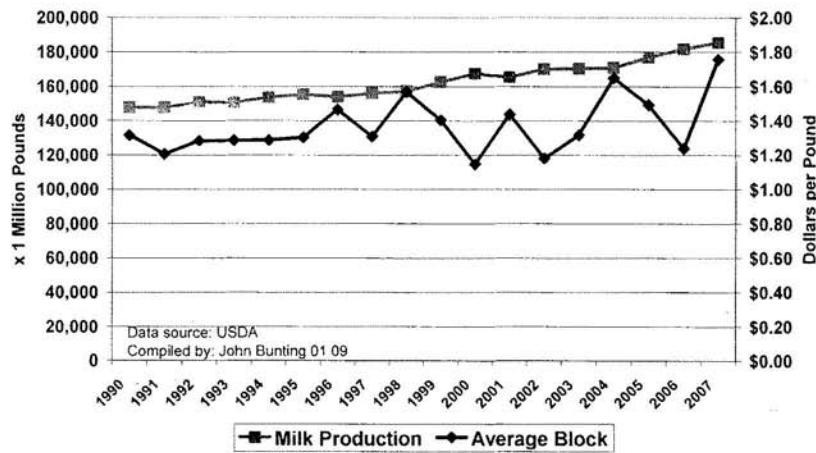
As can be seen from the above graph, the spread between farm milk price and retail price has steadily widened since the Reagan administration, with no public benefit. Real farm milk price, in inflation-adjusted dollars, has fallen nearly every year, yet consumers pay more for milk and cheese at the store. This has created a rat race in which dairy farmers increase production merely to keep from sinking.

Conventional experts would have you believe the "market" is determining farm milk price. The truth

is, farm milk price has a near-perfect (.96) correlation to the trading of generic block Cheddar on the Chicago Mercantile Exchange (CME). Trading of block Cheddar on the CME began in the spring of 1997. Prior to trading at the CME the trading took place at the National Cheese Exchange (NCE) in Green Bay, Wisconsin.

Trading of block Cheddar on the CME determines farm milk price. However, farm milk price is very poorly correlated to farm milk production.

### Milk Production and Block Cheddar Price NCE/CME



Farm milk production has been driven primarily by real estate values in the Inland Empire (Riverside and San Bernardino counties in California) and the IRS tax code 1031, which provided the input of the external capital and incentive to have invested heavily in bigger dairy farming operations.

Clearly, there is no supply/demand factor in farm milk pricing. Farm milk price is driven by the internal needs of a handful of elite players.

#### Collapse of Farm Milk Price

With the collapse of the world financial system in late summer 2008, demand for dairy products, primarily nonfat dry milk powders seemed to collapse. Beginning in October 2008, large amounts of nonfat dry milk (NFDM) were sold to USDA as "surplus."

Experts held that export markets for NFDM had all but disappeared. Therefore, sales to the Commodity Credit Corporation (CCC) of the USDA were necessary to clear the market of the surplus. However, the initial sales of surplus NFDM to the CCC originated with one California cooperative.

Shortly thereafter, a second cooperative sold surplus product to the CCC. All sales to the CCC have originated from California plants, which suggests factors other than surplus may have been involved.

Additionally, the sales, in 2008, to the CCC were not directly from the participating co-ops but through a broker. Industry sources indicate the co-ops received \$.0025 less going through the broker but, obtained the money immediately, rather than waiting ten days for payment from the CCC.

The use of a broker indicates a problem with the commercial paper market (CPM) crash. Without a functioning CPM, short-term borrowing was severely limited.

Once sales of NFDN to the CCC began, the price of NFDN fell dramatically to just above \$.80 per pound by the end of December 2008. At the beginning of September 2008, the price per pound of NFDN was \$1.33.

Selling NFDN through a broker hastened the fall of NFDN price. This action was important to the co-ops as the price paid to farmer members directly relates to the wholesale price of NFDN, as reported through the National Agricultural Statistics Service (NASS) or California Department of Food and Agriculture (CDFA).

Both NASS and CDFA determine farm milk price by subtracting from the wholesale price what is known as a "make allowance." Make allowances guarantee to the processor costs of production plus a return on investment, or profit.

When the dairy processor sells "surplus" NFDN to the CCC, another or *second* make allowance, which includes another profit to the processor, is an integral part of the price. Therefore, there is an incentive to the processor to sell to the CCC rather than expend effort marketing NFDN when the price is low. This "double-dipping" causes undue surplus sales to the government rather than providing incentives to produce for the market.

Grade AA butter prices began a rapid fall in price beginning in the third week of October 2008. By the second week of January 2009, the main seller of NFDN to the CCC, California Dairies, Inc., began selling butter to the CCC.

Cheddar cheese prices in CME trading began an undulating fall by the end of May 2008. By the first week of January 2009, block cheddar prices had fallen below the CCC support price of \$1.13 per pound, although there were no sales to the CCC.

From the above information, anyone could logically conclude the U.S. had a dairy surplus. Certainly, by December 2008, after months of complaints regarding the drop in milk powder exports and supposed resulting sales of NFDN to the CCC, there seemed to be a consensus: the U.S. did not need any more dairy products.

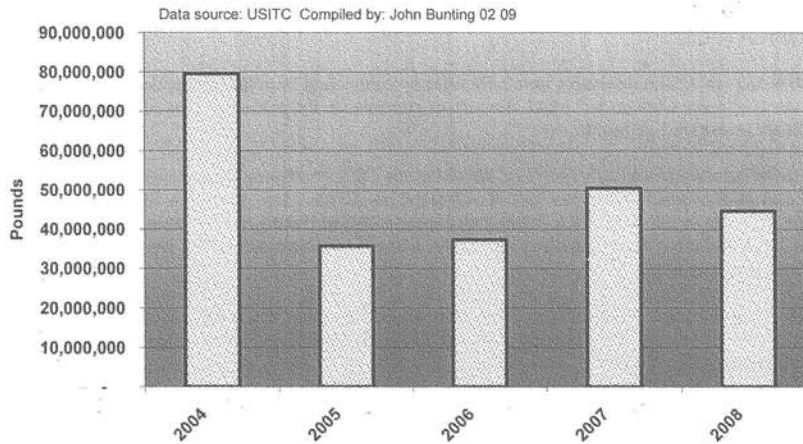
### **Trade Data Paints a Different Picture**

All major NFDN producers in California belong to a marketing agency in common, DairyAmerica. DairyAmerica has an exclusive deal with Fonterra, the monopoly New Zealand dairy cooperative, which covers virtually all NFDN exports.

Fonterra is the world's leading dairy trader. Fonterra saw a dairy processing opportunity in China and invested in the Chinese firm Sanlu. Sanlu was the company which added the chemical melamine to milk which resulted in illnesses and deaths. The melamine scandal reduced Fonterra's sales. Therefore, exports of NFDN from California were negatively impacted.

However, exports from the U.S. of NFDN and the near twin, skim milk powder (SMP) for December 2008 of 44,654,173 pounds were only slightly less than exports for December 2007 of 50,474,317 pounds.

### December Exports of Milk Powders (NFDN & SMP)



### Dairy Protein Imports Flood U.S.

Domestic sales of NFDN have been eroded by imports of milk protein concentrates (MPC). MPCs are produced by first "ultrafiltering" milk. Ultrafiltered (UF) milk is produced by separating milk components according to size. Small molecules such as lactose and minerals pass through a filter, while large molecules such as proteins are held back. Therefore, the UF milk has an increased or concentrated protein level. Finally, the UF milk is dried to a powder — MPC.

The U.S. dairy industry is the largest user of NFDN, consuming over 60% of production. The largest use is in fortifying milk in the production of cheese.

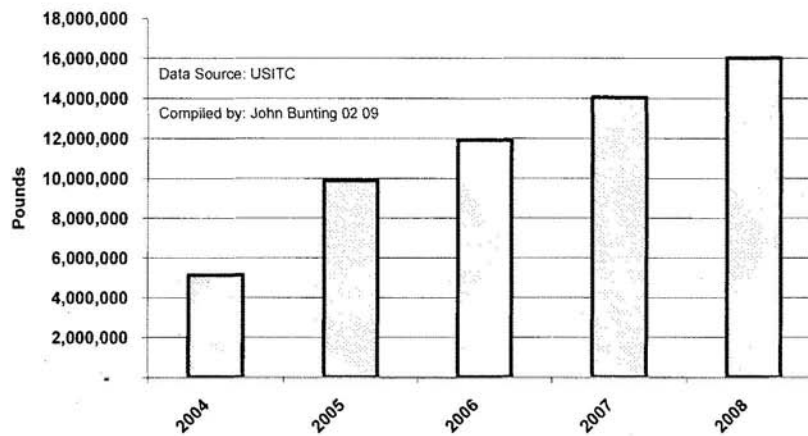
Fortifying the cheese vat in the production of hard cheese increases yield, which is translated by

industry as an increase in efficiency.

Comprehensive, reliable data on use of NFDM is collected by American Dairy Products Institute (ADPI). ADPI's latest data is for 2007. According to ADPI, 30.2 % less NFDM was used in production of hard cheese in 2007 when compared with 2006. That was 169.6 million pounds less NFDM used in production of hard cheese.

There is every reason to think the trend of using less NFDM in the cheese vat continued in 2008.

### December Imports of Milk Protein Concentrates



Importing MPCs into the U.S. is the same as importing milk, except that MPCs are loaded into box trailers at the dock for transportation to plants. No one notices. USDA does not count MPCs as milk. If the imported MPCs for December 2008 could be converted back to milk hauled in tanker trucks, the convoy would be nearly 65 miles long, bumper to bumper. A milk truck convoy of that size would be noticed.

Casein is the prime dairy protein. Casein is produced by coagulating milk with an acid. An example of this, which is familiar to many people, is adding vinegar to milk. The coagulated protein is then removed and dried. After drying, the casein is rolled to form a powder.

Casein can be and is used in making some cheese, especially what appears to be cream cheese or dips.

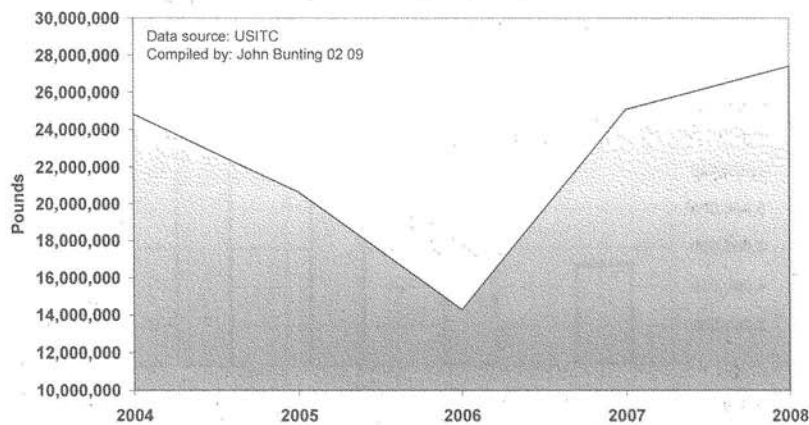


Caseinates are casein (pure dairy protein) processed additionally. An example of use of caseinates is in the original ingredient list for Coffee Mate: corn syrup solids, vegetable oil, sodium caseinate, dipotassium phosphate, mono- and diglycerides, sodium aluminosilicate, artificial flavor, annatto color.

Casein and caseinates are produced from milk and tend to be used as substitutes for milk. Numerous studies indicate casein cannot be produced profitably in the U.S. because imported prices are so low.

According to data from the U.S. International Trade Commission (USITC) the U.S. imports about half of all casein from New Zealand. There is no comfort in the fact that we did import 286,598 pounds in December 2008 from China.

### December Imports of Casein & Caseinates (HTS 3501)



As mentioned earlier, a great deal of imported dairy proteins are added to the cheese vat in the U.S. Adding protein to the cheese vat increases the yield; however, virtually every cheese requires a fat to protein relationship. "Efficiency" is gained with the marriage of imported dairy proteins with imported milkfat.

#### Milkfat Shortage

There is a shortage of milkfat in the U.S. in large part because, while Americans are drinking less whole milk, they are consuming more milkfat in the form of half and half, cream cheese and whipped

cream.

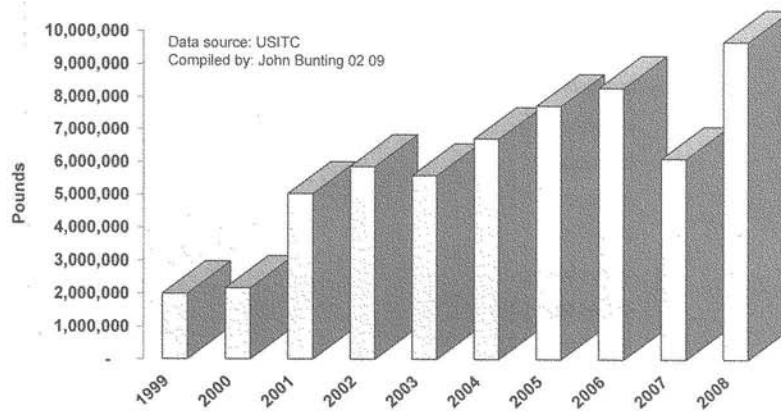
#### U.S. Consumption of Fluid Cream

Million Pounds	2002	2003	2004	2005	2006
Fluid Cream	1,860	2,151	2,313	2,351	2,459

Data source: USDA

Quite naturally, the U.S. has turned to imports for milkfat.

#### December Imports of Butter and Other Fats and Oils Derived From Milk



“Butter and other fats and oils derived from milk” is a technical term used to classify items in world trade.

Included in this category is what anyone would recognize as butter. However, virtually all butter sold at retail is USDA grade AA. To be graded as AA requires that the butter be produced in a USDA inspected plant. Therefore, very little imported butter is found on retail shelves. Most imported butter is used as an ingredient.

Another imported product under the classification of “butter and other fats and oils derived from milk” is anhydrous milkfat and butter oil. Butter oil is obtained by melting butter. Anhydrous milkfat is processed one further step to remove virtually all water.

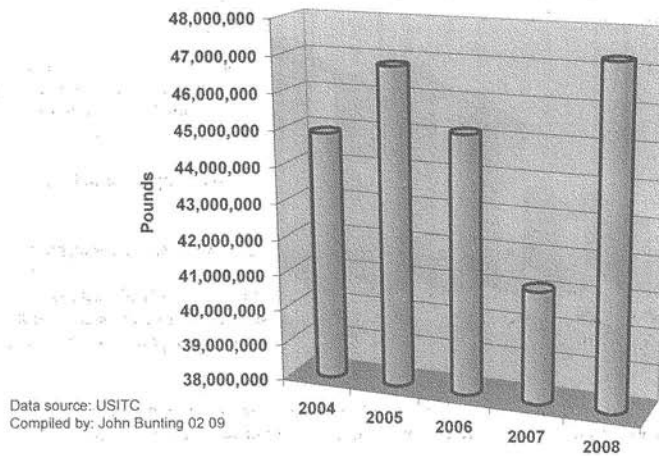
Anhydrous milkfat can be stored at room temperature for up to six months. Anhydrous milkfat is very versatile and can be used in many products, including making butter. Anhydrous milkfat is considered an excellent source of milkfat in the cheese vat.

In December of 2008, the U.S. imported 9,698,035 pounds of anhydrous milkfat which was a 158% increase over December 2007.

### Cheese Imports Soar

Cheese prices on the CME for block Cheddar began in December of 2008 at \$1.79 per pound and by December 31, 2008, had fallen to \$1.1325 per pound. On January 7 and 8, 2009, block Cheddar traded on the CME at \$1.04 per pound, well below support price. Nearly everyone considered the low CME prices an indicator of “surplus.” But, look at the cheese imports for December 2008.

### December Imports of Cheese And Curd



The government support price for cheese is \$1.13 per pound. The average price of block cheddar on the CME for January 2009 was \$1.0833. No cheese was sold to the government in January 2009.

Even with the massive imports of cheese in December 2008, the USDA “Cold Storage” report shows

total cheese in storage for January 2009 to be only 1% above December 2008. U.S. cheese demand must be strong.

Dairy Market News, a USDA publication for the week of February 16 – 20, 2009 stated, “Buyers are now aggressively looking for more cheese for immediate needs and for future use.” Dairy market News further states, “In the last week, anyone that has tried to clean out inventories of old or off condition cheese has been very successful.” Granted, cheese prices might be low, but, if demand were off significantly, buyers would not be purchasing “old or off condition cheese.”

For the year 2008, the U.S. ran a positive trade balance with dairy products. However, in the last quarter of 2008, when everyone was told consumer demand had crashed, imports rose dramatically. For each of the first three quarters of 2008, dairy imports averaged \$700 million. In the last quarter of 2008, dairy imports rose to \$811.8 million.

There is no comfortable way to reconcile the contradiction between the conventional explanation for low dairy farm milk price and imports pouring in at the same time.

### **The Players**

Data from the United States International Trade Commission (USITC) provides a great deal of information but yields no clues regarding the identity of the players. While still not providing very complete information, USDA's dairy import license list provides some hints. USDA Foreign Agricultural Service offers dairy import licenses in December for the following calendar year.

For 2008 Dairy Farmers of America (DFA) — this nation's largest milk producers' co-op — holds 12 import licenses. An import license allows the importation of certain dairy products to enter the country at low tariff rates. DFA has a license to import butter substitutes at the same time it owns a butter manufacturing company in America.

DFA also has two licenses to import “American” type cheese. DFA also holds import permits for Italian type cheese.

There is no credible case to be made that DFA's importing of cheese helps American dairy farmers.

Another player stands out by the sheer number of permits, and that is Fonterra, with 24 licenses. Fonterra is New Zealand's monopoly cooperative and largely responsible for selling the idea of milk protein concentrates to American manufacturers. Fonterra, not surprisingly, is a partner with DFA on several fronts.

If Fonterra only held permits to import to the U.S. from New Zealand there might be some redeeming logic, but Fonterra hold permits to import from a large number of countries, including Iceland.

Other companies also have permits, but DFA and Fonterra have many permits. Moreover, both DFA and Fonterra are cooperatives who, when convenient, claim to think first of dairy farmers.

### **Commercial Disappearance**

USDA Economic Research Service (ERS) regularly publishes data on consumption of dairy products which ERS refers to as "commercial disappearances." The data shows an increase consumption of dairy products for 2008 of 2.6% and for December 2008 up 2.7%.

More telling is that 188.8 billion pounds of raw milk was sold from U.S. farms in 2008. The total commercial disappearances for 2008, according to USDA were 193 billion pounds of whole milk equivalent. In other words, the equivalent of 4.2 billion pounds of milk was imported. To put this into perspective, the equivalent of 230 tanker truck loads of milk was imported every single day in 2008.

Note, however, in the commercial disappearances, USDA does not include either MPCs or casein products. The actual shortfall of milk production in the U.S. for 2008 would be much higher if dairy proteins were counted.

### **Market Failure**

America has an unwarranted faith in markets bordering on zealotry. At the same time, Americans are poorly educated as to what exactly is a market. Indeed, Americans (including bankers) are economically illiterate.

A functioning, efficient market must have many players who individually and collectively bring rich information to the market. Reducing the number of players reduces information and results in market failure.

We know from the Government Accountability Office (GAO) report (GAO-07-707) released in July 2007, that the opportunity for price manipulation exists on the CME. GAO stated, "Because the CME spot cheese market remains a market in which few daily trades occur and a small number of traders account for the majority of trades, questions exist about this market's susceptibility to potential price manipulation."

Furthermore, on December 16, 2008, the Commodities Futures Trading Commission (CFTC) announced a settlement with DFA over price manipulation in which DFA's former CEO and another officer have agreed to pay a \$12 million fine. While the deal between DFA and CFTC is short on specifics, there are already numerous private lawsuits alleging financial damages from these manipulations. More information is likely to be gained from the legal cases.

Reasonable people have a solid basis for concluding that pricing dairy farm milk from the whims of the small handful of players at the CME is not in the public's interest. In the meantime, no one hears from policy makers calling for an investigation or a change in the dairy pricing system.

The pricing events occurring within dairy are not part of some Darwinian economics which will evolve to the newer and better world. The present pricing events are driven by opportunistic activities of a few major players. In that, the dairy picture is very similar to the national and world financial crisis which took leadership by surprise.

Too much manipulation of financial events, particularly of the sort which denies market power and access to information to lesser players, ultimately threatens the collapse of the whole dairy sector.

As if operating as a team, we have seen a complete failure of government regulatory oversight, ranging from USDA, CFTC and the Antitrust Division of the U.S. Justice Department.

While the near-term victims of these milk price manipulations are dairy farmers, the potential, longer-term victims of such events will be the U.S. citizens. Carried to its fullest extent, this milk pricing debacle threatens to decrease this nation's ability to feed its citizens.

### **Independent Farmers Feel Squeezed By Milk Cartel.**

<http://www.npr.org/templates/story/story.php?storyId=112002639&f=100&sc=13>

Independent Farmers Feel Squeezed By Milk Cartel by John Burnett

August 20, 2009

Katie Hayes/NPR Dairy farmers are starting to think creatively in order to survive. At Hedgebrook Farm in Winchester, Va., customers invest in a cow, like this one, in exchange for a gallon of milk per week. Hedgebrook Farm owner Kitty Nicholas says if it weren't for the program, she wouldn't be able to exist by milking only 20 cows.

Katie Hayes/NPR Dairy farmers are starting to think creatively in order to survive. At Hedgebrook Farm in Winchester, Va., customers invest in a cow, like this one, in exchange for a gallon of milk per week. Hedgebrook Farm owner Kitty Nicholas says if it weren't for the program, she wouldn't be able to exist by milking only 20 cows.

text size AAA August 20, 2009 Behind that pure, wholesome, nourishing glass of milk, there's an insurgency.

The price of raw milk paid to farmers has dropped to its lowest level in 40 years. Dairy farms are going under across the country, and a few dairymen have grown so desperate they've taken their own lives.

As the crisis deepens, criticism grows that dairy giants are trying to monopolize the industry, to the detriment of independent farmers and consumers.

#### **Farmers Squeezed On Prices**

Most of what we know about the dairy business is in the supermarket: gallon jugs of whole, 2 percent and organic milk; blocks of cheddar, Swiss and Monterey Jack; cartons of chocolate chip ice cream.

Shorty Miller owns a small dairy in central Texas. Like nearly every other dairy farmer in America, she's angry. Milk prices in the supermarket have come down only slightly, but the price she gets for the raw milk from her Holsteins has dropped nearly in half.

Borden milk is \$3.99 a gallon. Oak Farms, which is bottled locally, is \$3.49 a gallon, and that's a sale price," Miller says, pointing to cartons of milk in the dairy case at Brookshire's Grocery in McGregor, Texas.

How long can Miller's dairy hold out being squeezed the way it is?

"Depends on how long the bankers will work with us. If we want to put up everything we've worked 40 years for, we can hold out a little longer. But do we want to?" Miller says. "I don't think the American public realizes where the milk comes from. Or what they're going to do if we don't have fresh milk."

Enlarge John Burnett/NPRJoel Greeno runs a dairy farmer near Kendall, Wis., and also founded a medium-sized dairy co-op. An activist for family farms, Greeno is one of many dairy farmers who accuse Dairy Farmers of America is hurting independent farmers.

John Burnett/NPRJoel Greeno runs a dairy farmer near Kendall, Wis., and also founded a medium-sized dairy co-op. An activist for family farms, Greeno is one of many dairy farmers who accuse Dairy Farmers of America is hurting independent farmers.

As the dairy industry concentrates into fewer and fewer players, some farmers complain it's killing off independents and reducing options for consumers who want to buy locally.

And they're speaking out.

#### **A Tight Grip On Milk Market**

Earlier this month, distraught dairy farmers packed a room in Tomah, Wis., to implore their elected representatives to do something. Their comments were broadcast on local radio station WCOW -- Cow 97.

Rebecca Goodman and her husband run a 120-year-old dairy in Sauk County, Wis.

"We all worship at the altar of the free market -- that's what we're taught as good Americans," Goodman said on the air. "But I don't know what is free about a handful of companies controlling the process from beginning to end."

Two entities have come in for the harshest criticism.

Dairy Farmers of America, or DFA, based in Kansas City, Mo., is the nation's largest dairy cooperative. It buys milk from 18,000 farmer-members and says it tries to get them the best price. DFA controls about a third of the nation's raw milk supply.

Dean Foods is a Fortune 500 company headquartered in Dallas. With brands like Horizon Organic and Land O'Lakes milk, Dean buys from DFA and bottles more than a third of the nation's milk.

Pete Hardin is publisher of *The Milkweed*, a monthly dairy marketing and economics report.

In the 30 years Hardin has been writing about the dairy industry, he has chronicled the decline of the family farm and the rise of "Big Milk." Hardin believes the fundamental problem with the dairy industry is a lack of honest competition and too little government oversight.



Milk By The Numbers **22.2 billion** -- Gallons of raw milk produced annually by American dairy farmers

**21** -- Gallons of milk consumed annually per capita in the United States

**4,600** -- Number of dairy farms that have been closing each year for the past two decades

**648,000** -- Number of dairymen in America in 1970

**60,000** -- Number of dairymen left in America today

**104** -- Percent of growth of large dairy farms (more than 2,000 cattle) between 2000 and 2006

**\$12.5 billion** -- Net sales of Dean Foods, nation's largest processor of fluid milk, in 2008

**31** -- Percent gain in Dean Foods' profits in second quarter of 2009

**40-50** -- Percent drop in prices paid for raw milk to dairy farmers in 2009 compared to 2008

**2** -- Number of California dairy farmers who have committed suicide in 2009

**Sources: USDA, Dean Foods, National Milk Producers Federation, NPR interviews with dairymen**

"That's why we have reached, in my opinion, the point we have reached, where farm prices are so abysmal," Hardin says. "And we know the money is in the marketplace -- we see what the consumer's paying for these dairy products. If the farmer would get a fair share of that, we wouldn't be having this discussion."

#### **As Farmers Flounder, Dean Foods Prospers**

Let's take a minute to see how milk gets from the barn to your kitchen.

Raw cow's milk is gathered in a tank. Then a milk hauler takes the farmer's milk to a fluid milk plant, where it is pasteurized and bottled. Or, he trucks the raw milk to a different plant that makes it into cheese, butter, yogurt or ice cream.

The processor then wholesales the milk or dairy products to the supermarket, where you buy it.

The place in our cow-to-consumer chain that's causing the most grief these days is the processor: the middleman.

As businessmen, they want to buy raw milk at the cheapest price from the co-op and sell it at the highest price to the grocery store.

"Dean Foods, which is the largest fluid processor in the U.S., at their last annual meeting said,

'Hey, we've got super profits because we're buying the milk so cheap,' " says Texas dairy farmer Miller.

Dean's fluid milk profits jumped 35 percent in the first two quarters of this year. In a teleconference with analysts in May, Dean's CFO bragged that cheap raw milk had created "the perfect sunny day" for the \$12 billion corporation. This, at a time when Miller is losing 45 cents on every gallon of milk she sells from her cows, because she's making less than the cost of production.

Sen. Bernie Sanders, whose home state of Vermont has lost 32 dairy farms so far this year, has gone on the offensive.

"Dean Foods controls about 90 percent of the milk supply in Michigan, 80 percent in Massachusetts, over 80 percent in Tennessee and 70 percent in northern New Jersey. That's not a free market." Sanders says.

#### **Dean And DFA: Goliaths Link Arms**

Marguerite Copel, vice president of corporate communications for Dean, insists it is a free market. There are lots of milk buyers besides Dean, and the price of raw milk is set by the marketplace, not by one company, she says.

But there's no denying that Dean is the embodiment of corporate bovinity.

Over the past decade, through mergers and acquisitions of co-ops and dairy processors, both Dean and DFA grew bigger and bigger. Then, the goliaths linked arms: DFA entered into a 100 percent, full-supply agreement with Dean.

So as Dean came to dominate regional markets, any dairyman who wanted to sell to one of Dean's 50 brands had to go through DFA, whether they wanted to or not.

Think Elsie the Cow as Gordon Gekko.

Dean Foods controls about 90 percent of the milk supply in Michigan, 80 percent in Massachusetts, over 80 percent in Tennessee and 70 percent in northern New Jersey. That's not a free market.

- Vermont Sen. Bernie Sanders

A group of dairymen are suing DFA, Dean Foods and others in federal court for allegedly engaging in anti-competitive and predatory behavior. The lawsuit claims that DFA has effectively created an illegal milk cartel in the Southeast.

## **As Farmers Flounder, Dean Foods Prospers**

Source: [npr.org](http://npr.org)

August 20, 2009

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**RE: Formal Senate Committee hearing August 27th in Batavia, NY, concerning the dairy industry.**

Please submit the following comments for official record from Mr. Robert C. Wilson, dairy farmer in western New York and president of the Konhokton Milk Producers Cooperative.

"New York dairy farmers are in extreme financial crisis. They need something done to help now, not just something done to help six months down the road. This is why the best solution is Senator Gillabrand's proposal of doubling the MILC payments. Reasons:

- FSA already has the figures/information they need to do so,
- This will help dairy farmers in the short term giving time for other ideas such as amending the MILC program with cost of production criteria,
- Getting financial help quickly to dairy farmers will enable them to not only begin to catch up on their bills, but to pay school taxes that are due the end of September. In rural school districts dairy farmers are some of the biggest taxpayers--my farm is the largest tax payer in our district.

In addition, when sending food aid to other countries we should only use United States produced products. Doing otherwise does not help our agricultural community."

Respectfully submitted,  
Robert C. Wilson  
rcwilson1@earthlink.net

**Subcommittee Hearing: Domestic Foreign Marketing, Inspection, and Plant and Animal Health.**

August 27, 2009

Senator Gillibrand,

I would first like to thank you for your continued interest in the dairy industry. I know from first hand experience when you were in the House that you have an understanding of the short comings to the pricing system that has caused and continues to cause a great deal of stress and uncertainty to this industry.

My interest here on this day stems from a lifetime of experience owning and operating a dairy farm in Delaware County. In the early 80's we experienced a similar experience to this decline in milk prices but I do not think quite as severe because of a more stable economy over all at that time. Although I must say that a vast number of farms went out of business the result of which caused a change to rural America that exists to this day.

There needs to be a two pronged approach to the situation. One is the need for immediate short term financial relief for all dairy farmers. We need to keep farmers in business until a lasting long term solution is established. There is a statistic put forth by American Farmland Trust that states that for every 10 farms that go out of business we lose one business on Main Street. For rural communities this can be devastating because their business base is agriculture. Essential services to the remaining farmers are also lost in that statistic putting further stress on their ability to survive. How this immediate short term financial relief is accomplished I will leave to you with the advice from active dairymen now trying to work through the financial crises they find themselves presented with.

The second approach is much longer term. It is believed universally that the present pricing system established in the 1930's is not applicable in today's market place. The system is completely broken and needs to be replaced. A sun set needs to be put in place for it and a new pricing structure established in time to be included in the next farm bill. This new pricing system needs to be developed by a blue ribbon working group consisting of representatives of all the major players. Dairymen, processors, Cooperatives, and consumers and led by a representative from the Department of Agriculture with a mandate to establish a pricing system that will be equitable to all concerned.

Questions that need to be addressed are many and varied but should include:

1. Should the Chicago Mercantile Exchange [CME] be the starting point for dairy farmer's prices?
2. Should dairymen receive one price at the farm gate [fluid] regardless of what future uses the processor uses that milk for?
3. Should the processor purchase milk at the farm gate to eliminate hauling costs?
4. Should some type of supply management be put into place that reflects market forces while at the same time assures an adequate supply of dairy products for the consumer?

5. What controls need to be in place to assure a balanced import and export program for dairy products that allows for a level playing field and an atmosphere of healthy competition?

These are just a few of the more basic questions which, I am sure, will cause a contentious debate but one that needs to be had the sooner the better. The idea of a working group is the only way that I see a change to the system can be made. I am sorry to say that we need to get the politics out of the process. We have been kicking this can down the road for far too long picking it up every so often putting a band aid on it and throwing back down only to see the need for a bigger band aid the next time.

One issue that stands out for me is the provision in the Marketing Orders that allows a Cooperative to "Block Vote". This provision needs to be struck. The voting provision in the Marketing Order clearly states that only the producers who are directly affected by the results of a change to or an addition to the order are eligible to vote. However there is also a provision that allows a cooperative to cast all of its members' votes. The theory is that the cooperative knows the issues best and will cast all of the members' votes in one block in the best interest of the member dairymen. I believe a dairyman can request a separate ballot if he chooses to cast his own ballot but why should he have to do that. The very underpinning of our democracy is one man one vote period, no debate.

Cooperatives are essentially processors and will always favor the cooperative view point which may not necessarily be in the best interest of the dairymen. If they were truly advocates for their producers over these last 40 years I dare say we would not be in this financial situation.

The reason that I am adamant about this is that I believe that dairymen need to be more involved in the marketing of their milk and not be bystanders to the process. Favorable changes will never be made under the pretense that others are working in their best interest.

It is very evident that dairymen of all size dairies and their families are having a great deal of difficulty trying to meet their financial obligations. At the present time and under the present scenario the United States Congress and the Secretary of Agriculture are the only ones that can take action to alleviate the short term financial crises that this industry is facing. I trust that you will listen to all of the testimony that will be given and take the appropriate steps necessary.

I would also hope that you and your fellow Senators will make every effort to develop a long term strategy to assure a healthy and viable dairy industry for future generations.

I will leave you with one thought: "Agriculture is the foundation industry on which all other industries are built upon."

Thank You.

Submitted by:

Fred Huneke  
Thorn-Ridge Farm  
3390 Elk Creek Road  
Delhi, N.Y. 13753

To whom it may concern,

The dairy price crisis is one that we have not seen ever in this industry. As you are well aware the price of milk has been well below the production cost for several months with no end in sight. Dairymen are losing generations of equity in a few short months. If this continues, the dairy industry is going to lose many dairy farms and a lot of quality milk for the American people. The economic losses go much deeper than just farms. The local economies supported by the dairymen are also being deeply affected.

I believe it is time to look into some sort of volume control limits to make sure over production is not driving milk prices low. Production control could create a long term sustainable milk price that would provide dairymen and the local economies supported by them viable living. Also regional pricing should be considered that would more closely follow regional demand and could be used to set regional volume control.

Lastly, Milk product imports need to have the same constraints that are own domestic product must fall under. We need to create an even playing field for our dairymen. The U.S dairy industry is the world leader and in order for the American people to be guaranteed an affordable healthy dairy product some long needed pricing and production changes need to be instituted (quickly).

**Ted Wolf, DVM**  
Perry Veterinary Clinic  
3180 Center Rd.  
Perry, NY 14530  
585-237-5550(office)  
585-368-8611(cell)  
tlwolf@perryvet.com

Dear Senator Gillibrand:

We would like to thank you very much for holding this hearing and seeing that there are problems in the dairy industry. We are glad your looking into the price differences between what the farmer is receiving and what the consumer is paying for dairy products. We feel that testimony was missing for the average dairy farmer and Ag business owners, someone who does not have direct ties or conflicts of interest with groups or associations such as Farm Bureau, FSA, Cornell, or coops. We really feel that the Senator missed a HUGE opportunity to speak to that group of people by not coming in person to the West Winfield, NY rally, and sending her aid . It would be almost impossible for Colleen to have really got the emotions that were there at the meeting when farmer after farmer or Ag business told the stories of how this is effecting them and not only them but their families as well. She may have told the stories but unless you see first hand the devastation this is causing you just can't get it. The Senator has to realize when we lose our business we lose our homes, we don't close a door and leave we have our entire lives on our farms. We have run out of time there is no down the road, taxes are now out for school. There is no money for that the farmer has tightened their belt so much there is no belt anymore all is gone and savings used up. These taxes will not be paid so that will leave our schools and towns in need of funding. Farmers have gone to FSA for funding and they are at least three to six weeks behind. Farmers don't have three to six weeks they don't have three to six days. This is not only a problem now for our farmers but it will also be a problem in the future because we have children who love to farm and want to farm, but how do we as parents tell our children to be a farmer when we know it is leading them down the wrong path. We have a son who is 18 and loves to farm , we are working so hard to try to change the milk pricing system so he can do what he loves. God gave us land to work and animals to tend, we are trying to do this. All we are trying to do is feed the people of America good quality safe food and we hope that is what our government wants also. We need the family farms in order to do this. We need to get cost of production for our milk, we need supply management, we need to keep imports and exports in check. Bill S1645 is the only thing we have going for us. The coops have corrupted our dairy industry, there should be no block voting every farmer needs his voice heard. We hope you will take these comments into consideration. We would really like to invite you to come and see a family farm and really hear the stories that go with it, not a college farm but a family farm. Please keep up the work and help the family farms stay in business.

Robin Fitch,  
fitchrmd@yahoo.com



With due respect I submit to the committee, the dairy milk price crisis is causing catastrophic conditions.

The 2008-09 banking crisis is to blame for much of the struggle. This notice to the committee is to call off the fed and state bank examiners. Bank examiners in 2009 are calling in mortgage loans and a farm family here has all the equity in the cow numbers and value. Simple math--\$18-milk causes cow value of \$2,000 per cow, at purchase in 2007. Today, September 2009, the same cow is worth \$1,000--easy math. The young dairy family lost 50% equity on cows, and now \$10 milk does not provide enough to cover feed costs and the farmer not only cannot get a loan, his mortgage loan is now called in. The bank examiners caused this loan crisis due to the crisis of bank economy of 2009. Please notify the fed. Call off the bank examiner.

Signed  
William J Danehy  
23 Lincklean drive  
Cazenovia, NY 13035.

**Testimony to the United States Senate Agriculture Committee,**  
Batavia, New York, August 27th, 2009 U.S. Senator Kirsten Gillibrand, presiding:

Madam Senator:

When this witness began dairy farming 39 years ago, U.S. dairymen received \$.54 of the consumer's dairy food dollar; the current estimate rests at less than \$.20. It should be noted it does not cost proportionately more to process milk or retail dairy products today than 1970; any excess revenue over that established ratio of processing or retail cost is simply unearned profit. This unearned profit is damaging to the financial interests of both U.S. dairymen and consumers.

The current system for price discovery used by the United States Department of Agriculture (USDA) for price discovery of farm milk is broken, and badly so. Based on the cash cheese market of the Chicago Mercantile Exchange (CME) this system has proven a thin and easily manipulated indicator. So far one miscreant responsible for manipulations has been convicted and fined \$12 million by the Commodities Futures Trading Commission; however, suspicions remain uninvestigated and unanswered of other CME cheese traders. This CME system is inadequate, thoroughly discredited, and should be superseded by a transparent system rich in accurate market information. A system using a retail dairy price index would be rich in accurate, transparent, irrefutable evidence of value for price discovery of farm milk. Such a system could draw on monthly data collected by the Bureau of Labor Statistics Consumer Price Index. All four classes of milk would remain and regional prices could be calculated for each Federal Milk Marketing Order.

The unrestrained and unsupervised inclusion of Milk Protein Concentrate (MPC) in U.S. processed dairy foods is galling to U.S. dairymen. Here is a substance intended for industrial adhesives being added to processed dairy foods without benefit of any USDA oversight or inspection regimen. USDA says it has no jurisdiction because MPC is a "chemical", not a food ingredient. Dairymen question how a nonfood ingredient can be added in the tens of thousands of tons to U.S. processed dairy foods each year without some necessity for regulation and safety oversight by USDA. Since MPC is imported from foreign countries it is not subjected to even the minimal inspection requirement of the U.S. Sanitary Milk Ordinance. These codes were enacted to safeguard the health and safety of U.S. dairy food consumers. Imported MPC is blended to each individual purchaser's requirement offshore, from globally diverse sources, thus any potential health threat from these blends would be difficult and time consuming to trace to point of origin. How is this MPC issue reconciled with the heightened concern by the U.S. government for U.S. food security?

Since MPC is not considered a food ingredient, USDA does not include it in estimates of total U.S. milk supply. If it were, it would constitute about 5% of total U.S. dairy food production; since the U.S. is said to be in a current 2% overproduction of milk, dairymen suspect milk processors are not only using MPC to make cheap product, but that its most useful purpose may be to artificially devalue farm milk prices. An estimated \$7 billion has been pulled from U.S. farm milk checks and largely pocketed by processors in the last few months because of this supposed milk surplus, \$7 billion that should have been passed to consumers, \$7 billion that could have ameliorated the current dairy farm crisis. The U.S. Congress should conduct hearings to explore these mysteries.

Dairymen know much of what is currently wrong can be attributed to a fundamental lack of competition for farm milk. This has been brought about by the consolidation of milk processing

businesses to the point that in large areas of the U.S. , dairymen have only one market for farm milk. These consolidations have created classic monopolies with all the abuses and evils attributed to them. The U.S. Justice Department has not responded to repeated pleas from U.S. dairymen to become involved in investigations and prosecutions of infractions of Federal antitrust statutes. Congress needs to urge Justice to pursue this issue vigorously.

Along with the consolidation of the milk processing businesses has evolved another unmixed evil: the consolidation of dairy co-operatives into larger, less farmer friendly entities. The Capper-Volstead Act expressly exempts agricultural co-operatives from federal antitrust interference. At the time of enactment this was seen as a good and necessary measure. In the last seven decades much has changed in American milk marketing yet Capper-Volstead has remained the law of the land. Unfortunately, milk producer co-operatives have, as they've grown from small locals, to large regional's, to huge national's, evolved from farmer owned, farmer friendly helpmates to simply milk assembly corporations answering to the greed and chicanery of senior management rather than any noble or enriching purpose for their farmer members. Large modern milk co-ops often behave more like organized criminal organizations than farmer friendly milk marketers, even to their own farmer members. Capper-Volstead is in need of a through house cleaning, reworking, and adjusting to 21st Century realities. Only Congress can address this issue.

Unfortunately, even if all these matters were concluded successfully in U.S. dairymen's favor their success would not be assured. Any fair adjustment of farm milk prices would not save U.S. dairymen from the depredations of their worst and most entrenched enemy: themselves. If dairymen could achieve fair market share, misguided individual dairymen would be only too willing to run amok, overproducing milk to the detriment of all concerned. This brings us to supply management; dairymen must understand they have to produce enough milk to meet the demand of America's consumers for affordable dairy products while not burdening the milk supply system with large amounts of surplus milk. Recent polling of U.S. dairymen concludes 86% favor some sort of supply management system to keep the U.S. milk supply in line with demand. Congress could be most helpful in moving this matter forward, through oversight, consultation, and mentoring.

All dairymen, processors, retailers, consumers, and policymakers have to come to the realization milk is a unique and essential product. Governmental oversight over the U.S. dairy industry is a necessity. The notion of a free market approach to dairy production is simplistic nonsense that would assure continued chaos; milk is rightly referred to as the most political of all commodities. A certain level of government involvement and oversight in the production, marketing, and distribution of U.S. dairy products has always been, and will always be, essential to the safety, good order, and welfare of all concerned. Congress must do all in its power to bring about a system of milk marketing for this country that insures fairness to all players from cow to consumer. Thank you, for your consideration.

**Nate Wilson 5900 Sylvester Rd. Sinclairville, New York 14782 Ph. (716) 962-8488**  
**Gksworks@gmail.com**

Dear Senator,

I grew up on what we hoped would be a farm in our family for generations to come. Running a farm is really the dream life. You get to spend time outdoors and work for yourself. If you are successful this lifestyle can bring much happiness. As parents you have the opportunity to be home with your family each day. Even though the work is hard you still spend most of your time together. This used to be the best family business to be in.

My father purchased his farm in 1959. He started with about 200 acres and 36 milking cows. He also raised beef cattle, grew all of the grains and hay to support the livestock. If there was a surplus he would sell to other farmers or take to market. Over my teenage years (1970's) I watched the prices for farm goods fall to the point where you could no longer support a family on this size farm. Most farmers would simply take out loans to cover the losses and go further into debt each year.

My father decided to take a job with the local highway department, this giving up his dream of continuing his farm and passing on his farm to his children. I see the news today and hear of farmers selling their product for less than the cost to produce them. Seems like the dairies and grocery stores are the only ones making money. The family farms were some of the first business in this country and it seems like we are willing to let them go out of business without a struggle to keep them solvent. This is not only changing a way of life for many hardworking Americans but could affect national security. If it costs a dairy farmer 16 cents a pound for milk and the dairy will pay the farmer 11 cents a pound and the grocery store sells the milk for 3.00 a gallon someone is making money, just not the most important person in the equation.

In the future will we depend on imports from other countries to supply our food? Countries who subsidize farmers so they can sell at a lower price, countries that do not have proper sanitation conditions, countries that still use dangerous pesticides. Then when our last farm is out of business and the trade is a lost art the importers will raise the price. We are about to the point that we can no longer buy manufactured goods made here. Just wait till the food business is that way. The politicians have sold out our economy to big business and foreign interests. I do believe our best days are behind us. This recent economic slump is just a taste of what is on the horizon in about 50 years if we continue to head to the point where we no longer do for ourselves.

Radical thinking maybe but here it comes anyway. Let's take care of America and let the rest of the world take care of itself. Let's tax all imports enough so what we use here will be made here. All of the companies that moved overseas will come back if they can no longer import products here for less than they can make them here. Let's close the borders for immigration until we can provide for our own citizens. If we bring back manufacturing we could have full employment. Stop public assistance for those physically able to work but currently unemployed. Those without education may have to take seasonal farm jobs or lower paying employment where they can find it. We do not need undocumented workers to pour across the border to work on our farms if we can get the lazy off of public assistance.

Our farmers face many challenges, mostly from being unable to sell their produce for a fair price. Big business continues to negotiate prices down, not so they can reduce retail price but so they can make more profit. I have a neighbor with a vegetable stand and he was selling his product to customers that stop at his stand as well as Wegman's (local grocer). He was selling his sweet corn to Wegman's last year for 20 cents an ear. This year they offered him 5 cents an ear. Wegman's retails at 4 for a dollar, a little more than last season. Farmers continue to see costs rise for hired help, health insurance if they can afford it at all and for fertilizer, taxes on their land and farm equipment. We are forcing our most important business person out of business.

Thanks for listening. Hope you can help the farmers. I think the public is finally starting to connect what happens here with the elected official and hopefully will speak with their vote.

George Turrell, [gturrell@rochester.rr.com](mailto:gturrell@rochester.rr.com)

George Demeree



• Phone: 315 823-0288

**DEMEREER REALTY**  
 171 N. Gardinier Rd.  
 Little Falls, NY 13365  
**George Demeree, Broker**  
 • DemereeRealty.com



• Fax: 315 823-7629

Aug. 27, 2009

Senator Kristen Gillibrand:

Dear Senator:

I own a dairy farm along Rte. 90 at Little Falls, NY which is now being run by my son, and I also own Demeree Realty which sells only farms and country properties. My younger son who works with me now will be taking over this business in the future.

I would like to urge you to support Cost of Production as a way of setting milk prices for farmers. I know that if we can achieve this kind of pricing we will also need a Supply-Management program as well.

I was one of the leaders in putting RCMA (Regional Cooperative Marketing Association) together twenty years ago with the help of former State Senator Nancy Lorraine Hoffman and NYS Secretary of Agriculture, Joseph Gerace. I am now 74 years old and bought my farm when I was 22 years old. I've been trying to get farmers in position to price their own milk production all these years, and it is still not done. That is the reason we have these unstable milk prices and farmers acting out in desperation.

I live in the Town of Danube, Herkimer County, NY, and when I started farming we had 52 dairy farms in our town, and today we have 16 left in operation. What a shame that this is happening in all sections of our County! Everywhere I drive there are run down farms with many just growing up with weeds! This is probably our last chance to save our family farms.

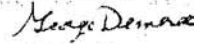
Farmers are hard-working, proud people who do not want Government hand-outs. With Cost of Production and Supply Management we would not need to be treated this way, and tax payers would be relieved of the tax burden involved. I think that most dairy farmers are now ready for Supply Management if they know that they will receive Cost of Production for their product. I also think that the people running our Government in Washington now have a good chance at getting something done to save our dairy farmers.

We need dairy farmers here in the Northeast to get all our farm organizations together to support one bill and then submit it to Washington. I have had a couple of phone conversations with Doug Maddox, last year's National Holstein Association President who is a dairy farmer in California. He told me that farmers out there are ready to support Supply Management. He hopes that the farm organizations of the Northeast can get together as soon as possible on one bill so California can join with us to push it through.

over

In closing, I'm urging you to do everything possible to get the dairy farmers out of the bind we're in. I am available to help in any way possible. My phone # is 315-823-0288.

Sincerely,



George Demeree

Sept. 4, 2009

Please attach this Amendment to Bill S. 1645 that was introduced in the Senate August 6, 2009.

1. The program will be administered by the U.S. Secretary of Agriculture with an advisory board, hereafter referred to as Board, appointed by the Secretary from nominations. The Board will include two dairy producers from each of 6 regions - the West, South, Southwest, Central, Midwest, and Northeast:

2. As with Milk Income Loss Contract payments, dairy producers will file their milk production history and monthly milk marketings with area USDA Farm Service Agency (FSA) office to establish a milk base. Dairy producers will authorize their milk plant or dairy cooperative to submit their milk marketings directly to the FSA office. If a dairy producer's milk marketings exceed the "allowable milk marketings" for a given quarter, the FSA office will notify the dairy producer's milk plant or dairy cooperative to deduct the "market access fee" starting the following quarter and for the next three quarters and submit the fees to the FSA office. Area FSA offices will submit "market access fees" collected to the National FSA office where they will be pooled and a value per hundredweight will be calculated for distribution to all dairy producers who had not exceeded the "allowable milk marketings"

The Federal Milk Market Administration or State Market Administrator, will, if solicited, provide information to use to verify reported producer milk marketings from dairy plants.

Administration costs: An assessment of no more than two cents per hundredweight will be assessed against all milk marketings to cover administrative costs of the program. Milk plants are to submit these assessments directly to the National FSA office.

3. After Bill number S.1645 along with this amendment passes Congress and is added to the Agricultural Adjustment Act this bill will automatically be added to all future Agricultural Marketing Agreement bills passed by Congress.

Sincerely,  
George Demeree  
171 N. Gardinier R  
Little Falls, NY  
1336

*George Demeree*



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**TESTIMONY FOR MILK MEETING**

**By**

**Gretchen Maine**

**143 Mason Rd.**

**Waterville, NY**

**13480**

August 30, 2009

Senator Kirsten Gillibrand  
Kenneth B. Keating Federal Office Bldg.  
100 State St.-Room 4195  
Rochester, NY 14614

Dear Senator Gillibrand:

Please include this letter and enclosures as my testimony to your Dairy Hearing.

First of all, I am really upset as to the timing and location of the hearing. It would have been nice if we had more time to plan for it. We wanted to take a small busload of farmers out there, but couldn't fill the bus because everyone had already committed to something else on that day. I couldn't drive my 20 year old truck way out there, and couldn't afford the gas either. As for the location, I hope that you know that there are farmers throughout the state and not just in the western part of it. This hearing should have been more centrally located so that more people could attend it. As an afterthought, it should have been webcast so that people who couldn't attend it could watch it on the internet.

In regard to your panel of Producers, Processors, and Experts, it appears that the foxes were in the henhouse. It does look like the processors, co-ops, Cornell, and Farm Bureau (whose members can privately say what they support, but can't publicly until Farm Bureau tells them what they can support) were all represented. Some of these "experts" are the reason that we are in the shape that we are in. Bruce Krupke, who represents NorthEast Dairy Foods Assn., represents those same people who want to keep things exactly the way they are-the processors making a fortune and the farmers going broke. As he said, the processors get a cost of production (make allowance) and we don't.

As a proud member of Pro Ag, I and others across the country have been working non-stop to gain support for the Specter-Casey bill (S-1645) (Enc. 1). We have been to or contacted counties throughout NY and PA to get their support for the bill. At present we have 22 or more counties in NY as well as many counties in PA who have given us petitions to show their support for the Specter-Casey bill. Copies of those petitions were sent to you as we got them. At our rally in West Winfield on Aug. 14<sup>th</sup> to which you were invited, but did not come-we do thank you for sending Colleen Deacon-250 farmers stood up to support this bill. At another Pro Ag rally in Canistota on Aug. 28<sup>th</sup> the results were the same-almost everyone in the room stood to show their support for S-1645. Congressmen Arcuri and Massa have said that they will sponsor or co-sponsor the House version. That should tell you something.

As a group pushing for an actual bill-not an idea-why were we not represented on your panel? The foxes were all there, but someone working on an actual solution was not. S-1645 may not be perfect, but it's the only thing out there that deals with the big three-cost of production, supply-management, and imports. All three have to be dealt with or nothing will work.

My guess that the raise in the support price will do little or nothing appears to be true. Our advance milk check for July was \$10.50 per hundred. Our advance for August was \$10.75. Our spendable milk check money for August was \$1800. We used \$1500 worth of feed, and had a \$450 insurance premium to make. If I don't pay for the feed, we won't get any more. The insurance has to be paid. So which one don't I pay. What about the rest of the bills? Or groceries? September will be even worse-we have a \$1400 light bill to pay on top of everything else. I have no idea where it will come from.

Enclosed (Enc. 2) is a letter that we received from DMS stating that the reason that we are getting such a low price for our milk is because the lenders haven't foreclosed on enough farmers. It makes reference to that fact three times. I guess that it has nothing to do with the greed of the processors-or the gov't that lets them rob us and the consumers. When Dean Foods nets \$140 million plus for six months, and farmers are on the verge of going under and losing everything that they've worked their entire lives for, something is WRONG.

I was a speaker at our rally in West Winfield. Enclosed is a copy of that speech (Enc. 3). Several days later I received a letter (Enc. 4) from Barbara Brown. She is an Oswego County Legislator and her son is a dairy farmer. Her letter made me cry.

Farmers are at the end of their ropes. Farmer suicides are up all across the country. Everyone has cut back until there is nowhere else to cut back. In our own situation, we have no tv (the Directv has been shut off), no paper, no trash pick-up, and the phone will be next. These are "luxuries" that we can no longer afford. Our vet has had to let one of his girls go, our machinery dealer is going to lay off a bunch of help, another machinery dealer is going to close their store in Lowville, our neighbor milk tester had to take a \$1400 a month pay cut and now has to go to PA to test milk, Blue Seal has cut their employees' hours, and our AI guy has to lay off his employee-he can't do the work by himself, but can't pay his help because the farmers can't pay him. We can't call him or our vet anymore. It's not that they won't come, it's because we can't pay them and feel guilty if we do call them. Our blower tractor has the pto gone in it and needs to be repaired before corn chopping time in September. It will be about \$5000 to fix it. Obviously we can't afford to fix it so I have no idea how we are going to blow the corn in the bunk.

HOW MUCH LONGER ARE WE EXPECTED TO PRODUCE \$12 MILK WHEN IT COSTS US \$26.52 (Enc. 5) TO MAKE????

We need S-1645 and we need it now. There has been all this talk in Washington, but so far I have not seen any change in our milk check. We need a little less talk and a lot more action.

Sincerely,

Gretchen Maine  
143 Mason Rd.  
Waterville, NY 13480

Federal Milk Marketing Improvement Act of 2009 (Formally S-889)

Subj: **Federal Milk Marketing Improvement Act of 2009 (Formally S-889)**  
 Date: 8/13/2009 9:38:32 P.M. Eastern Daylight Time  
 From: fhagdairyactivist@ridgerviewtel.us  
 To: whinniesg@aol.com

**Federal Milk Marketing Improvement Act of 2009 (Formally S-889)**

S 1645 IS

111th CONGRESS  
 1st Session  
 S-1645

To amend the Agricultural Adjustment Act to require the Secretary of Agriculture to determine the price of all milk used for manufactured purposes, which shall be classified as Class II milk, by using the national average cost of production, and for other purposes.

IN THE SENATE OF THE UNITED STATES

August 6, 2009

Mr. SPECTER introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

**A BILL**

To amend the Agricultural Adjustment Act to require the Secretary of Agriculture to determine the price of all milk used for manufactured purposes, which shall be classified as Class II milk, by using the national average cost of production, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE.**

This Act may be cited as the 'Federal Milk Marketing Improvement Act of 2009'.

**SEC. 2. PRICES RECEIVED FOR MILK UNDER MILK MARKETING ORDERS.**

Section 8c(5)(B) of the Agricultural Adjustment Act (7 U.S.C. 608c(5)(B)), reenacted with amendments by the Agricultural Marketing Agreement Act of 1937, is amended--

- (1) in the first clauses (i) and (ii), by inserting '(based on the blended price of all milk covered by the order)' after 'uniform prices' each place it appears; and
- (2) in clause (b) of the matter following the first clause (ii), by inserting 'and the component value' after 'quality'.

**SEC. 3. CLASS II MILK PRICING.**

Section 8c(5) of the Agricultural Adjustment Act (7 U.S.C. 608c(5)), reenacted with amendments by the Agricultural Marketing Agreement Act of 1937, is amended by adding at the end the following:

'(P) CLASS II MILK PRICING-

'(i) MINIMUM PRICE- The Secretary shall base the minimum price for Class II milk on the average cost of producing all milk in the 48 contiguous States, as determined by the Economic Research Service of the Department of Agriculture in accordance with clause (ii) (referred to in this subparagraph as the 'national average cost of production').

'(ii) NATIONAL AVERAGE COST OF PRODUCTION- For purposes of this subparagraph, the national average cost of production shall equal the national average of the operating cost and the allocated overhead cost of producing all milk.

'(iii) SURVEY- For purposes of clause (ii), the Secretary shall survey producers and associations of producers subject to Federal and State milk marketing orders and in all unregulated areas applicable to all milk.

'(iv) PRICE ANNOUNCEMENT-

'(I) IN GENERAL- Not later than November 1 of each calendar year, the Secretary shall announce the minimum price for Class II milk for the next calendar year, as determined in accordance with clause (i).

'(II) ADJUSTMENTS- Using the most currently available national average cost of production, the Secretary shall adjust the price announced under

Monday, August 17, 2009 America Online: Whinniesg

## Fédéral Milk Marketing Improvement Act of 2009 (Formally S-889)

- subclause (I) for a calendar year on April 1, July 1, and October 1 of the calendar year.
- ^(v) BASIC FORMULA PRICE-
- ^(I) IN GENERAL- The Secretary shall use the Class II milk price announced under clause (iv) as the basic formula price for all Federal and State milk marketing orders and all unregulated milk production areas.
- ^(II) CLASS I MILK-
- ^(aa) IN GENERAL- The price of Class I milk in all Federal and State milk marketing orders and all unregulated milk production areas shall be equal to--
- ^(AA) the basic formula price under subclause (I); plus
- ^(BB) the applicable Class I milk differential under Federal and State milk marketing orders.
- ^(bb) UNREGULATED AREAS- For purposes of item (aa)(BB), the Secretary shall assign comparable Class I milk differentials to each unregulated area.
- ^(vi) ESTIMATION OF ANNUAL MILK PRODUCTION AND DOMESTIC CONSUMPTION- Not later than November 1 of each calendar year and taking into consideration the import projections and export projections for all milk products, the Secretary shall estimate the quantity of all milk to be produced in the 48 contiguous States and marketed by producers for commercial use during the next 12 months.
- ^(vii) INVENTORY MANAGEMENT PROGRAM-
- ^(I) IDENTIFICATION AND DETERMINATION OF DAIRY PRODUCTS-
- ^(aa) IN GENERAL- Not less frequently than once each quarter, the Secretary shall--
- ^(AA) identify all dairy products (including cheeses, curds, butter, butterfat, butter oil, buttermilk, anhydrous milk fat, dairy spreads, milk, cream, concentrated milk, condensed milk, nonfat dry milk powder, whole milk powder, skim milk powder, all other forms of powdered milk, yogurt, ice cream, whey, whey powder, dried whey, whey protein concentrate, all other forms of whey products, milk protein concentrate, milk protein isolate, casein, caseinates, lactose, food preps containing milk, and milk chocolate) imported into, or exported from, the United States; and
- ^(BB) determine the quantity of raw milk contained in each such product.
- ^(bb) INCLUSIONS- In identifying dairy products under item (aa)(AA), the Secretary shall include any current or projected future imports or exports of a product used for dairy, a dairy substitute, or ingredient, including any product that does not have the status of 'generally recognized as safe', as determined by the Commissioner of Food and Drugs.
- ^(II) MILK PRODUCTION TOTALS- Not later than February 1 of each calendar year, the Secretary shall determine the total quantity of all milk produced by each producer or farming operation during the preceding calendar year.
- ^(III) EXCESS PRODUCTION DETERMINATION- Not more than once every 2 months, if the Secretary, acting through the Commodity Credit Corporation, has purchased the maximum quantity of milk and milk products as required by law to administer programs including child nutrition programs (as defined in section 25(b) of the Richard B. Russell National School Lunch Act (42 U.S.C. 1769f (b)), feeding programs administered by the Secretary of Defense, institutional programs, and any other mandated Federal food or feeding programs, the Secretary shall determine whether an excess quantity of milk and milk products is being produced for the national domestic market.
- ^(IV) REDUCTION IN PRICE RECEIVED-
- ^(aa) IN GENERAL- Subject to item (bb), if the Secretary determines under subclause (III) that there is excess production, the Secretary may provide for a reduction in the price received by producers for not more than 5 percent of all milk produced in the 48 contiguous States and marketed by producers for commercial use.
- ^(bb) LIMITATION- The Secretary shall not provide for a reduction in the price received by a producer under item (aa) unless the Secretary determines that there exists a positive trade balance in dairy products described in subclause (I)(aa)(AA) that are imported into, or exported from, the United States, based on--
- ^(AA) dollar value; and
- ^(BB) the quantity of milk represented by imports and exports, as determined under subclause (I)(aa)(AA).

## Federal Milk Marketing Improvement Act of 2009 (Formally S-889)

'(V) AMOUNT- The amount of the reduction under subclause (IV) in the price received by producers shall not exceed half the minimum price of Class II milk.

'(VI) ADDITIONAL REDUCTION- If the Secretary determines that the reduction described in subclause (IV) is insufficient to reduce excess production, subject to subclauses (VII) and (VIII), the Secretary may reduce the price received by any producer or farming operation that has increased the production of all milk in a calendar year, as compared to the immediately preceding calendar year.

'(VII) APPLICATION- A reduction in price under subclause (VI) shall apply only to the quantity of milk produced in excess of the quantity of milk produced during the previous calendar year.

'(VIII) NEW PRODUCER EXCEPTION- A new producer, as defined by the Secretary, shall--

'(aa) during the 1-year period beginning on the date on which the new producer commences operation, be exempt from any applicable price reduction relating to the first 3,000,000 pounds of milk produced by the new producer;

'(bb) in the case of any milk produced in excess of 3,000,000 pounds during that 1-year period, be subject to each price reduction described in subclauses (IV), (V), and (VI); and

'(cc) after that 1-year period, be subject to each price reduction that applies to existing producers.

'(IX) APPEALS-

'(aa) IN GENERAL- A producer subject to an additional reduction under subclause (VI) may appeal to the Federal or State milk marketing administrator to provide evidence that the producer did not increase production in the calendar year that the reduction was in effect when compared to the immediately preceding calendar year.

'(bb) SUBMISSION OF APPEAL- A producer that ships to an unregulated milk handler may submit any appeal of the producer to the Secretary or to the designated representative of the Secretary.

'(X) EXTRAORDINARY CIRCUMSTANCES- In deciding an appeal submitted by a producer under subclause (IX), a Federal or State milk marketing administrator (or, in the case of an appeal under subclause (IX) (bb), the Secretary or the designated representative of the Secretary) shall take into consideration production losses due to, at a minimum, fire, severe weather conditions, or severe disease outbreaks.

'(XI) COLLECTION- Except as provided in subclause (XII), reductions in price required under subclause (IV) or (VI) shall be collected by Federal and State milk marketing administrators and timely remitted to the Commodity Credit Corporation to offset the cost of purchasing excess milk products.

'(XII) COLLECTION IN UNREGULATED AREAS- Reductions in price required for unregulated areas under subclause (IV) or (VI) shall be collected by the Secretary and timely remitted to the Commodity Credit Corporation to offset the cost of purchasing excess milk products.

'(viii) PROHIBITION ON CERTAIN CHARGES- In carrying out this Act, the Secretary shall not impose charges on producers for the cost of the conversion of raw milk to manufactured products.

'(ix) RESPONSIBILITIES OF MILK PURCHASING HANDLERS- A milk handler that purchases milk from a producer shall assume title for the milk at the time at which the milk is pumped into a milk truck provided by or otherwise delivered to the milk handler.

'(x) APPLICABILITY- This subparagraph applies to all producers and handlers of milk in the 48 contiguous States.'

#### SEC. 4. AMENDMENTS TO FEDERAL MILK MARKETING ORDERS.

Section 8c(17) of the Agricultural Adjustment Act (7 U.S.C. 608c(17)), reenacted with amendments by the Agricultural Marketing Agreement Act of 1937, is amended by adding at the end the following:

'(H) ORDERS COVERING MILK AND MILK PRODUCTS- In the case of an order covering milk or milk products, disapproval of an amendment to the order shall not be considered to be disapproval of--

'(i) the order; or

'(ii) other terms of the order.'

**DMS** >  
Dairy Marketing Services

# Check Letter

www.dairymarketingservices.com

July 2009

## Milk Price Update...

### Still Waiting For A Change In The Marketplace

Everyone in the industry is waiting for the much anticipated "change in the marketplace" to occur. While much of the information in this Milk Price Update sounds like what we've been telling you for some time now, factors are occurring pretty much the way we expected them to occur. The only exception is that dairy cow attrition, due to lender action, has not yet happened, although it is only a matter of time before it does.

We still anticipate prices to be sharply higher at some point down the road. For this to occur, though, it will take a strong culling of cows in the Western US. CWT's second herd retirement will play a large role in this, but lender activity needs to occur as well. The first herd retirement's impact was in line with our projections – however, it is impossible to predict when and to what degree the lender activity will influence milk cow numbers. We think it is imminent, but it is beyond our ability to place a time, a cow number and a price impact on this influence. That said, few farms are cash flowing and many will be forced to make difficult decisions in the near future.

A combination of the first CWT retirement and high heat and humidity in western states have already had a large impact on milk production over the last two weeks in places like California, Texas and New Mexico. More production declines will occur. As these occur, it will take a little while for it to translate into stronger prices. Cheese inventories are high, as are powder inventories – which can be called burdensome. We expect a number of cheese makers to use powder to make cheese as milk production declines. These inventory levels will act as buffers that will likely limit very much price movement through the summer, and may keep prices from increasing too high this fall. But, it only takes one cheese buyer that is short on fresh cheese, to generate a significant price move.

We continue to expect prices will remain flat through the summer, with some increases beginning in September's price and throughout the remainder of the year. The degree of price change will be dependent on milk production declines resulting from the economic crisis. We will continue to update you on changes as they occur.

### CWT Announces Second Herd Retirement in 2009

Cooperatives Working Together (CWT) announced earlier this month that it will conduct its second herd retirement in 2009. In order to have a more immediate impact, CWT has shortened the time frame to submit bids, giving producers only two weeks to submit a bid. Bids must be postmarked by July 24, 2009. To further expedite the bidding process, CWT has set a bid maximum at \$5.25 per hundredweight. However, there is no guarantee that a producer who bids at the maximum level will be selected.

Any producer who has already retired a herd previously are not allowed to bid again. All producers submitting bids must be members of CWT, either through their own membership or in a fully-participating cooperative. For more information, visit [www.cwt.coop](http://www.cwt.coop).

Hello everyone. My name is Gretchen Maine and we are dairy farmers in Waterville. We try to milk 60 cows and keep 40 head of youngstock.

First of all, I want to say thank you our elected officials, agri-business people, and my fellow farmers for being here today.

That being said, I have a Question for our elected officials. You have been listening to us for 8 months now, but have you really **heard** us? Farmers are proud, and they are extremely private. When a farmer has problems, he doesn't want the world to know about it. It can make him feel that in some way he is weak or a failure. I know that farmers across the country are on COD for cow feed, some have stopped feeding feed altogether, some are on COD for fuel, parts, and supplies. Some have quit calling their vets. They just barely keep the lights on. They have no health insurance. They have kids who will be going to school in a few short weeks, and they have no money for school clothes or supplies. That extra beef cow has long been gone to pay a bill somewhere. They have had to get food stamps. The people who feed the nation can't feed themselves. What is wrong with this picture? The point here is that when a farmer takes the time to call, write, or email you, you really need to read between the lines. Whatever he tells you is wrong, you can bet that it's 10 times worse. So when you are listening, keep that in mind and make sure that you are really hearing.

Now I'm going to get personal. The chief and I have been married for 43 years. Ninety per cent of the time I can't stand him and he can't stand me. We have the same fight all the time. He comes in and says I need this, that, and something else. Every time he opens his mouth it's at least \$500, which at this point might as well be \$5 million-it's just as obtainable. Anyway, I tell him Charlie, we don't have any money. He then proceeds to spaz out on me-what do I do with all the money and I really need to learn to budget better. Then I say Charlie, how do you budget nothing? This same scenario plays out all across America. And how much does it take before someone says I've had it, take this job and shove it. And then farm kids get trucked off to town. Farm kids don't belong in town-they belong on farms.



There is nothing bigger in a young farm kid's life than the first time they get to drive the tractor by themselves, or the first time they get to rake a field of hay by themselves, or the first time he or she gets to go deer hunting with his or her father –or mother.

In all honesty, I can say that the chief now gets it, and instead of witching at me he witches to me about the processors who are robbing us and making record profits, and the gov't who bails out everyone, but doesn't even acknowledge that there is a farm crisis. I have not heard one word from our President. I guess he's too busy trying to figure out who next to have a beer with or which country to visit. We may not have anything to eat, but we're all going to have health insurance.

I want to go back to 1978, which is when we got the same price for our milk as we are getting now. Our girls were 8, 9, and 10. They each had a decent show horse. We had a new truck and trailer and went to a show somewhere every weekend with the grand finale at state fair. Nothing sounded any better than to pull into a horseshow grounds and hear someone say oh no, there's that grey horse again, or there's E-Z Rider-we're done, or there's Fancy Speckles-we might as well go home. And yes, the chief witched every time that the blacksmith pulled into the yard, or the vet pulled in. or he saw 6 bales of hay going across the road. He used to say, I see 6 bales of hay going across the road and all I get out of it is 6 loads of horse manure. But, he was always the first one to come out and see us when we got home to see how many ribbons the kids had hanging in the truck.

Those horses taught our farm kids a lot of things. We told them that we would buy the horses, but they would have to take care of them because we didn't have the time to. They learned responsibility by having to take care of them. Every morning no matter what the weather, they had to get up and take care of them before they went to school. Every night their stalls had to be cleaned. Our horse barn is quite a ways from the cow barn, so when they cleaned their stalls, they had to wheel the manure over to the cow barn and dump it in the gutter. Daddy's baby learned how to be one step ahead of the other two. For some reason her wheelbarrow was

never as full as the other two girls'. Come to find out, she would throw a small load of manure in her wheelbarrow and throw the rest into the other two stalls. Let me tell you, IT hit the fan when she got busted!

They learned what a good work ethic is. Not only did they have to take care of their horses, but show horses have to be worked several times a week to keep them sharp. They need to be bathed, clipped, and braided. There is tack to clean and pack. And if fighting is kept to a minimum, all three girls get to go to the show on Sun. The four of us also cleaned a lot of stalls for their riding instructor in return for free or reduced riding lessons.

They learned sportsmanship-to an extent.

They learned heartbreak when a paint filly that we all adored and had big dreams for fell on the ice and fractured her leg. We took her to Cornell in as about as bad a snowstorm as we had all year. We left home at about 8 pm with a trailer with no plates on it and \$12 in my pocket. We got to Cortland and put \$10 worth of gas in the truck, and got a can of soda and a candy bar with the rest. None of us had any supper so we split it 4 ways. We got the filly to Cornell and headed home. We saw one snowplow-going the other way. We got to Morrisville at 2 am and the truck was running on fumes. If it ran out of gas or we got stuck, we would have frozen to death. There were no cell phones then. We somehow made it home. The next day we waited all day to hear from Cornell. At 7pm they finally called to say that they got her leg back together, but the tendons and ligaments contracted so badly that they couldn't put her back together, and had to put her down. All we had left was her halter, a big bill, and big holes in our hearts.

Those horses taught the girls that sometimes you have to trade off things for something else that you want worse. There weren't any movies on the weekends, or trips to the mall, or family vacations, but they had their horses and had fun with them. One time they had a birthday party for Colleen's horse, complete with party hats for everyone including her horse. She even had a birthday cake with a carrot in the middle of it.

All these things farm kids learn that town kids don't get the opportunity to. I know my kids wouldn't trade their farm experiences for anything.

Farm wives don't belong in town either. Farm life is hard. It's hard, dirty work, but there are pleasures that money can't buy. There's nothing like the feeling of satisfaction when you bale that last windrow of hay before dark or just before that rainstorm hits. There's something about being up at 12, 2, and 4 to check that cow that is going to calve, and finally she has that heifer calf just before morning chores and you are the first to see her. We've been known to chop corn all night, and I mean all night until the sun comes up, to get it down off of the hill before a monsoon hits and you can't get anything down off of that hill. There's awe in watching a cow dog work cows-and frustration when a neighbor comes along and the dog decides to screw up and chase the cows in 5 different directions. That's stuff that money can't buy.

In 1978 we had that new truck and trailer. We bought a new baler and paid cash for it-best anniversary present ever. We bought a new chopper and could actually make the payments on it. We had a hired man. We had health insurance. We had groceries for 6. Our expenses were \$50,000. Life was good.

Here we are 30 years later-same \$11 milk. I drive a 20 year old truck. We use the same baler and chopper. We have no help. We have no health insurance. We can hardly feed the two of us and the dog. Our expenses for last year were \$150,000. Life sucks!

I get an email from Dairy Herd Management. Recently they had a video clip from July 16 of Tom Vilsak attending an organic farmer's rally at the fairgrounds in La Crosse, WI. Farmers there gave him an earful. One said that bottled water there on the fairgrounds was \$2 a bottle while milk was \$.50. He wanted to know if we are really supposed to produce milk for ¼ the cost of water. Another wanted to know that once our generation is gone, who will provide food for the country? Another said that the farmer's share of the food dollar has never been smaller. One woman was in tears

when she said that they had to apply to USDA for food stamps. Also, our farmland is a natural resource and what happens when it is all gone? When they were all done Vilsak said, and I quote, I have some sense and some idea of the stress and emotion that you have. I bet if his pay was cut back to whatever his position paid in 1978 he'd figure it out in a hurry!

So, what do we do about this mess?

First of all, I have heard that Gov. Patterson has \$60 million in stimulus money that he has to do something with. We need to pressure our state lawmakers to get our share. They need to know that farmers stimulate the economy. We always have to repair, replace, and update. We even go to WalMart once in a while. Our spending keeps our feed companies happy. Ditto for machinery dealers, suppliers, seed dealers, fertilizer dealers, AI guys, vets, our local stores, and on and on. That in turn keeps their employees working and spending. And we don't want to be greedy and take the whole \$60 million-59 will work, thank you.

Next we need to keep the heat on our Senators and Congressmen. I know that they are trying, and things are going on in Washington, but I have to question if it's going to be too little, too late. As you know, the Sec. of Ag. has raised the support price. We still don't know how this is going to affect our pay price. I just hope that they aren't robbing Peter to pay Paul like we have to do every month. I'm afraid that the price increase will do little more than cancel out the MILC payments for 3 months and then in Oct they will pull the rug out from under us once again, the price of milk will nosedive, and then we will have to wait 2 months for the MILC payments to start up again. Merry Christmas everyone!

Lastly, you farmers need to get on the bandwagon. We need you to help us. There is a group of us who have been working non-stop to get support for the Senate bill S-889, which is now S-1645. I know that there are other ideas out there, but none of them other than S-1645 is an actual bill. And, none of them deal with the three major problems-cost of production, supply management, and imports. You have to deal with all three, or any idea will simply not work. So you farmers need to call, write,

or email your reps, both at the state and federal level, and insist that they support S-1645. We HAVE to keep up the noise. You know what they say about the squeaky wheel. We need to get S-1645 passed or we are all doomed. And to all our elected officials, it's like Toby Keith said-we need a little less talk and a lot more action. Thank you.



OSWEGO COUNTY LEGISLATURE

HON. BARBARA M. BROWN  
232 BLUMER ROAD  
PENNELVILLE, NY 13132

COUNTY OFFICE BUILDING • OSWEGO, NEW YORK 13126  
TELEPHONE (315) 668-6739  
FAX (315) 668-8715

August 16, 2009

Dear Mrs Maine -

I was at the Rally - I did not sit with the Politicians. I was with my newly appointed Dairy Representative from Oswego County Extension Office.

Valerie Walther's father came to America because land in Switzerland was not available for him - farm goes to eldest son - what a legacy to be granted these days

I did a horrific flashback when suggestions to dump milk came up - I saw myself, mom and sister sitting on the green living room couch - asking mom why are we sitting here? She said "waiting for Dad to come home" Mom was paralyzed with fear. Dad was riding shotgun on the milk truck - 20 miles to the plant. I look back at that day and see a man who had no life insurance leaving his wife, 2 children and two dependent parents to put himself

How deep you are in a life threatening position. The mob tipped a tanker over at the plant in Fennellville

I don't know that it changed the price of milk - It did get a day in the press.

Somewhere after this time span milk was subsidized according to my English Teacher he likened it to welfare - I was totally embarrassed in front of my class mates

We have progressed no further. The farmers that have survived have either had income and insurance from off farm employment from wives, have been left money, as

the case of one man from Tennessee, all members of one farm family are sending funds to the Dairy farmer relatives

so they don't lose the land they've held for 7 generations

The dairy farmers are on our Church prayer list at Pulaski United Metho dist Prayers for their lives - souls, mental health,

I've been on TV, I've done two resolutions at County I've talked to every aide and official who has come to our Republican monthly meetings.

one may now understand that latter cannot be turned ON and OFF at will to milk!!

After you find out how hard it is to get milk...  
 I don't know that it changed the price of milk - It did get a day in the press.  
 "Dump Milk" done around 1970-75  
 feel consensus is  
 In my heart, I

USDA Economic Research 23 States

Subj: **July Cost of Production 2009 USDA (ERS)**  
 Date: 8/30/2009 5:04:56 P.M. Eastern Daylight Time  
 From: fhagdairyactivist@ridgeviewtel.us  
 To: whinniesg@aol.com

## July 2009 Cost Of Production

FEED COST IS FIGURED IN THE TOTAL OPERATING COST

STATE	FEED COST	TOTAL OPERATING COST	TOTAL ALLOCATED OVERHEAD COST	TOTAL COST
California	\$15.42	\$17.98	\$ 4.95	\$22.93
Florida	\$13.23	\$16.91	\$ 7.16	\$24.07
Georgia	\$11.86	\$16.05	\$ 8.91	\$24.96
Idaho	\$13.06	\$16.58	\$11.17	\$27.75
Illinois	\$12.50	\$16.71	\$11.07	\$27.78
Indiana	\$12.35	\$16.73	\$ 9.06	\$25.79
Iowa	\$11.89	\$15.65	\$10.65	\$26.30
Kentucky	\$14.25	\$17.41	\$17.35	\$34.76
Maine	\$14.37	\$18.20	\$16.84	\$35.04
Michigan	\$11.96	\$15.72	\$ 8.82	\$24.54
Minnesota	\$12.00	\$15.71	\$10.56	\$26.27
Missouri	\$14.14	\$17.58	\$13.25	\$30.83
New Mexico	\$ 8.95	\$11.02	\$ 3.09	\$14.11
New York	\$11.63	\$15.63	\$10.89	\$26.52
Ohio	\$11.80	\$15.72	\$10.55	\$26.27
Oregon	\$14.91	\$18.17	\$ 7.59	\$25.76
Pennsylvania	\$13.74	\$18.55	\$10.65	\$29.20
Tennessee	\$17.94	\$22.25	\$16.39	\$38.64
Texas	\$17.63	\$20.27	\$ 6.82	\$27.09
Vermont	\$11.90	\$15.41	\$10.65	\$26.06
Virginia	\$14.59	\$19.10	\$11.54	\$30.64

Sunday, August 30, 2009 America Online: Whinniesg



USDA Economic Research 23 States

~~ashington \$12.43-----\$15.28-----\$ 4.82-----\$20.10~~  
~~isconsin--\$ 9.19-----\$12.48-----\$ 9.33-----\$21.81~~

**THESE FIGURES TAKEN OFF USDA WEBSITE 8/30/09**  
**USDA BEEN KNOWN TO CHANGE THESE FIGURES**

Lor-Rob Dairy Farm

10171 Bethany Center Rd. – East Bethany, NY 14054 Tel – (585) 343-8770

August 26, 2009

Dear Senator Gillibrand,

We are writing to you on behalf of Lor-Rob Dairy Farm, a family owned farm in East Bethany, NY. We have been in the dairy business since the early 1950's and have grown from 80 head of mature cows to 2400, as well as 1900 head of young stock. We employ sixty five individuals, and grow crops on 6500 acres for the dairy's use.

Recent events in the dairy industry will cause a 2009 loss of \$1000.00 dollars per cow.

Sales in our industry are not controlled by supply and demand, but rather the speculation of supply and demand. We, the dairy farmer, have no control of Chicago speculators who help determine our federal order milk price.

With ownership equity being cut in half, our farm and this industry could be forced to liquidate. We must take action before farmers have to face this situation.

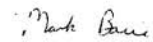
The New York State business climate has changed dramatically due to increased taxes on partnership fees, license fees, insurance permits, and constant changes in EPA regulations. We find these items to be much more relaxed in other states therefore making our cost of production higher than other states.

Dairy farms require many services which we are not able to purchase at the current time. This causes hardship in the service oriented business arena in our local communities.

This is the present situation, or plight, of dairy farming and immediate help is needed for this segment of agriculture to continue.

We thank you for your time and consideration to this imperative situation.

Sincerely,

A handwritten signature in cursive script that reads "Richard Barie".A handwritten signature in cursive script that reads "Mark Barie".

Richard Barie

Mark Barie

## MILK PRICING

*Why subsidize the dairy farmer by artificially raising milk prices when it is largely the fault of the dairy farmer that milk prices are low?*

1) Over the past several years dairy farmers' cows have been bred to produce higher yields of milk per cow than they have in the past. This, in conjunction with farmers who are not decreasing their herds in response to higher milk yield is resulting in the over production of more milk than the market demands. Basically, it is overproduction causing price problems for the dairy farmer.

2) Dairy cows over the past several years also have been bred to produce higher percentages of milk fat per cow. Since milk fat is used as a determination of raw milk prices, the high fat milk from each cow is influencing demand and price. Again, the farmers are not decreasing the size of their herds to reflect the higher milk fat level from individual cows.

3) Why should the taxpayer subsidize the dairy farmer for producing excess quantities of milk? The farmers should reduce the size of their herds in order to properly balance supply and demand of milk prices. If appliance manufacturers produce more appliances than the market demands, does the government mandate an increase in appliance prices? If the soft drink (soda pop) manufacturers produce more soft drinks than the market demands, do we subsidize the soft drink industry by mandating an increase in soft drink prices? Of course not! There are countless other market segments that could also be given as examples of supply and demand as it should be.

4) The U.S government already has excessively subsidized the dairy farmer in the past well beyond what is fair. The U.S. routinely buys large amounts of surplus nonfat dry milk and butter (and possibly cheese) on the open market to help control the price of milk. These products go into storage and are given away to other countries as well as for school lunch programs and food aid to the poor in the U.S. at taxpayers' expense.

ISN'T THE U.S. A CAPITALISTIC COUNTRY WHERE SUPPLY AND DEMAND IS A BASIC ECONOMIC TENET? WHY IS THE DAIRY FARMER EXEMPT FROM THIS, ESPECIALLY WHEN MILK SUPPLY IS EASILY CONTROLABLE BY THE FARMER BY REGULATING THE HERD SIZE?

5) In addition to the above noted government purchase of dairy products to subsidize dairy farmers, there already are other generous government "subsidies" for dairy farmers in many other forms:

- A) For example, farmers pay little if no federal (and probably state) tax on the gasoline they use for their farm work. (The general worker does not get any gasoline tax relief for commuting to his or her work.)
- B) Farmers get lower property taxes than the general citizen or even manufacturing businesses.
- C) Farmers get free advice and help from state university cooperative extension programs year round .
- D) Farmers get gratuitous research results from state universities on dairy cow breeding (higher milk and milk fat production per cow), crop breeding (genetics), fertilization know how, weed and pest control and general farm management.

4) In the past, dairy farm subsidies by way of regulated milk pricing were given to help the small family farm. Now, however, the very large family and corporate farms dominate. These corporate and large family farms should and must control the size of their herds and the resulting size of supply of milk; not ask for higher prices for the excessive amount of milk they produce.

4) Lastly, the article in the August 26, 2009 D&C newspaper stated the dairy farmers had "a couple of bumper years" but this past (one) year has been bad due to low prices. This past year has been an economic disaster for millions of Americans not only farmers. Furthermore, there were times over the past three years or so when milk and dairy prices in stores were excessively high. Who profited at those times? It had to be the dairy farmers at the expense of consumers. One poor year for the large dairy farmer is not a back breaker. Good and bad years are common for farming. Much of that is due to weather conditions. If a farmer doesn't understand that, then he or she should get out of the business.

A concerned citizen  
Michael J. Bayusik  
Greece, NY 14612

3140 Hall Rd.  
Bliss, NY 14024  
August 27, 2009

Dear Senator Kirsten Gillibrand,

I am writing to ask for your help as I sit here and watch my husband leave for work everyday before I do, work non-stop throughout the day, and return home stressed and frustrated -- long after I return home from work and often just minutes before I am putting our young children to bed, if not after they are asleep. Where does the stress and frustration come from, one may ask? He works day in and day out doing what he loves to provide others with a healthy, safe product, but everyday he wonders how his family farm -- one that his parents, brothers, and him have dreamed of continuing for

generations will survive much longer. How is one, let alone a family suppose to survive on a dairy farm when the cost of production continues to be above the price our farmers are receiving for their product. They continue to lose money everyday for their wholesome, safe product. I ask you to help our farmers before it is too late!

Without your support and assistance with getting our farmers a fair price for their product we can't be sure there will be milk and milk products that are safe for our children in the very near future!

Thank you for your time and assistance with this.

Sincerely,

Melvin M. Berl

4397 Youngers Rd  
 Perth Lewis, KY 40113  
 August 26, 2009

Dear Senator Giliibrant,

I am a Dairy Farm wife, mother, grandmother, I am writing to you for my sons & daughters & grandchildren. I am a Registered Nurse & brought my five children up to love the farm (my husband's mine), the animals, the land. It has always been a hard life yet a good life. Never has this country, government, citizens turned their backs on Farming & food production in this country.

There is no excuse for the price we dairy farmers are getting for raw milk. Greed & only Greed is the name. Reagan took parity away from farmers. Farmers no longer deserved to be paid cost of production. A very basic need. No business can continue with borrowing money day after day to pay to sell our milk for nothing.

Processors fight farmers everyday with things like 'Make Allowance' money taken from farmers to make a product from raw milk --- as farmers we are selling raw milk - Not a milk product 'end product'.

MPC's - Billions of pounds of MPC (milk Protein Concentrate) enter the country as GLUE. No tariffs No control and FDA looks the other way - why - most likely due to Greed once again. MPC displaces our raw milk. It also cheats consumers - Not a food yet multinational corporations call products - cheese - yet they are Not cheese.

Also Secretary of Agriculture needs to enforce the Farm Bill and collect money for Advertising on each receipt of dairy



import. Yet more & more imports of Dairy are imported & American Dairy Farmers are paying for it. Some, especially Multinational Corporations continue to make more & more money on the backs of farmers. We need what is very basic - Cost of Production. We are losing more & more everyday.

This country can no longer feed our citizens - more farms are going out of business while we import more & more food. Wake up America!

To finish my 1<sup>st</sup> paragraph of this letter None of my children followed in my career choice but all but one followed in their fathers - - - We have 3 sons 2 daughters  
 2 - sons in Dairy farming 2 - daughters married dairy farmers  
 1 - son chose medical.

This says something about Farming, the land, the Animals - It must be in the blood.

Sincerely

Kathy Younger

212

4397 Youngers Rd.  
North Java, NY 14113  
August 27, 2009

Dear Senator Gillibrand,

I am a Dairy Farmer who is going broke. We toil very hard each and every day of the year to bring safe abundant milk to the consumers of the USA and elsewhere. Every day we lose more and more of the equity in our multigenerational dairy farm. A business of any kind cannot survive when their product is not paid for. Rather that produced product causes the owner to borrow more money each month. Many bills remain unpaid. Other businesses are affected and at risk due to farmers unable to pay for the goods purchased from their business.

This 'Domino' effect is wide spread and causes economic hardship on rural consumers as well as rural businesses and dairy farmers. Something has to be done to ensure dairy farmers are able to continue producing a wholesome, safe product.

Who is going to feed America? Anyone who believes China will feed us is in a dream world. The way farmers are going out of business is scary. All Americans need to open their eyes and see what is happening. Give us Dairy Farmers at least the cost of production.

Sincerely,

*A. W. Youngers*  
(2/12)

**Taylor, Andrea (Gillibrand)**

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**From:** Joan Lamb [jlamb@johnray.com]  
**Sent:** Wednesday, August 26, 2009 2:30 PM  
**To:** dairyhearing (Gillibrand)  
**Subject:** Crisis  
**Attachments:** image001.jpg

Dear Senator,

At this time I am writing my concern for the entire NYS economy. We have heard the impact that the meltdown of Wall Street has had on our revenue in NYS. However, if the dairy industry is allowed to go down it will be an even bigger bloodbath. I am both a dairy farmer AND a credit manager for a company that sells to the dairy farmer. I can tell you that my first hand knowledge reveals that the farmers are at this point being cut off from their suppliers, be it in fuel, grain or any other supplies.

Without immediate intervention this economy in NYS and in the entire US will rapidly slide into a full blown depression. When the farmer has no income to put back into the system it is proven that the result is devastating.

We advise immediate action. It is already too late for many.

*Joan Lamb  
Credit Manager*

John Ray & Sons  
2900 Sixth Ave  
Troy NY 12180  
518-272-4432 ex 607  
518-272-4435 fax

[jlamb@johnray.com](mailto:jlamb@johnray.com)



**Lowville Producers Dairy Cooperative**  
**7396 Utica Boulevard**  
**Lowville New York 13367**  
**Telephone 315-376-3921**  
**Fax 315-376-3442**  
**TDD # 1-800-662-1220**

**This institution is an equal opportunity provider**

Senator Kirsten Gillibrand  
James M. Hanley Federal Building  
100 South Clinton Street  
Room 1470 P.O. Box 7378  
Syracuse New York 13261

Lowville Producers Dairy Cooperative represents 195 Dairy Farmers in Northern New York. The cooperatives membership is within a 30 mile radius of Lowville, New York. The Cooperative members produced 315 Million Pounds ( 36.6 Million gallons ) of milk resulting in raw milk sales of \$ 63.3 Million Dollars in Fiscal 2008. In Fiscal 2009 we anticipate 313 Million pounds ( 36.3 Million gallons) of milk resulting in raw milk sales of about \$ 41 Million dollars.

In a rural area that depends on the health of the Dairy Industry for economic success, the low milk price cycle will result in a \$ 22.3 Million direct hit to the local economy not factoring in any economic multipliers.

We have experienced 12 of our member farms go out of business since March 09. Most every member farm had exhausted their savings/cash reserves by early summer and all have relied on lines of credit from their lenders to continue their farm operations.

Our farms have seen their equity turned into substantial IOU's. In addition, all have seen their equity values lowered due to the decrease in their cow values over the last 8 months.

We commend Senator Gillibrand for taking action in addressing the MILC program. The legislation to increase the MILC rate to 90 % along with making that increase retroactive to March 2009 will result in a much needed infusion of cash to all Dairy Farmers nationwide. In addition, indexing the MILC rate of \$ 16.94 to inflation is needed as we go forward. As you are well aware the \$ 16.94 was a target number in the mid to late 90's under the Northeast Dairy Compact. Input costs have increased substantially over the last 10 years rendering the \$ 16.94 number irrelevant in relation to the current costs of producing 100 lbs of milk.

Going forward we also recognize and support your efforts to call for and hold meetings and discussions concerning the pricing of milk in the United States in the future.

On behalf of our 195 Dairy Farmers again we commend you for the legislation that you have introduced that will address the MILC payments and urge you to push for those emergency adjustments and payments as rapidly as possible.

Most Sincerely,

Lowville Producers Board of Directors  
Dwight Houser – President  
Lyndon Moser – Treasurer  
Joe Shultz Assistant Secretary/Treasurer  
Eric Sherman  
Glen Beller

Marc Larabee - Vice President  
John Williams - Secretary  
Norbert Farney  
Jeremy Steria  
Kent Widrick – General Manager



*Kel-Vista Holsteins*

*Kim & Carl Nelson  
150 Doyle Road  
West Winfield, NY 13491  
(315) 822-4521*

Dear Senator Gillibrand,

As dairy producers we thank you for holding this hearing. First and foremost, we ask you to please listen close and listen to the producers. The dairy industry IS in a financial crisis. The leadership of our industry has not lead the industry in the best interest of the dairy farmers.

The price we receive for our milk has dropped to the same prices received in the 1970's. At the same time, our costs of inputs have steadily increased. Essentially, all dairy operations, including our own, have not been covering cash costs since the beginning of the year. The value of our cattle, buildings and machinery has declined so much that they are basically "worthless" assets. Thus, exiting the industry is not a viable option nor is staying in business a viable option.


The dairy producers in this country need legislative, executive and judicial HELP. Dairy farmers are the victims of corporate greed and corporate control. There is no compation in the fluid market place!

The REAL issues that need to be address include: First, we deserve a new price discovery that provides cost of production. Second, we need a supply management program that addresses over production when supply and demand is actually out of balance. Third, the importation of MPC's must be addressed. These imports are what are actually putting our supply out of balance. They also do not meet the standards of domestic production.

American agriculture supplies the United States with the least expensive food that is also the healthiest and safest in the world. Less than 2% of Americans produce food which has given the rest of our citizens other lifestyles. We ask please HELP us to continue farming.

Please provide us with your leadership and guidance to save innocent well managed NY Dairy farmers during this crisis.

Sincerely,

  
Kim Nelson  
Carl Nelson



• Phone: 315 823-0288

**DEMERE REALTY**

171 N. Gardiner Rd.  
Little Falls, NY 13365

**George Demeree, Broker**

• DemereeRealty.com



• Fax: 315 823-7629

Aug. 27, 2009

Senator Kristen Gillibrand;

Dear Senator,

I own a dairy farm along Rte. 90 at Little Falls, NY which is now being run by my son, and I also own Demeree Realty which sells only farms and country properties. My younger son who works with me now will be taking over this business in the future.

I would like to urge you to support Cost of Production as a way of setting milk prices for farmers. I know that if we can achieve this kind of pricing we will also need a Supply-Management program as well.

I was one of the leaders in putting RCMA (Regional Cooperative Marketing Association) together twenty years ago with the help of former State Senator Nancy Lorraine Hoffman and NYS Secretary of Agriculture, Joseph Gerace. I am now 74 years old and bought ~~my~~ my farm when I was 22 years old. I've been trying to get farmers in position to price their own milk production all these years, and it is still not done. That is the reason we have these unstable milk prices and farmers acting out in desperation.

I live in the Town of Danube, Herkimer County, NY, and when I started farming we had 52 dairy farms in our ~~County~~ today we have 16 left in operation. What a shame that this is happening in all sections of our County! Everywhere I drive there are run down farms with many just growing up with weeds! This is probably our last chance to save our family farms.

Farmers are hard-working, proud people who do not want Government hand-outs. With Cost of Production and Supply Management we would not need to be treated this way, and tax payers would be relieved of the tax burden involved. I think that most dairy farmers are now ready for Supply Management if they know that they will receive Cost of Production for their product. I also think that the people running our Government in Washington now have a good chance at getting something done to save our dairy farmers.

We need dairy farmers here in the Northeast to get all our farm organizations together to support one bill and then submit it to Washington. I have had a couple of phone conversations with Doug Maddox, last year's National Holstein Association President who is a dairy farmer in California. He told me that farmers out there are ready to support Supply Management. He hopes that the farm organizations of the Northeast can get together as soon as possible on one bill so California can join with us to push it through.

over

In closing, I'm urging you to do everything possible to get the dairy farmers out of the bind we're in. I am available to help in any way possible. My phone # is 315-823-0288.

Sincerely,

George Demeree

**Taylor, Andrea (Gillibrand)**

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**From:** deb windecker [debwindecker@gmail.com]  
**Sent:** Sunday, August 23, 2009 11:24 PM  
**To:** dairyhearing (Gillibrand)  
**Subject:** Comments for Dairy Hearing on August 27th - Batavia  
**Attachments:** farmbureau8-17.pptx

Senator Gillibrand,

Please address the 3 issues in the attached report. We need the help of the legislative, executive, and judicial branch to bring about the problems facing the dairy industry. Farmers are the victim to this corporate greed that controls our industry. Dairy Farmers nation wide are bleeding while our rural America infrastructure is in cardiac arrest. Consumers too are the victim to this corporate greed as they are paying too much for their product.

Dairy farmers deserve a new price discovery that provides us a cost of production and allows us to share in profits that is being retained by processors. We need to protect our home grown local food supply for national food security and to minimize our carbon foot print.

Consumers are fed up with the monopolies that have taken over our food industry and demand their food be grown in America and not imported from countries that do not have the same standards American dairyman are placed upon. (See Time Magazine August 31, 2009 issue)

Please see the attached power point addressing the 3 issues facing the dairy industry.

Its time our govt. starts listening to "We the people" (farmers/consumers) and not corporate industries. We need food democracy now!

Thank you for taking the leadership role our country needs to bring about these important changes. We must act now before 35% of our dairy farms disappear.




## Long-Term Dairy Solutions

Presented to New York Farm Bureau Dairy Policy Committee

*Debbie Windecker, Dairy Farmer  
Herkimer County, N.Y.*

## Who I am

- 100-cow dairy farm, Town of Schuyler
- Fall 2008 – micro business climate
- March 2009 – macro business climate
  - Ag & Markets Hauling Cost Study
  - Dean Food Profit Announcement
- April 2009 – connected with other dairy farmers seeking milk pricing solutions



## Three Problems, Three Solutions

<b>Problems</b>	<b>Three Solutions, One bill</b>
1. Chicago Mercantile Exchange starts price discovery	1. Cost of production starts price discovery
2. Import/Export Problem	2. Inventory management
3. Disparity between farm and retail prices	3. Rebalances pounds

Federal Milk Marketing Improvement Act of 2009

## Federal Milk Marketing Improvement Act of 2009

- Stable farm milk price to cover costs of production
- Eliminates band-aid programs (MILC, Support Price)
- Revives rural economies
- Maintains and encourages a regional dairy supply to consumers
- Allows dairy farmers to have investment capital for contributing to local food system

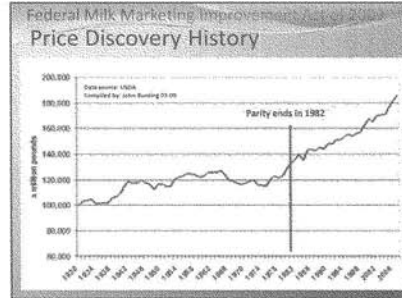
Federal Milk Marketing Improvement Act of 2003

### Price Discovery

**OBJECTIVES** Stable farm milk prices to cover average cost of production and stable processor and consumer price – less volatility and greater transparency

**TACTICS**

- Economic Research Service (ERS) of USDA cost of production (COP) data – 23 states
- National average COP = minimum farm price for manufactured milk (Class II). Two classes of milk, Class I fluid
- Based on ERS data, Secretary of Agriculture announces Class I minimum price quarterly
- Federal Milk Marketing Orders and Class I differentials react



Federal Milk Marketing Improvement Act of 2003

### Inventory Management

**OBJECTIVES** Transparency of import and export volumes and encourage domestic milk production = domestic demand

**TACTICS**

- Mandatory Sec. of Agriculture reporting of import/export volume
- milk equivalent
- dollar value
- No farm milk price reduction unless Trade Surplus (Dairy Exports > Dairy Imports by volume and \$ value)

Federal Milk Marketing Improvement Act of 2003

### Import/Export Challenge

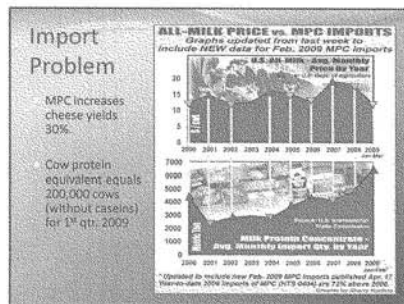
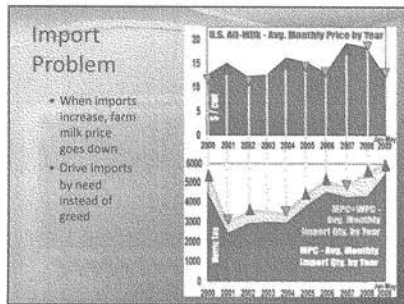
- Domestic production has not exceeded domestic demand (commercial disappearance)
- U.S. milk production is not meeting domestic demand
- Imports are meeting our domestic demand

DRINK THE CROWD/  
DAILY MILK CHALLENGE



Federal Milk Marketing Improvement Act of 2009  
**Imports Need Law and Order**

- In jeopardy for consumers: food Sovereignty, food safety and food quality.
- American Dairy farmers can not be responsible for the worlds oversupply caused by imports. With order, we will be responsible for our own domestic oversupply.
- Dairy imports have grown at a rate faster than domestic production past two decades: \$3 billion today, valued at 5% total of National Milk Products (revenue).
- Concentrated Imports have a higher milk-equivalent than exports dollar for dollar.



Federal Milk Marketing Improvement Act of 2009

### Two Tier Supply Management

**Assumption:**  
Domestic dairy oversupply and trade surplus.

- **First tier – Farmer Funded supply management**  
All dairy producers: milk price reduced for a portion of their production.
- Price reduced on no more than 50% of class II price. Reduced price is applied to no more than 5% of milk production.
- Creates a trigger to react to supply needs.
- This puts responsibility on manufacturers for over production caused by excessive imports.

Federal Milk Marketing Improvement Act of 2009

### Supply Management

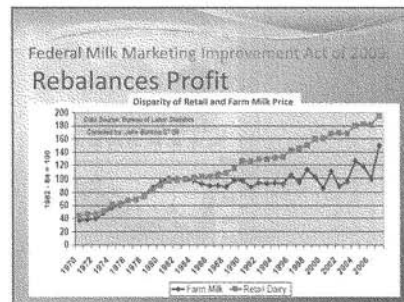
**Second Tier – Farmer funded supply management Temporary Active Base.**

- Last resort to control supply.
- produce all milk you want – paid for what the market needs (risk management)
- Each tier has the potential of generating a billion dollars to rebalance supply.
- Money used to purchase dairy products at full market value supersedes support program.
- Food pantries, School lunch and other food programs benefit from the Dairy Farmers Abundance.

Federal Milk Marketing Improvement Act of 2009

### Rebalances Profit

- Fair Producer and Consumer prices
- Ensures a local fresh food supply
- Local Farms = Reduced Carbon Footprint
- It secures the Homegrown food supply for National Security, food sovereignty and sustainability
- Rebalances profits back to Rural America instead of greed on Wall St.
- Govt. needs to change their role from "bailout" to farmer protection from asymmetric pricing.



Federal Milk Marketing Improvement Act of 2009  
**A Solution for NYS Dairy Farmers**

**Complementary 2009 Policies New York Farm Bureau**

- pg. 38 Promotion-New Product Development
- pg. 38 Support "buy local" initiatives that reduce food miles and support New York State farms.
- pg. 11 We support a comprehensive effort by the State of New York, which will invest in programs to increase consumer demand for New York Agricultural products.
  - Working with farmers to establish "New" markets for farm-to-consumer products.
- pg. 12 We support markets and infrastructures that enable small farms to thrive in New York State.

Federal Milk Marketing Improvement Act of 2009  
**A Solution for NYS Dairy Farmers**

**2010 Policies New York Farm Bureau**

*We support improving price discovery utilizing cost of production.*

- Revision: pg. 42, section Milk Marketing Orders, item 45.

*We support domestic inventory management through mandatory reporting and auditing that includes imports of milk derivatives and exports of dairy products.*

- Addition: pg. 42, section Milk Marketing Orders, NEW Item

**Taylor, Andrea (Gillibrand)**

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**From:** sharon squires [squires farm@hotmail.com]  
**Sent:** Tuesday, August 25, 2009 1:29 PM  
**To:** dairyhearing (Gillibrand)  
**Subject:** Dairy Crisis

Dear Senator Gillibrand,

I am a dairy farmer here in Munnsville N.Y. My husband , Brock and I milk about 60 cows with the help of our three young sons.

Since you have become a Senator I have written you several times to ask for help with the current price paid on milk. Any chance I get to try and make my voice heard I try to use to let people out there know what is going on here on the farms.

Please try and get together with your colleague Senator Schumer and address MILK IMPORTS! Including MPCs.

Please work with Governor Paterson to get us some form of short term relief in the form of cash payments.

Please understand that this is a food safety issue and an animal welfare issue. It is also a moral issue! It is indecent for this our own country to treat us this way. We dairymen sit here like dogs under a table waiting for someone to drop scraps and that is wrong. This so-called "free market" system is anything but free. Free for whom? Processors?

When I saw one of the talking heads of Dean Foods recently interviewed , he went so far as to say that 2007 was a good year for raw milk prices so therefore the issue is price volatility. My answer to that is, who pays that man's wages? Does he accept minimum wage with an occasional \$50.00 bonus from Dean? The idea that dairy farmers were getting rich in 2007 is total nonsense. We just pay down debt and reinvest in the farms. This was never an AIG scandal!

My daughter Krista , is into her 5th year in the U.S.A.F.. She has been all over the world and back. Right now she is in England. She is in disbelief with the way food is taken so much for granted here in the U.S. She knows that respect for our food supply is possible because she sees it all the time in other parts of the Western World. What is it going to take for Americans to open their eyes to what is happening on our dairy farms?

This past year I had the unhappy circumstance to see my neighbor up on the hill finally surrender and sell his whole dairy herd to CWT. It is not like I pictured in my mind. CWT is promoted as this "opportunity" to get out while you can. Good people are driven by these desperate times to do the unthinkable. It was almost unbearable to see the pain he endured with this decision.

Nobody talks about the last night he and others spend in the barn saying good bye to their whole lives and giving last scratches to cows and a life they truly loved and cared for. This was through no fault of their own, having worked hard with never even a sunday off for many many years.

I respectfully ask you excuse the tone of this letter. If I seem angry it is because I am. Please Senator Gillibrand, help find an answer to this crisis and put in place some type of long term solution to stabilize prices , something like the Northeast Dairy Compact was. As fast as you can....

Sincerely , Sharon Squires and family  
Munnsville N.Y.

To: Senator Kirsten Gillibrand and Senate Agriculture Committee Members

Date: August 26, 2009

Subject: Dairy Farm Crisis

I am the wife of a small, family dairy farmer: 40 cows, 100 head total. It is heart breaking to watch my husband work 15 or more hours a day, only to lose \$300 just by getting up in the morning.

We were devastated last December when we our milk check was HALF of what it had been the month before on roughly the same amount of milked shipped. Things have only gotten worse since then, and we have been unable to pay our bills for months.

We borrowed \$4,000 on our operating loan at Farm Credit and then refinanced our farm, but still can not make ends meet. It is impossible to live in 2009 on 1970's income. Maybe you should experience this, so you know first hand what it feels like, and that we are not exaggerating this situation.

Dairy farmers are very proud and independent people who don't expect to get rich, but we do want to be able to pay our bills and maybe have enough left over to order a pizza or go out for ice cream once in awhile. When we have money, we spend it in our community, mostly because we don't take vacations. Everyone, from the agriculture businesses to the local restaurants and stores, benefit. These businesses are feeling the crunch, as we have stopped going out for Sunday breakfast, make pizza at home, and don't repair anything until it is absolutely necessary (and then we can't pay for it).

Our government has bailed out corporate CEO's, the ailing automobile industry, and delinquent homeowners, but dairy farmers (the backbone of America) continue to be pushed aside. I was recently told by Milt Madison, a staff member of US Secretary of Agriculture Thomas Vilsack, that milk processors will never agree to pay dairy farmers the cost of production because it would cut into their profit margin. What they don't realize is that without dairy farmers, there will be no milk to process, thus ELIMINATING their business completely. Dairy

farmers are operating at HUGE deficits, and the processors are worried about their profit margins!

We have a twenty-one year old son, a senior at Cornell University, and an eighteen year old daughter, a freshman at SUNY Cobleskill, both studying agriculture. There appears to be no future for them in the dairy industry. The life they love is being stolen from them, and consumers are being affected as well. Without farmers, there will be no quality food.

My husband, and our family, is **frustrated, depressed, and running out of time.** We, and other dairy farmers, are at a point where we are going to lose EVERYTHING we have worked so hard for, due to no fault of our own. We need a respectable pay price for our quality product in order to survive.

Ellen Bogardus

Locust-Spring Farm

262 Kump Road

Schoharie, NY 12157

518.872.1071

bogie27@verizon.net



**Taylor, Andrea (Gillibrand)**

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**From:** Bob Evans [bobe@mcdowellwalker.com]  
**Sent:** Wednesday, August 26, 2009 9:29 AM  
**To:** dairyhearing (Gillibrand)  
**Subject:** Dairy comments

Dear Senator Gillibrand,

I am writing today, not as an expert on dairy policy, but rather as an employer in the dairy industry. I work for McDowell and Walker, Inc., a family owned feed company for over 50 years. I personally have been in this industry for 30 years and the changes have been huge. One thing that has remained unchanged, however, is the cyclical price of milk. This was expected, and accepted by dairy producers. In those 30 years, we've seen a great deal of attrition of dairy farms and associated suppliers. This wasn't all bad, as many poorer managers went by the wayside, unable or unwilling to make the sacrifices necessary to survive in the dairy industry. "Survival of the fittest" could not be more appropriately coined when discussing the dairy industry. As a town councilman for nearly 20 years, I know the impact that the loss of these enterprises has had on our local economies. In the Town of Bainbridge, the number of milk producing farms has fallen in those 30 years from well over twenty to 6 today.

Today's inadequate milk prices have created ripples in the entire ag industry. The industry can survive the ripples, but not the waves that this crisis is creating. Agribusinesses, such as ours, have extended credit well beyond what any good business sense dictates. Dairymen and women have curtailed spending, affecting every community in every corner of the state. Our customers, dairymen throughout the state, and all associated suppliers of goods and services are in a serious predicament. Dairy farms, regardless of size, experience, or management can not afford to either stay in business or get out. They've watched their equity be drained, and have had their debt increased through "survival loans". Cattle prices are cut in half, with little demand and ability to pay. Bankruptcies will be the only solution for many.

I don't consider myself to be an expert by any means in solving the crisis. It is just so hard for me to fathom how, in this era of "bailouts and stimulus programs", the industries responsible for providing safe affordable food to our citizens are allowed to languish. How can the ag industry be any less important to the welfare of the nation than the auto makers and financial sectors?

I fully realize that hard work and determination do not guarantee success for our industry. I just ask that the "playing field" be equal for all players. Last year, fertilizer prices were at unprecedented levels, largely because of exports to China. Grain prices increased for many reasons, including the diversion of grain to fuel production. Our dairy producers have little control over their input costs and their fluctuations due to the financial market, weather, imports, exports, etc.

I urge you to do all within your powers to provide short term relief and long term solutions to the roller coaster that we are on. Our nation expects and demands safe, nutritious, and economical food. I'm afraid that these expectations will be unmet if the industry is not stabilized. I can't emphasize enough that it's not just the dairymen who are affected. Just ask any feed company, veterinarian, consultant, machinery dealer, tire company, route truck supplier, milk transport company, hardware store, diner, fuel supplier, seed company, fertilizer dealer, chemical supplier, banker, inseminator, cattle dealer, auction house, etc., what the impact has been on their business and if they will be able to survive without dairy farmers. Into what part of the national economy will these displaced industries fit?

On behalf of the 34 employees of McDowell and Walker, and agribusinesses everywhere, I implore you to keep this industry viable. Let's take care of our own and guarantee that this great nation will have an affordable, safe food supply for its citizens. I applaud you for your efforts in addressing this huge issue.

Robert Evans  
 McDowell and Walker, Inc.  
 PO Box 388, 11 Mill St.  
 Afton, NY 13730  
 607 639-2331  
[bobe@mcdowellwalker.com](mailto:bobe@mcdowellwalker.com)

**Taylor, Andrea (Gillibrand)**

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**From:** Robinsons [robinsonfarms@zoominternet.net]  
**Sent:** Wednesday, August 26, 2009 8:39 AM  
**To:** dairyhearing (Gillibrand)  
**Cc:** Stacey Deebs, Spaces (Addison Co-op); shelli vanskiver; sue flint; Bob Peoples; Pro Ag; Rumsey, Phillip (Schumer); Brenda Cochran 2; Sermonis, Nathan(Massa); Aunt Lynn and Uncle Joe; Harris, Kendra (Gillibrand); Lyons Family; Kents (Addison Co-op); Tina&Gerald Carlin; Floyd Hall; Bryan Gotham; Fiala, Anne (Schumer); Taylor, Andrea (Gillibrand)  
**Subject:** Comments for Dairy Hearing  
**Attachments:** list of coops.pdf; Report on Res on Econ Impact of Coops FULL.pdf; Report on Res on Econ Impact of Coops SUMMARY.pdf

**Follow Up Flag:** Follow up  
**Flag Status:** Flagged

Dear Senator Gillibrand:

Thank you for giving us a chance to comment regarding the current dairy pricing system. As everyone is aware it is a crisis. Just about every dairy farmer across the nation is in a financial loss. If something is not done quickly, alot more farmers will be lost.

First let me begin with what I have found here in New York is the lack of communication between Co-op's, Cooperative Exentions, State Offices to the Producers. I have attached a Report titled "Research on the Economic Impact of Cooperatives" done by the University of Wisconsin per the USDA. In the report, it states that: "*Industry Niche* Cooperatives in the agricultural sector provide basic marketing and supply services, and are more prevalent among farmers who cultivate crops than among those who raise animals (dairy being a notable exception where cooperative firms hold a dominant market share)."

Control power by major processing plants (Dean Foods, Kraft). Control power by large Cooperatives (Dairyalea, DFA, DMS) most small Cooperatives are affiliated back to them one way or another.

There are to many Cooperatives in the State of New York. See attached list downloaded off Rural Development's Website.

Cost of Production (COP) for the farmers is not included in the pricing formula. Per USDA website June COP for New York was \$25.49 per CWT. We were paid \$11.57 CWT. This is a major problem. The cost of production for my farm for the year ending 2008 per Cornell Univ. averaged \$21.29. If there is a make allowance in the pricing formula for processing plants which is considered COP which processing plants recoup in the market (proven by Dean Foods earnings statements), then its only fair that the producer's COP also be part of the formula, then there would not be this rise and fall every so many years.

Imports of MPC's is another problem. If they were regulated, and not allowed into this country our own domestic supply of milk would be used and the over production would not be happening.

Imports of Milk Products from New Zealand over the past year have more than tripled. Please see the attached link <http://www.fas.usda.gov/ftp/imports/monthly/2009/July/June09.pdf> And if you look at the current imports, their numbers are still rising. Please see the attached link <http://www.fas.usda.gov/ustrade/>

The company Fonterra in New Zealand is alot like Dean Foods here in the United States. Please go to the attached web page to see how Fonterra and DFA are related. <http://www.fonterra.com/wps/wcm/connect/fonterra.com/fonterra.com/our+business/fonterra+at+a+glance/about+us/our+partnerships>

Also when you compare the Federal Orders to State Orders not all components are being paid out the same. Some are using the butter price for butterfat when butterfat has its own value. Butter has a value that is cheaper than butterfat, not by much, but still butter and butterfat each again have their own values but still some orders use the butter value instead of the butterfat value.

I have read over Bill S1645 The Federal Milk Marketing Improvement Act of 2009 and feel that this bill should be passed. The bill covers the three major problems in the dairy industry. Please provide us with your leadership and guidance to save New York dairy farmers from this crisis.

Thank you.  
Lisa Robinson  
Dairy Farmer  
3991 Olmstead Road  
Woodhull Ny  
Steuben County

UNITED STATES DEPARTMENT OF AGRICULTURE  
 AGRICULTURAL MARKETING SERVICE  
 DAIRY PROGRAMS  
 WASHINGTON, DC 20250-0226

List of Cooperative Milk Marketing Associations  
 Holding Determinations of Qualification  
 Under the Agricultural Marketing Agreement Act of 1937, as amended  
 as of December 1, 2008

<u>Determination Number</u>	<u>Association</u>
1000.621	Addison Cooperative Milk Producers Association, Inc. 12 North Park Street Seneca Falls, New York 13148
1000.572	Agricultural Producers Pricing Cooperative Association, Inc d/b/a Ag Price 360 Mulberry Drive Waldo, Wisconsin 53093
1000.503	Agri-Mark, Inc. P.O. Box 5800 Lawrence, Massachusetts 01842
1000.581	Arkansas Dairy Cooperative Association P.O. Box 507 Damascus, Arkansas 72039
1000.338-C	Associated Milk Producers, Inc. P.O. Box 455 New Ulm, Minnesota 56073-0455
1000.537	Bear Lake Cooperative Milk Producers Association, Inc. c/o Dundon Accounting 118 West Smith Street, Village Square Corry, Pennsylvania 16407
1000.589	Bock Cooperative Creamery P.O. Box 118 Bock, Minnesota 56313-0118

December 1, 2008

<u>Determination Number</u>	<u>Association</u>
1000.578	Bongards' Creameries 13200 County Road 51 Bongards, Minnesota 55368
1000.623	Boonville Farms Cooperative, Inc. Box 114 Boonville, New York 13309
1000.561	Burnett Dairy Cooperative 11631 State Road 70 Grantsburg, Wisconsin 54840
1000.615	Butternut Farms Organic Coop Inc. 1024 State Highway 51 Gilbertsville, New York 13776
1000.396	Calhoun Cooperative Creamery Company 1456 Highway 9 Lansing, Iowa 52172
1000.616	Central Equity Milk Cooperative, Inc. 1595 Griesmer Road Billings, Missouri 65610-9537
1000.608	Clarco Farmers' Cooperative W8186 CTH X Thorp, Wisconsin 54771
1000.640	Cobblestone Milk Cooperative, Inc. 2625 Oxford Road Chatham, Virginia 24531
1000.629	Conesus Milk Producers Co-operative Association, Inc. P.O. Box 4 Perry, New York 14530
1000.598	Continental Dairy Products, Inc. 320 West Hermosa Drive Artesia, New Mexico 88210
1000.586	Cooperative Milk Producers Association P.O. Box 540 Blackstone, Virginia 23824-0540

December 1, 2008

<u>Determination Number</u>	<u>Association</u>
1000.617	Cooperative Regions of Organic Producer Pools One Organic Way La Farge, Wisconsin 54639
1000.273	Cortland Bulk Milk Producers Cooperative, Inc. 3819 Route 11 South Cortland, New York 13045
1000.610	Country Classic Dairies, Inc. P.O. Box 968 Bozeman, Montana 59771-0968
1000.523	Cumberland Valley Milk Producers 961 Marcon Boulevard Suite 112 Allentown, Pennsylvania 18109
1000.263-C	Dairy Farmers of America, Inc. P.O. Box 909700 Kansas City, Missouri 64190-9700
1000.256-C	Dairylea Cooperative, Inc. P.O. Box 4844 Syracuse, New York 13221-4844
1000.591	Dairyman's Marketing Cooperative, Inc. P.O. Box 832 Mountain Grove, Missouri 65711
1000.529	Dassel Cooperative Dairy Association P.O. Box E Dassel, Minnesota 55325
1000.570	Down State Milk Producers Cooperative, Inc. 64 Upper Wisner Road Warwick, New York 10990
1000.299	Elba Co-operative Creamery Association 1230 South Main Street Elba, Minnesota 55910
1000.076	Ellsworth Cooperative Creamery P.O. Box 610 Ellsworth, Wisconsin 54011

December 1, 2008

<u>Determination Number</u>	<u>Association</u>
1000.439	Elm Dale Creamery Association 8287 State Highway 238 Bowlus, Minnesota 56314
1000.639	Erie Cooperative Association, Inc. 10170 Tipton Highway Tipton, Michigan 49287
1000.383-C	Family Dairies USA 4001 Nakoosa Trail Madison, Wisconsin 53714
1000.594	Farm Marketing Services Cooperative 650 Tower Drive Cadott, Wisconsin 54727
1000.430	Farmers Co-operative Creamery Company P.O. Box 38 Foreston, Minnesota 56330
1000.336	Farmers Cooperative Creamery of McMinnville, Oregon 700 North Highway 99W McMinnville, Oregon 97128
1000.414	Farmers Union Milk Producers Association 37 Beech Street Stoneboro, Pennsylvania 16153
1000.609	Fingerlakes Milk Cooperative Inc. 1924 Porter Corners Road Dundee, New York 14837
1000.152-C	Foremost Farms USA, Cooperative P.O. Box 111 Baraboo, Wisconsin 53913-0111
1000.421	Gilman Cooperative Creamery Box 7 Gilman, Minnesota 56333
1000.631	H.P. Farmers Cooperative, Inc. P.O. Box 186 Holland Patent, New York 13354

December 1, 2008

<u>Determination Number</u>	<u>Association</u>
1000.262	Hampshire Milk Producers' Association 49 W 702 Allen Road Hampshire, Illinois 60140
1000.121	Hastings Cooperative Creamery Company P.O. Box 217 Hastings, Minnesota 55033
1000.047	Interstate Bulk Milk Producers Co-operative, Inc. 5204 State Highway 30 Esperance, New York 12066
1000.632	Jefferson Bulk Milk Co-op Inc. 19401 NY State Route 3 Watertown, New York 13601
1000.612	Just Jersey Cooperative, Inc. 320 West Hermosa Drive Artesia, New Mexico 88210
1000.624	Konhokton Milk Producers Co-operative, Inc. P.O. Box 390 Cohocton, New York 14826
1000.619	Lancaster Organic Farmers Co-op 2882 Miller Lane Bird-In-Hand, Pennsylvania 17505
1000.600	Lanco Dairy Farms Co-op 1260 Maryland Avenue, Suite 104 Hagerstown, Maryland 21740
1000.075-C	Land O'Lakes, Inc. P.O. Box 64101 St. Paul, Minnesota 55164-0101
1000.559	Liberty Valley Cooperative Milk Producers Association Box 37C, RD 1 Liberty, Pennsylvania 16930
1000.571	Little Falls Milk Cooperative, Inc. 1355 State Route 5/S Mohawk, New York 13407

December 1, 2008



<u>Determination Number</u>	<u>Association</u>
1000.595	Lone Star Milk Producers, L.C. Route 1, Box 59B Windhorst, Texas 76389
1000.630	Lowville Producers Dairy Cooperative, Inc. 7396 Utica Boulevard Lowville, New York 13367
1000.098	Manitowoc Milk Producers Co-operative P.O. Box 1146 Manitowoc, Wisconsin 54221-1146
1000.040	Maryland and Virginia Milk Producers Cooperative Association, Inc. 1985 Isaac Newton Square, West Reston, Virginia 20190-5094
1000.089	Massachusetts Cooperative Milk Producers Federation, Inc. c/o David W. Shepard, President P.O. Box 731 Warren, Massachusetts 01083-0731
1000.353	Meire Grove Co-operative 125 Highway 4 South, Meire Grove Melrose, Minnesota 56352
1000.063	Michigan Milk Producers Association P.O. Box 8002 Novi, Michigan 48376-8002
1000.119	Mid-West Dairymen's Company 4313 West State Street Rockford, Illinois 61102-1399
1000.635	Middlebury Cooperative Milk Producers Association, Inc. 717 Mosher Road Little Marsh, Pennsylvania 16950
1000.361	Millerville Cooperative Creamery Association 16523 County Road 7 N.W. Brandon, Minnesota 56315

December 1, 2008

<u>Determination Number</u>	<u>Association</u>
1000.034	Milwaukee Cooperative Milk Producers 2965 North Brookfield Road Brookfield, Wisconsin 53045
1000.564	Mohawk Valley Cooperative, Inc. 1253 Eastern Avenue West Charlton, New York 12010
1000.237	Mount Joy Farmers Co-operative Association 1471 West Main Street Mount Joy, Pennsylvania 17552
1000.468	National Farmers Organization, Inc. P.O. Box 2508 Ames, Iowa 50010-2508
1000.433	Nelson Creamery Association P.O. Box 79 Nelson, Minnesota 56355
1000.486	North Hendren Co-operative Dairy Company W8204 Spencer Road Willard, Wisconsin 54493
1000.509	North Penn Bulk Milk Producers Cooperative, Inc. RD #2, Box 260 Columbia Cross Roads, Pennsylvania 16914
1000.513-C	Northeast Nebraska Milk Producers Nonstock Cooperative P.O. Box 1428 Norfolk, Nebraska 68702
1000.153-C	Northwest Dairy Association P.O. Box 79007 Seattle, Washington 98119-7907
1000.539	Northwest Independent Milk Producers Association c/o Andy Vander Meulen Box 387 East Olympia, Washington 98540
1000.420	Oak Park Cooperative Creamery Association 16623 Ironwood Road Oak Park, Minnesota 56357

December 1, 2008

<u>Determination Number</u>	<u>Association</u>
1000.542	Oneida-Lewis Milk Producers Cooperative, Inc. P.O. Box 410 West Leyden, New York 13489
1000.279	Oneida-Madison Milk Producers Co-operative Association, Inc. P.O. Box 6 Sherrill, New York 13461
1000.605	Organic Family Farms Assn. 2590 Clear Creek Road Shiloh, Ohio 44878
1000.316	Osakis Creamery Association P.O. Box 386 Osakis, Minnesota 56360
1000.137	Perham Cooperative Creamery Association P.O. Box 247 Perham, Minnesota 56573
1000.003-C	Plainview Milk Products Cooperative 130 - 2 <sup>nd</sup> Street, SW Plainview, Minnesota 55964
1000.528	Plummer Cooperative Creamery Association P.O. Box 97 Plummer, Minnesota 56748
1000.636	Port Allegany Cooperative Milk Producers Association 51 Ivy Lane Smethport, Pennsylvania 16749
1000.087	Prairie Farms Dairy, Inc. P.O. Box 560 Carlinville, Illinois 62626
1000.622	Preble Milk Cooperative Association, Inc. P.O. Box 187 Preble, New York 13141
1000.235-C	Pro-Ag Farmers Cooperative 601 East Soo Street, Suite A Parkers Prairie, Minnesota 56361

December 1, 2008

<u>Determination Number</u>	<u>Association</u>
1000.627	Producers' Co-operative, Inc. 53 Summit Road Newport, New York 13416
1000.551	Progressive Dairymen's Cooperative, Inc. 12 North Park Street Seneca Falls, New York 13148
1000.392	Rock Dell Cooperative Creamery Company 6832 County Road 3, S.W. Byron, Minnesota 55920
1000.641	Rolling Hills Dairy Producers Cooperative P.O. Box 25 Browntown, Wisconsin 53522-0025
1000.221	St. Albans Co-operative Creamery, Inc. 140 Federal Street St. Albans, Vermont 05478
1000.601	Scenic Central Milk Producers Cooperative Association 11400 CTH C Yuba City, Wisconsin 54634
1000.599	Scenic Mountain Milk Producers Cooperative, Inc. 12 North Park Street Seneca Falls, New York 13148
1000.566	Schenevus-Elk Creek Producers Co-op, Inc. 7278 State Highway 7 Maryland, New York 12116
1000.638	Schoharie County Cooperative Dairies, Inc. 116 France Lane Cobleskill, New York 12043
1000.151	Scioto County Cooperative Milk Producers' Association 2301 Vinton Avenue Portsmouth, Ohio 45662
1000.588	Select Milk Producers, Inc. 320 West Hermosa Drive Artesia, New Mexico 88210

December 1, 2008

<u>Determination Number</u>	<u>Association</u>
1000.367	Sobieski Co-operative Creamery Association 9407 Cable Road - Highway 12 Little Falls, Minnesota 56345-9412
1000.472	South New Berlin Milk Cooperative, Inc. P.O. Box 232 South New Berlin, New York 13843
1000.043-C	Southeast Milk, Inc. P.O. Box 3790 Bellevue, Florida 34421-3790
1000.100	Southeastern Graded Milk Producers Association, Inc. P.O. Box 25 Somerset, Kentucky 42502
1000.569	Southern Tier Independent Milk Producers Co-op, Inc. 142 Bowman Creek Road Oxford, New York 13830-3307
1000.350	Southwestern Minnesota Dairy Association P.O. Box 308 Russell, Minnesota 56169-0308
1000.400	Springfield Cooperative Creamery Association P.O. Box 7 Springfield, Minnesota 56087-0007
1000.604	Steamburg Milk Producers Cooperative, Inc. 11279 Pratham Road East Concord, New York 14055
1000.633	Sullivan County Co-operative Dairy Association, Inc. 30 Likel Road Jeffersonville, New York 12748
1000.397-C	Sunrise Ag Cooperative P.O. Box 458 Buckman, Minnesota 56317
1000.483	Swanville Cooperative Creamery Association P.O. Box 8 Swanville, Minnesota 56382-0008

December 1, 2008

<u>Determination Number</u>	<u>Association</u>
1000.255-C	Swiss Valley Farms, Company P.O. Box 4493 Davenport, Iowa 52808-4493
1000.298	The First District Association 101 South Swift Avenue Litchfield, Minnesota 55355
1000.334	Tillamook County Creamery Association P.O. Box 313 Tillamook, Oregon 97141
1000.628	Tioga Valley Cooperative Bulk Milk Producers Association 109 North Elk Run Road Ext. Mansfield, Pennsylvania 16933
1000.013	Tri-County Producers' Cooperative 1500 W. Bayton Street Alliance, Ohio 44601
1000.059	United Dairymen of Arizona P.O. Box 26877 Tempe, Arizona 85285-6877
1000.552	United North Country Bargaining Coop, Inc. 25542 Swan Hollow Road Alexandria Bay, New York 13607
1000.498	Upstate Niagara Cooperative, Inc. 25 Anderson Road Buffalo, New York 14225
1000.290	Valley Creamery Association 5562 County Road 5 NW Garfield, Minnesota 56332-9760
1000.583	Westby Cooperative Creamery 401 South Main Street Westby, Wisconsin 54667
1000.560	Westco Milk Producers Cooperative 3007 West Hill Road Bliss, New York 14024

December 1, 2008

<u>Determination Number</u>	<u>Association</u>
1000.500	Western Tier Milk Producers Cooperative, Inc. 3375 Wait Corners Road Sherman, New York 14781
1000.613	White Eagle Cooperative Association P.O. Box 4577 South Bend, Indiana 46634-4577
1000.249	Woodstock Progressive Milk Producers' Association 14804 Perkins Road Woodstock, Illinois 60098
1000.590	Zia Milk Producers, Inc. P.O. Box 2523 Roswell, New Mexico 88202

December 1, 2008



## **Research on the Economic Impact of Cooperatives**

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### **Project Purpose**

The cooperative ownership model is used in a wide variety of contexts in the United States, ranging from the production and distribution of energy to delivery of home health care services for the elderly. Although cooperative businesses have been responsible for many market innovations and corrections of market imperfections, little is known about their impact as an economic sector. Until this project, no comprehensive set of national-level statistics had been compiled about U.S. cooperative businesses, their importance to the U.S. economy, or their impact on the lives and businesses of American citizens.

This report describes and quantifies the magnitude of economic activity accounted for by U.S. cooperative businesses. It describes the legal and economic characteristics that were used to define cooperative firms; methods used to measure cooperative activity across all sectors of the US economy; and approaches developed to collect appropriate data. Finally, it provides a census of cooperatives, summarizes the extent of their activity by economic sector, and measures their impact on aggregate income and employment.

### **Project Partners**

The project was funded by the U.S. Department of Agriculture (USDA) with matching support from the National Cooperative Business Association and its members, and the State of Wisconsin's Department of Agriculture, Trade, and Consumer Protection. In-kind support was provided by the University of Wisconsin Center for Cooperatives (UWCC) and the Departments of Agricultural and Applied Economics and Consumer Science at the University of Wisconsin–Madison.

### **Data Collection**

To estimate the impact of cooperatives, conducting a census of U.S. cooperatives was necessary. Cooperatives were located through lists maintained by trade associations, the USDA, and academic colleagues; through web searches; and through Guidestar, a searchable database of nonprofit organizations. In all, our search identified 29,284 cooperatives in the U.S. economy. Surveys using standardized survey instruments and a uniform sampling methodology were then conducted to collect key business indicators from individual cooperatives. The surveys targeted firms in commercial sales and marketing, social and public services, financial services, and utilities. We surveyed 16,151 cooperatives.



## Methodology

When businesses use capital, labor, and other inputs to create and sell a product or service, they create economic activity. The direct impact of this activity for the cooperatives in this study is measured by examining the revenue generated by selling output; income paid to owners and workers (wages, benefits, patronage refunds, and dividends); and number of jobs.

The study uses input-output analysis to examine how these direct economic impacts ripple through the economy to generate additional indirect and induced impacts. Conceptually, *indirect impacts* measure the ripple effect that results from connections with other businesses; *induced impacts* measure spending by the cooperative's labor force and its owners with the wages and dividends (or "patronage refunds") they earn. The study uses IMPLAN, an input-output modeling system, to measure these secondary impacts.

We conservatively estimate economic impacts in our analysis. At every turn, we have taken steps to ensure that, we *underestimate* the aggregate wage, employment, revenue, and income impacts of cooperative business. For example, we used wages and benefit as a proxy for input expenditure, rather than revenue. This is apparent in our impact estimates where induced impacts are always larger than indirect impacts. We have applied this rule uniformly across each of the 17 economic sectors in our study, fully recognizing that we may sometimes underestimate indirect economic impacts. This approach is particularly likely to underestimate the full economic impact of lenders in our Financial Services sector. Banks lend to consumers and businesses that in turn invest in various projects ranging from home repair to the launch of an entirely new business. In principle, some portion of the value of these projects could be attributed to banks in assessing their economic impact. We do not attempt to do this, as that method would require significant additional data collection and a methodological approach for separating the impact of banks per se from the projects they fund.

## Results

**Figure 1** visually displays the distribution of cooperative business activity across the United States, and across four aggregate economic sectors: Commercial Sales and Marketing, Social and Public Services, Financial Services, and Utilities. Nearly 30,000 U.S. cooperatives operate at 73,000 places of business throughout the U.S. These cooperatives own >\$3T in assets, and generate >\$500B in revenue and >\$25B in wages.

These and other data are used to estimate the indirect and induced impact of cooperative business activity, summarized in **Table 1**. The study estimates that cooperatives account for nearly \$654B in revenue, >2M jobs, \$75B in wages and benefits paid, and a total of \$133.5B in value-added income.

Cooperative firms are organized and behave differently from other forms of business organizations. Assessment of economic impact solely in terms of the magnitude of business activity provides an incomplete perspective on the total impact of cooperatives. To initiate study on these more complex impacts, we prepared a series of eight discussion papers. They address methodological and empirical approaches for exploring deeper issues on the economic and social significance of cooperatives, and, in part, will form the basis for subsequent phases of this research project.

For further information on these specific research papers, and for a full reporting our research activities and results, please visit our website devoted to the project: <http://reic.uwcc.wisc.edu>.

Figure 1: Distribution of U.S. Cooperatives

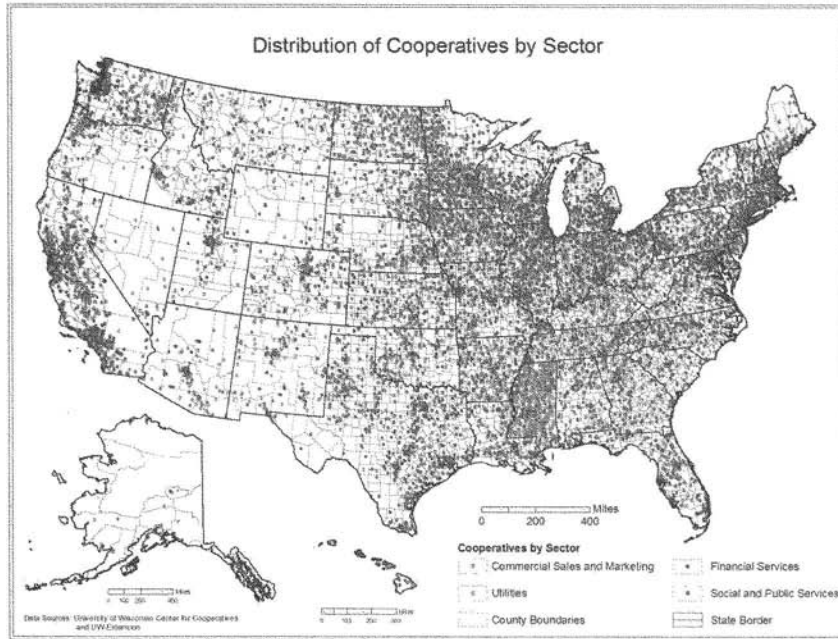


Table 1: Economic Impact of U.S. Cooperatives: Aggregate Impacts by Sector <sup>1</sup>

Sector	Revenue (\$M)	Income (\$M)	Wages (\$M)	Employment (No. of jobs)	Firms	Estab.
Commercial Sales and Marketing	201,207	37,737	13,810	422,505	3,463	5,695
Social and Public Services	7,525	2,213	1,690	424,505	11,311	11,311
Financial Services	394,363	100,661	51,176	1,133,353	9,964	50,330
Utilities	49,808	13,392	8,292	162,873	4,546	5,657
<b>Total</b>	<b>652,903</b>	<b>154,002</b>	<b>74,969</b>	<b>2,143,236</b>	<b>29,284</b>	<b>72,993</b>

<sup>1</sup> Analysis does not include housing cooperatives.

# **Research on the Economic Impact of Cooperatives**

Project Principal Investigators

**Steven Deller • Ann Hoyt • Brent Hueth  
Reka Sundaram-Stukel**

University of Wisconsin Center for Cooperatives  
March 2009

This project is funded by the U.S. Department of Agriculture with matching support from the National Cooperative Business Association and its members, and the State of Wisconsin's Department of Agriculture, Trade, and Consumer Protection. In-kind support is provided by the University of Wisconsin Center for Cooperatives and the Department of Agricultural and Applied Economics at the University of Wisconsin–Madison.

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## Executive Summary

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### Project Purpose

The cooperative ownership model is used in a wide variety of contexts in the United States, ranging from the production and distribution of energy to delivery of home health care services for the elderly. Although cooperative businesses have been responsible for many market innovations and corrections of market imperfections, little is known about their impact as an economic sector. Until this project, no comprehensive set of national-level statistics had been compiled about U.S. cooperative businesses, their importance to the U.S. economy, or their impact on the lives and businesses of American citizens.

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### **Results**

Nearly 30,000 U.S. cooperatives operate at 73,000 places of business throughout the U.S. These cooperatives own >\$3T in assets, and generate >\$500B in revenue and >\$25B in wages. Extrapolating from the sample to the entire population, the study estimates that cooperatives account for nearly \$654B in revenue, >2M jobs, \$75B in wages and benefits paid, and a total of \$133.5B in value-added income.

Americans hold 350M memberships in cooperatives, which generate nearly \$79B in total impact from patronage refunds and dividends. Nearly 340M of these memberships are in consumer cooperatives.

Cooperative firms are fundamentally different from other forms of business organizations. Assessment of economic impact solely in terms of the magnitude of business activity provides an incomplete perspective on the total impact of cooperatives. To initiate study on these more complex impacts, we prepared a series of eight discussion papers. They address methodological and empirical approaches for exploring deeper issues on the economic and social significance of cooperatives, and, in part, will form the basis for subsequent phases of this research project.

## 1. Introduction

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This report describes and quantifies the magnitude of economic activity accounted for by cooperative businesses in the United States. Unfortunately, none of the business reporting agencies of the U.S. government (e.g., the Census Bureau and the Bureau of Labor Statistics) specifically tracks the economic activity that is accounted for by cooperatives. Consequently, our job began with the conceptually simple, but arduous, task of conducting a census of cooperatives. We identified a lower bound estimate for the total number of firms in the United States that operate on a cooperative basis. The term "lower bound" includes both firms that operate as cooperatives but that our search did not detect, and large classes of organizations that arguably are "cooperatives" but that we excluded for the purpose of this study. We discuss these "boundary" issues in the next section of our report.

In addition to identifying most cooperatives in the United States, we also estimated four measures of their aggregate economic impact: Revenue; Employment; Wages; and Income (defined as wages and benefits to workers plus patronage refunds paid to owners). We estimated the "direct" impact across each of these measures, and the "indirect" and "induced" impacts that result from wages and refunds spent by cooperative owners and employees. Subsequent sections describe our methodology and offer descriptive background for four major aggregate economic sectors where cooperatives are active: Commercial Sales and Marketing; Social and Public Services; Financial Services; and Utilities. These aggregate sectors are composed of 17 individual subsectors.



## **2. Cooperatives in the U.S. Economy**

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### **2.1 Defining the Cooperative**

A cooperative can be defined in various ways; no single definition is sufficient for our study. We describe the multidimensional character of cooperative organizations and then identify firms and economic sectors that fit within one or more of these dimensions. Our study includes a set of firms largely determined by the economic sectors identified in the original request for proposals issued by the USDA [13]. To determine whether a given firm is a cooperative, we have identified five different, potential qualifying criteria: application of a statement of principles; self-identification; incorporation status; tax-filing status; and governance structure. In some cases, these criteria are in conflict. Nonetheless, our discussion of these criteria boundaries will aid future efforts to refine our census.

#### **2.1.1 Principles**

Traditionally, the defining characteristics of a cooperative business are that the interests of the capital investor are subordinate to those of the business user, or patron, and returns on capital are limited. Cooperative control is in the hands of its member-patrons, who democratically elect the board of directors. Member-patrons are the primary source of equity capital, and net earnings are allocated on the basis of patronage instead of investment.

The USDA summarized these characteristics in its definition of a cooperative as a "user-owned, user-controlled business that distributes benefits on the basis of use." The International Co-operative Alliance (ICA) employs broader terms in its definition of a cooperative as "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise." The ICA has adopted the Rochdale Principles (based on a consumer cooperative in England dating to 1844), seven world-wide, generally acknowledged principles that guide the cooperative enterprise: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training, and information; cooperation among cooperatives; and concern for community. The ICA periodically revisits these principles.

The congruence between the above definitions or principles and any individual organization could be assessed through a close reading of its bylaws and articles of incorporation. While these criteria may be useful for evaluating the cooperative character of an individual organization, they are impractical as a screening mechanism to build a census.

#### **2.1.2 Self-identification**

Self-identification, or the use of the term "cooperative" or "co-op" in the organization name, would appear to be one method of identifying cooperatives. Organizations operating on a cooperative basis often include these terms in their names. However, there are no established standards for the term's use. Thus, many organizations use the term "cooperative" descriptively to indicate a functional approach that includes collaboration or coordination, but they are neither owned nor controlled by patron members, nor do they distribute benefits based on use. Furthermore, some organizations operate as cooperatives but do not use the term "cooperative" in their name. Self-identification is therefore not a reliable indicator of the cooperative nature of an organization.

### 2.1.3 Incorporation status

Like other businesses, cooperatives typically incorporate as a legal entity under statutes that provide parameters for governance and operation. This incorporation process occurs at the state level, and specific state statutes define and describe the legal requirements for different types of entities, including cooperatives. Because the incorporation status of an organization provides some indication of its structure and operation, it is a potential indicator of whether an organization is a cooperative.

However, state statutes are not uniform. While all states have at least one statute relating to cooperatives, those statutes develop within state-specific cultural and economic conditions, and the statutory classifications and requirements for cooperatives vary. For example, many state cooperative statutes are restricted to agricultural producer enterprises. Cooperative statutes specific to sectors ranging from health to utilities, from housing to credit unions, may also be part of an individual state's business law code.

Furthermore, under some state statutes, cooperatives are considered a type of nonprofit corporation, since a cooperative's primary orientation is to benefit members, providing goods or services at cost. Thus an organization incorporated under a cooperative statute may be considered a cooperative business corporation in one state, but may be considered a nonprofit corporation in another. Cooperative entities may also be incorporated under other statutes not specific to cooperatives, such as corporation, limited liability company (LLCs), or nonprofit laws. Use of incorporation status as the indicator of cooperative character does not provide a comprehensive cooperative census.

### 2.1.4 Tax-filing status

Federal tax code requirements are consistent across all states and reflect how a particular entity operates, and thus provide another possible indication of an entity's cooperative character. The tax code provides its own set of criteria for tax filings by organizations, which may or may not include an entity's state incorporation status.

Federal tax law recognizes that cooperatives provide patron benefits instead of profits to investors, and that their residual earnings are passed through to patrons. These earnings typically are taxed once, at the patron level. The cooperative files its tax returns using a cooperative version of the corporate income tax return to qualify for the single taxation treatment. In these cases, the type of tax form submitted clearly identifies the organization as a cooperative.

Federal tax code also grants tax exemptions to certain cooperatives operating in specific sectors, treating them as not-for-profit entities. Mutual utilities, credit unions, mutual insurance companies, farm credit organizations, and some farmer cooperatives are examples of cooperative sectors that receive Federal tax-exempt designations. These cooperatives file for tax exemptions on earnings using the same standard nonprofit tax form as other nonprofit and non-cooperative organizations. It is this tax-exempt status that identifies these organizations as cooperatives.

However, the use of tax filing forms and tax-exempt status do not provide a comprehensive cooperative census. A cooperative, or a business run on a cooperative basis, might file a standard corporate income tax return in some instances, and so could not be identified by its tax form. This situation can occur if the business does too much non-member business, or received

too much non-member equity capital, to qualify for Federal tax treatment as a cooperative. Other cooperatives have Federal tax-exempt status in sectors where noncooperative, nonprofit organizations also operate. In these cases, the tax-exempt status does not provide a filter for identifying cooperatives.

### **2.1.5 Incorporation and tax-filing status combined**

Despite these ambiguities, cooperatives that generate the majority of cooperative business activity in the United States can be identified by the combination of the organization's incorporation status and its tax filing or tax-exempt status. Upwards of 85% of U.S. cooperative revenue is generated within seven sectors: agriculture; the farm credit system; Federal home loan banks; rural electric service; mutual insurers; and credit unions. Historically, the cooperative model was adopted to meet the economic challenges presented by these sectors, and incorporation statutes and Federal tax provisions were developed to support these cooperatives. As a result, incorporation status and tax filing data can be used to clearly identify cooperatives in these sectors, and is available from government or trade associations.

Agricultural cooperatives typically incorporate under cooperative statutes which exist in every state. They file tax returns specific to cooperative businesses, and are also identified by the USDA [Bureau of] Rural Development's periodic survey of agricultural cooperatives. Rural electric cooperatives and credit unions are chartered under specific state or Federal statutes; Federal tax exemptions were created to support these entities. Strong, active national trade associations represent both types of cooperatives and identify and collect data on cooperatives in these sectors. Congress established the Farm Credit System (FCS) to meet the credit needs of agriculture. Tax exemptions were created to support the system, and its nationwide network of cooperative financial institutions is well documented.

However, in some sectors cooperatives do not use a single model for tax filing and incorporation. These include biofuels (it is not uncommon for biofuel cooperatives to incorporate as LLCs, for example), consumer goods, arts and crafts, and social and public services (except housing). To gain further insight into the organizational structure of cooperatives in these sectors, we conducted a survey of >1,200 firms randomly sampled from the relevant population. **Table 2-1** reports variations in incorporation and tax filing status from this survey. According to **Table 2-1**, 80% of our sampled firms that incorporate as cooperatives choose to operate and file as either a cooperative or a non-for-profit organization. In contrast, only 26% of the sampled firms that incorporate as C-corp firms file as cooperatives or not-for-profit organizations. Form 1065 is used mostly by LLCs that choose to be taxed on a "pass through" basis by electing to be taxed as partnerships. **Table 2-1** also shows that a significant fraction (15%) of sampled cooperative firms choose to file a standard business 1120 form, thus forgoing the right to be taxed as a cooperative. Overall, **Table 2-1** clearly demonstrates potential ambiguities in identifying cooperatives in the U.S. economy solely from either incorporation or tax filing status.

**Table 2-1:** Incorporation by Tax Status (Row Percentages %, N=1,244) <sup>1</sup>

Incorporation Status	Sampled Firms	990 (%)	990c/1120c (%)	1120 (%)	Gov. (%)	1065 (%)
Cooperative	806	7	73	15	5	1
C-corp	16	13	13	67	0	7
LLC <sup>2</sup>	51	5	5	36	0	54
Nonprofit	527	95	0	4	1	0
Other	50	11	14	54	11	11
All Cooperatives		37	43	13	3	3

<sup>1</sup> Row percents add to 100.

<sup>2</sup> Formally, a limited liability company does not "incorporate," but instead organizes under the relevant state statute.

### 2.1.6 Ownership considerations

Both incorporation and taxation reflect how an entity operates, and both recognize cooperatives as one of an array of organizational entities. As noted above, however, in many situations the cooperative organization does not fully fit into the existing cooperative categories in incorporation and tax filing. In these cases, to determine if an organization can be classified as a cooperative requires other criteria.

Patron ownership is a defining characteristic of a cooperative, and data indicating ownership can identify an additional universe of cooperatives. Ownership is characterized by control rights and rights to residual returns, and, in the case of cooperatives, the patron members exercise control rights by electing a board of directors, usually through a one-member/one-vote system at an annual meeting. The right to residual returns also belongs with patron members, who receive benefits based on use, including patronage refunds.

Survey questions about membership criteria, member voting rights for board elections, patronage refund allocation, and non-participation on the board by management can provide additional data on ownership for identifying cooperatives.

### 2.1.7 Boundary issues

Organizations that are owned and controlled by patron members who receive benefits proportional to use can be identified as cooperatives through incorporation, tax filing, and member activity information. As with any taxonomy, however, questions arise when organizations meet some, but not all, of the criteria for classification of a cooperative. These variations can blur the definition of a cooperative, and pose questions about the boundaries of cooperative activity.

### **Nonprofit Entities**

Many cooperatives are incorporated as nonprofits. This designation encompasses two different subsets. Incorporation statutes that are specific to cooperatives, but that classify them as nonprofit entities, also make provisions for member ownership rights including member voting rights for board of directors, distributions, and rights to residual returns.

In contrast, cooperatives incorporated under general nonprofit statutes are not statutorily bound to follow organizational and operational criteria specific to cooperatives, making the cooperative character for such organizations more difficult to identify. This type of nonprofit cooperative

frequently appears in traditional nonprofit sectors such as education, arts and crafts, and childcare.

General nonprofit statutes permit member organizations, but may not guarantee the right of members to vote. Broader statutory parameters for board selection and governance allow membership organizations to be governed by a board that is not elected or is composed of both elected and appointed directors, as well as a board elected by a one-member/one-vote system. Membership organizations incorporated under a nonprofit statute may exhibit varying levels of democratic control by member patrons; whether such an organization is a cooperative is debatable.

General nonprofit statutes also prohibit distributing residual earnings to those who control the organization, including members. The distribution of benefits to patron members based on use is a central concept to the cooperative operation. This prohibition on distributions would seem to disqualify all nonprofit membership organizations as cooperatives.

However, this type of nonprofit cooperative typically operates in sectors commonly designated as not-for-profit and where residual earnings are uncommon. Member benefits in these cooperatives are the services provided; the member receives these benefits in proportion to how frequently the cooperative entity is used. Whether the statutory prohibition of distributions should exclude from a cooperative census a member-controlled organization providing services to its patrons poses another boundary question for this study.

Federal tax-exempt status designations present related boundary issues in identifying cooperatives. The Internal Revenue Code (IRC) provides Federal tax exemptions to cooperatives in various sectors. For example, IRC 501(c)(12) exempts benevolent life insurance associations of a purely local character, mutual ditch or irrigation companies, mutual or cooperative telephone companies, mutual or cooperative electric companies, and "like organizations". The IRC outlines specific organizational and operational cooperative principles that an organization must follow to be eligible for this Federal tax exemption. These principles center on democratic control, subordination of capital, and operation at cost, which includes distribution of any savings to members based on their patronage. Clearly a nonprofit organization with such a tax-exempt status can be categorized as a cooperative. Tax-exempt designations specific to cooperatives in other sectors exist as well.

In contrast, cooperatives organized under general nonprofit statutes that provide services may qualify for Federal tax-exempt status under IRC section 501(c)(3). This tax-exempt designation supports, among others, organizations established for educational and charitable purposes and, can be a major incentive for incorporating as a nonprofit. Such organizations are eligible to receive grants and tax-deductible contributions. Cooperatives organized to provide public sector-type services, such as education or childcare services, may have difficulty financing start-up or ongoing costs. For them, the ability to receive grants or contributions may be essential for survival.

However, tax-exempt status granted under section 501(c)(3) of the IRC requires that no part of the organization's net earnings benefit any private shareholder or individual. This mirrors the prohibition on distributions in general nonprofit incorporation statutes, and raises similar boundary issues for interpretation.

***Quasi-governmental Entities***

Cooperative activity within the public sector presents significant boundary issues.

Governmental, quasi-public, nonprofit, and private entities may all provide public sector goods and services using public revenue. They may also share cooperative characteristics, such as a user-based representative governance system, and supply benefits that aggregate with use. Some entities are incorporated as stand-alone nonprofit agencies, may self-identify as cooperatives, or have member control characteristics that might allow them to be classified as cooperatives. However, most of these organizations spend public revenue, and they typically have some mandated control or reporting requirements that are external to board control.

One method for determining whether a cooperative organization is a government entity is to consider whether the organization is included in U.S. Census of Governments, Individual State Descriptions, and whether revenues and outlays are included in state government finance statistics.

In the Census definition, governmental character exists if the organization has a high degree of responsibility and accountability to the public, as evidenced by public reporting or open records requirements. This classification is independent of the tax or incorporation status.

The degree to which the cooperative board is autonomous and subject to public oversight and reporting, can differentiate these entities from cooperatives that may have publicly funded entities as members, and that may use public revenues to purchase goods or services. These characteristics may be indicated by incorporation status, tax filing status, or bylaw provisions.

Boundary questions can also develop because public accountability can characterize both governmental character and recordkeeping and reporting requirements for cooperatives in regulated industries, such as mutual or cooperative telephone or electric companies.

***Limited Cooperative Associations***

The limited cooperative association (LCA) is a newer type of business entity that has characteristics of both the traditional cooperative and the limited liability company (LLC). Although few in number, this hybrid form poses a unique set of cooperative boundary questions around issues of investor control.

In five states, new statutes address problems associated with cooperative capital formation. While variations exist among the statutes, all permit distribution of net earnings on the basis of investment contributions as well as on patronage, and do not set limits on investor returns. Investor voting rights and election to the board of directors are allowed. The statutes protect patron-member interests through mandated minimums for patronage-based earnings distributions, and special provisions for patron-member voting and majority representation on the board. However, by introducing investor ownership and control into the cooperative business model, the defining cooperative emphasis on patron benefits may be diluted by consideration of investor members' interests. The extent that this potential for conflicting ownership interests should exclude an organization from a cooperative census is debatable.

Besides limited liability for its members, the LCA may elect to be taxed as either a partnership or as a corporation. To be eligible for the single-tax treatment afforded to cooperative corporations, the LCA must meet the IRC-specified organizational and operational principles for operating on a cooperative basis. These principles include subordination of capital and distribution of savings based on patronage, which might not apply to an LCA making investment-based distributions.

Whether Federal tax status should disqualify an organization that also encompasses patron member ownership and control requirements is another cooperative boundary question.

***Partnerships, Associations and Clubs, and Employee Stock Ownership Plans***

From an ownership perspective, many patron-controlled organizations in the U.S. economy would be considered cooperatives under any other criteria mentioned above (application of principles or self identification, and tax or incorporation status). Partnerships, associations and clubs, and employee stock ownership plans (ESOPs) are good examples. Professional partnerships are "labor-managed firms," much like worker cooperatives. They may use democratic governance procedures among controlling members, and it is the organization's "workers" who exercise control of the firm. Unlike most worker cooperatives, however, control is offered only to a restricted set of workers.

Many associations and clubs operate according to democratic principles and are controlled by their patrons. Like nonprofits, there are no residual returns; therefore not providing members residual returns on a patronage basis is likely irrelevant. In contrast, ESOPs do provide residual returns to workers (typically on the basis of seniority in the organization, which can be considered a form of patronage), but only limited control rights through an intermediate trust when employees are minority owners (though there are a significant number of ESOPs with majority employee ownership).

**2.1.8 Coverage for this study**

So where do these boundary issues leave us in our effort to conduct a census of the "cooperative" sector? Ultimately, any categorization, whether based on economic or organizational criteria, will have boundary issues. The central challenge is to define "hard" boundaries to maximize the usefulness of the data, and to periodically reevaluate these boundaries. We use the 15 sub-sectoral, and 4 aggregate sectoral, economic categories defined by the [13] to identify a potential universe of firms. To classify firms that did not fit within the subsectors provided by USDA categories, we created two new subsectoral categories: "Other" in the Commercial Sales and Marketing sector, and "Cooperative Finance" in the Financial Services sector. The resulting sectors and subsectors are:

1. Commercial sales and marketing: farm supply and marketing; biofuels; grocery and consumer goods retail; arts and crafts and entertainment;
2. Social and public services: housing; healthcare; daycare; transportation; education;
3. Financial services: credit unions; farm credit; mutual insurance; and
4. Utilities: electric; telephone; water.

Most cooperatives in the 4 sectors listed above can be considered either "producer" or "consumer" cooperatives. A producer cooperative transforms member inputs into a marketable output, while a consumer cooperative purchases wholesale goods to sell to its members. Additionally, there are "purchasing" (or business-to-business) and "worker" cooperatives that operate in a wide variety of economic sectors. Purchasing cooperatives are composed of businesses that collectively buy supplies that members use in their respective businesses. Often the businesses are retail stores that collectively purchase wholesale goods to try to establish better terms of trade. A worker cooperative is a type of producer cooperative where the input provided by members is labor.

Approximately 19% of purchasing cooperatives are found in the Commercial Sales and Marketing sector (13% grocers, and the remainder in "other"), 66% in Social and Public Services (21% healthcare, 44% education, and 3% transportation), 4% in the Financial Services sector (corporate credit unions), and 11% in the Utilities sector (generation and transmission cooperatives). In instances where firms did not fit within the subsectors listed above, we created new subsectoral categories. These include Other in the Commercial Sales and Marketing sector, and Cooperative Finance in the Financial Services sector. Approximately 80% of all worker cooperatives are found in the Commercial Sales and Marketing sector (36% consumer goods retail, 9% arts and crafts, and 33% entertainment), and the remainder are found in the Social and Public Services sector (5% healthcare, 8% transportation, and 5% education).

**Table 2-2** summarizes economic activity across all sectors by cooperative type. The vast majority of cooperatives are owned by consumers, with most producer cooperatives existing in the agricultural sector. Overall, nearly 30,000 cooperatives in the United States account for >\$3T in assets, >\$500B in total revenue, \$25B in wages and benefits, and nearly 1M jobs.

The total number of individuals in the U.S. who are members of at least one cooperative is difficult to estimate because many individuals are members of multiple cooperatives. Consequently, the number of memberships reported in **Table 2-2** represents the sum of *all* members of *all* the cooperatives in the U.S.

**Table 2-2:** U.S. Cooperatives by Type: Summary of Key Economic Indicators

Cooperative Type	Assets (\$M)	Revenue (\$M)	Wages (\$M)	Firms	% of Firms	Employees 1 (thousands)	Memberships 2 (thousands)
Worker <sup>3</sup>	128.02	219.24	55.41	223	1	2.38	55.14
Producer	23.632	65.426	2.970	1,494	5	72.93	714.65
Purchasing	1,126.848	157,892	2,902	724	2	130.35	6,133
Consumer	1,975,805	291,086	19,085	26,844	92	650.65	343,969
<b>Total</b>	<b>3,126,414</b>	<b>514,624</b>	<b>25,013</b>	<b>29,285</b>	<b>100</b>	<b>856.31</b>	<b>350,872</b>

<sup>1</sup> Employment is reported in terms of full-time employees. Two part-time workers are reported as one (full-time) employee.

<sup>2</sup> One member can belong to multiple cooperatives, so does not necessarily represent a unique individual.

<sup>3</sup> Membership numbers are higher than employment figures because a) member numbers include part-time workers, but employment figures represent the number of full-time positions and b) some cooperatives reported their membership but not their employment figures.

In the following Sections, we estimate the indirect and induced impacts that result from this economic activity, and report separately on the individual subsectors noted above. We also present maps that geographically locate cooperative businesses in the U.S. to provide further insight.



### 3. Methodology

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Starting a new business that uses fixed capital (plant and equipment), labor, and other variable inputs, to produce some output creates economic activity. The "impact" of this economic activity can be measured by examining the revenue generated by selling the output, the wages paid to workers, the jobs created, or the total money spent on other variable inputs. New tax revenue is also sometimes considered an impact.

Economists sometimes use "input-output analysis" to analyze how these direct economic impacts ripple through the economy to generate additional "indirect" and "induced" impacts. Conceptually, indirect impacts measure the extent of the ripple effect that results from linkages with other businesses, while induced impacts capture spending by the firm's labor force and owners as well as the wages and dividends (or "patronage refunds") they earn.

To accurately estimate *indirect* economic impact from a given business it is necessary to know the *input expenditure profile* (i.e., source and quantity of inputs) of the given firm. *Induced* impacts are estimated by applying wage and dividends generated by the firm to an average *household expenditure pattern* (i.e., destination and quantity of expenditure), and then by estimating the ways in which these expenditures produce further economic activity. For example, a law partnership, which uses principally a labor input, will generate a large induced effect, but almost no indirect effect. Alternatively, an ethanol plant, which uses significant capital and non-labor variable inputs, but very little labor input, will generate large indirect effects, but a small induced effect.

For a large-scale study of many firms, collecting detailed information on each firm's input expenditure profile, or even on total input expenditures, is often prohibitively costly. Therefore researchers often use an "average" profile for a representative firm from the relevant industry. They then apply to this profile some measure of the scale of operations for the firm as a proxy for total expenditure on inputs. Total revenue is one such proxy, but if the firm is profitable, revenue is typically larger than total input expenditures. Wages are another potential proxy, but using wages will understate total input expenditures because wages do not include non-labor expenses (e.g., the annualized cost of fixed capital).

We conservatively estimate economic impacts in our analysis. At every turn, we have taken steps to ensure that we *underestimate* the aggregate wage, employment, revenue, and income impacts of cooperative business. For example, we used wages and benefit as a proxy for input expenditure, rather than revenue. This is apparent in our impact estimates where induced impacts are always larger than indirect impacts. We have applied this rule uniformly across each of the 17 sectors, fully recognizing that we may sometimes underestimate indirect economic impacts. This approach is particularly likely to underestimate the full economic impact of lenders in our Financial Services sector. Banks lend to consumers and businesses that in turn invest in various projects ranging from home repair to the launch of an entirely new business. In principle, some portion of the value of these projects could be attributed to banks in assessing their economic impact. We do not attempt to do this, as that method would require significant additional data collection and a methodological approach for separating the impact of banks per se from the projects they fund.

We report results on four measures of impact defined below:

1. Revenue: Value of sales
2. Wages: Value of compensation (wages and benefits) paid to employees
3. Income: Value of payments to owners (dividends and patronage refunds) and employees (wages and benefits)
4. Employment: Number of jobs.

For each measure, we estimate direct, indirect, and induced economic impacts across each subsector in our analysis. Aggregate sector reports are compiled by summing impacts across the subsectors in a given aggregate sector.

In some sectors, our data covers all firms in the given sector. The Credit Union sector, for example, has a trade association and a national regulatory body that collect detailed data on all credit unions in the U.S. However, in some sectors we surveyed individual firms to request data for our analysis, because it was prohibitively costly to survey (and obtain responses) from all firms. In these cases, we imputed values for a representative firm in the relevant sector using the average value for each impact across the firms for which we had data. We then applied the impact from a representative firm to the entire sector by multiplying impacts by the number of firms in the sector. For example, if a given sector included 1,000 consumer cooperatives and we had data on 300, to measure the direct impact for the entire sector, we multiplied the average value from those 300 firms by 1,000. Our aggregate sector tables (see the Commercial Sales and Marketing section, for example) report data only for the cooperatives for which we have direct (not imputed) data, while "direct impacts" in the individual sectoral impact tables (see Agricultural and Marketing, for example) report total imputed values. The IMPLAN Methodology section in the Appendix provides further details.

#### 4. Economic Impacts of Cooperatives

Figure 1 displays the 29,284 firms in our census by aggregate sectoral category, with each dot representing a firm's location. Within this universe, we have examined individual firms to verify that patrons have both control rights and the right to residual returns in the organization (i.e., full patron ownership). The Data Collection section in the Appendix provides a complete description of our data collection approach and the covered sectors.

Table 4-1 summarizes economic impacts across the four aggregate economic sectors covered in our study. This table is constructed by summing total economic impacts across all subsectors that constitute a given aggregate sector. For example, the Commercial Sales and Marketing aggregate sector is composed of five subsectors: agriculture, consumer goods, arts and crafts, biofuels, and other. Total impacts for each individual subsector have been constructed in five steps.

1. Discovery of the universe of firms.
2. Base data collection on a sample of firms. Core economic data includes: contact information, wages (including benefits), assets, revenue, membership, patronage refunds, employment, and taxes.
3. Extrapolation of sample data to population level. When we did not have data for all firms, we used the average value for each economic indicator across all firms for which we *did* have data, multiplied by the total number of firms in the subsector. This yielded *direct* impacts.
4. Computation of *indirect* and *induced* impacts using the base data and input-output multipliers for each subsector. See the Methodology section in the Appendix for details.
5. Summation of direct, indirect, and induced impacts to yield total impacts.

Accurate data for the housing sector, part of the aggregate Social and Public Services sector, could not be collected for reporting impact analysis. See Housing.

Adding total revenue impacts across the five sectors that make up the aggregate Commercial Sales and Marketing sector yields a total aggregate revenue of \$201B and 425,505 jobs. This is produced by 3,463 firms that operate at 5,695 different places of business (establishments). Total income—a measure of value added akin to GDP for the aggregate economy—is close to \$38B and wage impact is nearly \$14B.

Financial Services is the largest aggregate sector across all measures of impact. This sector includes credit unions, the FCS, mutual insurers, and a small number of very large financial institutions that provide loan funds to cooperative businesses (or that operate on a cooperative basis with member businesses).

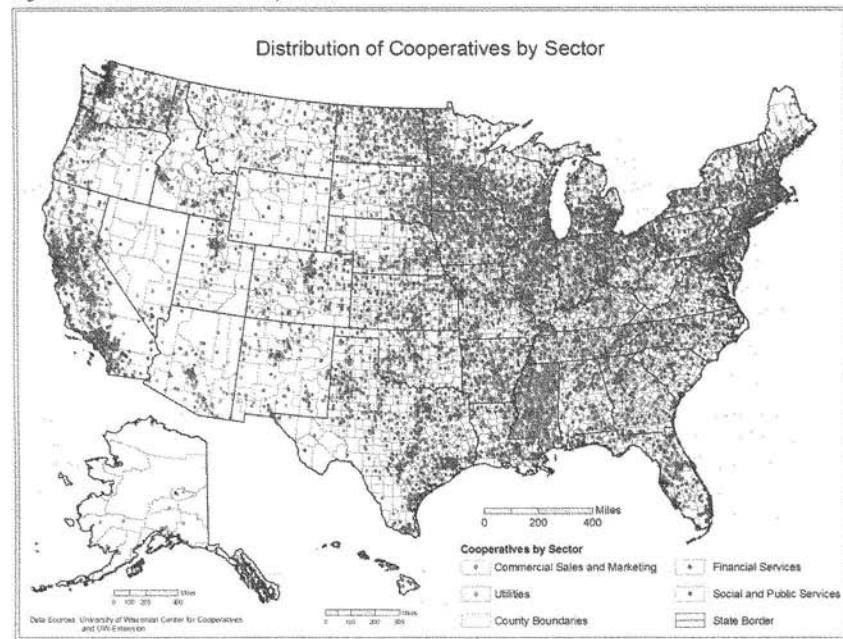
The sector with the largest number of firms—Social and Public Services—has the smallest overall impact across all measures. Overall, 29,284 cooperatives operate at 72,993 places of business (establishments), collectively accounting for nearly \$653B in revenue, \$154B in income, >\$74B in wages, and >2M jobs.

**Table 4-1:** Economic Impact of U.S. Cooperatives: Aggregate Impacts by Sector <sup>1</sup>

Sector	Revenue (\$M)	Income (\$M)	Wages (\$M)	Employment (No. of jobs)	Firms	Estab.
Commercial Sales and Marketing	201,207	37,737	13,810	422,505	3,463	5,695
Social and Public Services	7,525	2,213	1,690	424,505	11,311	11,311
Financial Services	394,363	100,661	51,176	1,133,353	9,964	50,330
Utilities	49,808	13,392	8,292	162,873	4,546	5,657
<b>Total</b>	<b>652,903</b>	<b>154,002</b>	<b>74,969</b>	<b>2,143,236</b>	<b>29,284</b>	<b>72,993</b>

<sup>1</sup> Analysis does not include housing cooperatives.

**Figure 1:** Distribution of U.S. Cooperatives



#### 4.1 Commercial Sales and Marketing

Commercial Sales and Marketing cooperatives are composed of firms that provide marketing, processing, and supply services to farmers (including many recently formed biofuels refining companies), consumer cooperatives that buy wholesale on behalf of consumers, arts and crafts cooperatives that supply and sell the work of artist members, and other purchasing and worker cooperatives that operate across a wide variety of economic subsectors. As **Table 4-2** shows, there are 3,463 commercial sales and marketing cooperatives in the U.S.; 2,858 of these provided us with data. These "reporting" cooperatives have 6 million members that account for almost \$61B in assets, \$176B in revenue, >250,000 jobs and nearly \$7.5B in wages. Farmer

cooperatives account for by far the largest share of this sector across all measures of firm size. **Figure 1** displays the geographic distribution of firms within this aggregate sector.

We report only on firms for which we have collected economic data; some firms did not respond to our information requests. As a result, these numbers represent the lower bounds of the full economic footprint of cooperatives in this aggregate sector. As described in **Section 4**, we extrapolated to the full population to perform our impact analysis. Therefore, the sum of direct impacts in the following subsections will be larger than the corresponding aggregate variables reported here.

**Table 4-2:** Commercial Sales and Marketing: Summary of Key Economic Indicators

Economic Sector	No. of Firms		Estab.	Assets (\$M)	Revenue (\$M)	Wages (\$M)	Employees (thousands)	Memberships (thousands)
	Reporting	Total						
Farm Supply and Marketing	2,535	2,547	4,479	44,394	119,074	6,014	147.80	2,484
Bio-Fuels	17	39	39	2,750	4,231	44	1.75	20
Grocery Cooperatives	101	290	446	323	865	171	13.60	487
Arts and Crafts	80	305	305	34	32	5	0.83	16
Other (Retail and Service Cooperatives)	125	282	423	13,338	51,391	1,288	102	3,075
<b>Total</b>	<b>2,858</b>	<b>3,463</b>	<b>5,692</b>	<b>60,839</b>	<b>175,593</b>	<b>7,522</b>	<b>265.78</b>	<b>6,082</b>

#### 4.1.1 Farm supply and marketing

##### Overview

Cooperative firms account for a significant portion of economic activity in U.S. agricultural and food markets, both as providers of key inputs and as marketing and processing agents for farm output. According to USDA statistics, marketing and input supply cooperatives account for about a third of both total farm sector revenue and input purchases [55]. Cooperatives play a key role in agricultural markets not only because they account for a significant fraction of economic activity in this sector, but also because they are believed to generate a pro-competitive effect in imperfectly competitive markets. Cooperatives play other socially beneficial roles in the agricultural sector. They provide an opportunity for farmers to share risk and to control managerial decision-making for their direct benefit. Additionally, they offer a credence attribute—farmer ownership—which can be attached to farm commodities, thus providing additional value to some consumers.

Cooperatives perform a wide variety of functions in agricultural and food markets. Often these functions are grouped into the two broad categories, "marketing" and "supply." Some marketing cooperatives are household names: Sunkist, Ocean Spray, Sun-maid, and Sunsweet, for example, have created national recognition with their branded products. These firms provide processing and marketing services to farmers, and also the necessary logistical support to aggregate farm supply. Other marketing cooperatives are much leaner organizations, providing only marketing services to assist farmers get product to market, to pool risk, or to negotiate sales as a group to a single buyer or a small number of buyers. Supply cooperatives provide service and inputs to farmers to help them produce their goods. Many farmers purchase

basic inputs such as seed, fertilizer, and farm chemicals from a cooperative. In other words, farmers collectively establish a firm to negotiate better terms of purchase for basic agricultural production inputs. Less common, but still widely observed, are cooperatives that provide information services (e.g., record keeping and performance evaluation) to farmers.

### ***History***

Formalization of group efforts among farmers into well defined and legally sanctioned cooperative business organizations occurred gradually during the mid- to late nineteenth century, in the U.S. Authors of early cooperative incorporation statutes modified standard stock corporation statutes to reflect Rochdale operating principles. Passage of the Sherman Antitrust Act in 1890 forced cooperative leaders to further formalize and distinguish the cooperative business model. The Sherman Antitrust Act was designed to prevent groups of corporations from combining by granting their stock to a trust. With control of all the corporations vested in the trust board, the trust would then work to eliminate competition, create a monopoly, and thus raise prices. As independent farm businesses working together to enhance prices, farmer marketing cooperatives were subject to prosecution under the anti-trust laws that were established as a result of the Sherman Antitrust Act. In a quest to establish a unique form of organization that would be exempt from anti-trust regulations, numerous states created new "non stock" cooperative statutes. In addition, the Clayton Act of 1914 exempted from the Sherman Act those organizations ("agricultural or horticultural organizations instituted for the purpose of mutual help and not having capital stock or conducted for profit"). The Clayton Act created some confusion, however, because at the time many farmer cooperatives were still incorporated under older stock-based cooperative statutes. The Capper-Volstead Act was passed in 1922 to resolve this confusion and applied broadly to associations of agricultural producers, both capital stock and non-stock associations. In addition to anti-trust exemptions, farmer cooperatives have benefited from educational and research support from the USDA and from the establishment of the FCS.

### ***Industry Niche***

Cooperatives in the agricultural sector provide basic marketing and supply services, and are more prevalent among farmers who cultivate crops than among those who raise animals (dairy being a notable exception where cooperative firms hold a dominant market share). Marketing and processing services are typically organized around a single commodity. Supply services are restricted to basic variable inputs—agricultural chemicals, fuel and fertilizer, seed, and crop consulting services—and operate much like "buying groups," except in the production of feed for animals. That is, farmers tend not to own the physical assets that are used to produce these inputs, but rather negotiate their purchase collectively. Less common, but still widely observed, are cooperatives that provide services (e.g., information services for record keeping, and processing services such as cotton ginning and walnut shelling). Cooperatives rarely produce farm machinery and generally are not involved in basic research to develop new production technologies.

### ***Organizational Structure***

Farmer cooperatives are typically organized under state incorporation statutes, but sometimes they also organized as limited liability companies when a need arises for significant investment participation by individuals who do not use the firm's services. More recently, some states

have established "hybrid" LLC/cooperative statutes that sanction cooperative organizations with greater outside participation than permitted in existing cooperative statutes (but that still maintain patron control). The National Conference of Commissioners for Uniform State Law (NCCUSL) recently issued the Limited Cooperative Association Act, which is intended to provide a uniform version of hybrid statutes for potential adoption across states that do not currently have one.

Farmer cooperatives typically require all members to be active farmers. Many cooperatives provide services to non-member farmers, though incorporation statutes typically place restrictions on the amount of non-member business. Some farmer cooperatives are "open" in the sense that anyone who does business with the firm may also choose to become a member. Other farmer cooperatives are "closed" in that membership is rationed according to the availability of processing or marketing capacity. Some farmer cooperatives elect boards of directors (and make major decisions such as mergers and acquisitions or dissolution on a one-member/one-vote basis, while others make voting rights proportional to the level of service use for each member. Many farmer cooperatives proportionally "allocate" all or most earnings to patrons, but then retain up to 80% of these allocations for working capital and re-investment. Firms that operate on such a basis pay patrons for the use of their funds in future periods with a formal "equity redemption" program. Most farmer cooperatives claim Subchapter T status for Federal tax purposes, which allows pass-through taxation. Only the patrons pay tax on earnings allocations, even if they are retained for use by the firm.

#### ***Population Discovery and Data Sources***

The USDA's Business and Cooperative Programs Unit within the Bureau of Rural Development conducts a periodic survey of cooperative business in the agricultural sector. Contact information is compiled through a network of industry and government contacts who make note of existing, new, and dissolved cooperatives. The most recent year for which data are available is 2006. We rely entirely on this USDA data to conduct our analysis of economic impact. All governance data (no random sample) comes from survey work undertaken by the UWCC. The survey response rate for agricultural marketing and supply cooperatives was 35%. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

#### ***Economic Impacts***

As **Table 4-2** shows, we obtained data from 2,535 farmer cooperatives. Collectively, these firms account for >\$40B in assets, nearly \$120B in sales revenue, and pay >\$6B in wages. There are approximately 2.5M farmer memberships and 150,000 employees. From **Table 4-2.1**, by extrapolating to the entire population (2,547 firms) and adding indirect and induced impacts to this activity, agricultural cooperatives account for nearly \$130B in revenue, >200,000 jobs, \$8.9B in wages paid, and >\$10B in valued-added income.

**Table 4-2.1:** Economic Impacts for Farm Supply and Marketing

<b>Economic Impact</b>	<b>Multiplier</b>	<b>Unit</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
Revenues	1.078	million \$	119,039	4,164	5,136	<b>128,340</b>
Income	1.764		6,405	2,091	2,803	<b>11,299</b>
Wages	1.479		6,011	1,297	1,584	<b>8,892</b>
Employment	1.425	jobs	147,708	25,261	37,579	<b>210,548</b>

#### 4.1.2 Biofuels

Biofuels cooperatives are a form of agricultural marketing cooperatives that have recently developed in response to the emerging biofuels sector of the U.S. economy. According to the Renewable Fuels Association (RFA), farmer-owned cooperatives accounted for about 15% of total production capacity in 2007, down from as much as 70–80% of total capacity in earlier years. During the massive expansion that occurred between 2004 and 2007, much of the investment capital came from private investors, rather than farmers. The data we report below come from 2007, although the entire industry is changing rapidly.

**Table 4-2** shows that 39 biofuels cooperatives collectively have close to \$3B in assets, >\$4B in sales revenue, and pay >\$40M in wages. There are 20,000 farmer memberships and close to 2,000 employees. As shown in **Table 4-2.2**, by adding direct and indirect impacts to this activity, agricultural cooperatives account for >\$10B in revenue, close to 8,500 jobs, \$472M in wages paid, and >\$1B in valued-added income.

#### *Population Discovery and Data Sources*

The sources for the business list of the 39 biofuel cooperatives are the RFA and primary research. All governance data was acquired in survey work undertaken by the UWCC. The survey response rate for biofuel cooperatives is 69.5% and all reporting cooperatives provided us with 2007 fiscal year-end data. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

#### *Economic Impacts*

As **Table 4-2** shows, we have data on 17 biofuels cooperatives, and these firms collectively account for >\$2.8B in assets, \$4.2B in sales revenue, and pay \$6B in wages and benefits. There are approximately 2,000 employees and 20,000 memberships. As **Table 4-2.2** shows, by extrapolating to the entire population (39 firms) and adding indirect and induced impacts to this activity, biofuels cooperatives account for close to \$10B in sales revenue, >8,000 jobs, \$472M in wages paid, and >\$1B in valued-added income.

**Table 4-2.2: Economic Impacts for Biofuels**

Economic Impact	Multiplier	Unit	Direct	Indirect	Induced	Total
Revenues	1.095	million \$	9,405	395	502	<b>10,302</b>
Income	1.756		627	200	274	<b>1,101</b>
Wages	2.445		193	124	155	<b>472</b>
Employment	3.538	jobs	2,398	2,415	3,670	<b>8,483</b>

#### 4.1.3 Grocery

##### *Overview*

Over the past decade, estimates of retail consumer cooperatives have averaged between 300 and 350 stores. During those years, no one has attempted to identify the number of cooperative buying clubs in the country, although a major natural foods wholesaler reports that they serve these less formal organizations in 32 states. A loosely connected group of large buying club networks is estimated to serve nearly 150,000 households throughout the U.S.



### ***History***

Consumer-owned food stores have emerged, grown, and declined in waves since the 1850s. The most recent growth period occurred during the mid-1960s and early 1970s when there was a nationwide resurgence of cooperative food stores. By 1979, an estimated 3,000 food stores and buying clubs operated in the United States and Canada [20]. By the 1990s, however, the changing social and political climate resulted in a substantial decline in the number of cooperatives, accompanied by a period of consolidation and growth for the strong cooperatives. By the mid-2000s, food cooperatives once again experienced growth-driven, intense consumer interest in alternatives to a market system that might not serve their needs.

Consumers' interest and participation in retail food cooperatives tends to increase in periods of social, political, and economic turmoil. Although their secondary needs may vary considerably, cooperative members consistently want their cooperatives to provide price, quality, and selection advantages. Growth periods also occur when large numbers of consumers experience economic difficulties and develop an interest in ownership and control of their retail food sources, when they become concerned for food safety, and when they experience a strong desire for an ethical society [30]. Failure of cooperatives is consistently traced to decline in member participation, lack of management skills, inadequate capitalization, strong competition, increasing concentration in food retailing, and "loss of the cooperative spirit" [49].

### ***Industry Niche***

The retail grocery industry is highly competitive. Recently, the large market share gained by non-traditional outlets, which includes warehouse clubs and super centers, has increased competitive pressure on the traditional grocery retailer, already squeezed by the loss of the food consumers' dollar to the food-away-from-home-market, which captured 48.5% of total food expenditures in 2005. The industry has also seen a high level of merger and consolidation, both horizontal and vertical, with large wholesalers acquiring retail outlets [44].

Retail food cooperatives have introduced numerous consumer-oriented innovations, and have fought to retain retailing practices that provide the consumer competitive value and service. Since the 1930s, cooperatives have pioneered nutritional labeling, open dating, unit pricing, bulk sales, informative advertising, consumer education, and innovative institutional structures. They have also consistently been in the forefront of consumer protection through selective merchandising and boycotts, political lobbying, and ongoing consumer education.

The most extensive impact food cooperatives have recently had on the grocery industry has been their pioneering introduction of natural and organic foods, which began with the "new wave" of food cooperatives in the early 1970s. Cooperatives dominated this market until the 1990s, when several independently owned natural foods markets began large-scale expansion. In 1990, the total organic food and beverage market amounted to \$1B in sales, served primarily through cooperatives and other independent retailers. In 2008, that market was expected to reach \$23B, with the traditional mass market grocery stores and non-traditional food stores having gained projected shares of 38% and 16%, respectively [43].

### ***Organizational Structure***

Retail food cooperatives either operate retail stores or pre-order buying clubs. Cooperatives that operate retail stores are predominantly single-store operations, but some successful stores have expanded to operate two or more stores. The largest of these is the Puget Natural

Markets, which operates out of nine locations. Several retail food cooperatives have expanded into non-grocery businesses. Most are restaurants and delis, but a few others include natural home products and vertical integration into ownership of farms and orchards. The store-based food cooperatives are characterized by their strong support for natural and organic foods, community activities, local food systems, and environmental sustainability. Although many , current store-based food cooperatives originally encouraged members to work voluntarily in the store in return for a "member discount," most , stores now hire professional management and operate the store with paid staff.

Buying clubs operate on a pre-order basis in which members either order a standard "market basket" of foods at a pre-determined price or combine individual family orders into full case lots. The second option is commonly facilitated through a computerized ordering system. In both methods, case lots of food are delivered to a central distribution point where the larger, single order is re-sorted into individual orders. Members pick up their orders at the distribution point. Food is ordered and delivered periodically, most often monthly or bi-weekly. Large buying clubs may hire an outside manager/coordinator, but most of the labor is provided by member volunteers. Savings in buying clubs can be significant, because most of the cost of retail distribution is eliminated by the labor contribution of cooperative members.

All food cooperatives that operate stores are incorporated under state statutes. Over the last decade, some food cooperatives that were originally incorporated as nonprofits have re-incorporated in those states that have cooperative statutes that accommodate the needs of consumer cooperatives. Few buying clubs are incorporated.

Most cooperatives require a relatively small investment in an initial membership share, and an additional financial contribution, which may be in the form of additional membership shares or in an annual membership fee. Investment in membership shares is considered a contribution to equity, while membership fees, if not refundable, are treated as income. Consumer cooperatives are not required to pay income taxes on member-based income if they return that income to members either as cash or as allocated patronage. However, they are required to pay income taxes on non-member income and unallocated member income.

Food cooperative members vote on a one-member/one-vote basis and elect a board of directors from among the membership.

#### ***Population Discovery and Data Sources***

We obtained the list for consumer goods cooperatives from the Consumer Cooperative Management Association (CCMA) grocery cooperatives lists maintained by Ann Hoyt. All economic data was obtained from survey work undertaken by the UWCC. The survey response rate for grocery cooperatives was 41% and all reporting cooperatives provided us with 2007 fiscal year-end data. We supplemented revenue and employment data for purchasing cooperatives from Onesource. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

#### ***Economic Impacts***

**Table 4-2** shows that we obtained data from 101 consumer grocery cooperatives, and these firms collectively account for >\$323M in assets, \$865M in sales revenue, and pay \$171M in wages and benefits. There are approximately 14,000 employees and 487,000 memberships.

From **Table 4-2.3**, by extrapolating to the entire population (290 firms) and adding indirect and induced impacts to this activity, consumer grocery cooperatives account for close to \$2.1B in sales revenue, >15,000 jobs, \$252M in wages and benefits paid, and \$316M in valued-added income.

**Table 4-2.3:** Economic Impacts for Grocery

Economic Impact	Multiplier	Unit	Direct	Indirect	Induced	Total
Revenues	1.013	million \$	2,098	12	14	2,124
Income	1.781		178	59	80	316
Wages	1.474		171	36	45	252
Employment	1.130	jobs	13,640	711	1,066	15,417

#### 4.1.4 Arts and crafts

##### **Overview**

Arts and crafts cooperatives are used by artists and craftspeople to market their product to maximize sales income. Cooperatives also can be a cost-effective means to obtain studio space, gallery space, or other specialized supplies or services needed by artists and craftspeople to carry out their work. These cooperatives account for a very small portion of the economic activity generated by the arts and culture sector.

##### **Industry Niche**

Typically, visual artists and craftspeople use gallery owners, dealers, wholesalers, or other retailers to market, authenticate, and show their work on a commission basis. They may also direct market their work through such vehicles as their own studio, the internet, or art fairs.

Arts or crafts cooperatives provide artists with an alternative access to marketing their work, and provide them with greater control over how their work is presented. Cooperatives can also present a solution for inventory management, insurance, shipping logistics, and other risk management issues, ultimately returning a larger share of gross revenues to the artist.

Few markets can sustain arts and cultural activities on a for-profit basis alone, and nonprofit arts and cultural organizations play a large role in this sector. In recognition of the benefits, both social and economic, that arts and cultural activities bring to a community, public and private grants fund these organizations, and subsidize arts activities in various ways. Arts and crafts initiatives also have been developed to address rural economic development issues, and include use of the cooperative model. Nonprofit arts and culture organizations spend >\$63.1B annually [2], and direct expenditures accounted for 1.3 million jobs in 2005 [3].

##### **Organizational Structure**

Arts and crafts cooperatives are typically organized under the business statutes in the state where the cooperative is located. In many states, cooperative statutes are designed for agricultural purposes only, and many cooperatives use the limited liability corporation (LLC) statutes which provide organizational flexibility.

A significant segment of arts and crafts cooperatives are in some way affiliated with a nonprofit arts and cultural organization, or receive funding from a grant-making organization. In these cases, cooperatives may choose to incorporate as a nonprofit and apply for nonprofit tax status.

Typical arts and crafts cooperatives are small, with 25–30 members. While some are managed collectively, often at least one staff person is hired to manage a gallery space, and to bring a sales orientation to the organization. Most cooperatives work on a consignment basis; a typical arrangement would be for 70–80% of the selling price to be returned to the individual producer member and 20–30% retained by the cooperative organization. Often a jury system is used to evaluate new work before membership is offered to a new artist. Membership criteria may also include specialty product requirements, or be location-based.

#### **Population Discovery and Data Collection**

The business list of 284 Arts and Crafts cooperatives comes from the Cooperative Development Foundation (CDF), Ann Hoyt, and primary research. All economic data comes from survey work undertaken by the UWCC. The survey response rate for the Arts and Craft cooperatives was 36% and all reporting cooperatives provided us with 2007 fiscal year-end data. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

#### **Economic Impacts**

**Table 4-2** shows that we obtained data from 80 arts and crafts cooperatives, and these firms collectively account for >\$34M in assets, \$32M in sales revenue, and pay \$5M in wages and benefits. There are approximately 830 employees and 16,000 memberships. From **Table 4-2.4**, by extrapolating to the entire population (305 firms) and adding indirect and induced impacts to this activity, arts and crafts cooperatives account for \$237M in sales revenue, close to 4,000 jobs, \$53M in wages paid, and \$148M in valued-added income.

**Table 4-2.4:** Economic Impacts for Arts and Crafts

Economic Impact	Multiplier	Unit	Direct	Indirect	Induced	Total
Revenues	2.521	million \$	94	63	80	<b>237</b>
Income	1.761		84	27	37	<b>148</b>
Wages	3.312		16	16	21	<b>53</b>
Employment	1.261	jobs	3,012	312	474	<b>3,798</b>

#### **4.1.5 Other**

This section covers impacts of the "other" sector, which includes a mix of worker and purchasing cooperatives from multiple economic subsectors. Purchasing cooperatives covered in this sector include, True Value, Ace Hardware, The Bike Cooperative, Carpet One, and Unified Grocers. Worker cooperatives in this section include, in addition to many small bicycle and book stores, coffee shops, bakeries, and other small retail businesses, a fair-trade coffee roaster, a taxi company, an industrial engineering firm, and an adult theatre.

#### **Population Discovery and Data Sources**

The list for "other" cooperatives comes from two sources: purchasing cooperatives from National Cooperative Business Association (NCBA), worker cooperative lists from Melissa Hoover, U.S.

Federation of Worker Cooperatives (USFWC), and Prof. Christina Clamp. All economic data was acquired from survey work undertaken by the UWCC. The survey response rate was 48% for purchasing cooperatives and 32% for worker cooperatives, and all reporting cooperatives provided us with 2007 fiscal year-end data. Revenue and employment data for purchasing cooperatives was supplemented by data acquired from Onesource. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

### **Economic Impacts**

**Table 4-2** shows that we have data for 125 cooperatives, and these firms collectively account for \$13.3B in assets, nearly \$52B in sales revenue, and pay >\$1.2B in wages and benefits. There are approximately 3 million memberships and >100,000 employees. Adding direct and indirect impacts to this activity, cooperative firms in the "other" category account for nearly \$60B in revenue, >185,000 jobs, \$4B in wages and benefits paid, and nearly \$25B in valued-added income. Note that we do not extrapolate to the total population of 282 firms in this category because each firm is very different and applying an average value to all firms results in too much prediction error.

**Table 4.2-5:** Economic Impacts for Other Commercial Sales and Marketing Goods

<b>Economic Impact</b>	<b>Units</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
Revenues	million \$	59,981	100	124	<b>60,206</b>
Income		13,719	4,517	6,636	<b>24,871</b>
Wages		2,292	832	1,017	<b>4,140</b>
Employment	jobs	98,237	34,601	51,421	<b>184,259</b>

## **4.2 Social and Public Services**

Social and public service cooperatives are composed of firms that provide a diverse array of healthcare, housing, transportation, and education services. **Table 4-3** shows that only 841 of the 11,311 social and public service cooperatives in the U.S., provided us with data. These "reporting" cooperatives have 1 million memberships that account for \$1.7B in assets, \$4.3B in revenue, nearly 100,000 jobs and >\$600M in wages. Housing cooperatives dominate this aggregate economic sector in terms of the number of entities, but healthcare dominates in terms of economic activity. There are >300 cooperative healthcare providers, of which 100 collectively account for >\$1B in assets and \$3.2B in revenues. The healthcare subsector also accounts for the largest share of employees and members within this aggregate sector.

We report only on firms for which we have collected economic data (some firms did not respond to our requests for information), so that the data represents lower bounds regarding the full economic footprint of cooperatives in this aggregate sector. As described in the previous section, we extrapolated to the full population to conducting our impact analysis. Therefore, the sum of direct impacts in the following subsections will be larger than the corresponding aggregate variables reported here.

**Table 4-3:** Social and Public Services: Summary of Key Variables

Economic Sector	No. of Firms		Estab.	Assets (\$M)	Revenue (\$M)	Wages (\$M)	Employees (thousands)	Memberships (thousands)
	Reporting	Total						
Healthcare	192	305	305	1,109	3,290	283	73.18	961.22
Childcare	563	1,096	1,096	45	86	0.81	8.17	-
Housing <sup>1</sup>	-	9,471	9,471	-	-	-	-	-
Transportation	13	49	49	68	290	8.60	0.50	29.08
Education	121	390	390	428	692	313	9.75	14.80
<b>Total</b>	<b>841</b>	<b>11,311</b>	<b>11,311</b>	<b>1,650</b>	<b>4,358</b>	<b>605</b>	<b>91.60</b>	<b>1,005</b>

<sup>1</sup> Economic data is not available for the housing sector.

#### 4.2.1 Healthcare Overview

Cooperatives have been part of the U.S. healthcare system since the early 1900s, when hospitals formed the earliest purchasing groups. Although joint purchasing by hospitals is still the most active subsector within healthcare, organizations and individuals cooperate to achieve a wide range of health-related goals. Hospitals and clinics save money by engaging in joint purchasing or service delivery; employer groups jointly negotiate better choices in health insurance rates for their employees; cooperatives/collectives offer controlled access to medical marijuana; worker-owned homecare cooperatives strive to improve service to clients through better working conditions for their workers; and provider networks cooperate to improve rural health care. The organizations may be organized as nonprofits or cooperatives, serving local, regional, and/or national markets.

#### History

The first group purchasing organization in health care was formed in 1910 to purchase laundry services in New York. Currently, >600 group purchasing organizations exist, and most hospitals belong to at least one organization. These organizations negotiate with vendors for a wide range of hospital supplies and services.

In the 1970s and 1980s, rural areas in the U.S. were losing their doctors, hospitals, and clinics. Rural health care providers responded by forming health networks. Some early networks were organized as cooperatives, but most are nonprofits with boards that include a large percentage of network members. Networks may offer their members administrative services (such as legal advice, coding assistance, financial consulting, and computer/networking expertise), human resource-related services (such as worker recruitment and professional development), specialized medical services (such as speech or audiology), quality assurance expertise, and joint purchasing.

In the 1970s, in response to rising health insurance costs, employers began to form groups to purchase health insurance. Many purchasing groups were cooperatives. More than 25 states have statutes that promote state- or employer-sponsored purchasing cooperatives. Much of the legislation was in place by the early 1990s, although some legislative activity continues. Many policy makers and communities hoped that the cooperatives would achieve significant cost savings, but analysts recognized the difficulty of avoiding adverse selection without some type of mandated use. Although legislation that would have mandated state or employer-sponsored

purchasing cooperatives was discussed during the Clinton health care reform debates, it never passed. Furthermore, while the employer groups are consistently referred to as cooperatives, their business structure varies. For example, in California, an early purchasing cooperative, Health Insurance Plan of California, was originally operated by a state agency. It was later transferred to a nonprofit organization, the Pacific Business Group on Health. In Texas, legislation was passed in 1993, 2003, and 2005 that authorized groups of employers to form cooperatives to purchase health insurance. The cooperatives are required to form as nonprofits and then register as purchasing cooperatives with the Texas Department of Insurance.

After the passage of Proposition 215 in 1996, which legalized medical marijuana in California, dozens of cooperatives, collectives, and buying clubs were established to distribute the drug. Guidelines for the cooperatives/collectives were articulated in California SB420, which passed in 2004 and allowed consumers to grow small quantities of marijuana collectively. To operate legally in California, they must follow guidelines that include operating as nonprofit cooperatives or collectives, paying sales taxes, and allow purchase only by patients or care-givers.

Worker-owned home care cooperatives are emerging as a way to both address high staff turnover and to improve the quality of home care services provided to the elderly and disabled. The first worker-owned home care cooperative, Cooperative Home Care Associates (CCHA), was formed in New York City in 1985, as an alternative to nonprofit and private agencies. CCHA's goal was to reduce turnover and provide quality home care to clients by improving the workplace and compensation for home care paraprofessionals. Since 1985, a small number of additional worker-owned homecare cooperatives have been formed.

The smallest subsector is consumer-owned health maintenance organizations (HMOs). Few HMOs are genuine cooperatives. Most states require HMOs to incorporate under nonprofit or mutual insurance laws. Wisconsin is one of the few states to allow HMOs to incorporate as cooperatives, but to also have nonprofit and charitable status.

### ***Industry Niche***

Health care in the U.S. is provided by a combination of nonprofits, commercial enterprises, and the government. Most health care is paid for through insurance plans, which are funded by employers, privately purchased, or provided by the government. The marketplace for health providers and insurers is local, regional, and national, with significant competition in many communities, especially metropolitan areas.

The only subsector with significant market share is the group purchasing organizations (GPOs). Nine organizations represent 80% of volume purchased through GPOs. These organizations include cooperatives, nonprofit organizations, and for-profit companies. Remarkably, 72% of all hospital purchases are through GPOs, and almost all hospitals use at least one GPO contract, with the average hospital using two to four. Although hospitals formed the first GPOs, clinics and long-term care facilities represent a growing membership.

Employer health care coalitions are another influential subsector, although they have not achieved significant cost savings for their members. There are >90 employee health care coalitions. According to a 2002 study, they have successfully allowed members to provide health care coverage choices to their employees, but their market share is small and they have not achieved significant cost savings [62].

### **Organizational Structure**

Cooperative health care organizations are organized as cooperatives, nonprofits, and corporations. Regardless of legal structure, they operate for the benefit of their members. Some are organized under statutes that specifically authorize cooperatives to perform a function, such as purchasing health care for small employers, or controlling access to medical marijuana. These statutes vary considerably from state to state, and might not define governance or ownership rights and roles.

### **Boundary Issues, Data Sources, and Population Discovery**

For purposes of this analysis we include health care organizations that are organized to benefit a clearly defined group (employers, health care providers, workers, etc.) and are governed by boards that have significant representation from the membership. Although community health centers do exhibit some of these characteristics, they are not included in the sample.

The list for health care cooperatives come from purchasing healthcare cooperatives maintained by NCBA, worker healthcare cooperative lists maintained by Melissa Hoover, USFWC with Prof. Christina Clamp, and primary research. All economic data comes from survey work undertaken by the UWCC. The survey response rate was 58% for healthcare cooperatives, 48% for purchasing healthcare cooperatives, and 32% for worker healthcare cooperatives, and all reporting cooperatives provided 2007 fiscal year-end data. Revenue and employment data for purchasing cooperatives was supplemented from Onesource. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

### **Economic Impacts**

**Table 4-3** shows that we have data from 192 health-care cooperatives and collectively these firms account for >\$1B in assets, >\$3B in sales revenue, and pay \$283M in wages. There are approximately 961,000 memberships and 73,000 employees. As shown in **Table 4-3.1**, by extrapolating to the entire population (305 firms) and adding indirect and induced impacts to this activity, health care cooperatives account for >\$5B in revenue, close to 500,000 jobs, \$1B in wages paid, and >\$1B in valued-added income.

**Table 4-3.1: Economic Impacts for Healthcare**

<b>Economic Impact</b>	<b>Multiplier</b>	<b>Units</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
Revenues	1.011	million \$	5,157	25	30	<b>5,211</b>
Total Income	1.717		727	222	299	<b>1,248</b>
Wages	1.816		561	206	252	<b>1,019</b>
Employment	1.535	jobs	262,844	56,577	84,165	<b>403,586</b>

## **4.2.2 Childcare**

### **Overview**

The demand for quality child care has grown significantly, as increasing numbers of women have joined the workforce over the past 25 years. By 2007, >57% of women in families with children under age 6 were employed [59]. Considerations of quality, availability, and cost all drive a family's child care decisions, and many families use multiple providers to meet their needs.



Demand for childcare may also exist independent of the need to support a family's work schedule. The growing recognition of the benefits of early childhood education, which can foster social, emotional, intellectual, and physical development, also drives the demand for quality child care programs.

Child care cooperatives are one alternative in the child care mix. Organized around structured activities and supervised play for toddlers through preschool-aged children, the cooperative typically depends on parent assistance in the classroom. Parental participation in the classroom experience can be a strong incentive for cooperative membership, since it provides parents a chance to more directly observe and contribute to the quality of their child's care and early learning experiences outside the home. It is also viewed as a learning opportunity for parents, either informally or through more structured training that may be available to parent members.

Membership in the cooperative is open to parents or guardians of children who attend the cooperative. Some level of volunteer activity to support the cooperative's operations is also expected of the parents, which reduces the cost of the programs. Some child care cooperatives offer full-time child care services, but others are organized to provide part-time programs. While organized groups of families trading child care hours are also called child care cooperatives, they are not included in this survey because of their more informal, impermanent, barter-type arrangements.

#### ***Industry Niche***

Most families with preschool children and working mothers use child care services. Almost 25% of these families use an organized child care facility as the primary care arrangement; a greater percentage of families likely use child care centers to supplement other primary care arrangements, such as a family day care provider [53]. Approximately 80,000 center-based early education and child care programs were providing services in the U.S., according to the most recent comprehensive study that included licensed centers, early education programs, center-based programs exempt from state or local licensing (such as programs sponsored by religious organizations or schools), and licensed family day care. A more narrowly focused study a few years later reported >113,000 regulated child care centers [53].

Child care cooperatives are a subset of these center-based early education and child care programs. Many are overtly founded on the principle that the best educational experiences for young children results from a partnership between parents and teachers, and work to maintain a high adult-to-child ratio. All recognize the contributions of parent volunteer activities to maintain the child care organization.

While parents value quality child care, they often face difficulties in evaluating the care a program provides. Child care cooperatives offer a greater degree of transparency for parents and caregivers, given a cooperative structure based on parental involvement.

#### ***Organizational Structure***

Childcare cooperatives are typically incorporated as nonprofit organizations, since they provide educational services. As educational entities, they are eligible for a 501(c)(3) Federal tax-exempt designation, which also allows them to apply for public and private grants, and to accept tax-deductible donations.

Child care cooperatives differ from other nonprofit educational organizations by the control exercised by the parents who use the cooperative's child care services. Parents democratically elect representatives to a board of directors that operates the cooperative. Frequently staff and teachers also may be represented on the board, but do not typically have voting rights. Depending on the size of the school, there may be a director who provides continuity in the overall management of the cooperative's business.

In addition to tuition or fees for the child care services, volunteer involvement by parents in the affairs of the cooperative is highly encouraged, if not required. Some cooperatives require a commitment to a certain number of hours of volunteer time, or participation on a committee. Parental participation in the classroom supports the ability of the cooperative to provide a high adult-to-child ratio, and volunteer labor for housekeeping and administrative duties aids in reducing operating costs. Frequently parents are also expected to engage in some type of fundraising activity for the cooperative.

#### ***Boundary Issues, Population Discovery and Data Sources***

Child care cooperatives are examples of 501(c)(3) nonprofit organizations that operate as cooperatives in terms of patron control, but are prohibited from making distributions to members. As with many nonprofit cooperatives, the child care services may be considered the benefits that accrue based on patronage. The degree of actual degree member control varies widely among these cooperatives. In some cases, parents may be required to volunteer in the classroom or perform other tasks to support the operation of the cooperative, but they are not expected to take an active role in the control and governance of the organization.

The data on childcare cooperatives comes from primary research conducted by the UWCC. All economic data comes from survey work undertaken by the UWCC and Guidestar. The survey response rate for childcare cooperatives is 43% and all reporting cooperatives provided us with 2005–2006 fiscal year-end data. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

#### ***Economic Impacts***

As **Table 4-3** shows, we have data for 563 child-care cooperatives and collectively these firms account for >\$45M in assets, nearly \$86M in sales revenue, and pay nearly \$1M in wages. There are approximately 8,000 employees; we did not collect membership information for childcare cooperatives. As **Table 4-3.2** shows, by extrapolating to the entire population (1,096 firms) and adding indirect and induced impacts to this activity, child-care cooperatives account for >\$420M in revenue, nearly 6,000 jobs, \$141M in wages paid, and >\$200M in valued-added income.

**Table 4-3.2:** Economic Impacts for Childcare

<b>Economic Impact</b>	<b>Multiplier</b>	<b>Units</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
Revenues	2.615	million \$	161	105	155	<b>421</b>
Total Income	2.356		101	52	85	<b>238</b>
Wages	2.238		63	30	48	<b>141</b>
Employment	1.435	Jobs	4,128	661	1,136	<b>5,925</b>

### 4.2.3 Housing

#### **Overview**

A housing cooperative is a corporation that exists to provide housing to its owners, who are the people who live in the cooperative. These people own a share of stock in the cooperative corporation, which owns the land and buildings. The stock gives the owners an exclusive right to occupy a particular dwelling unit and participate in governance of the cooperative.

#### **History**

Housing cooperatives and condominiums are both examples of shared interest housing, providing opportunities for people to own units within multi-family buildings. Both models were developed in Europe as an alternative to the rental model. The first cooperative in the U.S. was built in New York City in 1876, 75 years before the first condominiums. Most of the early cooperatives were in luxury buildings, but there were also several affordable housing cooperatives built by labor unions during the period before World War II.

The history of housing is linked closely to Federal, state, and local policies. Although the earliest cooperatives were designed for people with high incomes, a cooperative housing model was developed that encouraged long-term affordability by restricting the appreciation of share value when membership shares are sold. Known as "limited equity cooperatives", these cooperatives were usually built with some private or public subsidy and required a low initial membership fee. The first significant government program supporting housing cooperative development was the New York Limited Dividend Housing Companies Act of 1927. Thirteen cooperatives were built under this Act. A subsequent New York law, known as the Mitchell-Lama Act, was passed in 1955 and supported the development of 60,000 affordable units, mostly in the 1960s and 1970s. Labor unions and housing activists built 40,000 more units, for a total of 100,000 affordable housing cooperative units in New York state. On a Federal level, cooperatives were largely left out of the immediate post-WW II support for affordable housing, but they were included in several important subsidized mortgage programs passed by Congress in the 1960s. By 1995, an estimated 137,000 cooperatively owned affordable units had been built with Federal support in 29 states.

During this period, cooperatives continued to be built for the higher income market, and cooperative owners benefited from Federal tax policies that encouraged home ownership. By 1960, 1% of all multi-family dwellings were cooperatively owned. In 1976, this figure was 2.2%, but by this time every state had a condominium statute and condominiums had replaced cooperatives as the preferred owner-occupied model [46].

#### **Industry Niche**

Owner-occupied multi-family dwellings have become increasingly popular in the U.S., with a 227% increase from 1977–2007. Most of that new development has been in condominiums, which currently represent 5% of the nations' total housing. Cooperatives are <1% [51].

Although condominiums have dominated the shared interest housing market, cooperative ownership has expanded in several regions and markets. In Minnesota, 74 senior housing cooperatives with 5,600 units have been built since the 1970s, with most of them <10 years old. Their financial structure has been designed to limit asset appreciation and to free up cash assets for the owners by requiring a share price that is <100% of the cost of the unit. As the cooperatives market to seniors, they emphasize strong social networks and self-reliance to

a group of people who are concerned about displacement and the loss of control that can accompany aging [47]. Cooperatives for seniors are important also in California, Michigan, and Florida. In Florida, naturally occurring retirement communities are often manufactured home parks. Florida has 88 parks with 5,000 units [19]. In New Hampshire, where the New Hampshire Community Loan Fund has provided loans for conversions from investor-owned to resident-owned parks, 158 parks are resident-owned, providing 41,278 units [41]. Conversions have also been significant in Washington, DC, where 2,270 units of affordable rental housing have converted to limited equity cooperatives [9].

### ***Organizational Structure***

The legal structures of condominiums and cooperatives differ significantly. Condominium owners own their unit as real estate, and own an undivided share in the common areas of the building or complex. Condominiums offer some perceived advantages over cooperatives. Because each unit in a condominium is owned separately, there is less risk of losing the building if one owner defaults. And condominium owners have fewer decisions to make collectively, because only the common areas are owned jointly. On the other hand, since most housing is stratified by price, owners of both cooperatives and condominiums tend to be relatively homogeneous. They usually have a long-term commitment to their housing. These two factors help to mitigate the costs of participating in governance of both cooperative corporations and condominium associations.

Housing cooperatives are governed democratically, with each unit receiving a vote, regardless of size. Most cooperatives elect a board of directors to establish budgets, hire staff, and enact policies. Bylaws and policies govern important issues like how membership shares are transferred and membership rules. Cooperatives may require that prospective buyers apply to the board of directors or a membership committee before the sale is completed. These rules and policies are consensual, since they are in the governing documents, rather than dictated by law.

Like all housing, cooperatives are financed through a combination of loans and equity. Cooperative owners will usually contribute some equity toward the purchase of their share, and may also obtain "share loans", which function like a mortgage loan. In addition, the cooperative corporation may have a mortgage that covers the initial construction cost or remodeling. Cooperative owners pay a share of this mortgage as part of their monthly fee, and the interest is deductible under IRS rules.

### ***Population Discovery and Data Sources***

The goal for this sector was to identify every housing cooperative in the U.S. and gather relevant data to determine the economic impact of this sector. We consulted experts in housing cooperatives who advised that we should gather data on property assessments and property taxes paid, but that these values might not be consistent, since assessment and taxing practices vary by municipality.

We conducted two concurrent searches for information. We compiled a list of individual housing cooperatives and we searched for state data on the total number of cooperatives and units. Collecting survey data from housing cooperatives was difficult. From a random sample of 600 cooperatives, we located 300 valid phone numbers, which yielded 32 completed surveys. We sent email requests and advertised the survey on several websites, but had very poor response.

We collected estimates from housing cooperative experts on the distribution of cooperatives across the country. Housing cooperatives developed in regional clusters, with 90% of the cooperatives located in 10 states, plus Washington, DC. We focused on these states, contacting regional housing associations, local experts, and the NCB (formerly National Cooperative Bank) for more detail. Since tax and assessment data is held by local governments, we attempted to contact these organizations, but we were not able to search those listings by cooperative status.

### ***Economic Impacts***

Here we provide a brief overview of existing studies that report on the potential impacts of the housing sector. These studies often focus on the economic activity associated with new home construction and redevelopment. An annual Florida study uses a more complex analysis to value residential real estate in the Florida economy, using four impacts. The authors use IMPLAN to measure the impact of construction, plus real estate transactions. In addition, they report on property taxes paid, and the explicit and implicit investment returns for real estate property owners [63].

The most significant challenge in obtaining similar data for cooperatives is the lack of uniformity in reported property values. Jurisdictions vary in how they value cooperatives for property taxes, and the assessed, appraised, and market values may differ significantly. A Florida study used aggregated data at the county and state level, but cooperative housing valuations must be collected by building. This can be challenging. For example, survey respondents might not know if their jurisdiction discounts property tax assessments, or the value of that discount.

Most research on the impact of cooperative housing has focused on the value of the public investment in cooperative affordable housing. Susan Saegert investigated the impact of housing ownership form in >400 multi-family properties that were acquired by NYC for non-payment of taxes and then sold to tenant-owned cooperatives, nonprofits, and private landlords [45]. Her study found that cooperative ownership was positively associated with building quality, better safety and security, and more evidence of pro-social norms. Tenants with higher incomes and better education tended to stay in the cooperative and invest resources in improving their living conditions. Longevity of cooperative tenants was also noted in a Chicago study [8] and positively associated with community stability. A survey of middle income senior cooperative members had similar results. Members reported improved social contact, life satisfaction, sense of personal safety, and happiness after moving into the cooperative.

A small study in the 1990s used a different approach to analyze the impact of cooperative housing, by examining the effect of resident ownership on the variable aspects of housing costs. Researchers concluded that cooperative ownership significantly reduced operating costs (including marketing, administration, operating, and maintenance costs). Finally, another 1990s survey of members of senior housing cooperatives reported positive health impacts and greater happiness, life satisfaction, social contact, and personal safety from living in a cooperative [42].

## **4.2.4 Transportation**

### ***Overview***

While relatively few in number, cooperatives in the transportation sector encompass a broad range of functionality. Often members of cooperatives in this sector are other service organizations. The cooperatives may be organized to meet the demand for services in lower-density rural areas, or in areas that cross geographic jurisdictional boundaries. The cooperative

may be created to meet specialized transport requirements of school districts or those with limited mobility. Cooperatives are also organized to offer transportation alternatives that reduce the number of car trips in an effort to address environmental and sustainability issues that accompany the heavy traffic demands of urban areas.

Cooperatives offer an organizational approach for scheduling and vehicle sharing that more cost-effectively meets specialized transportation needs. Public-private cooperative ventures have resulted in ride-share and shuttle programs that provide route-specific transportation services to members, and are frequently organized around commuting patterns of employees.

Car sharing, begun in Europe in the late 1980s, is another approach to car ownership that has used the cooperative model to provide services to members. As of July 2008, the U.S. has 18 programs, several of which are nonprofit member-governed organizations [7]. These consumer cooperative organizations purchase, maintain, and insure cars for use by members on an as-needed basis. Members pay a fee and must meet driving license and record requirements to participate.

Cooperatives also supply the specialized transportation-related needs of a wide variety of members, including truck drivers, owners of biodiesel vehicles, and bicyclists.

Taxi cab cooperatives usually are worker cooperatives organized to benefit the drivers who provide transportation services to paying individuals. Typically, taxi cab companies operate using independent contractors who often must provide their own vehicle or lease one from the company. A worker-owned cooperative may be organized to provide a variety of employee benefits, the potential for a share in company profits, and the right to participate in ownership decision-making.

Privately owned taxi companies may also form purchasing cooperatives to provide more efficient administrative services to its member businesses.

### ***Industry Niche***

Many public governmental entities use cooperative programs to more cost-effectively provide transportation services, such as compliance programs for school districts, and to facilitate inter-agency coordination of transportation planning. As governmental entities, these fall outside the scope of this project. However, many cooperative ventures involving both governmental agencies and private organizations have been formed to provide specialized transportation services, or to tackle the environmental and regional planning issues that arise from delivery of transportation services. In these cases, a nonprofit corporation organized along cooperative lines is sometimes formed to manage these efforts.

Car share cooperatives occupy a small portion of the growing car share market, which is dominated by Zipcar, a privately owned, national business that merged in 2007 with Flexcar, another leading car share enterprise. Car share cooperatives often predated the entry into a local market by Zipcar, or exist in cities not served by a private company. The nonprofit cooperative model also more easily supports a broader educational and outreach mission to reduce traffic and raise awareness of the larger externalities associated with widespread car ownership. The nonprofit status also allows such cooperatives to receive outside grants and donations that can offset the significant start-up costs for such a venture. Another stated benefit of the cooperative model for car share enterprises is the local control it can provide in developing the car share option as part of the larger transportation plan.

Worker-owned taxi cooperatives comprise a small fraction of the approximately 6,300 companies that operate in the United States. Only 6% of taxicab operations have >100 vehicles in service, >80% of these companies operate fewer than 50 vehicles [48].

The transportation sector also encompasses a variety of enterprises, such as small-scale biodiesel fuel supply cooperatives or services to support increased bicycle use. In these cases, the cooperative model provides services in markets that are not sufficiently developed, or do not have sufficient margins to attract profit-driven businesses.

### ***Organizational Structure***

Depending on the type of goods and services being provided, the transportation sector contains several different types of cooperative organization.

Because the provision of transportation services exists in the realm of the public good, many transportation cooperatives are organized on a nonprofit basis, and are collaborations between nonprofit, businesses, or public transportation entities to provide services or to develop trip reduction programs.

Nonprofit status may make collaboration with governmental agencies more straightforward, thus making the cooperatives eligible for grants and donations, and promoting a broader educational mission that can reach more members. Many nonprofit cooperatives exemplify boundary issues described above, and the members may have varying degrees of control over the organization, depending on board structure and bylaw requirements.

Car share cooperatives are member organizations that span the boundary between nonprofit and cooperative. Member representation on the board may vary, and multiple member classes besides individual drivers may exist, including businesses that provide a car sharing service to employees, and non-driving members who may support the goals of the organization.

Worker-owned taxi cooperatives are owned by the taxi drivers who elect a board to oversee the cooperative's strategic generation. The cooperatives are structured to provide employee benefits and patronage profit-sharing; membership requirements vary.

### ***Population Discovery and Data Sources***

The data on transportation cooperatives was obtained from primary research. All economic data was obtained from survey work undertaken by the UWCC. The survey response rate for transportation is 31% and all reporting cooperatives provided us with 2007 fiscal year-end data. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

### ***Economic Impacts***

**Table 4-3** shows that we have data for 13 transportation cooperatives and collectively these firms account for >\$68M in assets, nearly \$290M in sales revenue, and pay nearly \$9M in wages. There are approximately 500 hundred employees and nearly 30,000 memberships. As **Table 4-3.3** shows, by extrapolating to the entire population (49 firms) and adding indirect and induced impacts to this activity, transportation cooperatives account for >\$567M in revenue, nearly 800 jobs, \$20M in wages paid, and >\$60M in valued-added income.

**Table 4-3.3:** Economic Impacts for Transportation

Economic Impact	Multiplier	Units	Direct	Indirect	Induced	Total
Revenues	1.877	million \$	302	120	145	567
Total Income	1.823		34	12	16	62
Wages	1.538		13	3	4	20
Employment	1.243	jobs	618	60	90	768

#### 4.2.5 Education

##### Overview

The structure and scope of education cooperatives vary widely, reflecting the diversity of educational institutions in the U.S. Educational cooperatives may serve a collective purchasing function for educational institutions. Other cooperatives included in this sector directly deliver educational services to the children of parent members. A few are worker cooperatives, with teachers as member owners.

Public school districts are empowered by individual state statutes, creating many different organizational approaches to delivering educational services. State, county, municipal, and town governments, as well as independent school districts, may all have a role, depending on a given state's legislative provisions.

More than 15,000 public school systems were identified in 2002 [50]. In 2005, public school systems encompassed >97,000 public elementary and secondary schools [56]. In addition to public schools, there are almost 29,000 private elementary and secondary schools, and 6,463 post-secondary institutions identified as participating in Title IV Federal financial aid programs [56]. Another 1.1 million children were home schooled in 2003 [57].

##### Industry Niche

The decentralized nature of the public educational system provides many opportunities to achieve purchasing efficiencies through cooperative arrangements. About 620 educational service agencies (ESAs) have been created in 42 states to more cost-effectively provide programs and services to member school districts [5]. ESAs are frequently self-identified as "cooperatives" or "collaboratives".

ESAs enable member districts to cost-share in programs such as special education and professional development, many of which may be state or federally mandated. ESAs may also perform a collective purchasing function by aggregating demand and negotiating more favorable contracts for a wide variety of supplies, and may streamline administrative costs associated with following mandated contract purchasing procedures.

There are also educational purchasing cooperatives that exist independent of state statute, and serve the college, university, and private school markets, as well as school districts in states without ESAs. These cooperatives also aggregate demand, negotiate contracts that provide better terms for their members, and provide assistance in meeting public procurement requirements.

Education cooperatives also encompass schools that are organized using cooperative principles. Parents, as the members who use the school to educate their children, exercise control over that process by direct involvement in all aspects of the school's operations, including its board.



Several teacher cooperatives exist within the educational sector. As worker cooperatives, they provide a greater degree of autonomy and control over how the teacher members practice their profession. In contrast to implementing an externally developed instructional program, teachers develop and execute an educational program as part of the contract between the teacher cooperative and a public charter school. The cooperative also provides administrative services and is responsible for both the financial and academic success of the school.

***Organizational Description***

ESAs are nonprofit entities with memberships composed of school districts in a defined geographic location. Authorized by state statute, they are financed by some combination of payments from member districts and contract fees for service [5], and are also eligible to receive state and Federal monies. ESAs are governed by a representative board; however, as public entities, they are subject to regulations and oversight procedures required in the public procurement process. ESA structure is often dependent on state statute, and boards may include appointed officials from state or local governing bodies as well as elected or appointed representatives from participating member districts. Ex-officio members may also have authority over some decisions.

Other educational purchasing cooperatives may be associated with membership in an affiliated professional association. These organizations may be incorporated as cooperatives and operate on a cooperative basis, distributing patronage dividends or certificates of equity based on purchase volume. Those serving school districts not included in ESAs may be incorporated as nonprofit corporations, and have both elected and appointed members on their board.

Cooperative schools typically are incorporated as nonprofit, tax-exempt organizations, even if they are within the public school system. Parents of the children attending the school comprise the membership of the cooperative, and may be asked to contractually commit to classroom, administrative, and fundraising assistance, participate in general membership meetings, and elect a board of directors from the membership. The board may include other community stakeholders. In the case of charter schools, the school district or other appropriate government entity typically is represented on the board. Member financial obligations may vary, depending on the fundraising needs of the school, and whether it is private or public.

Teacher cooperatives are governed by an elected board of directors that may include school and at-large representatives as well as educators. Given that teachers are public employees and may have significant benefits, in some cases teachers have maintained their public employment status while being a member of a teacher cooperative.

***Boundary Issues, Population Discovery, and Data Sources***

Some ESAs self-identify as cooperatives or collaboratives, and all ESAs use a representative board governance structure to achieve mutually beneficial cost-savings for members. However, the degree to which ESA boards are subject to public oversight and reporting pose questions about their classification as cooperatives.

The list for education cooperatives come from primary research. The decision to include ESAs was made after population discovery was complete. As a result, some self-identified ESAs are included, but the list of ESAs is not comprehensive. Further research may examine more closely the nature of collaborative government entities in sectors such as education.

All economic data was obtained from survey work undertaken by the UWCC and Guidestar. The survey response rate for education cooperatives was 30.6% and all reporting cooperatives provided us with 2007 fiscal year-end data. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

### **Economic Impacts**

**Table 4-3** shows that we have data for 121 education cooperatives and collectively these firms account for >\$428M in assets, nearly \$700M in sales revenue, and pay >\$300M in wages. There are nearly 10,000 employees and nearly 15,000 memberships. As **Table 4-3.4** shows, by extrapolating to the entire population (390 firms) and adding indirect and induced impacts to this activity, education cooperatives account for >\$1B in revenue, jobs, >\$500M in wages paid, and nearly \$700M in valued-added income.

**Table 4-3.4:** Economic Impacts for Education

Economic Impact	Multiplier	Units	Direct	Indirect	Induced	Total
Revenues	1.757	million \$	753	254	316	<b>1,323</b>
Total Income	1.783		373	124	168	<b>665</b>
Wages	1.458		350	72	88	<b>510</b>
Industry Jobs	1.291	jobs	11,017	1,286	1,923	<b>14,226</b>

### **4.3 Financial Services**

Financial service cooperatives are composed of credit unions, banks within the FCS, mutual insurance companies, and a variety of financing organizations that lend to cooperative firms and banks. **Table 4-4** shows that 8,627 of the 50,330 financial service cooperatives in the U.S. provided us with data. These "reporting" cooperatives account for \$2.8T in assets, \$265B in revenue, 376,000 jobs and \$13B in wages. There are 325 million memberships, which as we noted previously, grossly overstates the total number of unique members within this aggregate sector. For example, many of the 91 million credit union members are also likely members of a mutual insurer.

The Cooperative Finance subsector accounts for the largest share of assets within the Financial Services economic sector, followed by mutual insurance companies, credit unions, and the FCS. Credit unions and mutual insurance companies account for the largest number of firms, establishments, members, and employees.

We report only on firms for which we have collected economic data (some firms did not respond to our requests for information), so that these numbers represent lower bounds regarding the full economic footprint of cooperatives in this aggregate sector. As we described in the previous section, we extrapolated to the full population for our impact analysis. As a consequence, the sum of direct impacts in the following subsections will be larger than the corresponding aggregate variables reported here.

**Table 4-4:** Financial Services: Summary of Key Variables

Economic Sector	No. of Firms		Estab.	Assets (\$M)	Revenue (\$M)	Wages (\$M)	Employees (thousands)	Memberships (thousands)
	Reporting	Total						
Credit Unions	8,334	8,334	29,029	760,971	40,218	9,421	236.55	91,537
Farm Credit System	104	104	1,497	186,451	11,884	1,009	11.17	401
Mutual Insurance	148	1,497	19,761	842,340	140,038	1,893	122.17	232,969
Cooperative Finance	41	43	43	1,072,196	72,691	757	6.25	27,891
<b>Total</b>	<b>8,615</b>	<b>6,627</b>	<b>50,330</b>	<b>2,861,958</b>	<b>264,831</b>	<b>13,080</b>	<b>376.14</b>	<b>324,935</b>

### 4.3.1 Credit Unions

#### Overview

Credit unions play an important role in consumer banking by offering financial services to nearly one-third of all Americans, with 86.8 million memberships. Compared to all depository institutions, credit unions are relatively small with <10% of the U.S. market [33]. Roughly 75% of credit unions have total assets <\$100M, while 80% of commercial banks and 85% savings institutions have assets >\$100M. Less than 2% of credit unions have assets >\$1B [52]. Credit unions, like commercial banks and thrifts, are both Federal and state government chartered. There are currently 5,036 federally chartered credit unions (FCUs) holding \$418B in assets and 3,157 state chartered credit unions (SCCUs) holding \$336B in assets [34].

Like all other financial depository institutions, credit unions take deposits and offer loans to its consumer base. While credit unions resemble banks, they have several distinctive legal differences: they are not-for-profit cooperatives with an IRS tax exemption status. They return earnings to their membership in the form of reduced fee (interest) on loans and increased interest (dividends) on deposits, or they may re-invest earnings into the credit union. Traditionally credit unions were formed with stringent membership criteria based on a "common bond" such as employment, association, religious, or community organization [22]. Following Federal legislation in 1977, credit unions expanded their services to include share certificates and long-term mortgage lending, making them competitive in the financial sector. Some credit unions may be designated "low-income credit unions" by the National Credit Union Administration (NCUA), or, in some instances, a state regulatory agency. This designation allows the credit union to accept non-member deposits and secondary capital in order to better serve its membership and community. Many of these low-income designated credit unions serve narrow fields-of-membership, such as groups of employees.

#### History

The model for modern credit unions was developed in Germany in the mid-19th century. Influenced by the example and principles of the Rochdale Pioneers in England, these credit cooperative societies spread quickly in Europe. The first credit union in the U.S. opened in 1909, in Manchester, New Hampshire, and by 1920 there were credit unions in New York, North Carolina, and Massachusetts. They provided credit for consumer purchases, and opportunities for savings. The prosperity of the 1920s created a strong demand for credit, and many states approved statutes permitting the organization of credit unions. Strong leadership led to the development of state credit union leagues, which supported the growth of the emerging industry.

By 1929, 32 states had credit union legislation, and 1,100 credit unions had been formed. In 1934, the Federal Credit Union Act was passed, which permitted the formation of federally chartered credit unions in states that did not have a credit union law. This precipitated the formation of thousands of additional credit unions during the 1930s. Most credit unions were formed in work places, or sponsored by membership organizations or churches. These early credit unions depended on a network of volunteers who served on the board and often ran the credit unions. As the industry developed, it became more professional and also created strong support institutions. Credit unions formed a self-funded share insurance fund, a mutually owned credit insurance company [11], and cooperatively owned central banking services (state or regional corporate credit unions and U.S. Central Federal Credit Union). These organizations have supported a significant expansion of consumer services. Since the 1970s, many credit unions have repositioned themselves to serve as full service financial institutions for their members.

#### ***Organizational Structure***

Credit unions are organized in a three-tiered system. At the top is U.S. Central Federal Credit Union, a wholesale credit union, that provides support and financial services to corporate credit unions (CCUs). CCUs occupy the middle tier and provide financial services to 8,834 natural person credit unions. All three tiers of the system are governed by the NCUA, which is comprised of a three-member board appointed by the President and confirmed by the Senate. The NCUA authorizes all federally chartered credit unions, while individual states charter those subject to state regulation. Most SCCUs have parity power clauses that allow individual SCCUs to adopt Federal credit union rules if they are more progressive. Currently, no laws permit the chartering of SCU's in Delaware, Dakota, and Wyoming.

All FCUs and 95% of SCCUs are insured by the National Credit Union Share Insurance Fund (NCUSIF), which was voluntarily capitalized by individual credit unions and is backed by the "full faith credit" of the U.S. government. Credit unions participate by investing 1% of their savings which NCUSIF uses to invest, cover expenses, and rescue failed credit unions. Members deposit accounts are insured by NCUSIF for \$100K. American Share Insurance (ASI) insures the remaining 165 SCCUs. In the late 1970s, Congress created two member-owned supporting organizations: the Central Liquidity Fund (CLF), which can borrow up to 12 times its capital stock and surplus, and the Corporate Development Revolving Fund (CDRF). The CDRF, with Congressional appropriations and interest, has grown to \$ 16.7M. The CLF's primary purpose is to serve as a lender of last resort and to provide liquidity to its members during times of economic volatility. The CDRF provides support to low income credit unions through technical assistance grants and loans.

Trade associations such as CUNA, the Association of Corporate Credit Unions (ACCU), the National Association of Federal Credit Unions (NAFCU), the National Association of State Credit Union Supervisors (NASCUS), and the National Federation of Community Development Credit Unions provide legislative and regulatory advocacy for credit unions.

#### ***Population Discovery and Data Sources***

All data for the credit union system are available from the NCUA website, annual reports from individual corporate credit union, and the U.S. Central Federal Credit Union) website. For the purposes of this analysis, we used 2007 data.

### **Economic Impacts**

**Table 4-4** shows that, the 8,334 credit unions account for \$761B in assets and \$40B in revenue, and pay >\$9B in wages. There are nearly 100 million credit union memberships and 237,000 employees. As **Table 4-4.1** shows, by adding indirect and induced impacts to this activity, credit unions account for close to \$75B in revenue, close to 500,000 jobs, \$20B in wages paid, and >\$42B in valued-added income.

**Table 4-4.1:** Economic Impacts for Credit Unions

<b>Economic Impact</b>	<b>Multiplier</b>	<b>Units</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
Revenues	1.868	million \$	40,088	15,579	19,215	<b>74,882</b>
Income	1.764		23,961	7,823	10,486	<b>42,270</b>
Wages	2.144		9,421	4,854	5,927	<b>20,201</b>
Employment	1.994	jobs	236,459	94,502	140,588	<b>471,549</b>

### **4.3.2 Farm credit system**

#### **Overview**

Absence of rural credit led to the creation of the FCS in the early 1900s. The system is a cooperatively owned government-sponsored entity (GSE) with an explicit mandate to serve agricultural borrowers. Today the system continues to be a dominant source of long-term farm debt, which has grown from 20% of real estate farm debt in 1960 to 40% in 2006 [55]. Its consumer base includes farmers, ranchers, producers of aquatic products, agricultural cooperatives, select rural communications and energy companies, rural homeowners, and other eligible entities.

The FCS differs from other financial institutions in that it is a pure lender and finances its agricultural lending through the issuance of financial securities. As of 2007, the FCS accounted for 37% of total farm debt with 42% in real estate and 31% in non-real estate activities. In addition to extending dependable credit, the FCS promotes competition by expanding its financial menu to include services such as consulting, estate planning, record keeping, crop insurance, credit and mortgage life insurance, disability insurance, tax preparation, and cash management. Today private financial institutions also offer financial services to the agricultural sector. Collectively the private sector accounts for 60% of total farm debt, 54% in real estate and 65% in non-real estate debt.

#### **History**

Since its inception during the Roosevelt administration, the FCS has undergone several rounds of restructuring. In 1916, the Federal Farm Loan Act established a credit delivery system to the agricultural sector by creating Federal Land Banks (FLBs) in 12 regions of the U.S. These land banks provided funds to regional banks and associations so that they could provide long-term mortgage financing to farmers. During the Great Depression, the Farm Credit Act of 1933 was enacted to bolster agricultural production by funneling short-term credit through 12 Production Credit Associations and 13 Banks for Agricultural Cooperatives. Simultaneously, the Emergency Farm Mortgage Act was mobilized to refund the FLBs as an aid package to farmers facing foreclosures and debt defaults. All credit agencies were consolidated into the Farm Credit Administration in 1987.

Until the 1980s, banks took care of the lending needs of a specific geographic district and the associations operated within a geographic district. The FCS underwent major reorganizing in response to the farm financial crisis of the 1980s. The three main contributing factors for the farm debt crisis of 1985 were falling commodity prices, falling farm land values, and an increasing farm debt-to-asset ratio [28]. The impact on the system was significant with record losses, increased accumulation of farm property, and increased amounts of high-risk loans. The Agricultural Act of 1987 brought about significant reorganizing: (1) The Farm Credit Administration (FCA) became an independent arm's length regulator of the FCS with increased enforcement powers; (2) the Farm Credit System Insurance Corporation was created; and (3) the Farm Credit System Financial Assistance Corporation was created with the mandate to re-capitalize FCS institutions in financial distress. Today the FCS is composed of 99 lending associations and banks.

Agriculture in the U.S. is a capital-intensive industry where investments in farmland, machinery, equipment, livestock breeding, storage facilities, etc. require long-term financing. Carrying 40% of the total long-term real estate debt and 37% of total farm debt (as of 2007), the FCS undoubtedly is a prominent player in agricultural credit markets. While commercial banks have established themselves as the main competitors for rural credit, it is hard to make the case that rural credit markets in the U.S. are fully competitive [54]. The FCS has access to relatively easy supply of loanable funds borrowed at rates close to the US treasury rate. It is well positioned to absorb the growing demand for agricultural credit given its ability to lend directly to farmers or to farmer cooperatives.

#### **Organizational Structure**

All the banks and associations are federally chartered and have tax-exempt status. The income earned by FLBs and FLBAs are exempt from Federal, state, and municipal/local taxes; securities and other debt obligations are exempt from all but Federal income tax. General oversight for the system is provided by the Farm Credit Administration, which regulates the system and is composed of a presidentially nominated board. The Farm Credit System Insurance Corporation acts as the insurer, and the Farm Credit Council, a trade association, advocates for the system. Organizationally, the FCS is composed of two distinct entities: banks and associations and currently has 94 affiliated lending associations and five banks.

The five banks are AgFirst, AgriBank, Texas, and U.S. AgBank (Farm Credit Banks, FCB) and CoBank (an Agricultural Credit Bank, ACB). The primary function of the banks is to extend credit to its affiliated associations and, to a lesser extent, extend credit to other eligible financial institutions that carry agricultural credit as part of their loan portfolio. CoBank differs from other banks in the system in that it loans directly to agribusiness cooperatives, rural communication, rural electricity, and rural water, and provides international credit promoting US agricultural commodity exports.

Two types of associations: 85 Agricultural Credit Associations (ACAs) and nine Federal Land Credit Associations (FLCAs) comprise the system. The ACAs extend credit for production and intermediate purposes, agribusiness loans, and rural residential real estate loans, while the FLCAs provide credit only for real estate mortgage lending.

Each bank and association of the FCS is its own cooperative, and thus has its own member-elected board of directors. Each institution is required to have a nominating committee to select

potential candidates and the board must consist of at least 60% member-elected directors. Additional restrictions on board composition include: one outside director (the larger banks and associations require two outside directors), one board member who is a qualified financial expert, and audit and compensation committees.

#### **Population Discovery and Data Sources**

The Farm Credit Administration maintains quarterly financial data at their website. Employment data and branch-level data was collected by the UWCC. The most recent year for which data are available is 2007. We relied on a combination of primary data (branch, and employment numbers at the branch level) and the FCA's quarterly report data for reporting the summary statistics. The economic impact data was obtained from the 2007 FCA report.

#### **Economic Impacts**

**Table 4-4** summarizes our data for the farm credit sector. The sector has >\$186.4B in assets, close to \$12B in sales revenue, and >\$1B in wages in benefits. There are approximately 400,000 memberships and 11,000 employees. Adding direct and indirect impacts to this activity, **Table 4-4.2** shows that farm credit cooperatives account for >\$15B in revenue, nearly 35,000 jobs, \$2.1B in wages paid, and nearly \$4.3B in valued-added income.

**Table 4-4.2:** Economic Impacts for Farm Credit System

Economic Impact	Multiplier	Units	Direct	Indirect	Induced	Total
Revenues	1.294	million \$	11,884	1,540	1,958	15,382
Income	1.756		2,446	780	1,068	4,295
Wages	2.078		1,009	484	604	2,097
Employment	3.126	jobs	11,173	9,429	14,326	34,929

### **4.3.3 Mutual insurance**

#### **Overview**

Insurance is a global industry, with \$4.1T in premiums collected worldwide in 2007. The U.S. had 2,723 property casualty insurance companies in 2007, with \$1.3T in cash and invested assets. The cash and invested assets of the 1,190 life and health insurance companies was more than twice that amount, at \$3T. Many of these companies are part of larger entities, as banking and insurance services have combined within the financial services sector.

#### **History**

The first mutual insurance company was formed in England in 1696, offering fire insurance. Many of the early property casualty firms were formed by farmers who could not obtain insurance from large companies. They created mutual insurance companies within their local areas and could offer reasonable rates. These were informal associations until legislation passed in the 1870s enabled their formation. After this, the industry flourished nationwide in England.

The life insurance industry was almost nonexistent before the advent of the mutual model. The first mutual insurance companies were created in 1843, and the number grew to 19 by 1849. Mutual life insurance companies were the fastest growing model until 1859, when states began approving regulations that required all insurance companies to conform to better practices, and increased the viability of stockholder-owned firms.

**Organizational structure**

Policyholders' interest in a mutual insurance company comes from two sources. Policy holders are holders of an insurance policy that defines a set of rights, and they are also holders of a set of ownership interests. Their ownership interest arises from purchasing a policy and ends with termination of policy. This contrasts with many cooperatives, where ownership derives from purchase of a share of stock, and can continue during periods of non-use of the cooperative.

As with other cooperatives, ownership interests include governance and economic participation in the firm. Policy holders have the right to vote for the board of directors. State laws vary on voting rights and rights to vote on fundamental transactions (merger, dissolution, etc.). In most states, policy holders have rights to distribution of the assets on dissolution. In Minnesota and Wisconsin, these rights are limited, with some assets considered to be in the public interest. The board of directors has the right to decide on use of profit/surplus. The board may add to the surplus or distribute the surplus to members in the form of policy dividends (also called capital distributions). Policyholders can benefit from their economic participation in the firm in other ways, including premium reductions and premium credits.

Although the ownership model is similar, the evolution and benefits of mutual ownership for life insurance policyholders differs from that of property casualty customers. Life insurance customers have a contract with the company that may last several decades. They have a long-term interest in ensuring that decisions are not made at their expense. In stock-owned insurance companies, owners can potentially gain from changing the firm's dividend and financing policies after insurance contracts are sold. When policyholders and owners are merged, in mutually owned firms, this conflict is eliminated.

Mutually owned property casualty insurance firms offer customers an opportunity to be rewarded for practices that lower their insurance claims. They are usually created in environments of market failure, by customers who cannot purchase insurance or are paying too much. Many successful firms focus on a particular industry, where risk management practices are shared. In a stockholder model, the benefits of better practices and lower claims would go to the owners. A mutually owned firm returns the benefits to the customers, through lower rates.

At the same time, there is a heightened opportunity for conflict between management and owners in mutual insurance companies, because many of monitoring devices used in stock-owned firms are unavailable (e.g., hostile takeovers, monitoring by stock analysts, and stock-based compensation programs).

**Industry Niche**

Mutual ownership has historically been an important model for insurance firms, particularly in life insurance and property casualty. The insurance industry underwent significant structural changes in the past 20 years, particularly after the passage of legislation in the 1990s that removed some barriers between insurance companies and banks. Although the number of conversions from mutual to stock ownership increased steadily from 1960–1990, the pace of demutualization increased in the 1990s. A significant number of mutual companies wanted to diversify their activities beyond insurance, and needed greater access to capital. Some converted completely to stock ownership. Others formed mutual holding companies that are owned by the policyholders of a converted mutual insurance firm. The holding companies own one or more stockholder-owned insurance firms, and have the opportunity to own banking



subsidiaries. Because the insurance industry is regulated, structural changes were made within a regulatory framework that requires at least advance disclosure and often regulatory approval.

#### **Population Discovery and Data Sources**

The list for mutual insurance comes from primary research. All economic data comes from survey work undertaken by the UWCC. The survey response rate for mutual insurance was 48%. We chose a sample of 265 firms with data from Guidestar, and all reporting cooperatives provided us with 2007 fiscal year-end data. Revenue and employment data for the top 15 mutual companies were supplemented from Onesource and annual reports of the individual companies. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

#### **Economic Impacts**

**Table 4-4** summarizes our data for the mutual insurance sector. There is >\$840B in assets, \$140B in sales revenue, and nearly \$2B in wages and benefits pay. There are approximately 233 million memberships and 122,000 employees. Adding direct and indirect impacts to this activity, **Table 4-4.3** shows that mutual insurers account for >\$227B in revenue, >500,000 jobs, \$27B in wages paid, and >\$48B in valued-added income.

**Table 4-4.3:** Economic Impacts for Mutual Insurance Companies

Economic Impact	Multiplier	Units	Direct	Indirect	Induced	Total
Revenues	1.209	million \$	187,343	17,273	21,956	<b>226,571</b>
Income	1.756		27,427	8,750	11,982	<b>48,159</b>
Wages	1.846		14,419	5,426	6,772	<b>26,616</b>
Employment	1.829	jobs	321,414	105,729	160,642	<b>587,784</b>

#### **4.3.4 Cooperative finance**

Some banks and other finance companies exist specifically to provide capital to cooperative businesses in the U.S. These include the National Consumer Cooperative Bank, an Association of Corporate Credit Unions, the Cooperative Finance Corporation, and the Federal Home Loan Bank System. Arguably, we could also include the FCS in this subsection (because one of its member companies lends specifically to agricultural cooperatives), but we have elected instead to keep it in a separate subsector because the FCS also provides banking services directly to farmers. In this section, we briefly describe each of these organizations and systems, and report on their aggregate economic impact.

The National Cooperative Bank (NCB) is a U.S. government-chartered corporation organized under the National Consumer Cooperative Bank Act in 1978 and privatized in 1981 as a financial services company. The bank, structured as a cooperative business with >2,500 member owners, also operates an affiliate nonprofit organization (NCB Capital Impact) that provides community lending and business development services, and a subsidiary federally chartered thrift (NCB, FSB) that provides banking services to NCB's national customer base. NCB lending initially focused on natural food and housing cooperatives, but has subsequently broadened to encompass a wide variety of sectors including healthcare, childcare, education, energy and manufacturing, and retail goods and services.

CCUs were formed to meet the liquidity needs of credit unions, diminishing their reliance on banks and other vendors. Today there are 28 CCUs that serve >8,000 natural person credit unions in the U.S. Each CCU has a specific geographic region and serves the credit unions within its jurisdiction by offering operational support, product service, and delivery. U.S. Central Federal Credit Union was created in 1974 to be a centralized banker bank of the CCUs; its membership base includes CUSOs and CCUs.

The National Rural Utilities Cooperative Finance Corporation (CFC) is a cooperative company owned by 898 electric utility systems, 511 telecommunications organizations, 66 statewide and regional service organizations, and 63 associates. CFC provides financing, investment, and related services to its members. It raises funds for loan programs with the support of its owners' equity and investments and through the sale of multiple financing vehicles in the private financial markets.

The Federal Home Loan Bank System (FHLBS) is composed of 12 cooperative banks, each with its own president and board of directors, and 8,100 member lenders who collectively own the banks. The system and its members are the largest source of residential mortgage and community development credit in the U.S. Members borrow money from the system using mortgages they issue as collateral, and the system secures loan funds by issuing debt in private capital markets. The FHLBS is a Government Sponsored Entity with the implicit backing from the U.S. government, but no formal guarantee. The FHLBS does not pay Federal income tax and borrows at low rates due in part to the implicit backing of the U.S. government. In return for this special treatment, the FHLBS must pay 20% of its net earnings to help cover interest on debt issued by the Resolution Funding Corporation (which paid for the Savings and Loan Bailout and contribute 10% of its earnings to affordable housing loans and grants [4].

#### ***Population Discovery and Data Sources***

The list for cooperative financial institutions comes from primary research. All economic data comes from 2007 annual reports of the individual financial institutions. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

#### **4.3.4.2 Economic Impacts**

**Table 4-4** summarizes our data for the Cooperative Finance subsector. There is >\$1T in assets, \$72B in sales revenue, and nearly \$1B in wages and benefits pay. There are approximately 27,000 memberships and 6,000 employees. Adding direct and indirect impacts to this activity, **Table 4-4.4** shows that cooperative finance lenders account for >\$77B in revenue, 39,000 jobs, \$2B in wages paid, and nearly \$6B in valued-added income.

**Table 4-4.4:** Economic Impacts for Cooperative Finance

<b>Economic Impact</b>	<b>Multiplier</b>	<b>Units</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
Revenues	1.067	million \$	72,691	2,130	2,707	<b>77,527</b>
Income	1.756		3,381	1,079	1,477	<b>5,937</b>
Wages	2.987		757	669	835	<b>2,261</b>
Employment <sup>1</sup>	6.254	jobs	6,251	13,035	19,805	<b>39,091</b>

<sup>1</sup> Business to Business financing results in patronage refunds dwarfing wages resulting in a high employment multiplier. Basically we are saying this level of income should produce a very large employment effect.

#### 4.4 Utilities

Utilities cooperatives provide electric, telephone, and water services. **Table 4-5** shows that the U.S. has 4,546 utility cooperatives; 3,823 provided us with data. These “reporting” cooperatives have nearly 20 million memberships that account for \$105B in assets, \$61B in revenue, 119,000 jobs and >\$3B in wages. Cooperatives that provide electric utility services dominate this aggregate sector in terms of total economic activity, but many water cooperatives provide valued services to their communities.

We report only on firms for which we have collected economic data (some firms did not respond to our requests for information), so these numbers represent lower bounds regarding the full economic footprint of cooperatives in this aggregate sector. As described in the previous section, we extrapolated to the full population for the purpose of conducting our impact analysis. As a consequence, the sum of direct impacts in the following subsections will be larger than the corresponding aggregate variables reported here.

**Table 4.5:** Utilities Cooperatives: Summary of Key Variables

Economic Sector	No. of Firms		Estab.	Assets (\$M)	Revenue (\$M)	Wages (\$M)	Employees (thousands)	Memberships (thousands)
	Reporting	Total						
Rural Electric <sup>1</sup>	911	929	2,052	111,786	34,275	3,756	67.29	16,652
Generation and Transmission	56	65	198	42,490	2,246	721	11.16	854
Distribution <sup>2</sup>	853	846	1,853	69,296	32,029	3,036	55.09	15,798
Rural Telephones	158	255	255	5,116	1,520.84	521	12.61	964
Water	923	3,352	3,352	2,240	1,703	47	39.26	2,066
Cooperatives and Mutuals	567	2,228	2,228	1,401	350	24	39.05	1,753
Associations	355	1,122	1,122	839	253	23	0.21	312
<b>Total</b>	<b>3823</b>	<b>4,546</b>	<b>5,657</b>	<b>105,034</b>	<b>61,086</b>	<b>3,345</b>	<b>119</b>	<b>19,692</b>

Rural Electric totals adjust for G&Ts

<sup>1</sup> A residential meter defines an electric cooperative member (there may be multiple consumers at a single meter).

<sup>2</sup> Distribution systems include rural electric cooperatives (RECs), public power districts (PPDs), and mutual electric distribution companies.

##### 4.4.1 Rural electric Overview

Rural electric cooperatives (RECs) are consumer-owned utilities that were established to provide reliable and affordable electricity by purchasing electric power at wholesale and delivering it directly to the consumer. These distribution cooperatives are primarily located in rural areas where the return on expensive infrastructure investment was not high enough to attract the investor-owned utilities (IOUs).

To assure an adequate supply of the cost-effective, reliable power that is vital to their survival, distribution cooperatives formed generation and transmission (G&T) cooperatives to pool their purchasing power for wholesale electricity. The G&T cooperatives provide wholesale power to their member-owners either by purchasing and delivering power from public- or investor-owned power plants, or by generating electricity themselves.

There are 864 distribution cooperatives delivering 10% of the nation's total kilowatt hours' electricity to ultimate consumers each year. They serve 12% of the nation's electric consumers (42 million people), but own and maintain 42% of the nation's electric distribution lines that cover 75% of the country's land mass [35]. Although electric cooperatives are not the dominant providers of electricity nationwide, they are the primary providers in most of the country's rural areas.

Currently, 66 G&T cooperatives own 6% of the nation's miles of transmission lines. Forty-five own generation facilities that account for approximately 5% of the total electricity generated in the U.S. [35].

In addition to providing electricity, many electric cooperatives are also involved in economic and community development activities.

### ***History***

It was only through cooperatives that electricity was provided to most of the nation's farmers, their families, and rural businesses. By the 1930s nearly 90% of U.S. urban dwellers had electricity, but 90% of rural homes were without power. Investor-owned utilities often denied service to rural areas, citing high development costs and low profit margins. Consequently, even when they could purchase electricity, rural consumers paid far higher prices than urban consumers.

As part of Roosevelt's New Deal, and in the face of significant opposition, the Rural Electrification Administration (REA) was created in 1935, and Congress passed the Rural Electrification Act a year later. In 1937, the REA drafted the Electric Cooperative Corporation Act, a model state law for formation and operation of rural electric cooperatives. The REA administered low-interest and long-term loan programs for rural electrification, and also provided technical, managerial, and educational assistance. By 1939, the REA had helped to establish 417 rural electric cooperatives, which served 288,000 households [40].

The REA was replaced by the Rural Utilities Service (RUS) in 1994, when Congress reorganized the USDA. RUS continues to work with rural electric cooperatives to build infrastructure and improve rural electric services.

Since the 1970s, electric cooperatives have been confronted with energy resource issues. The 1973 oil embargo and ensuing national energy policy initiatives prompted several G&Ts to participate in nuclear power plants. However, nuclear accidents and growing anti-nuclear movements brought cancellations of partially built plants. Some cooperatives filed for bankruptcy.

### ***Industry Niche***

Electric utilities may perform generation, transmission, or distribution functions in the process of converting energy into electricity and delivering it to the consumer. Currently about 3,200 electric utilities throughout the U.S.; about 700 operate facilities that generate electric power. According to 2006 data from the Energy Information Administration [43], generation accounts for 67% of the entire cost of providing electricity. Transmission and distribution account for 7% and 26%, respectively [12].

Electricity is provided to residential, commercial, and industrial consumers by investor-owned utilities (IOUs), municipal utility districts (MUDs), public power districts (PPDs), and cooperatives. IOUs, as commercial, for-profit utilities owned by private investors, are capitalized by shareholder investment, retained earnings, and borrowing on the open market. Profits earned by IOUs are returned to investors in proportion to the number of shares they own. While the U.S. has only 240 IOUs, they provide nearly 75% of the electricity sales to ultimate consumers. IOUs are usually subject to different regulations than are publicly-owned utilities and cooperatives, and they pay taxes as corporate citizens [12].

MUDs are governmental entities created under state law to provide electricity, water, and wastewater treatment systems to the residents of the municipality. State laws govern the creation of MUDs, and vary from state to state. MUDs are distinct from other utility providers because, as public entities, they can levy taxes, issue government bonds, and adopt and enforce rules and regulations. Directors of MUDs are appointed by the municipality. Although a few MUDs are members of NRECA, they are excluded from this analysis because they are government entities, operated by local governments.

Public utility districts (PUDs) are publicly owned entities created by state governments to provide power to residents in the district they serve. However, unlike MUDs, they are governed by a democratically elected board of PUD customers, have no taxing or other rule-making authority, and receive no income from taxes. PUDs can raise capital through revenue bonds sold on the private bond market. They operate on a nonprofit basis and define themselves as "customer-owned" utilities. All power supplied to Nebraska residents comes through PUDs. PUDs are included in this analysis.

Residential consumers use 37% of the nation's total electricity produced. Commercial and industrial consumers use 35% and 28%, respectively. However, the customer base of cooperatives differs significantly from IOUs, and MUDs. Residential consumers, including farms, consume 57% of the electricity provided by cooperatives, but they comprise only 35% of the IOU customer base and 36% of the MUD base.

Cooperatives serve 7 customers per mile of line, as opposed to 35 for IOUs, and 47 for MUDs. They generate \$10,565 in revenue per mile, while IOUs and MUDs produce \$62,665 and \$86,302, respectively. This disparity reflects the rural nature of the electric cooperatives' primary service areas, where the geographically dispersed consumers generate the least revenue per mile.

Until the 1990s, all electricity providers operated as monopolies. A major deregulation effort during the 1990s provided more competition in electricity markets, however. In all but 16 of the 47 states that have electric cooperatives, regulators take the position that cooperatives are effectively self-regulated by locally elected boards of directors. While some states have excluded cooperatives from deregulation legislation, in states that have deregulated electric power supply, there has been little or no shift to other providers by rural electric cooperative members.

Most G&T cooperatives generate electric power from coal, like the industry in general. However, electric cooperatives actively support developing power from renewable resources. In 2007, electric cooperatives received 11% of their power from renewable sources, as compared to 9% for the nation's entire electric utility sector [34].

**Organizational Structure**

Electric cooperatives are incorporated under state statutes. They are considered nonprofit corporations and are granted Federal tax-exempt status under IRC section 501(c)(12), provided that 85% or more of their annual income comes from members.

Each rural electric cooperative (REC) customer is a member-owner, and membership is a requirement of all customers. Since most RECs operate as monopolies, consumers must become cooperative members if they wish to purchase electricity. Members are required to purchase all of electric power for a specified location from the cooperative. However, in some cases RECs will sell power to non-members. Members elect a board of directors from among the membership on a one-member/one-vote basis.

As with other cooperatives, RECs strive to operate at cost. However, like other businesses, RECs must accumulate equity capital to support their operations and new initiatives. Because the members are owners of the cooperative, when the REC has net earnings (i.e., revenues exceed expenses), or margins, those margins are returned to member-owners based on patronage.

Among the REC cooperatives, the amount of margin allocated to each member is called a "capital credit." Capital credits are allocated to members' accounts, but the underlying value is retained by the cooperative for a period of time. Most RECs have capital credit retirement programs, by which the cooperative gradually returns the value of past allocated capital credits to members. In most cases, members receive the value of their capital credits as a deduction on their electric bill.

Since the Federal government's early commitment to cooperative ownership during the New Deal, rural electric cooperatives have had strong government support through lending programs, and through power supply preference programs. REA loans and technical assistance provided the primary momentum for rural electric cooperative formation. Over time, however, the dominance of Federal lending has declined. Currently, RUS loans to electric cooperatives comprise <40% of total financing; >60% comes from private sector sources such as the CFC and the National Cooperative Services Corporation (NCSC). Nonetheless, RUS financing remains an essential component of the cooperative utility sector's loan portfolio.

Further government lending supports rural electric cooperatives' economic and community development programs. The USDA's Rural Economic Development Loan and Grant (REDLG) program provides zero-interest loans and grants through electric cooperatives to work in partnership with business and community leaders.

Electric cooperatives, as well as public utilities, have received preference from the Federal power marketing agencies since the first cooperative was established in 1937. The agencies market excess power generated by Federal water projects, and five power marketing agencies currently operate within the U.S. Department of Energy. The government support provided through the "preference clause in power supply" has been critical to ensuring cooperative access to sources of power.

Although governmental support was critical to the formation of consumer-owned electric cooperatives, all electric utilities receive various Federal subsidies. In fact, according to calculations based on Federal government financial reports, rural electric cooperatives receive the smallest Federal subsidy per consumer [33]. As with other utilities, government support to

electric cooperatives has been provided through loan programs or policy involvement rather than direct subsidies.

#### **Population Discovery and Data Sources**

The list for rural electric cooperatives and economic data comes from NRECA, 2006. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

#### **Economic Impacts**

**Table 4-5** shows that we obtained data from 911 electric utilities, and collectively these firms account for >\$97B in assets, exceed \$34B in sales revenue, and pay close to \$4B in wages. There are approximately 16 million memberships and 67,000 employees. As **Table 4-5.1** shows, by extrapolating to the entire population (929 firms) and adding indirect and induced impacts to this activity, electric cooperatives account for >\$45B in revenue, nearly 130,000 jobs, \$6.6B in wages paid, and >\$11B in valued-added income.

**Table 4-5.1:** Economic Impacts for Rural Electric Utilities

<b>Economic Impact</b>	<b>Multiplier</b>	<b>Units</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
Revenues	1.265	million \$	34,275	4,039	5,033	43,347
Income	1.757		6,318	2,035	2,747	11,100
Wages	1.749		3,757	1,262	1,552	6,571
Employment	1.907	jobs	67,625	24,524	36,825	128,974

### **4.4.3 Rural telephone**

#### **Overview**

The 260 U.S. telephone cooperatives are consumer-owned utilities established to provide quality telecommunications service at reasonable cost. They offer various telecommunication services to 1.2 million rural Americans in 31 states. Telephone cooperatives are most often located in rural areas where there is a strong cooperative tradition. They provide local telephone exchange services, long distance telephone operations, direct broadcast satellite, wireless, TV, mobile radios, cellular and key systems, and Internet access.

While size varies significantly, the average telephone cooperative has >5,000 subscribers, 31 employees, and an annual revenue base between \$1–5M . Like their rural electric counterparts, telephone cooperatives serve a very small proportion of the nation's telephone subscribers—about 5%—but their service area covers >40% of the country's land mass [38].

#### **History**

The lack of telephone service in rural areas spurred the development of small telephone companies, and in areas where farmers were already familiar with agricultural cooperatives, the model was often used to provide telephone service to their communities. Although nearly 6,000 cooperatives, mutuals, and other types of companies were providing telephone service to rural consumers by 1927 [39], poor business practices caused many to fail, leaving farmers and rural residents with significantly fewer telephones in 1940 than in 1920 [29].

Major changes came to rural telephone companies with the advent of the New Deal. The 1934 Communications Act created the Federal Communications Commission (FCC) to provide

quality telephone service to all Americans at reasonable rates. However, rural telephone service availability and quality remained poor until long-term, low-interest loans for rural telephone companies became available as part of the REA loan program in 1949. In 1961, the definition of telephone service was expanded to include provision of educational television, and in 1971, the Rural Telephone Bank (RTB) was created to supplement direct loans from REA. RTB was jointly owned by the Federal government and rural telephone companies, including cooperatives, until 2008, when the availability of other sources of capital made it obsolete.

Between 1934 and 1982, American Telephone and Telegraph (AT&T) dominated the entire telecommunications sector. Independent local carriers, many of which were cooperatives, provided local wiring to end users and purchased access to long distance calling from AT&T. The 1982 breakup of AT&T created the seven regional carriers known as the "Baby Bells," but demands to completely deregulate the industry continued until passage of the Telecommunications Act of 1996. This Act was the first major overhaul of the 1934 Communication Act, and set new standards with its competition and universal service provisions.

During the 1980s, advances in wireless and satellite technology brought about a tremendous increase in demand for telecommunications services. The National Rural Telecommunications Cooperative (NRTC) was formed in 1986 to foster the development and growth of satellite technology in rural America. NRTC is a joint venture of the NRECA and the CFC, with support from the NTCA. Members include both locally owned commercial telephone companies and cooperatives.

### ***Industry Niche***

The telecommunications industry provides businesses, government, and retail consumers with a wide variety of communications products, including voice communications, internet access, data, graphics, television, and video. These products are provided through fixed wire lines and wireless systems. While wire line communication service continues to be dominant, new wireless communications technologies, internet services, and cable and satellite program distribution are fast gaining an equal share of the industry. The industry is characterized by substantial and fast-paced change in structure, technology, customer preferences, and government regulations, and is dominated by very large investor-owned firms.

The "telecom service value chain" combines production and sales of the "end device," (e.g., a telephone), end-user connection to telecommunications services by wires and cables, and a local carrier that maintains switching equipment that routes "content" to its final destination in the local area, or to another switching center that routes the content to its final destination. The local carrier also maintains the cable network that forms the backbone of the industry. Regional carriers are switching centers that provide content routing to and from the local carrier within a large (several-state) geographic region. The final step in the chain is long distance carriers that provide routing among the regional carriers and internationally.

While the Telecommunications Act of 1996 provided for entry of many competitors at all levels of the industry, the industry has also seen significant consolidation. AT&T has expanded back through the chain to become a local and regional carrier, as has Sprint, the other giant in the industry.



Access to bandwidth has been a critical factor in the capacity of telecommunications firms to compete effectively, given the rising volume of high-bandwidth transmissions, such as internet data. To expand and upgrade bandwidth capabilities by extending higher capacity fiber optic cable to rural customers is very expensive, however, and many rural wired carriers are leveraging DSL technologies to compete.

To support the delivery of services to rural areas in this competitive environment, telephone cooperatives receive governmental support through RUS loans, which are available for voice telephone service, broadband access, distance learning, and tele-medicine. RUS also makes loans to telephone cooperatives to facilitate third-party lending for rural economic development job creation, and provides significant technical assistance.

Another important source of funding for innovation comes from mandatory contributions made by international and interstate communications carriers to the Universal Service Fund. The fund was established by the FCC to assure that quality advanced telecommunications services are available to all consumers at equitable prices. Although determining what percentage of this amount went to telephone cooperatives is not possible, the websites of telephone cooperatives reflect the importance these cooperatives place on receipt of universal service funds.

Telephone cooperatives, and commercial telephone companies, are subject to regulation by the FCC, the Interstate Commerce Commission, state public utility commissions, and county and local regulators. In many states, however, cooperatives are not subject to state regulation because they are consumer-owned, and considered self-regulating organizations. In addition, like other RUS borrowers, telephone cooperatives are subject to regulations and guidelines established by RUS.

#### ***Organizational structure***

Telephone cooperatives are incorporated under state statutes specific to telephone cooperatives, or under the state's general cooperative or corporate laws. Telephone cooperatives are considered nonprofit corporations and are granted Federal tax-exempt status under IRC section 501(c)(12), which requires that they be a cooperative, provide telecommunications services, and meet the 85% income from members rule.

Each telephone cooperative customer is a member-owner of the cooperative. Membership is required of all customers. Although telephone cooperatives were originally monopoly providers, many residents in their service areas can now choose among several telecommunications suppliers. Any person, firm, association, corporation, or political body within the cooperative service area can become a member. Members elect a board of directors from among the membership on a one-member/one vote basis. The number of directors on the board varies, depending on the size of the cooperative. Bylaws may provide that directors be selected from specified territorial districts and may further limit voting for any director to members located in the territorial district that a director represents. Directors are not compensated for their service.

Rural telephone cooperatives strive to operate at cost. However, like other businesses, telephone cooperatives must accumulate equity capital to support their operations and new initiatives. Net earnings allocated to each member based on patronage are called "capital credits", and the underlying value is retained by the cooperative for a period of time. Most telephone cooperatives have capital credit retirement programs in which the value of past allocated capital credits is returned to members, most frequently as a credit on their telephone bill.

### **Population Discovery and Data Sources**

The list for rural telephone cooperatives comes from NTCA. All economic data comes from survey work undertaken by the UWCC and Guidestar. The survey response rate for rural telephone cooperatives was 39.5%, and all reporting cooperatives provided us with 2005–2007 fiscal year-end data. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

### **Economic Impacts**

**Table 4-5** shows that we acquired data on 158 telephone cooperatives, and collectively these firms account for >\$5B in assets, exceed \$1.5B in sales revenue, and pay >\$521M in wages. There are approximately one million memberships and 12,000 employees. As **Table 4-5.2** shows, by extrapolating to the entire population (255 firms) and adding indirect and induced impacts to this activity, telephone cooperatives account for close to \$3.9B in revenue, 23,000 jobs, \$1.3B in wages paid, and \$1.8B in valued-added income.

**Table 4-5.2:** Economic Impacts for Telephone

Economic Impact	Multiplier	Units	Direct	Indirect	Induced	Total
Revenues	1.608	million \$	2,412	653	814	3,879
Income	1.757		1,022	329	444	1,795
Wages	1.530		858	204	251	1,313
Employment	1.785	jobs	12,634	3,965	5,954	22,553

## **4.4.2 Water**

### **Overview**

Close to 3,300 water cooperatives in the U.S. are consumer-owned utilities formed to provide safe, reliable, and sustainable water service at a reasonable cost. They provide drinking, fire protection, and landscaping irrigation water. In addition, many of them provide wastewater services. Water cooperatives are most often found in suburban and rural areas that are located too far from municipal water companies to receive service.

Most water cooperatives are small (serving 501–3,300 consumers) or very small (serving fewer than 500 consumers). Eighty-nine percent of the population that is served by public water systems is served by either a publicly owned, municipal water system or a cooperative utility. The remaining 11% of Americans are served by privately owned water systems. Nonprofit cooperatives are the most common organizational form in very small communities.

### **History**

The association between disease and polluted water was recognized by the early 1900s and steps were taken to treat water before its distribution for human consumption. In contrast to the development of other utilities, early water systems were owned by private, for-profit entities. However, as cities and towns grew exponentially and the capital needed to develop water infrastructures increased, municipal governments assumed control of private utilities. After World War I, Congress exempted municipal bond interest from Federal taxation, enabling cities and towns to issue bonds at low interest rates that were still attractive to investors. Much of the country's water infrastructure has been supported by these tax-advantaged municipal bonds. Today most water systems are owned by municipalities.

As is true of other utilities, the expense of providing water to rural residents is considerably higher than providing it to urbanites, due to the large distances water must be transported. The number of rural water cooperatives and mutual associations increased significantly during the late 20th century old farm wells randry or became contaminated and unsafe.

Water cooperatives have long benefited from government support. In 1946, the Farmers Home Administration (FmHA) was given responsibility for implementing water programs. Since 1990, the programs have been administered through the RUS's Water and Environmental Program (WEP). Many water cooperatives were developed with significant assistance from rural electric cooperatives, and local rural electrics have expanded into providing water services as well.

### ***Industry Niche***

The Environmental Protection Agency (EPA) describes a public water system as an organization that "provides drinking water to at least 25 people or 15 service connections." Most of the U.S. population (292 million) receive their water from the nearly 155,000 public systems in the U.S. [60]. This figure includes municipal systems, water cooperatives and mutual associations, water districts, and nonprofits. Most systems serve small populations spread over large geographic areas. In 2005, 85% of the systems were estimated to serve just 10% of the population [61]. An estimated 3,352 of these public water systems are cooperatives or mutual associations, nearly all of which are small- or medium-sized utilities. About 60% of the nearly \$40B in revenue generated by U.S. water utilities is from household consumption [27].

Water utilities have three major components: a water source; a treatment facility to remove pollutants and impurities; and a distribution system. This delivery infrastructure, which spans nearly 1 million miles, is the primary asset of public water systems and represents a significant capital investment [32]. In addition to providing enough water for both potable and non-potable needs, the water must be safe, of acceptable quality, provided at appropriate pressure with minimal loss, and economical.

The water sector currently faces many challenges. To replace a rapidly aging infrastructure, much of which was built in the late 1800s and the early 1900s, the American Water Works Association estimated that \$250B will be needed over the next 30 years [61]. Furthermore, consumers have become more educated about the industry, and are placing increasing demands on utilities for high-quality water provided in an environmentally sustainable way. Other challenges include meeting the increasingly stringent governmental standards for water quality, protecting the security of the water supply against potential terrorist threats, and replacing the large proportion of the experienced labor force approaching retirement age.

Significant investments in the water infrastructure are needed to meet these challenges, but represent costs that are particularly difficult for small- and medium-sized utilities to absorb. In 1998, the ratio of net utility plant cost per gallon of water supplied was about 3.5:1 for investor-owned water utilities, more than twice that of the energy and telecommunications utilities [61]. These costs are even higher for small and very small water systems, where the cost ratio is almost 8–10 times higher than for systems serving >50,000 customers. In response, some public water systems have turned to investor-owned firms, either to take ownership of the system and make needed capital investments, or to manage the system and provide needed technical expertise. Many are concerned about the loss of community control over the safety and distribution of water, and point to evidence from other countries that privatization may result

in higher costs to consumers for lower quality water. Others think that private, profit-oriented capital investment is the only way to maintain the country's water infrastructure.

The drinking water industry is regulated by a complex of local, regional, state, and national laws and organizations. Because water supply systems are monopolies, public utility commissions are responsible for regulating rates for private water companies, rates of return, and quality of service. However, publicly owned systems, cooperatives, and homeowners associations are exempt from price regulations. Because they operate on a nonprofit or not-for profit basis, and their directors are elected by consumers, it is presumed that the consumer or the public has control over rates [61]. Water quality is regulated by state agencies using Federal standards. In addition, drinking water systems that serve >3,300 people are federally required to periodically assess vulnerability to attacks by terrorists or others.

#### ***Organizational Structure***

Water cooperatives are incorporated under state statutes specific to cooperatives, mutual associations, or nonprofit corporations. The term "water cooperative" is used here to indicate all of these organizational forms. Like other utility cooperatives, water cooperatives are considered nonprofit corporations and are granted Federal tax-exempt status under IRC section 501(c)(12), which requires that they operate on a nonprofit basis, provide water and/or wastewater services, and meet the 85% income from members rule. These cooperatives are found primarily in rural and suburban areas and provide water and wastewater services at cost.

Rural water cooperatives typically are organized by households and businesses that cannot connect to existing water systems, usually because they are located too far from an existing system to make service financially feasible. In contrast, most mutual water associations were created to buy out the real-estate developers who built water systems to service their development properties [64].

Each water system customer is a member-owner of the cooperative, and membership is required of all customers. Water cooperatives are democratically controlled enterprises either on a one-meter/one-vote or a one-member/one-vote basis. In nearly all cases, water cooperatives are monopoly providers, as are other water utilities. As a result, customers do not have the opportunity to choose among a variety of providers. Membership is typically open to any property owner within the designated water service area.

Water cooperatives are governed by a board of directors that establishes policies and provides oversight. Members elect the board of directors from among the membership. The number of directors on the board varies, depending on the size of the cooperative and the responsibilities of the board members. Since most water cooperatives are very small, there are usually no employees and the work is performed on a volunteer basis, often by the board members. The members typically elect 5 or more board members. While larger cooperatives hire staff to perform operational functions, board directors make most of the every-day decisions. Usually, directors are not compensated for their service.

Members usually vote only to elect board members. WEP provides loans and grants to water systems in rural areas with fewer than 10,000 residents to develop and/or repair water and wastewater systems, reduce costs to a reasonable level for rural users, and provide technical assistance and training directly or through grants. Loans are made at variable rates depending on the need to meet applicable health or sanitary standards, and the median household income

in the service area [31]. Additional funds for specified uses are available to water systems through USDA Rural Development's Community Facility Programs, and may also be available through state programs.

#### **Population Discovery and Data Sources**

The list for water cooperatives comes from the EPA and Guidestar. All economic data comes from survey work undertaken by the UWCC and Guidestar. The survey response rate was 35% for water cooperatives, 28.6% for water mutuals, 58.9% for water associations, and all reporting cooperatives provided us with 2005–2007 fiscal year-end data. We took a non-random sample of 445 water cooperatives with Guidestar information. The data collection and survey methodology is discussed in detail in the Data Collection section in the Appendix.

#### **Economic Impacts**

**Table 4-5** shows the data we have from 923 water cooperatives, and collectively these firms account for >\$2.2B in assets, \$1.7B in sales revenue, and pay \$4.7M in wages. There are approximately 2 million memberships and 40,000 employees. As **Table 4-5.3** shows, by extrapolating to the entire population (3,352 firms) and adding indirect and induced impacts to this activity, water cooperatives account for close to \$2.6B in revenue, 11,000 jobs, \$408M in wages paid, and nearly \$500M in valued-added income.

**Table 4-5.3:** Economic Impacts for Water

<b>Economic Impact</b>	<b>Multiplier</b>	<b>Units</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
Revenues	1.190	million \$	2,170	184	228	2,582
Income	1.780		279	93	125	497
Wages	1.457		280	57	71	408
Employment	1.328	jobs	8,542	1,123	1,681	11,346

## 5. Discussion Papers

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In the Request for Proposals, the USDA asked that we conduct research on the "economic impact" of cooperatives, and was explicit about the measures of impact on which we should base our assessment. In essence, the USDA asked that we measure the magnitude of business activity conducted by cooperatives. Although this is a useful starting point, in our proposal we argued that other kinds of impact are also important, perhaps even more important. Measures of business activity do not address the unique contributions of cooperatives, relative to other forms of business organization. In principle, the cooperative ownership structure should lead to distinctive firm-level behavior.

In an effort to identify ways that these "deeper impacts" might be quantified, we set aside funds in our proposal to support a series of competitively sourced discussion papers from the academic community to generate ideas on how we might credibly measure these, and other, impacts in the future. Ultimately, any behavior identified as unique to the cooperative ownership structure will generate the type of impact we seek. In the next section, we discuss how we will use the ideas generated from these discussion papers to continue our research on the economic impact of cooperatives with subsequent rounds of funding.

Here we list the primary author and affiliation of each discussion paper along with a link to their work.

1. Ethan Ligon, Associate Professor, Dept. and Agricultural and Resource Economics, University of California, Berkeley, "Risk Management in the Cooperative Contract."
2. Philippe Marcoul, Associate Professor, Dept. of Rural Economy, University of Alberta, "*Incentive Pay for CEOs in Cooperative Firms.*"
3. Brian Mayhew, Associate Professor, Wisconsin School of Business, University of Wisconsin, Madison, "*Accounting Research on Cooperatives.*"
4. Jessican Gordon-Nembhard, Visiting Scholar, Centre for the Study of Cooperatives University of Saskatchewan, "*Asset Building through Cooperative Ownership: Defining and Measuring Cooperative Economic Wealth.*"
5. Greg Reilly, Assistant Professor, University of Connecticut School of Business, "*Risk Mitigation Factors Enabling Exploration by Risk-Averse Firms.*"
6. Richard Sexton, Professor, Department of Agricultural and Resource Economics, University of California, Davis, "*A Evaluation of Cooperatives' Comparative Strengths and Weaknesses in a Vertically Differentiated Agricultural Product Market.*"
7. Gordon Smith, Professor, Brigham Young School of Law, "*Say Cheese: New Molds for 'Old' Cooperative Forms? The Case of Wisconsin Specialty Cheesemaking*"
8. Charlie Trevor, Association Professor, Wisconsin School of Business, University of Wisconsin, Madison, "*Worker Performance and Voluntary Turnover in Worker Cooperatives.*"

## 6. Future Research

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The USDA has issued three rounds of funding (covering 2006–2011) to conduct research on the economic impact of cooperatives. We present research from the first round, covering 2006–2008, on our website (<http://reic.uwcc.wisc.edu/>) and in this report. We present essentially an economic census of cooperatives. In our research, we sought to identify, and collect basic economic data on, all cooperative firms in the U.S. Our data, while useful for reporting on aggregate economic activity, it is less useful for conducting analyses of the unique organizational and behavioral character of cooperative firms.

Our intent moving forward is to collaborate with the Census Bureau of the United States to collect much more detailed primary data on a stratified random sample of cooperatives, and to integrate data from this survey into Census databases. Doing so will enable researchers to access data on cooperative businesses, and will, we hope, spur research on understanding and improving cooperative performance. We have also set aside a portion of the budget from each subsequent round of funding to commission specific research projects on the unique impacts created by cooperatives. We will consult with staff at USDA Cooperative Programs to determine the specific future projects.

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## 8. Appendices

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This section contains ancillary material to the findings reported above. We provide a full description of the methodology we used to measure indirect and induced impacts, and describe our data collection procedures. We also provide a glossary of terms and abbreviations that are used in our report, and acknowledge the many contributors to this project beyond the core research staff at the University of Wisconsin Center for Cooperatives (UWCC).

### 8.1 IMPLAN Methodology

#### 8.1.1 Introduction

Researchers generally address questions concerning the size of cooperative businesses or the contribution of cooperatives to the larger economy in three ways. The first and simplest is a "head-count" approach that focuses on assessing the relative size of the sector by inventorying the sales revenue generated by cooperatives, the number of cooperative employees, and the total wages, salaries, and patronage paid by cooperatives. The second approach uses scalar multipliers to assess the level of linkages between cooperatives and the larger economy. This approach enables the research to move from the simple head-count approach to the next step by capturing the "multiplier effect". The third approach uses a complete model of the larger economy to capture not only the aggregate multiplier effect obtained in the scalar multiplier approach, but also to estimate specific industry-to-industry linkages. This latter research approach enables the researcher to decompose the scalar multiplier to the industry level.

The head-count approach reveals that cooperatives employ 500 persons and pay wages and salary of about \$35K annually per employee (\$17.5M total). If the scalar employment multiplier is 1.5 and the income multiplier is 1.6, then the total impact of cooperatives on the larger economy is 750 jobs ( $500 \times 1.5$ ) and \$28M ( $17.5 \times 1.6$ ). Using the third approach, the research can identify which industries are affected by the multiplier effect and at what level. An important question is, If the 250 jobs generated through the multiplier effect, how many are in services, retail, construction, or the public sector? The third approach will provide insights into this question.

The most common and widely accepted methodology for measuring the economic impacts of cooperatives and other enterprises is input-output (I-O) analysis, a subset of a family of methods called social accounting models (Shaffer, et al. 2004; Hewings 1985). Input-output models attempt to describe an array of economic transactions between various sectors in a defined economy for a given period, typically a year. These models provide researchers not only with estimates of the scalar multipliers but also support a detailed decomposition of the multipliers (briefly described above).

Like any economic model, ours is an abstraction of the real world and depends on assumptions that may be imperfect. Unfortunately, most studies that document the impact of cooperatives seldom discuss these limitations. Regardless, this type of analysis, the results of which are frequently cited in newspapers and used in government testimonies, seems more prevalent than ever. Input-output models are used descriptively and analytically to demonstrate the relative importance of a business, industry, or sector (e.g., agriculture) in an economy, and prescriptively, to predict the economic responses from alternative actions (e.g., building a new sports stadium) (Hastings and Brucker 1996; Hewings and Jensen 1986). Input-output analysis is attractive in part because it provides (seemingly) straightforward results; for example,

agriculture accounts for 20% of the local economy or a new stadium will generate \$1M in additional income. Another appeal of I-O analysis is that it uses multiplier effect to calculate the total impact, which yields far larger values than would be obtained by any direct "head-count" method.

The usefulness of I-O analysis seems to naturally extend to the cooperative sector where such results would surely appeal to multiple groups. Trade associations, government agencies, and even university centers that rely on public funds use the figures to demonstrate the significance of cooperatives to the economy, and hence, the importance of their work. Individual cooperatives might also seek to know the impact of their organization on the local economy, to build support in the community, or to capture a marketing advantage. Using cooperative economic impact analysis would enable policy makers and community development practitioners to make more informed decisions regarding the support of alternative business development options.

Few studies have used I-O analysis to measure the economic impact of cooperatives (Folsom 2003; Zeuli, et al. 2002; Bhuyan and Leistriz 1996; Coon and Leistriz 2001; Herman and Fultor 2001). This dearth may stem from a lack of familiarity with this methodology and how it might be applied. A better understanding of I-O assumptions and data requirements, as related to cooperative studies, is also necessary to avoid "unused, underused, or misunderstood" results (Hastings and Brucker 1996; Zeuli and Deller 2007).

### 8.1.2 Input-output methodology

An I-O model offers a "snapshot" of the economy, detailing the sales and purchases of goods and services between all sectors of the economy for a given period of time within a conceptual framework derived from economic theory. The activities of all economic agents (industry, government, households) are divided into  $n$  production sectors. The transactions between the sectors are measured in terms of dollars and segmented into two broad categories: non-basic, which includes transactions between local industries, households and other institutions, and basic, which includes transactions between industries, households, and other institutions outside the economy being modeled (i.e., imports and exports).

One can think of an I-O model as a large "spreadsheet" of the economy where columns represents buying agents in the economy. These agents include industries within the economy buying inputs into their production processes, households and governments purchasing goods and services, as well as industries, households, and governments that are located outside the region of analysis. The latter group represents imports into the economy. Economic agents can import goods and services into the regional economy for two reasons. First, the good or service might not be available and must be imported. Second, local firms might produce or supply the imported good or service, but the local prices or specifications might not meet the needs of the purchasing economic agents. The columns represent economic demand. The rows of the "spreadsheet" represent selling agents in the economy or supply. These agents include industries selling goods and services to other industries, households, governments, and consumers outside the region of analysis. The latter group represents exports out of the economy. Households that sell labor to firms are also included as sellers in the economy.

Within the terminology of input-output modeling, this "spreadsheet of the economy" is referred to as a transactions table; an illustrative example is provided in **Table A.1**. In this example, the

economy is composed of three industries including agriculture (Agr), manufacturing (Mfg) and services (Serv) along with households (HH). Reading down the agricultural column reveals the purchasing patterns of the agricultural industry. Here, agriculture purchases \$10 worth of other agricultural goods, such as dairy farmers purchasing feed from other farmers. Farmers also purchase \$4 from manufacturing, such as capital equipment such as tractors or milking equipment. Farmers purchase \$6 worth of services, such as accounting services or specialty crop services. Household supplies \$16 worth of labor, such as the farmer or any hired hands. Finally, agriculture imports \$14 worth of goods and services into the region. Total spending or costs of the agricultural industry (the input) is \$50. Reading across a row identifies the particular industry or sector that sells goods or services. Continuing the agricultural industry example, agriculture sells \$10 worth of product to other farmers, such as feed grain to dairy farmers. Agriculture sells \$6 to manufacturing, such as milk sold to cheese plants. Agriculture sells \$2 to the service sector, such as direct sales to restaurants. Agriculture sells \$20 of product to households, and finally exports \$12 out of the region. Total sales, or total industry revenue (the output) in this example, is \$50.

**Table A.1:** Illustrative Transactions Table

Processing Sectors (Sellers)	Purchasing Sectors (Demand, in \$)			Final Demand, in \$		Output
	Agriculture	Manufacturing	Service	Household	Exports	
Agriculture	10	6	2	20	12	50
Manufacturing	4	4	3	24	14	49
Service	6	2	1	34	10	53
Household	16	25	38	1	52	132
Import	14	12	9	53	0	88
Input	50	49	53	132	88	372

A key assumption in the construction and application of input-output modeling is that supply equals demand. In the framework of the "spreadsheet of the economy" outlined above, the row total (supply or industry revenue) for any particular industry equals the column total (demand or expenditures): the "spreadsheet of the economy" must be balanced. In the above agricultural example, total sales, or total revenue ("Output" in **Table A-1**) is \$50 and total expenditures, or total costs, ("Input" in **Table A-1**) is also \$50: Therefore, the supply of agricultural products exactly equals the demand for agricultural products. This framework enables us to trace how shocks to one part of the economy affect the whole of the economy.

For example, consider an increase in the demand for agricultural products in our simple economy outlined above. Suppose that demand for U.S. milk products increases. To meet this new, higher level of demand, dairy farmers must increase production. Increasing production requires the purchase of additional feed from grain farmers, the purchase of additional capital equipment from manufacturing, purchase of additional professional services such as veterinarian services, and more labor. These other sectors must also increase production, and their corresponding inputs, to meet the new level of demand created by an increase in milk production. The new labor hired by dairy, for example, has higher levels of income that it in turns spends in the regional economy, thus creating even higher levels of demand for milk. The increased milk demand creates a rippling effect throughout the whole of the economy.

This rippling effect, the multiplier effect, can be measured and applied to assessment of how a change in one part of the economy affects the whole of the economy.

### ***Input-Output Multipliers***

We described an input-output model of an economy as a "spreadsheet of the economy" in which any change or shock in one part of the economy ripples across the entire economy. By manipulating the empirical I-O model, it is possible to compute a unique multiplier for each sector in the economy. Using these multipliers for policy analysis can provide insight be useful in preliminary policy analysis to estimate the economic impact of alternative policies or changes in the local economy. In addition, the multipliers can identify the degree of structural interdependence between cooperatives and the rest of the economy. The output multiplier described here is among the simplest input-output multipliers available. By employing a series of fixed ratios from the input-output model, researchers can create a set of multipliers ranging from output to employment multipliers, as shown in **Table A-2**.

**Table A.2:** Understanding Multipliers

Type	Definition
Output Multiplier	The output multiplier for industry $i$ measures the sum of direct and indirect requirements from all sectors needed to deliver an additional dollar-unit of output of $i$ to final demand.
Income Multiplier	The income multiplier measures the total change in income throughout the economy from a dollar-unit change in final demand for any given sector.
Employment Multiplier	The employment multiplier measures the total change in employment due to a one-unit change in the employed labor force of a particular sector.

The income multiplier represents a change in total income (employee compensation plus proprietary income plus other property income) for every dollar change in income in any given sector. The employment multiplier represents the total change in employment resulting from the change in employment in any given sector. Thus, changes in economic activity can be measured three ways.

For example, consider a dairy farm that has \$1M in sales or revenue (industry output), pays labor \$100K inclusive of wages, salaries, and retained profits, and employs three workers including the farm proprietor. Suppose that demand for milk produced at this farm increases by 10%, or \$100K. The traditional output multiplier could be used to determine the total impact on output. Alternatively, to produce this additional output the farmer will need to hire a part-time worker. The employment multiplier could be used to examine the impact of this new hire on total employment in the economy. In addition, the income paid to labor will increase by some amount and the income multiplier could be used to determine the total impact of this additional income on the larger economy.

### ***Initial, Indirect, and Induced Effects***

Construction of the multipliers allows us to decompose the multiplier effect into three parts: (1) the initial (or direct) effects; (2) the indirect effects; and (3) the induced effects. The initial effect is associated with the scenario that creates the impact on the economy. In the agricultural example above, this is the increased agricultural (or milk) sales. To produce the additional output, the firm or industry must purchase additional inputs. The inputs take two forms: (1) purchases from other businesses and (2) labor. The first, purchases from other businesses, creates the indirect effect, while the second form creates the induced effect. For a particular

producing industry, multipliers estimate the three components of total change within the local area:

*Direct effects* represent the initial change in the industry in question (e.g., in the industry itself). *Indirect effects* are changes in inter-industry transactions when supplying industries respond to increased demands from the directly affected industries (e.g., impacts from non-wage expenditures). *Induced effects* reflect changes in local spending that result from income changes in the directly and indirectly affected industry sectors (e.g., impacts from wage expenditures).

Comparing and contrasting the indirect and induced effects can offer important insights. For example, industries that are more labor-intensive will tend to have larger induced effects and smaller indirect effects. In addition, industries that tend to pay higher wages and salaries will also tend to have larger induced effects. Decomposing the multiplier into its induced and indirect effects can provide a better understanding of the industry under examination and its relationship to the larger economy.

#### **Data Requirements**

Assessing the contribution of cooperatives to the larger US economy requires describing cooperatives in a way that is compatible with the input-output model. This study faces the challenge that cooperatives are a specific business structure, not a particular industrial sector. Thus, the input-output model provides no direct "cooperative multiplier". A major component of this study is the creation of a consistent method for assessing the impact of cooperatives across the spectrum of cooperative types. We therefore focused on the income generated by cooperatives through wages and salaries paid to employees plus patronage payments to cooperative members. However, we did not obtain quality data on non-labor-related expenditures. For labor-intensive cooperatives, such as credit unions, this approach adequately represents the scale and scope of the cooperative. Our analysis lacks business-to-business expenditures, such as office supplies or utilities.

Given the gap in our survey data, our study is limited to examining the employment and patronage side of cooperatives. Like any other business, cooperatives employ people and pay wages/salaries to those employees. Many cooperatives also make patronage payments to members, which is a form of income. The study examines the impact of those wages/salaries and patronage payments on the broader economy. Given the computed impact on the economy of cooperatives' wages/salary and patronage payments, we compute "implicit" multipliers for each type of cooperative. These implicit multipliers can then be used to assess the impact of any one type of cooperative in future analyses. Importantly, because we consider only the labor-related expenditures of cooperatives, the resulting impacts are conservative because they underestimate total impacts.

In some instances, we did not obtain data for all firms in a given sector. In these cases, we used the available survey data to compute a sample mean and then applied it to the population size to estimate population size. For example, if we had usable survey data from 50 cooperatives of a particular type and the total population is 200 cooperatives, we would use the data from the 50 cooperatives to compute an average, then multiply that average by 200 to estimate the total size of the cooperative sector. We then would enter this estimate into the input-output model.

### ***Modeling System***

The input-output modeling system used in this study is IMPLAN (Impact M for Planning), originally developed by the USDA Forest Service. A product of the Rural Development Act of 1972, IMPLAN is a system of county-level secondary data input-output models designed to meet the mandated need for accurate, timely economic impact projections of alternative uses of U.S. public forest resources. The Forest Service made IMPLAN as widely available as possible because it was developed using public funds. Moreover, a small investment by the USDA Cooperative Extension Service ensured that the IMPLAN modeling system became widely used by rural development researchers and Extension specialists in the Land Grant University System. The relationship among university-based researchers, Extension specialists, and the Forest Service quickly became bilateral—researchers and specialists questioned data and assumptions, made suggestions, and demanded changes. To accommodate this demand for services, the Forest Service privatized IMPLAN; it is now operated by the Minnesota IMPLAN Group (MIG). In addition to updating and improving the databases and software, MIG holds regular training sessions, biannual user conferences, and maintains a collection of hundreds of papers that have used IMPLAN.

One advantage of the IMPLAN system is the open access philosophy instilled by the Forest Service. IMPLAN is designed to provide users with maximum access so that they can alter the underlying structure of the data, the model, or means of assessing impact. The combination of the detailed database, flexibility in application, and the open access philosophy has made IMPLAN one of the most widely used and accepted economic impact modeling systems in the U.S. IMPLAN has been accepted in the U.S. court system and in many regulatory settings.

To assess the economic impact of cooperatives, we employed the 2006 IMPLAN database and the model constructions for the U.S. economy. Labor and patronage payments were used to model the impact of each cooperative type on the whole of the U.S. economy. Given data on cooperative sales, employment, wages, and salary along with patronage refunds, we could assess the impact of cooperatives with a high level of confidence.

## **8.2 Data Collection**

### **8.2.1 Population discovery**

The aim of the project was to create a complete census of U.S. cooperative businesses and measure their economic impact on the U.S. economy. The process of creating a census involved three distinct steps:

- Identifying cooperative business and relevant trade associations.
- Compiling business lists with contact information.
- Gathering data on key economic indicators to aid in the measurement of impacts.

Most businesses were identified with the help of key contacts in various trade associations, academic partners and collaborators, and primary population discovery conducted by the UWCC using business software. In the next section, we discuss each of these venues for population discovery.

### ***Trade Associations and Public Organizations***

For regulated industries such as credit unions, corporate credit unions, the FCS, and Federal home loan banks, we used annual reports available at the regulatory Federal agencies'



websites. The data for rural electricians comes from NRECA. Agricultural Marketing and Supply Co-ops data come from the USDA 2006 annual survey.

Purchasing cooperative lists were provided by NCBA, and housing cooperative lists were provided by NCB. The EPA provided a list of water mutuals and associations which was supplemented with Guidestar data.

#### ***Primary Population Discovery***

For many sectors, we created primary lists with the assistance of undergraduate researchers. Online searches were conducted with key phrases such as "co-op", "cooperative", and "mutual" for each economic sector. Once cooperatives were identified, lists were created and downloaded into a database with appropriate contact information.

Childcare, Healthcare, Mutual Insurance, Transportation, Education, Water, and Telephones lists were created using Google, Broadlook, Onesource, Dunn, and Guidestar; UWCC purchased the software. Finally, for grocery and worker cooperatives, we used lists maintained by Professor Ann Hoyt and Professor Christina Clamp, respectively.

#### **8.2.2 Data collection and survey methodology**

We used standardized survey instruments and a uniform sampling methodology to minimize measurement error and to yield data that would be comparable across economic sectors. The instruments were also designed to identify businesses and collect firm-level data that can be used for future longitudinal studies of cooperative performance.

#### ***Design, Sample Frame, and Implementation***

Implementing a survey involved numerous separate tasks. These activities included:

- Designing a survey instrument
- Identifying and building an appropriate sample frame
- Hiring and training enumerators
- Piloting the survey
- Securing the participation of selected cooperative firms
- Sending out invitations for participation
- Making and tracking appointments, and tracking refusals to participate
- Implementing the questionnaire
- Tracking survey completion and quality control
- Entering data and quality control

#### ***The instrument***

The identical survey instrument was used for all economic sectors, except that adjustments were made as needed for inherent structural differences. The core instrument has four sections:

- Section I. Institutional Information
- Section II. Organizational Structure
- Section III. Financial Information
- Section IV. Governance & Taxation Information

**Selecting a sample frame**

The cooperative business surveys were targeted to a particular set of firms in the following sectors the USDA identified: Commercial Sales and Marketing; Social and Public Services; Financial Services; and Utilities.

Our interest was to collect firm-level data. A firm may have one or many establishments.

Financial information for the purposes of this study was collected at the aggregate level, so all reported financial data is consolidated unless otherwise specified.

Our sampling strategy was as follows. If the total number of firms were <400 in a given economic sector, then we interviewed all firms in the list. Our goal was to elicit a 50% survey response rate. The following sectors were surveyed using this approach: Grocery and other consumer retail; Arts and Craft; Education; Healthcare; (not Community Healthcare Centers) Transportation; Biofuels; Telephone; and Purchasing and Worker cooperatives.

For economic sectors with >400 firms we selected a stratified random sample of 300 firms. We employed this approach for the following sectors: Mutual Insurance; Water; and Housing Cooperatives. Our sampling unit for stratification was U.S. states. We followed this approach to ensure that the resulting sample represented underlying distribution within each state for a particular economic sector. To preserve the anonymity of firms, we excluded any state that had fewer than 5 firms in a particular economic sector.

Even following this sampling strategy, identifying telephone numbers for cooperatives was sometimes difficult, particularly in the case of housing and water cooperatives. Most of these cooperatives are small, or without offices, and no one is available during regular business hours. To maximize data points, we redrew our stratified sample from firms with telephone numbers, preserving the population distribution.

**Piloting the survey**

We piloted the survey to pretest the questions to minimize question ambiguities, check for clarity and consistency, incorporate input from key participants, and allow survey modification to address sector-specific differences. Finally, piloting enabled better training of enumerators. Our piloting consisted of up to 20 interviews, depending on the number of firms in the sector.

**Publicizing and Implementation of the Economic Impact Survey**

Publicizing a survey increases participation. Because we were surveying multiple sectors simultaneously, we used various mediums to invite participants. To increase participation, we solicited help from trade associations to distribute invitations to their member lists, on their websites, and in their newsletters. UWCC also posted an announcement about the survey on its website, mailed invitation letters and e-mails, and often extended direct invitations by telephone.

We intended to create a web form that firms could visit annually to update their profile. Although we followed this approach early in survey implementation, survey responses were not adequate. We therefore hired a staff of 12 students to conduct phone surveys to reach the desired 30% response rate. Calling individual firms and scheduling appointments with the CEO or accountant was more efficient, because this approach gave the respondents time to collect financial information before the phone survey.

Using supplementary data from Guidestar and Onesource, we attained a 30% response rate for all sectors except housing. We surveyed the following sectors: healthcare; childcare; groceries;

purchasing; worker; transportation; education; telephones; water; mutual insurance; farm credit system (only for employment information); arts and crafts; housing; and biofuels. We contacted each firm at least three times. Specific response rates for each economic sector are provided in the sector analysis section under "population discovery".

#### ***Data Entry and Analysis***

Although the data needed for this economic impact analysis was fairly straightforward, the reporting of financial information varies greatly by sector and posed challenges to standardizing data for analysis. This was especially true for defining a patronage refund. Further research needs to carefully document patronage practices across cooperatives.

Once the data was standardized, it was used to create the maps and the IMPLAN analysis.

### **8.3 Acknowledgements**

#### **8.3.1 Core research and data collection team for the University of Wisconsin–Madison**

This report was prepared by a core team of faculty and staff led by Brent Hueth, and comprising Steven Deller, Ann Hoyt, Matt Kures, Lynn Pitman, Anne Reynolds, and Reka Sundaram-Stukel. The team benefited greatly from excellent research assistance from Pilar Jano, Hedayat Moussavi, and Andrés Moya; and we are indebted to our two graduate-student IT-Gurus, Badri Narayan Bhaskar and Mayank Maheshwari, who kept the project going. We would like to extend special acknowledgment to Catherine Levinten-Reid for her contributions early in the project. We would also like to thank our army of undergraduate research assistants: Charity Bingham, Tracey Beechner, Christa Behnke, Katie Behnke, Kristen Degeneffe, Eugene Dreyster, Manju Gupta, Alia Jammaluddin, Elizabeth Johnson, Maren Maland, Chris McKim, Monica Sharma, Kevin Vandernaald, and Chris Wollum. Their cheerful telephone personalities and diligence made this analysis possible.

#### **8.3.2 Industry collaborators and cooperative community**

First and foremost, we are extremely grateful to the survey participants who took the time from their busy schedules to participate in the study. Without their participation and feedback, this study would not have been possible.

#### ***Industry Collaborators***

We would like to extend a special thanks to all agencies, organizations, and trade associations for their help in the population discovery, data collection, and survey promotion, and for the many helpful comments and suggestions they provided. We are especially grateful to the following organizations for formally supporting our project proposal with letters of support, and for subsequently participating in our project: National Cooperative Business Association; Department of Agriculture, Trade and Consumer Protection; National Rural Electric Cooperative Association; National Telecommunications Cooperative Association; National Cooperative Bank; Farm Credit Council; CoopMetrics; National Association of Housing Cooperatives; Parent Cooperative Preschools International; Filene Research Institute; Wisconsin Federation of Cooperatives and Minnesota Association of Cooperatives; and CHS Foundation.

***Individual Collaborators***

Excellent and extensive advice was given, during various conference calls and meetings, by Paul Hazen, Christina Clamp, Herb Fisher, John Hays, George A. Hofheimer, Terry Lewis, Martin Lowery, Mike Schenck, Tim Size, Marc T. Smith, Walden Swanson, David Thompson, Roger Wilcox, and John von Seggern. We are grateful to all. We also consulted with Elizabeth Bailey, Spyros Heniadis, Melissa Hoover, Melanie Hovey, Anne Katz, Mary Ann Rothman, Stu Schneider, Rick Shadelbauer, Marc Shafroth, Dr. Tun Wei, and many more that we forget to list

**8.3.3 Collaborative research council and boundaries workshop participants**

We formed two advisory committees during the course of our research. The Cooperative Research Council served as a point of contact with the cooperative community and as a review panel for discussion paper proposals. The Boundaries Advisory Committee was formed to help us identify the legal, tax, and structural character of cooperatives to define our research population. We are deeply grateful to those who gave their time to these efforts.

- James Baarda, USDA Cooperative Programs
- Dennis Bolling, CEO, United Producers
- Ann Fedorchak, NCB
- Gail Graham, General Manager, Mississippi Markets Grocery
- Bill Hampel, Executive Vice President, CUNA
- John Hayes, Executive Vice President, Farm Credit Council
- Paul Hazen, CEO, National Cooperative Business Association
- John Logue, Director, Ohio Center for Employee Ownership
- Martin Lowery, Executive Vice President, National Rural Electric Cooperative Association
- Catherine Levinten-Reid, Postdoctoral fellow, Centre for Study of Cooperatives, University of Saskatchewan
- Rosemary Mahoney, Board Member, NCB
- William Nelson, Executive Director, CHS Foundation
- LeAnn Oliver, Director, USDA Cooperative Programs
- Bruce Reynolds, USDA Cooperative Programs
- David Swanson, Partner, Dorsey and Whitney LLP
- Tom Schomisch, Board Member, Group Health Cooperative
- Barry Silver, Executive Vice President, NCB

#### 8.3.4 Academic collaborators and discussion paper authors

- Ethan Ligon, Associate Professor, Dept. of Agricultural and Resource Economics, University of California, Berkeley.
- Philippe Marcoul, Associate Professor, Dept. of Rural Economy, University of Alberta.
- Brian Mayhew, Associate Professor, Wisconsin School of Business, University of Wisconsin, Madison.
- Jessican Gordon-Nembhard, Visiting Scholar, Centre for the Study of Cooperatives University of Saskatchewan.
- Greg Reilly, Assistant Professor, University of Connecticut School of Business.
- Richard Sexton, Professor, Department of Agricultural and Resource Economics, University of California, Davis.
- Gordon Smith, Professor, Brigham Young School of Law.
- Charlie Trevor, Associate Professor, Wisconsin School of Business, University of Wisconsin, Madison.

#### 8.3.5 Funding partners

The team gratefully acknowledges the generous support of the USDA's Cooperative Programs for providing us with the funding and opportunity to conduct this research project. We also gratefully acknowledge matching support from the members of the National Cooperative Business Association and the Wisconsin Department of Agriculture, Trade and Consumer Protection.

### 8.4 List of Acronyms <sup>1</sup>

Acronym	Agencies, Organizations, and Trade Associations
ACB	Agricultural Credit Bank
ACA	Agricultural Credit Associations
ACCU	Association of Corporate Credit Unions
ASI	American Share Insurance
AT&T	American Telephone and Telegraph
CCHA	Cooperative Home Care Associates
CCMA	Consumer Cooperative Management Association
CCU	corporate credit union
CDF	Cooperative Development Foundation
CDRF	Corporate Development Revolving Fund
CFC	National Rural Utilities Cooperative Finance Corporation
CLF	Central Liquidity Fund
CUNA	Credit Union National Association
EPA	Environmental Protection Agency
ESA	educational service agency
ESOP	employee stock ownership plan
FCA	Farm Credit Administration
FCB	Farm Credit Bank
FCC	Farm Credit Council
FCC	Federal Communications Commission
FCS	Farm Credit System
FCU	federally chartered credit union

<b>Acronym</b>	<b>Agencies, Organizations, and Trade Associations</b>
FHLBS	Federal Home Loan Bank System
FLB	Federal Land Bank
FLCA	Federal Land Credit Associations
FmHA	Farmers Home Administration
G & T	generation and transmission
GPO	group purchasing organization
GSE	government-sponsored entity
HMO	health maintenance organization
ICA	International Co-operative Alliance
IMPLAN	Impact M for Planning
I-O	input-output
IOU	investor-owned utility
IRC	Internal Revenue Code
LCA	limited cooperative association
LLC	limited liability company
MIG	Minnesota IMPLAN Group
MUD	municipal utility district
NAFCU	National Association of Federal Credit Unions
NASCUS	National Association of State Credit Union Supervisors
NCB	NCB (formerly National Cooperative Bank)
NCBA	National Cooperative Business Association
NCCUSL	National Conference of Commissioners for Uniform State Law
NCSC	National Cooperative Services Corporation
NCUA	National Credit Union Administration
NCUSIF	National Credit Union Share Insurance Fund
NRECA	National Rural Electric Cooperative Association
NRTC	National Rural Telecommunications Cooperative
NTCA	National Telecommunications Cooperative Association
PPD	public power district
REA	Rural Electrification Administration
REC	rural electric cooperative
REDLG	Rural Economic Development Loan and Grant
RFA	Renewable Fuels Association
RTB	Rural Telephone Bank
RUS	Rural Utilities Service
SCCU	state chartered credit union
USDA	United States Department of Agriculture
USFWC	US Federation of Worker Cooperatives
UWCC	University of Wisconsin Center for Cooperatives
WEP	Water and Environmental Program
WSTB	Water Science and Technology Board

<sup>1</sup> Report Prepared by University of Wisconsin Center for Cooperatives (UWCC)

Senator Gillibrand, thank you for sponsoring a hearing on the dire economic conditions affecting New York dairy farmers. Price supports are one aspect of a solution, but many other actions need to be taken to help every aspect of dairy farming. There is no silver bullet, as I'm sure you know. My comments are related to improving the economic conditions for organic milk farmers by unleashing their entrepreneurship through current regulatory barriers.

One growth segment of dairy farming is production and sale of organic raw milk. This segment is small, but growing at over 15% per year, with a received price at \$8 or more per gallon for the farmer. This segment has potential to grow faster to a very large size, if New York organic dairy farmers can: **1.** sell in normal retail channels inside the state, and **2.** export to consumer markets in surrounding states.

**Regarding the first point**, currently, New York organic raw milk dairy farmers can sell only on their farm. This is clear restraint of trade, and it limits the revenue that dairy farmers can receive. A change to allow organic raw milk sales in normal retail channels requires action by New York legislators, but you could encourage Lawrence Schwartz to empower his regulatory review committee into action to unchain the regulatory restraints on New York organic dairy farmers.

**Regarding the second point**, you and the Democratic Representatives from New York can take action by supporting HR 778, a bill "to authorize the interstate traffic of unpasteurized milk and milk products that are packaged for direct human consumption." Consumption of raw milk is allowed in all 50 states, but interstate shipment is prohibited by Federal regulation. Passage of the bill into law would repeal the federal regulation prohibiting interstate commerce in raw milk and raw milk products for human consumption. The regulation is judge-made law. The people's branch of government, the Legislature, has had no input in the issuance of the regulation, and that has to change.

As Congressman Ron Paul stated in introducing the bill, "Americans have the right to consume these products without having the Federal Government second-guess their judgment about what products best promote health. If there are legitimate concerns about the safety of unpasteurized milk, those concerns should be addressed at the state and local level" where the producer is located. Local concerns can be dealt with via labeling requirements, quality standards, and appropriate local inspection of the quality of produced raw milk. Blanket Federal shipping regulation cannot resolve these very local situations.

The HR 778 bill has several benefits for New York organic dairy farmers, including:

1. supports family farms and small farms by expanding their markets for raw dairy products. The bill increases the chances of survival for family owned dairies. Look at how interstate shipment of wine stimulated wine businesses in the Finger Lakes - same story.
2. promotes the local food movement by connecting consumers to producers who happen to live over state lines.

3. enables consumers to exercise their legal right to consumption in near-by States where raw milk is also a rapidly growing market for organic farmers
4. free FDA to focus on the pressing problems in our food system, e.g., tainted imports, under-inspected large-scale food processors that ship defective food products to millions of consumers.

I'm sure much discussion will focus on the problems of large commercial dairy suppliers, but don't forget the needs and opportunities of organic dairy farmers in New York. Their needs are different, and relate more to the problems of restrictive regulation on family farmers.

Thank you again for the hearing, and the opportunity to participate.

***Mike Laird***

12 Arbor Creek Drive  
Pittsford, NY 14534



**Testimony to the United States Senate Agriculture Committee,  
Batavia, New York August 27, 2009 U.S. Senator Kirsten Gillibrand, presiding:**

**Madam Senator;**

When this witness began dairy farming 39 years ago, dairymen received \$.54 of the consumer's dairy food dollar; the current estimate rests below \$.20. It should be noted it does not cost proportionately more to process milk or retail dairy products today than 1970; any revenue over the then established ratio of processing or retail cost is simply unearned profit. This unearned profit is damaging the financial interests of both U.S. dairymen and consumers.

The current system of price discovery used by the United States Department of Agriculture (USDA) for pricing U.S. farm milk is broken, and badly so. Based on the cash cheese market of the Chicago Mercantile Exchange (CME) this system has proven a thin and easily manipulated price indicator. So far one miscreant responsible for manipulations has been convicted and fined \$12 million by the Commodities Futures Trading Commission; however, suspicions remain uninvestigated and unanswered of other CME cheese traders. This CME system is inadequate, thoroughly discredited, and should be superseded by a transparent system rich in accurate market information. A system using a retail dairy price index would be rich in accurate, transparent, irrefutable evidence of value for price discovery of farm milk. Such a system could draw on monthly data collected by the Bureau of Labor Statistics Consumer Price Index. All four classes of milk would remain and regional prices could be calculated for each Federal Milk Marketing Order.

The unrestrained and unsupervised inclusion of Milk Protein Concentrate (MPC) in U.S. processed dairy foods is galling to U.S. dairymen. Here is a substance intended for industrial adhesives being added to processed dairy foods without benefit of any USDA oversight or inspection regimen. USDA says it has no jurisdiction because MPC is a "chemical", not a food ingredient. Dairymen question how a nonfood ingredient can be added in the tens of thousands of tons to U.S. processed dairy foods each year without some necessity for regulation and safety oversight by USDA. Since MPC is imported from foreign countries it is not subjected to even the minimal inspection requirement of the U.S. Sanitary Milk Ordinance. These codes were enacted to safeguard the health and safety of U.S. dairy food consumers. Imported MPC is blended to each individual purchaser's requirements offshore from globally diverse sources, thus any potential health threat from these blends would be difficult and time consuming to trace to point of origin. How is the MPC issue reconciled and prioritized with the heightened concern for U.S. food security?

Since MPC is not considered a food ingredient USDA does not include it in estimates of the total U.S. milk supply. If it were, it would constitute about 5% of total U.S. dairy product production; since the U.S. is said to be in a current 2% oversupply of milk, dairymen suspect milk processors are not only using MPC to make cheap product but, that its most nefarious purpose may be to artificially distort and devalue U.S. farm milk prices. An estimated \$7 billion has been purloined from U.S. farm milk checks and largely profiteered by processors in the last few months because of this supposed surplus; \$7 billion that should have been passed to U.S. consumers, and ameliorated the current dairy farm crisis. Congress should conduct hearings to explore these mysteries.

Dairymen know much of what is currently wrong can be attributed to a fundamental lack of competition for farm milk. This has been brought about by the consolidation of milk processing businesses to the point that in large areas of the U.S., dairymen have only one market for farm

milk. These consolidations have created classic monopolies with all the abuses and evils long attributed to them. The U.S. Justice Department has not responded to repeated pleas from U.S. dairymen to initiate investigations and prosecutions of infractions of Federal antitrust statutes. Congress needs to urge Justice to pursue this issue vigorously.

Along with consolidation of milk processing businesses has evolved another unmixed evil: the consolidation of dairy co-operatives into larger and less farmer friendly entities. The Capper-Volstead Act expressly exempts agricultural co-operatives from federal antitrust interference. At the time of enactment this was seen as a good and necessary measure. In the last seven decades much has changed in American milk marketing yet Capper-Volstead has remained the law of the land. Unfortunately milk producer co-operatives have, as they've grown from small local's to large regional's and finally huge national's, mutated from farmer owned, farmer friendly helpmates to merely milk assembly corporations answering to the greed and chicanery of senior management, void of any noble or enriching purpose for their farmer members. Large modern milk co-ops often behave more like organized criminal enterprises than farmer friendly milk marketers, even to their own farmer members. Capper-Volstead is in need of a thorough, thoughtful updating and adjusting to 21<sup>st</sup> Century realities. Only Congress can address this issue.

Unfortunately, even if all these matters were concluded successfully in favor of U.S. dairymen their success would not be assured. Any fair adjustment of farm milk prices would not save U.S. dairymen from the depredations of their worst and most entrenched enemy: themselves. If dairymen could achieve fair market share, misguided individual dairymen would be only too willing to run amok, over producing milk to the detriment of all concerned. All U.S. dairymen must come to understand, to sustain a satisfactory farm price, they will have to produce enough milk to meet the demand of America's consumers for affordable dairy products while not overburdening the supply system with surplus milk. Recent polling of U.S. dairymen concludes 86% favor some sort of supply-management system to keep the U.S. milk supply in line with demand. Such a system, democratically organized, and self-managed by dairymen would calm damaging manic swings in farm milk prices and eliminate expensive, ineffective, taxpayer funded, Federal dairy programs. Congress could be most helpful by originating, authoring, and enacting the necessary legislation to facilitate development and implementation a national dairy supply-management system.

All dairymen, processors, retailers, consumers, and policymakers have to come to the realization milk is a vital, strategic, staple product. Governmental oversight of the U.S. dairy industry is a practical necessity. The notion of a free market approach to U.S. dairy production is simplistic nonsense that would assure continued chaos. Milk is rightly referred to as the most political of all commodities: a certain level of government involvement and oversight in the production, marketing, and distribution of U.S. dairy products has always been, and will always be, essential to the safety, good order, and welfare of the American people. Congress must do all in its power to bring about a system of milk marketing for this country that insures fairness to all players from cow to consumer. Thank you, for your consideration.

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*Nathan Wilson 8/27/09*

## ***Globalization Squashing Dairy Farms and Rural Economies*** ***It is a trade challenge, not domestic supply and global demand***

Effects of U.S. global trade policy since the 1980s has led to the disastrous pricing situation dairy farmers in central NY, New York State, the Northeast and across America have been enduring since the beginning of this year. On average, a 100-cow dairy farm has had monthly expenses outweighing their income by \$10,000 for the past 6 months (source: First Pioneer Farm Credit, \$100/cow loss per month).

To make cash flow, dairy farmers are exhausting savings, maxing out lines of credit and borrowing against their business equity that has been earned over multiple generations. Others that are being turned down for financing and see their farming legacy ending are filing bankruptcy, suffering foreclosure and committing suicide.

"Today, globalization is dominating our milk and dairy product market," says Bryan Gotham, Hermon, N.Y. dairy farmer. "History has proven it adds to volatility and significantly impacts U.S. dairy farms' viability negatively. It's not going away so U.S. dairy farmers are changing their business attitude toward managing their business to survive globally." Senate bill, s.1645, that has been referred to the Senate Agriculture Nutrition and Forestry Committee addresses the globalization business climate for U.S. dairy farmers with a farmer-funded inventory management program. It ensures America has food sovereignty, food in the warehouses without interfering in the U.S. trade obligations with the World Trade Organization.

Hearings in Washington D.C. in July had testimony with vague statements that there is an oversupply of milk that is depressing the milk price received by farmers. It is necessary to clarify these statements with the illustrative information that an oversupply of dairy products in the U.S. is due to imports, not due to domestic milk production.

According to Jerry Kozak of the National Milk Producers Federation, dairy imports have grown at a rate faster than domestic production since 1989, totaling \$3 billion today. Dairy product sales (commercial disappearance) have exceeded farm milk production every year since 1996 (see graph at right). In 2000, farmers received a milk price of \$12.32 at a time when domestic milk production was less than commercial disappearance by 1.57 billion pounds. In 2003, farmers received a milk price of \$12.52 and the commercial disappearances exceeded production by 4.3 billion pounds. Dairy farms are being replaced by concentrated imports, such as Milk Protein Concentrate (MPC).

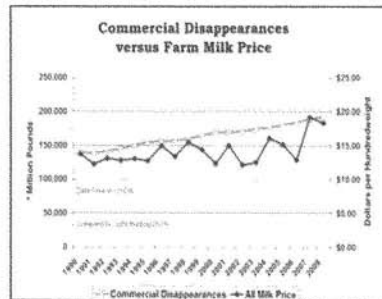
"MPCs come into the U.S. as a concentrate, like orange juice concentrate," Gotham. "So when foreign MPCs are used as an ingredient, manufacturers pay less than they would for non-fat dry milk powder and get a greater volume of their final product than if they were using fluid milk or non-fat dry milk powder." He adds imports of food should be driven by need not by greed.

Passage of s.1645, Federal Milk Marketing Improvement Act of 2009, would allow American dairy farmers to be responsible for their own domestic oversupply. To date, American dairy farmers have been responsible for the world's oversupply burden caused by imports.

"Consumers are in jeopardy of sacrificing food sovereignty, food safety and food quality in the name of international trade," says Tammy Graves, concerned consumer and sister to two Herkimer County dairy farmers. "Americans have come to accept foreign-made cars. Do consumers accept a future of foreign dairy products? If they will, then we will let the infrastructure for a U.S. produced milk and dairy products continue toward its train wreck." If you do not accept a foreign-born food supply, tell your congressman and two senators, Gillibrand and Schumer to act now for the safety of our U.S. food supply and to prevent another leg of our economy from ruin with support of s.1645. Senator Kirsten Gillibrand – 202-224-4451; Senator Chuck Schumer 202-224-6542

**Submitted by:**

**Tammy Graves, concerned consumer, 2005 Cty Hwy 22, Richfield Springs, NY 13439 315-858-0163**



# Dairy déjà vu

Presented by

United States Dairy Farmers and Friends "United We Stand... Coast to Coast"

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## HISTORICAL PERSPECTIVE OF THE 2009 DAIRY DISASTER

Although strikes in the New Deal era are usually associated with organized labor, farm strikes or "holidays" also played an important role in shaping New Deal politics. By 1931, a large and angry agrarian insurgency had emerged in the Plains states. The largest and most infamous farm strike organization was Milo Reno's Farmers' Holiday Association. This group of prosperous and usually quiescent Corn Belt farmers pressured the Roosevelt administration to address the escalating crisis in the Farm Belt with a series of "holidays" or farm strikes in 1933.

**What is perhaps less well-known is that dairy farmers were the driving force behind the early farm holiday movement.** There were "milk wars" in St. Louis and central Illinois in 1931, and "holidays" in the Houston, Sioux Falls, Atlanta, Chicago, and Indiana milk markets in 1932.[1]

The largest Midwestern milk strike was the Sioux City Milk War of 1932, which was sparked by the **"spread" between retail and farm milk prices in Sioux City, Iowa.** Dairy farmers received just two cents per quart from local processors, while consumers paid eight cents per quart in Sioux City.

In New York State, the Depression hit dairy farmers equally hard. Dairy producers reeled under the combined effects of the same forces that had produced the Midwestern strikes: decreased demand for milk and low farm milk prices. Like their Midwestern counterparts, with technological advances New York dairy farmers had greatly increased their capacity to produce milk. Further, a wave of retail price cutting swept through the New York City milk market in the early 1930s, which had a negative impact on both farmers and milk dealers. As a result of this cutthroat competition, market relations nearly collapsed; according to the New York State Department of Agriculture's annual report, "At the close of 1931 prices paid to producers were lower than in many years." [3]

In 1933, the New York State Legislature convened a special investigative committee, named after Watertown state Sen. Perley Pitcher, to study the consequences of the collapse in milk prices.[4] The Pitcher Committee quickly identified the immediate problem: farm milk prices had fallen well below the farmers' cost of production. For example, the average price paid for one hundred pounds of milk (hereafter abbreviated cwt) with a 3.5% butterfat content reached ninety-nine cents in April, 1933. In January, 1931, farmers had received \$2.25 for the same amount of milk. [5]

**As a result, according to the New York State Milk Control Board: "Prices paid for milk had fallen to such a low level that dairymen could not possibly meet their most pressing obligations. Even the bare necessities of life could not be secured by many farm families, and many dairymen were threatened with the loss of the farms and homes in which their meager lifetime savings were invested."**[6]

Perhaps most importantly, the report cited the destructive trade practices among milk dealers—in particular the dealers' recurring practice of cutting retail prices in the lucrative New York City milk market.

In the 1930s, three powerful corporations, the United States Dairy Products Company, Borden's Condensed Milk Company, and Sheffield Farms Milk Company, handled two-thirds of the fluid milk sold in New York City.[8] Because these firms dominated the New York metropolitan market, they had to carry excess fluid milk capacity, called surplus milk, in order to satisfy demand during the fall and winter when farmers produced less milk. The dilemma for the "Big Three," as they were known, was to keep retail milk prices high enough to pay for this excess fluid capacity. Smaller dealers, in contrast, carried no surplus and thus could afford to cut prices below that of the large dealers. While retail price cutting often offered the small milk handlers a competitive advantage, the practice of cutting prices locked them into an ongoing price war with the Big Three. As a 1934 Milk Control Board report concluded: "Price cutting by milk dealers [in New York City] had reduced, and in some cases destroyed, [the milk dealer's] income." [9]



In New York, however, the problem was that small dairy farmers were not represented in their own industry, nor for that matter in electoral politics. [15] **Instead, an "interlocking directorate of farm organizations, politicians, publishers, alleged co-ops, and Cornell University" ruled the dairy industry in the interests of the milk dealers.** This milk trust operated on the principle of "[t]he working farmer be damned." [16] A further problem was that the DFU's main constituency of small, independent dairy producers possessed few tangible resources upon which to build an effective organization. Unlike New York's larger and more prosperous dairy farmers, the typical small producer had little money or time to devote to politics, and lacked the communication skills and political connections that were effective in local- or state-level politics.

Beginning in 1883 with the Orange County Milk War, Empire State dairy farmers had often resorted to strikes against the New York milk dealers when they believed they were not receiving a fair price for their milk. In the 1930s, farmers had obviously demonstrated a similar sense of shared exploitation.

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**Source:** *The 1939 Dairy Farmers Union Milk Strike in Heuvelton and Canton, New York: The Story in Words and Pictures*

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<http://www.albany.edu/jmmh/vol1no1/dairy1.html>

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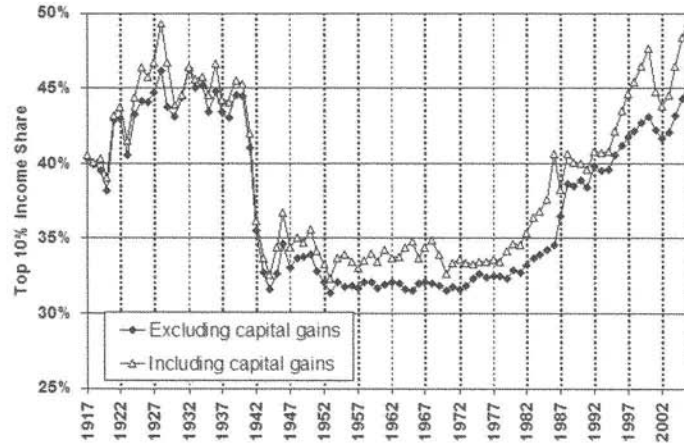
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*Please note: Time Magazine article entitled Barack Obama can Learn from FDR (July 6, 2009 issue). compared the Obama Admin. to the FDR area and the similarities of the Great Depression with today. President Obama, "The moment is full of peril but full of possibility." And at such times the political system moves effectively."*

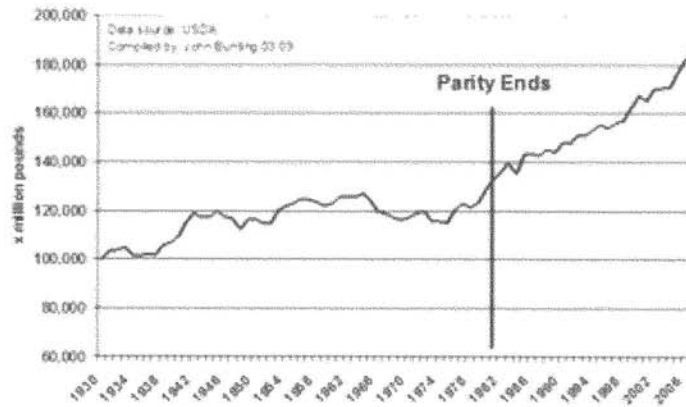
## Transfer of Wealth déjà vu

Source: John Bunting

Prior to The Great Depression, the wealthiest Americans held upwards to 50 percent of the economy's profits. Wealth was redistributed among Americans after The Great Depression. With changes to the milk pricing system during President Reagan's administration in 1982 (see Milk Production and Parity below), the imbalance of wealth began to exhibit itself again. In 2009, reversing this trend is necessary for America to have a viable future.



## Milk Production & Parity





Executive Committee Meeting  
Burlington, Vermont  
August, 5, 2009

**RESOLUTION URGING FEDERAL RESPONSE TO THE  
ECONOMIC CRISIS OF THE DAIRY INDUSTRY**

**WHEREAS**, the dairy industry is a keystone industry in the Northeast region, providing open space for recreation, sports, tourism, water recharge and wildlife areas; and

**WHEREAS**, the dairy industry provides a direct economic impact of an estimated \$14,000 per cow per year, serving as an economic anchor for all Northeastern agriculture, rural communities and economies; and

**WHEREAS**, the lack of stable prices and concentration of processing capacity are creating a crisis in the industry; and

**WHEREAS**, a significant loss of dairy farmers would create a dependence on imported milk and other dairy products and reduce our region and nation's food security; and

**WHEREAS**, there is broad public concern in the assurance of stable supplies of locally produced fluid milk for all of the Northeast; and

**WHEREAS**, the U.S. Department of Agriculture in 2000 changed the historical basis for pricing milk to one that uses Chicago Mercantile Exchange prices and National Agricultural Statistics Service surveys, neither of which is free market nor acceptable to processors or farmers from the Northeast; and

**WHEREAS**, there are essentially only two cooperatives operating in the region and the milk processing industry is dominated by two companies, creating unhealthy concentration in the processing of milk in the Northeast; and

**WHEREAS**, the Northeast has lost more than 30% of its dairy farmers in the last decade; and

**WHEREAS**, the farm gate price for milk has collapsed by more than 50% from one year ago; and

**WHEREAS**, farmers now face prices that are less than half the cost of production; and

**WHEREAS**, assumptions that the milk price collapse is related to a surplus of milk in the market are not supported by data that show the U.S. importing record amounts of product and increased commercial disappearance; and

**WHEREAS**, Northeast states have been innovative and active in responding to the continuing volatility in the pricing of milk with programs providing direct producer support, farmland preservation, business planning assistance; and

RESOLUTION URGING FEDERAL RESPONSE TO THE ECONOMIC CRISIS OF THE DAIRY INDUSTRY  
Page 2

**WHEREAS**, many of these efforts have been hampered by downturns in state budgets and continuing flaws in federal milk policy;

**NOW, THEREFORE BE IT RESOLVED** that The Council of State Governments' Eastern Regional Conference (CSG/ERC), and its affiliate the Northeast States Association for Agricultural Stewardship (NSAAS), urge the congressional and executive branches of the federal government to recognize their primary responsibility to sustain the viability of dairy farming in all regions of the United States and thereby assure consumers of an adequate, local supply of fluid milk through the economic sustainability of our nation's dairy farmers; and

**BE IT FURTHER RESOLVED**, that CSG/ERC and NSAAS urge Congress and the Executive Branch to ensure that all dairy producers receive, with reasonable advance notice, the information related to any referendum on the Federal Milk Marketing Orders and have the opportunity to cast individual ballots on such referendum; and

**BE IT FURTHER RESOLVED**, that CSG/ERC and NSAAS urge Congress and the Executive Branch to require Milk Protein Concentrates (powdered milk products), regardless of their country of origin, to meet and document the same quality, animal health, inspection and production standards as U.S. product; and

**BE IT FURTHER RESOLVED**, that CSG/ERC and NSAAS urge Congress and the Executive Branch to cooperatively address changes to the Federal Milk Marketing Order that returns consideration of regional costs of production in the federal milk pricing formula as provided by the 1937 Agricultural Marketing Agreement Act section 608 (c) as well as the actual consumer price of milk, acknowledging that this policy change would be at no cost to consumers and save taxpayers money on MILC payments, and

**BE IT FURTHER RESOLVED**, that CSG/ERC and NSAAS urge the Department of Justice and the Commodity Futures Trading Commission to pursue renewed inquiry into the concentration in the milk processing sectors of the Northeast industry and to determine whether anti-competitive conduct is working to the detriment of producers and consumers, and

**BE IT FURTHER RESOLVED**, that CSG/ERC and NSAAS urge the Attorneys General of the Northeastern states to review the concentration in the dairy industry within their state borders for possible antitrust action and provide such information to the U.S. Department of Justice, and

**BE IT FURTHER RESOLVED**, that a copy of this resolution be forwarded to the U.S. Department of Justice, and

**BE IT FURTHER RESOLVED**, that a copy of this resolution be forwarded to the Commodity Futures Exchange Commission; and

**BE IT FURTHER RESOLVED**, that a copy of this resolution be forwarded to the chairs of the Northeast states Senate and House committees that oversee agriculture and rural communities.



RESOLUTION URGING FEDERAL RESPONSE TO THE ECONOMIC CRISIS OF THE DAIRY INDUSTRY  
Page 3

**BE IT FURTHER RESOLVED**, that a copy of this resolution be forwarded to each member of the U.S. Senate and House that represent the states that comprise the CSG/ERC and

**BE IT FURTHER RESOLVED**, that a copy of this resolution be forwarded to the Attorneys General that represent the states that comprise the CSG/ERC.



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**QUESTIONS AND ANSWERS**

AUGUST 27, 2009

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Senator Gillibrand, thank you for the opportunity to clarify my comments regarding your very specific question to me on page 40, line 13 during the question and answer portion of the hearing you conducted on August 27, Batavia, NY. "What is the purpose of the make allowance and why should dairy farmers pay for it".

The purpose of the make allowance is to allow plants that manufacture dairy products, not including fluid milk processors to capture costs other than raw milk to be included in the final wholesale price of their products. The reason for the increased cost of the make allowance and why it is passed on to dairy producers is because it is part of the product price formulas that are the main drivers for the federal order Class price announcements. A further explanation of the history of the make allowance and support of change is necessary for a good understanding of the Make Allowance purpose.

In year 1999, USDA collected extensive data and evidence for the purpose of modifying the way prices are calculated in the Federal Milk Marketing Order system. Federal Order Reform was authorized by Congress and approved by dairy producers and their cooperatives. Beginning in January of 2000, minimum prices for dairy products were calculated using what are called "product price formulas". These formulas are driven by surveys of wholesale prices of cheese, nonfat dry milk, dry whey, and butter. Data for the surveys are collected and announced by USDA-NASS. These survey prices are then used to compute the monthly value of milk. Changes in these wholesale prices are what move farm milk prices up and down.

These product price formulas also contain two parameters for their mathematical calculation. One is the product "make allowance" and the other is a "yield estimate". For cheese, the purpose of the make allowance is to recognize the manufacturing plant cost of taking milk and turning it into cheese and other non-fluid products. This is to cover the manufacturing plant's expenses for non-milk components. The yield estimate tells you how many pounds of cheese you can make from 100 pounds of milk. These are standards which USDA has determined to be on average representative across the manufacturing industry. Similar product price formulas exist for butter, nonfat dry milk, and dry whey under USDA's fixed rules.

Back in 2005 and 2006, spikes in energy costs caused significant increases in cheese plant and other wholesale dairy commodity manufacturing. As a good example, because of the fixed product formulas for pricing milk, cheese manufacturers are unable to recover these increased costs. Should they try to offset these costs by lowering pay prices to dairy farmers, they violate the pricing rules of the Federal Milk Marketing Order. If they try to pass along the increased manufacturing costs to their customers simply by charging them more for the cheese, then this increased cheese price is picked up in the NASS surveys and raises Class III prices paid to dairy producers, this is a catch 22 scenario. Under the new rules, manufacturers cannot simply pass non-milk component costs on to the marketplace. By setting a firm make allowance USDA is fixing the price for all non-milk cost components and related inputs used to manufacture cheese, butter, powder, and whey. In the real world, non-milk cost components can and do change dramatically. A manufacturer's only recourse is to request a change in the formulas via a USDA hearing. One must keep in mind that "make allowances", and to a certain extent the "yield", established by USDA are averages. Plant efficiencies vary, and one plant's cost may be a bit higher or lower than another. Less efficient plants, or those with higher cost due to other circumstances, may feel more pressure as non-milk component expenses rise.

The situation was addressed in a Federal hearing. Data and testimony were collected by USDA and a decision was made to increase the make allowances. Since there was no change in support prices or

increases in product prices, this correction had the effect of lowering Class prices producers receive. This has become a point for argument and question as to whether benefits and burdens are shared equitably between producers and manufacturers. It is argued that healthy and profitable manufacturing plants keep the marketplace robust with competition. This is healthy for producers. Make allowances that are inadequate in covering a manufacturer's cost make the plant unprofitable and a disincentive for investment. Loss of area manufacturing plants are not healthy or in the best interest of producers. When market conditions dictate, dairy producers and cooperatives can and do receive over-order premiums for their milk. As non-milk component costs for manufacturers rise as in recent years, the only option for recovery is with a make allowance change granted by USDA.

**The key participants in these hearings and their position can be seen below.**

**Source: Margin Wars, Why the Federal Order Make Allowance is Under Fire, Cameron Thraen, Ohio State University**

**Testifying at the hearing in favor of making changes in the Federal Order pricing rules were these industry representatives, the vast majority dairy farmers/producers.**

1. Agri-Mark Dairy Cooperative
2. 0-AT-KA Milk Products Cooperative, Inc.
3. Lactalis American Group
4. Saputo Cheese USA Inc.
5. Alto Dairy Cooperative
6. Northwest Dairy Association
7. Land O'Lakes, Inc.
8. Glanbia Foods, Inc.
9. Associated Milk Producers, Inc.
10. Hilmar Cheese Company, Inc.
11. Foremost Farms, USA
12. Kraft Foods,
13. Davisco Foods International
14. National Milk Producers Federation
15. Michigan Milk Producers Association
16. Leprino Foods Company
17. WestFarm Foods.
18. International Dairy Foods Association / National Cheese Institute

**Those taking a position opposed to the hearing, and therefore opposed to making changes in the current make allowance as specified in the Federal Order pricing rules were these industry representatives.**

1. Select Milk Producers,
2. Continental Dairy Products
3. Dairy Producers of New Mexico.
4. Progressive Agriculture Organization

5. Pennsylvania Farmers Union (PFU),
6. National Family Farm Coalition's Dairy Subcommittee
7. Ohio Farmers Union
8. National Farmers Union
9. Southeast Milk, Inc.

For your information I've listed below the USDA, dairy producer approved USDA Federal Milk Market Order Product Price Formulas:

**USDA Class Price Formulas – 2009**



Note: Milk prices are per 100 pounds or cwt., rounded to the nearest cent. Component prices are per pound, rounded to nearest one-hundredth cent. Cheese, dry whey, butter, and nonfat dry milk prices are weighted monthly averages of weekly NASS survey prices, rounded to the nearest one-hundredth cent.

**Class I:**

Class I Price = (Class I skim milk price x 0.965) + (Class I butterfat price x 3.5).

Class I Skim Milk Price = Higher of advanced Class III or IV skim milk pricing factors + applicable Class I differential.

Class I Butterfat Price = Advanced butterfat pricing factor+ (applicable Class I differential divided by 100).

Note: Advanced pricing factors are computed using applicable price formulas listed below, except that product price averages are for two weeks.

**Class II:**

Class II Price = (Class II skim milk price x 0.965) + (Class II butterfat price x 3.5).

Class II Skim Milk Price = Advanced Class IV skim milk pricing factor + \$0.70.

Class II Butterfat Price = Butterfat price + \$0.007.

Class II Nonfat Solids Price = Class II skim milk price divided by 9.

**Class III:**

Class III Price = (Class III skim milk price x 0.965) + (Butterfat price x 3.5).

Class III Skim Milk Price = (Protein price x 3.1) + (Other solids price x 5.9).

Protein Price = ((Cheese price – 0.2003) x 1.383) + (((Cheese price – 0.2003) x 1.572) – Butterfat price x 0.9) x 1.17).

Other Solids Price = (Dry whey price – 0.1991) times 1.03.

Butterfat Price = (Butter price – 0.1715) times 1.211.

**Class IV:**

Class IV Price = (Class IV skim milk price x 0.965) + (Butterfat price x 3.5).

Class IV Skim Milk Price = Nonfat solids price times 9.

Nonfat Solids Price = (Nonfat dry milk price - 0.1678) times 0.99.

Butterfat Price = See Class III.

**Somatic Cell Adjustment Rate** = Cheese price x 0.0005, rounded to fifth decimal place. Rate is per 1,000 somatic cell count difference from 350,000

For further understanding of the Make Allowance and discussion purposes I encourage you to read the following: Margin Wars: by Cameron Thraen, Ohio State University  
<http://aede.osu.edu/Programs/OhioDairy/MakeAllowance/Margin%20Wars.pdf>

