An 8-page attachment has been submitted for the Record.
Free download link to reader software.

I am speaking here today on behalf of Dairy Producers of New Mexico, a grassroots trade association for New Mexico and West Texas dairy farmers. DPNM represents approximately 80 percent of the dairy producers in that region. We serve as a liaison for national, state and local issues; provide educational services for our New Mexico dairy farmers; and act as a source of information for our communities, regulators, and legislators. Dairies that belong to DPNM do so on a voluntary basis and pay membership dues. As a producer-only organization, we are one of the few groups that speak on behalf of only producers.

Dairy Producers of New Mexico has been very active in the debate of national dairy policy, especially on matters which impact the prices received by dairy farmers. For example, DPNM was very active in the rule making required by the 1996 FAIR Act, particularly in the establishment of pricing formulas for Class III and Class IV milk. In 1999, DPNM lead the challenges to the USDA Final Rule regarding the make allowances and yields in those pricing formulas. Our participation resulted in legislation, another rule making hearing, and ultimately a correction in 2001. Many of DPNM's proposals were adopted by USDA to create a fair pricing scheme for producers throughout the country.

Unfortunately, since that hearing, USDA has eroded those gains. In 2003, USDA altered the pricing formulas, which increased make allowances, reduced yields, and made other changes that significantly reduced the producer share of the consumer price under the minimum pricing program.

Most recently, DPNM opposed additional reductions in make allowances at a USDA rule making hearing held in January 2006. USDA correctly decided not to make any changes based on the quality of the evidence at that hearing. We continue to be active in that arena and are seeking full consideration of all the parts of the Class III and Class IV pricing formulas.

DPNM Represents Producers Typical of the Current and Future Dairy Industry

Dairy producers in New Mexico and West Texas are unique in several ways. First, the average size of dairy farms in that region are well above the national average, as well as their production per cow. In the region which we serve, there are approximately 800 to 850 producers which deliver approximately 12 billion pounds of milk per year into the Southwest marketing area and other regions. Our average daily pickup is 40,000 pounds per pickup, second only to the much smaller Arizona Order. Our milk shed is one of the largest in the nation. I have attached a report from New Mexico State University reflecting the status of New Mexico. Many of the conclusions regarding New Mexico also apply to West Texas.

In 2001, a dairy with more than 500 cows was the exception rather than the rule. Farms of this size represented 2.9% of the producers and 39% of the milk produced in the country. Today they represent 4% of producers and 49.5% of milk production. New dairies being constructed in Eastern New Mexico and the Texas panhandle will milk 3,000 cows or more. In addition, many, if not most, of the new dairy farms being constructed in the United States are similar in size or larger than those dairies now operating in New Mexico.

We estimate that by 2017, when the full effect of the 2007 Farm Bill is felt, there will be approximately 25,000 dairy farmers in the nation and 80 to 90 percent of the milk will be produced on farms larger than the average size of farms now found typically in New Mexico and West Texas. Because of that, we suggest that our experiences of New Mexico dairy producers represent what the future holds for the entire dairy industry, and we would urge that the policies established in the 2007 Farm Bill reflect where our industry is going and not try to keep things the way they were.

New Mexico Dairy Farmers Operate Collaberatively and Rely Minimally on Government Intervention

The larger size of our farm operations has facilitated unified marketing. Virtually all of the milk produced in New Mexico, West and Central Texas as well as portions of Oklahoma and Kansas are all marketed, priced and expensed in a common pool through the Southwest Milk Marketing Agency. This common marketing approach has brought to us significant reductions in cost of marketing of milk, increased income through bargaining with plants and the ability to overcome obstacles that have long stood in the way of producers in furthering their markets. Our members also share a common position on dairy policy. We do not believe that the government can or should be the salvation of dairy farmers. Government certainly has a role, but often the "help" that has come from Washington has been our problem. Government can and does play a critical role in the stabilization of milk prices and the dairy economy. But while there have been dramatic changes in the structure of the dairy industry, federal programs remain premised on an industry and economic conditions that no longer exist.

Some of those changes are: a shift in production from the Midwestern states to Western states; Class I usage of milk declining on a per-capita basis and now representing a minority of the milk produced in the nation; the size of dairy farms has become significantly larger; the number of dairy producers has continued to decline (and will continue to decline regardless of federal action or inaction); and technological advances now permit raw milk and milk products to move easily across the country, creating a national market rather than regional markets. On any given day, milk from New Mexico and West Texas is shipped to California, Florida, Texas, and into the upper Midwest. Milk processed at those locations is marketed even further. In fact, milk products from this region are being sold throughout the nation. This is symptomatic of the reality that we truly operate in a national, not a regional, market. Conversely, the Agricultural Marketing Agreement Act, which provides the authority for the Federal Milk Marketing Orders, originated during a time when milk was considerably more perishable, milk sheds were far smaller, and the distance from farm to market rarely exceeded fifty miles. Due to these constraints, a general under-supply of milk, and the weak bargaining position of individual dairy farmers, extensive regulation of the dairy industry was required. A truly free market at that time would have ruined dairy farmers. Today, extensive regulation of economic conditions threaten to harm dairy farm families more than help them.

If I could define two cental realities our members want Congress to consider as they examine dairy programs, they are
(1) that we operate in a national, not a regional, market, and

(2) that the protection that dairy farmers need from the government in 2006 is vastly different from the protection that dairy farmers needed in 1936.

Programs Like MILC Distort Market Signals and Act to the Detriment of Producers
We oppose direct farm payments to dairy farmers whether in the MILC program or under the previous DMLA programs. In the long run, these well-intentioned programs provide no financial assistance to even the smaller dairy farmers because increases in production result from
the additional payments. When farmers should be decreasing production, direct payments spur expansion. Those increases, in turn, skew the balance of milk supply and milk demands and depress prices. This extends periods of low milk prices and, when milk prices are at their lowest, require the Treasury to make additional expenditures under the dairy price support program.

These programs are particularly detrimental to farmers like the members of DPNM, who exceed the arbitrary production cap. Dairy farms in New Mexico received payments on only 10% of their eligible production under the program. While these farmers did not receive payments on all of our milk, we certainly suffered through the same period of low prices as other
farmers and absorbed all of the reduced prices associated with higher production.

Federal Dairy Policy Should Seek To Foster Market Growth for All US Dairy Producers

What dairy farmers need are markets, not payments. The markets that we need to have access to are not just the Class I markets that have driven our industry for nearly a century, but of all kinds. The Federal Milk Marketing Orders are designed to share Class I sales among producers. Yet, this is the only segment of the dairy industry that has shrunk over the last thirty years. Consumption of cheese and other dairy products continues to increase. These are some of
the markets that federal programs should encourage.
Dairy farmers have shown the ability to raise cattle, increase the efficiency of their operations, and now have the ability to rapidly expand our production capacity. We need markets to absorb that capacity. We need markets both in the United States and internationally.

We need markets for traditional dairy products and markets for our ingredients. As an industry, I believe that we are finally coming to recognize the value of products that use dairy ingredients.
Some of these new products are nutrition bars, power drinks and other products.

Because trends demonstrate that economic forces are driving the dairy industry toward a future with fewer and larger producers, we need policies that do not interfere with the size of operations. MILC and its limitations are a prime example of the government trying to favor smaller producers over larger producers.

Government policies should not be designed to establish farms in any particular location. Markets should dictate the most efficient locations for farms in conjunction with the supply of water, feed, space and availability of as markets for those products. Similarly, economic forces should dictate where bottling and manufacturing plants are located, not government policy.

Currently, the Federal Order Program with its pricing differentials, pooling requirements, and other nearly incomprehensible regulations create unnecessary incentives for buyers of raw milk to locate plants in places that may no longer be efficient. At the same time Federal Order regulations allow for milk outside of those markets to improperly participate in the pricing.

DPNM has been a strong supporter of the Federal Order system and has actively participated in the hearings regarding pricing issues in the order program. But because the market conditions that existed during the Great Depression do not exist today, the Federal Orders
risk hamstringing future successes. The need for regional regulations whose paramount charge is to dictate who will share in the value of fluid milk sales is a concept whose time has passed.

The Dairy Industry is a National Market, and Federal Programs Should Reflect That Fact

What we would like to see as farmers of the future is recognition that we are a national markets. This will mean the end of programs that are intended to favor one region or locality. It would mean the end of state milk marketing programs and the birth of federal assistance in transitioning to a fully national program. This national program should encourage the development of markets nationwide. As part of this national program we need to establish a pricing system that does not take local basis and make it part of a national pricing scheme, but one that instead establishes a national minimum price reflective of efficiencies and not detrimental to one region or another.
We need a redefined and much more limited role of government. We see the role of the federal government more in terms of establishing fair pricing in the market; providing government oversight through audits and inspections to insure that the pricing is done in accordance with contracts; and empowering USDA to participate in early, quick, and effective negotiation, mediation and binding arbitration of producer-plant disputes. The Federal Orders should facilitate industry responses to natural economic forces rather than try to regulate by approximating how a free market would operate. In this latter scenario, our regulatory process will always lag reality and we will subject our farmers harm from the inefficiency of trying to

mimic economic reactions through government.
The price support program provides a necessary safety net, but it needs to not encourage the unnecessary production of product for which there is no market. The price support program needs to focus on the valuable components of milk that USDA prices (butterfat, whey, and protein) rather than on products such as butter, powder and cheese. Dairy producers in the Southwest have outgrown the price support program in the sense that we have been able to develop new products which have a market demand rather than rely on CCC to buy surplus production. It is no surprise and no coincidence that the development of a milk protein concentrate plant in Portales, New Mexico and a designer milk plant at Dexter, New Mexico, have arisen out of the Southwest Milk Marketing Agency because the producers have found a way to expand their markets and do so in a way that does not put them at a competitive disadvantage.

Government policy should be used to encourage and support the development of cooperative agencies such as the Southwest Milk Marketing Agency and to allow the negotiated prices between that agency and its markets become the basis for any government role in terms of enforcement of pricing and fairness. We have demonstrated that producers and processors can bargain without extensive government intervention.
Over the last several years, we have seen the development of the new dairy industry in the Southwest, and we have outgrown old programs. We have outgrown in many ways the Federal Orders. Other federal programs need to be modified to reflect the state of the industry. It should be noted that since 2000, when the current regulations in the Southwest took effect, producers in the Southwest have not once asked for a hearing regarding provisions in their Order. Every other single Order in the system has asked for changes to its system. We have been part of national hearings regarding Class II pricing, Class I pricing and manufacturing pricing, but in terms of hearings to deal with local pooling and other pricing issues, because of our agency, we have been able to solve those problems amongst ourselves and between ourselves and the plants in a manner that is market driven. We respond in real time without government efforts. This is where the industry is going to be going.

The government should encourage and facilitate cooperation between producers and processors in the development of products, construction of plants, and operation of plants in which all parties share in the risk, the investment as well as the reward.
Regulations regarding health and the environment should encourage the healthiest milk possible as well as one that encourages the highest level of environmental stewardship. While our members welcome science-based regulations to protect our natural resources, we must recognize that we operate in a world market and virtually none of our competitors have anything close to this level of regulation imposed upon them. We support standards based regulations that can be met in the most efficient way, as opposed to federal mandates in terms in the types of processes that may be used at the farm.
Finally, we should establish permanent efforts to expand our international marketing, and

these should not be subject to the whim of the USDA as whether or not to grant payments such as those under DEIP or other programs.

Conclusion

Once again, I thank you for your invitation to appear here today. Dairy Producers of New Mexico looks forward to the opportunity to work with both the Senate and the House as we all try to define programs and policies that ensure a bright future for all of America's dairy farmers.