Good morning, Chairman Chambliss, Ranking Member Harkin, and the other members of the Senate Agriculture Committee.

I am Charles Beckendorf, the Chairman of the National Milk Producers Federation in Arlington, Virginia. I am also a fourth-generation dairy farmer in Tomball, Texas.

On behalf of the nation's 60,000 dairy producers, I appreciate the opportunity to review the current status of national farm policy, and how the 2002 Farm Bill has worked to benefit America's dairy producers and their cooperatives. My testimony will focus on economic policy issues, as well as a range of other important topics that impact dairy farmers' profitability. Sometimes the only way to see ahead is to look back, so I think it's appropriate to look back to how - and why - NMPF worked with Congress to develop the policies that they did five years ago.

In 2000 NMPF began preparing for the Farm Bill by holding a series of meetings throughout the country to obtain input from dairy farmers regarding the future direction of government policies affecting them. The net result of these Dairy Producer Conclaves was reflected in many of the positions that we shared with the House, the Senate, and the USDA concerning dairy farmers' desired goals for the 2002 Farm Bill. NMPF conducted a similar Conclave effort earlier this year in preparation for the 2008 Farm Bill, but the outcome from that process will be the focus of later hearings. As such, the comments contained herein focus on the existing dairy policies and the impact they have had on the U.S. dairy industry.

Economic Policy - Dairy Safety Net

Back in 2001, NMPF recommended the enactment of a dairy safety net program with the following features:

1. Extending the dairy price support purchase program at the current support price of $9.90 per hundredweight.
2. Maintaining the CCC purchase price for nonfat dry milk of approximately $1.00 per pound.
3. Extending the Dairy Export Incentive Program (DEIP), whose legislative authority was to expire on December 31, 2002. We will review that in the Trade section.
4. Establishing a supplemental payment program involving Class III and Class IV milk.

NMPF advocated that Congress extend the dairy price support program (DPSP) as part of the 2002 Farm Bill because the DPSP has proven to be an effective means of providing a minimal safety net to prevent major disruption to dairy producer prices and incomes at relatively low cost to the government. In addition, our safety net allows for consumers and processors to have ample supplies of economical, wholesome and nutritious dairy products.

The 2002 Farm Bill authorized the DPSP from June 1, 2002, through December 31, 2007. In the twelve months immediately following the program's reauthorization, July 2002 through June 2003, the U.S. dairy industry experienced a substantial imbalance between supply and demand due primarily to a surge of milk protein imports, as the International Trade

Commission noted in its May 2004 report. Prices received by dairy farmers throughout the country dropped to 25-year record low levels for most of that twelve month period. It was a period of severe financial stress and instability in the industry. However, if the DPSP had not been in effect during this period, milk prices received by farmers would have averaged about 29 percent below their average level for the previous five years, turning the period into an all-out disaster for dairy producers across the United States. In addition, many non-dairy industries in rural communities would have suffered equally. Without the DPSP in effect, income received by dairy farmers from the market would have been reduced during this time by an additional $2.4 billion, to a level that would have been 25 percent below the previous five-year average, by our calculations.

In contrast, the gross cost of the dairy product purchases necessary to prevent this significant loss to the industry was only approximately $600 million. Moreover, the actual cost of the purchases under the program to the government during those months was less than this amount, because some of the products acquired were later sold back into the commercial market, and most of the remainder has been used to carry out domestic and overseas donation activities, enabling the government to achieve important nutritional and foreign assistance goals.

In marked contrast to that earlier period, the DPSP has incurred almost no purchases or costs during fiscal year 2005 and the first half of fiscal year 2006, proving that the program is truly a stand-by safety net program. For the entire period of the current program authorization to date, June 2002 through June 2006, we estimate that the DPSP has prevented a $3.5 billion loss in dairy farmer income, at a gross cost of product purchases of approximately $1.1 billion. The DPSP is the most effective, efficient and equitable safety net program, and it continues to benefit all dairy producers.

NMPF 2002 Farm Bill Goals As Yet Unmet

There were some goals that NMPF outlined for the 2002 Farm Bill which were not embraced by Congress, however; or which were included in the Bill, but have not yet been implemented. I would like to touch on two of those in particular.

The first pertains to dairy product Class prices. In our Farm Bill position in 2001, NMPF developed a rationale for enacting a Class III (cheese) and Class IV (butter and nonfat milk powder) supplemental payment component of a dairy safety net. Enacting a supplemental payment program for milk used to produce manufactured dairy products would have increased dairy producer income by $5.4 billion over the 2002-2008 period. Since Class III producers would have been the primary recipients of this income, the program would have significantly helped this segment of the dairy farmer community. We believed at the time that this supplemental payment program, when coupled with a continuation of the dairy price support program, could provide the basis for a safety net for dairy producers throughout the United States.

The Congress did not enact our recommendation for a Class III and IV supplemental, but instead created a new direct payment program in the 2002 Farm Bill which has come to be known as the MILC (Milk Income Loss Contract) program. NMPF remains neutral on the

MILC program.

The second issue concerns the ability to assess imported dairy products the same 15 cents per hundredweight that American dairy farmers pay to grow the demand for dairy products in the U.S.
Dairy products from foreign suppliers have benefited from a healthy and growing $90 billion U.S. dairy market. Part of the reason for the growth of the U.S. market is that for 22 years, America's dairy producers have spent billions of dollars - more than $260 million this year alone - on research, education, advertising, and promotion. Since importers of foreign dairy products also benefit from selling into our market, they should also be subject to an equivalent assessment to help pay for the promotion program that helps boost the sales of all dairy products. This is already an established practice: beef, cotton and pork importers are currently assessed at the same rate as domestic producers.

Congress recognized the need to update the dairy checkoff program by applying the assessment to imported dairy products as well. As a result, the import checkoff was included in the 2002 Farm Bill. However, due to an interpretation concerning the legality of this measure, USDA has to date determined that it cannot implement the import checkoff without further legislation from Congress. We urge the Senate to work with USDA to address the concerns that have been identified with this provision and to swiftly pass the legislation needed to address them. This is a measure that Congress can and should take up well before the next Farm Bill. NMPF urges members of this Committee to work with their colleagues to act quickly on this issue of great importance to the U.S. dairy industry.

Having provided a high-level examination of the major dairy policies and current ongoing issues, I would like to now expand on a few additional topics of importance to dairy farmers and examine how the 2002 Farm Bill has impacted developments in those areas.

Animal Health

Notable progress has been made to address a number of animal health related issues that were dealt with in the 2002 Farm Bill. Of greatest significance is the $464 million in funding that USDA has received for completion of the National Animal Health Research and Laboratory Complex in Ames, Iowa, which the Animal Plant Health Inspection Service and Agriculture Research Service will share. This will provide the U.S. with state of the art animal health research and diagnostic laboratories to address emerging animal disease concerns that affect public and animal health, as well as our foreign trading status.

The National Johne's Disease Control Program was authorized under the 2002 Farm Bill, but not adequately funded. While the Farm Bill contains authorizing language, we annually have to fight to obtain funds for the Johne's program. Congressional appropriations have provided USDA with basic funding to begin to administer a voluntary control program for this disease in 46 states. In addition to educational and training efforts for veterinarians, USDA has been able to assist some 70 laboratories to correctly detect and report this disease. Some 60,000 cattle now comprise 67 Johne's demonstration cattle herds in 16 states to develop best management practices to control this progressive enteric disease of ruminants.

Continued progress is also being made by USDA to control Bovine Tuberculosis. Additional funding was authorized in the 2002 Farm Bill to enhance border control of this disease with Mexico, improve trace-back from cow slaughter plants, utilize indemnity payments to eradicate this disease from the panhandle of Texas, and assist Michigan to overcome an outbreak of the disease from wildlife. NMPF appreciates the initial work USDA has put in with respect to each of these efforts, and anticipates future funding of these measures to allow USDA to continue to tackle these important issues.

Environmental Compliance Assistance

Dairy producers have a vested interest in acting as good stewards of the environment since they depend on the health of their land and water to remain profitable. Because of this, dairy farmers support environmental regulations based on sound science. However, the most effective way to encourage compliance with these regulations is to assist farmers in helping make sense of, and meet, often complex requirements.

USDA has done a good job of managing the Environmental Quality Incentives Program (EQIP), which Congress authorized as part of the 2002 Farm Bill. As our industry and milk production continues to grow every year, environmental concerns become an ever-larger issue with which to contend. In response to this, dairy farmers from coast to coast are using EQIP to help manage those concerns. Some of the things dairy farmers are most pleased about with respect to EQIP include the local control over the approval of the cost-share contracts, the increased funding in the 2002 Farm Bill and the increase in the allowable cost-share percentage. Dairy farmers realize that this program needs to be further streamlined, and more funding from Congress would also help. Throughout this process, however, it should continue to be a very locally, rather than nationally, driven and focused program.

The Conservation Security Program (CSP) also has some potential, but it has not been embraced as enthusiastically as EQIP. Farmers whose operations are located in Priority Watersheds receive benefits from CSP. While developing a program so that it targets the most impaired watersheds first is entirely understandable, farmers who want to implement conservation practices but are not located in a CSP Priority Watershed feel left out. NMPF hopes to work with Congress and USDA in the future to address this issue so that this program too can be one that dairy farmers point to as an excellent example of how this Administration and Congress recognize the environmental challenges farmers face and are ready to assist in addressing them.

Trade Policy

Trade policy plays a significant role in impacting the direction and effectiveness of government dairy programs. Given that one of the core pillars of the Doha WTO Round is domestic support, and that additional free trade agreements could impact the level of imports into the U.S., it is highly likely that trade policy will continue to play a critical role in determining

American dairy farmers' profitability and sustainability. Consequently, NMPF believed in 2001, and we believe today, that Congress should be involved in carefully reviewing future trade agreements, as well as providing our negotiators with the necessary resources to negotiate and monitor agreements.

To date, many members of Congress, including a great many on this Committee, have shown an admirable willingness to actively work with the U.S. Trade Representative's Office (USTR) and USDA throughout the negotiating process, in order to provide feedback about how to best achieve a balanced agreement. NMPF would also like to applaud the dedication, skill and responsiveness shown by our negotiators at USTR and USDA in trade discussions. Their efforts have to date secured important new trading opportunities for the U.S. dairy industry in a variety of trade agreements, while ensuring that our domestic programs are not negatively impacted. I must note, however, that an agreement with a net exporter of dairy products that does not offer any incentives for dairy producers, nor the U.S. dairy industry as a whole, could have significant detrimental costs not only to dairy producers, but also to American taxpayers, thereby placing an unnecessary burden on the U.S. dairy safety net.

NMPF is also greatly appreciative of the hard work that USTR and USDA staff, particularly in the Foreign Agriculture Service (FAS) and Chief Economist's Office divisions, do in securing and enforcing our rights in existing agreements. We have been actively engaged in a challenging situation with Mexico this year as the Mexican government significantly delayed issuing import licenses for dairy products it was obligated to provide access for under WTO and NAFTA commitments. USTR and FAS have worked diligently to ensure that licenses were issued and continue to monitor the ongoing situation.

Similarly, the Agricultural Marketing Service (AMS) has played a key role in facilitating the entry of our exports into foreign markets. Many countries impose challenging and varied labeling and SPS requirements on imports into their countries. The information and assistance that AMS provides in addressing these demands is vital to allowing our industry to take advantage of opportunities to grow our export markets.

All of this has been possible because Congress also passed Trade Promotion Authority in 2002. NMPF supported TPA because we believe that once a balanced agreement has been negotiated, it deserves an up or down vote based on its merits. It is up to USTR to negotiate the best possible agreement, with input from industry and members of Congress, naturally. Then dairy farmers, as well as members of Congress, can evaluate the final deal and determine whether or not it provides for the opportunity for balanced, two-way trade between the partner countries, before determining whether or not to support it.

A key point in maintaining continued support in the future for agreements that merit it, however, is ensuring that our rights and responsibilities under current trade agreements are properly pursued. Dairy farmers' experience with the utilization of the Dairy Export Incentive Program (DEIP) is a good case in point.

DEIP helps exporters of U.S. dairy products develop new markets and compete in markets where U.S. products are otherwise not competitive because of the presence of subsidized products from other countries. In 2001, we asked that the DEIP should be reauthorized at the maximum levels permitted within our export subsidy reduction commitments made during the Uruguay Round Agreement. Congress responded to this request and reauthorized DEIP as part of the 2002 Farm Bill.

Since then, USDA has done a good job of making use of the non-fat dry milk portion of DEIP in the years before U.S. domestic prices exceeded international prices for that product. Additionally, USDA frequently used the small allotment for cheese assistance. However, there have been times that NMPF would have preferred to see USDA make more aggressive use of this program, particularly for butter and, more recently, for cheese.

NMPF fully supports the complete elimination of export subsidies as part of the WTO Doha Round. However, so long as our trading partners continue to employ massive amounts of export subsidies to depress world prices, we support the continued use of the relatively modest assistance levels authorized to the U.S. under the current WTO agreement.

Finally, with respect to trade, NMPF supported the reauthorization and funding of the Market Access Program, and the Foreign Market Development Program (FMDP). This was ultimately included in the 2002 Farm Bill and we would hope that Congress will see fit to also include them in the next Farm Bill.

Federal Milk Marketing Orders

NMPF remains a strong supporter of the Federal Milk Marketing Orders. This system has evened the playing field for farmers and cooperatives for 70 years, and it has helped provided a fresh supply of milk to our consumers in a way unmatched by any other country in the world. Of course, it needs to adapt to remain effective, and USDA has been responsive to that need. Just last month, USDA issued a recommended decision in response to new milk-based drinks that compete with fluid milk, but do not pay the Class I milk price. USDA's decision will close a technical loophole and restore equity to fluid milk pricing. We applaud USDA's decision and quick handling of this issue.

Additionally, this spring, USDA stopped large bottling plants in two markets from using an exemption originally intended for small farmers who sold a wagon of milk a day. This decision complements the Milk Regulatory Equity Act, which Congress passed earlier this year, and ensures that these plants will compete in those markets on an equal basis with other plants and producers.

Federal Orders face new challenges every year, as the industry evolves; but we have confidence that USDA will meet those challenges, and the orders will evolve in step. While dairy farmers recognize that Federal Orders need to be refined, they do not need to be eliminated, as some others have proposed.

Cooperatives Working Together

As it has been demonstrated, Congress passed a Farm Bill that does not enhance producer income or increase the cost of products to consumers, but simply prevents further collapse of milk prices and establishes a reasonable safety net for producers. This is reflected in the fact that even with the Farm Bill programs in place, dairy producers in 2002 and 2003 received some of the lowest prices in 25 years for nearly a year. Subsequently, in July 2003, dairy producers started a program called Cooperatives Working Together to help strengthen and stabilize farm-level prices. Using the protections afforded farmers by the Capper-Volstead Act, we created a new marketing cooperative to voluntarily pool financial resources to pay for programs that reduce dairy supplies. The laws of economics being what they are, our supply-reduction activities have helped farmers improve their own livelihoods.

However, CWT is not a replacement for government safety net programs. It operates as a complement to, not a replacement of, federal farm programs. It's a unique program in agriculture, and we're very proud that farmers of all sizes, in all regions, have come together to cooperate and to help each other economically

Conclusion

In summary, NMPF believes that the Farm Bill signed by the President in 2002 was a reasonable, rational and fair approach to farm policy, from the perspective of dairy producers. Most of the items we asked the Senate and House Agriculture Committees to include in the bill found their way into it.

I will again remind the committee that we view farm policy holistically, and we believe so should the Congress. Even if the Agriculture Committee lacks jurisdiction on certain issues, we still feel that members of this Committee should weigh in on many of the critical issues of the day, such as trade policy, for instance. We commend the Chairman and Ranking Member for their leadership in this area.

When NMPF presented testimony to Congress concerning the 2002 Farm bill, there were 83,000 dairy farmers in the U.S. Today, there are about 60,000. Despite this decline in the number of farmers, ours is a growing industry in terms of production and one which we believe has a bright future in America. Despite the evolving nature of our industry, virtually all of those 60,000 dairy farms are family owned, and dairy products remain an important and nutritious staple of Americans' diets.

At the same time, however, government farm policy plays a key role in creating the environment and policies under which rural American can flourish. That's why the Farm Bill is so important.

Our message to the Senate is that dairy farmers are not looking for a handout. Nor are we looking for a hand up; what farmers are looking for from government is a handshake. Dairy farmers want a sign of commitment such as a handshake indicating, when times are tough, that there will be a modest safety net in place to help catch those who are vulnerable. NMPF takes comfort in knowing that members of this Committee realize the tremendous impact that the Farm Bill has on U.S. agriculture and looks forward to working with Congress when it is ultimately time to collaborate on drafting the next Bill.