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Committee on Agriculture, Nutrition and Forestry

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Chairman Harkin and distinguished members of the Committee, thank you for the opportunity to present testimony on "Economic Challenges and Opportunities Facing American Agricultural Producers Today." My testimony will focus on dairy policy reform in general and the need for improved risk management tools for the dairy industry specifically.

Today's testimony is designed to convey several constructive changes that, coupled with the Farm Bill Reauthorization, provide the dairy industry a rare opportunity to fundamentally improve demand for dairy products and strengthen producer prices. Having the right federal dairy policy in place will be critical to encouraging growth, capturing international markets, and encouraging investments from the farm to processors.

For these reasons, the Pennsylvania Department of Agriculture convened a Roundtable that developed a number of recommendations to strengthen the future of the dairy industry. The distinguished group included the Center for Dairy Excellence (PA), Cornell University, New York Department of Agriculture, The Pennsylvania State University, the Pennsylvania Department of Agriculture, the University of Wisconsin-Madison, and several private sector dairy industry leaders. This group supplemented the recommendations made by hundreds of dairy farmers over the course of the last year.

Current U.S. dairy policy is too complex and limits market creativity and dairy product innovation. With slow growth in domestic consumption of dairy products, dairy policy changes need to stimulate new product development to meet the growing export market. This would have the added benefit of removing some farm gate volatility, which is a hardship on producers. The Roundtable policy considerations are designed to improve demand and strengthen producer prices.

I have attached for the record a summary of "National Dairy Policy Reform" for the Committee's use as they consider the complex issue of dairy. As a \$90 billion industry at the retail level, providing a major economic development stimulus to our economy, we need a dairy policy that reflects this importance. It is our hope the recommendations outlined will better serve the dairy producers while capturing the opportunities the U.S. dairy industry has before it to build markets and encourage investment in the future. The components of the plan fall into five overarching objectives:

1. Strengthen the safety net for producers.
2. Develop export markets.
3. Improve the federal order system.

4. Provide price discovery.
5. Improve the risk management tools available to the dairy industry, particularly the dairy farmer.

It is the last point that I would like to discuss briefly today. Modeled after the very successful crop insurance program, we have proposed the Milk Revenue Insurance Program, which is currently under consideration by the USDA Risk Management Agency and Federal Crop Insurance Corporation Board. In fact, later this week Pennsylvania Secretary of Agriculture Dennis C Wolff will have the opportunity to review this proposal with the Agency and seek their support to advance it for Expert Review.

It is our belief that Milk Revenue Insurance could play an important role in providing a safety net for dairy producers. The concept, if implemented, would allow dairy farmers to purchase revenue insurance based upon the 5-year trend adjusted average milk revenue per cow for their operation. It would be very similar to what crop producers utilize today to insure their crops on a per acre basis.

This would provide income protection against milk revenue losses from natural disasters and price fluctuations. It would protect the major source of revenue upon which their livelihood depends. The benefits of this approach are:

1. It is simpler to understand and administer.
2. Coverage will be calculated on the actual 5-year revenue history of each producer, similar to the actual producer history yield for agronomic crops.
3. Has readily available third party verifiable records.
4. Will help mitigate some of the milk income volatility.
5. Builds on the USDA's very successful Risk Management Agency crop insurance programs and delivery system.

From the Department's perspective, encouraging participation in risk management programs is important and has proven to be critical to economic survival. The Milk Revenue Insurance Program, coupled with traditional crop insurance programs, could be used by producers to further protect their feed crops. This risk management combination could be a very effective tool for producers to help insure profitability.

The dairy industry is important to our economy and quality of life and therefore must be nurtured and supported. Having the right federal dairy policies in place will be critical to improving farm income, capturing international markets, and encouraging investments at all levels of the industry--from the farm to the processors. For these reasons, we have advanced a number of changes to encourage dialogue among policymakers and the dairy community. It is our goal that the U.S. dairy industry be stronger--both here at home and around the globe.

Chairman Harkin and distinguished members of the Committee, thank you for the opportunity to participate in this important hearing.

