

Testimony of Clint Fall, General Manager  
First District Association

on behalf of the

Midwest Dairy Coalition

presented to the

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"Economic Challenges and Opportunities Facing American Agricultural Producers"

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Chairman Harkin, Senator Chambliss, Members of the Committee-

My name is Clint Fall, President and CEO of First District Association. I want to thank you for the opportunity to testify on behalf of the Midwest Dairy Coalition regarding the 2007 Farm Bill.

The dairy sector is extremely important to the economy of the Upper Midwest, particularly Minnesota and Wisconsin. Minnesota's dairy sector annually pumps more than \$1.2 billion into our state economy, and the total economic impact of Minnesota's dairy production is estimated to be \$3.1 billion. The total employment impact of Minnesota's dairy industry is estimated to be 27,402 jobs, including direct employment of 6,111 jobs and indirect or induced employment of 21,291 jobs. When the multiplier effects are fully considered, it is estimated that each Minnesota dairy cow generates \$5,000 in economic activity for the state.

According to the Wisconsin Milk Marketing Board, Wisconsin's dairy industry has a \$20.6 billion impact on the state's economy and employs 160,000 people, accounting for nearly 40 percent of all Wisconsin agriculture jobs. The economic impact of dairy farming in Wisconsin is more than twice as large as the citrus industry's economic impact in the state of Florida and

eight times as large as the potato industry's economic impact in the state of Idaho. The average Wisconsin dairy cow generates more than \$17,000 a year in economic activity, which circulates throughout local communities.

First District Association is a dairy farmer-owned cooperative based in Litchfield, Minnesota. The farmer-members for First District are located in Minnesota, Wisconsin, and Iowa and produce over 1.7 billion pounds of milk per year. Over 130 million pounds of Cheddar cheese, 22 million pounds of whey protein concentrate and 32 million pounds of lactose are produced annually. Our single cheese processing plant in Litchfield is a modern state-of-the-art operation. Our customers include the largest chocolate manufacturers, infant formula manufacturers, bakery companies, dairy food processors (yogurt, cream cheese, and processed cheese), snack food companies and pharmaceutical companies.

Farmer-owned dairy cooperatives along with proprietary dairy plants are critical in the dairy processing sector, not only in the Upper Midwest, but also in the nation as a whole. In Minnesota and Wisconsin, about 85 percent of milk is marketed through cooperatives. It is estimated that 60-65 percent of cheese, most butter and milk powder in Minnesota and Wisconsin are processed by cooperatives.

As a dairy farmer member-owned processing and manufacturing cooperative, our goal is to maintain an efficient and competitive operation, not only to provide our farmers a fair price for their milk, but also to return a profit to them from the dairy products that we produce and market.

As a member of the Midwest Dairy Coalition we are also active in supporting federal dairy policies that are beneficial to dairy farmers of the Upper Midwest and the nation as a whole.

Dairy is highly regulated. The structure of federal dairy policy has always played a significant role in the status of the Upper Midwest dairy industry, although not always for the better. There has been a tendency in federal dairy policy to promote high minimum prices for Class I (fluid) milk and to instill policies that put downward pressure on the prices for manufactured dairy products. Whether it is the ongoing structure of the federal milk marketing order system or past experiments with regional dairy Compacts, federal dairy policy has often placed the Upper Midwest at a competitive disadvantage. For the Upper Midwest, where about 85 percent of our milk is manufactured into cheese, butter, and powder, anything that artificially inflates the price of Class I at the expense of manufactured classes of milk is detrimental to our region.

Therefore, one of our clear policy goals has been to promote policies that treat producers in the Upper Midwest more equitably, and to work to reform or eliminate those policies that discriminate against our region.

As Congress debates the structure of the 2007 Farm Bill, I would like to make several points about policies that are important to our producers and the Upper Midwest dairy industry as a whole.

#### Milk Price Support Program

The milk price support program has been the core base of support for milk and dairy product

prices for decades. Without a doubt, it is an important program that should be continued. But equally clear is that the milk price support program is in great need of reform. The current price support level of \$9.90 per hundredweight is a very low level of support. But even at that low level, the current price support program has proven to be a porous and ineffective floor. Between January 2000 and February 2003, the Class III price fell below support in 12 of 37 months, falling as low as \$8.57 in November of 2000.

The central premise of the milk price support program is that dairy product manufacturers will sell dairy products to the Commodity Credit Corporation whenever market prices fall below the product purchase prices established by USDA. Yet what we are seeing is that manufacturers are reluctant to sell product, particularly cheese, to the CCC. One of the key reasons for this is that the costs of selling product to the CCC are higher than the costs of selling to the commercial market. These higher costs are associated with CCC processing and packaging standards and inspection and grading requirements that are different from industry standards. In addition, storage and finance costs are higher because it takes longer for the CCC to take delivery of product and make payment.

To address these unique costs associated with selling surplus product to the CCC we are very interested in the new proposal by National Milk Producers Federation (NMPF) to create a Dairy Product Price Support Program. By legislating individual CCC purchase prices for butter, powder and cheese; instead of having one overarching milk price support of \$9.90 per hundredweight, we believe it may help to assure that the price support functions more effectively as a true safety net.

#### Milk Income Loss Contract (MILC) program

Because of the inadequacy of the milk price support program as a safety net, First District Association and other members of the Midwest Dairy Coalition argued during the last farm bill debate that an additional program should be established to provide a more credible safety net for dairy producers, and that such a program should be national in nature to provide benefits to all producers. Fortunately, others agreed. The Milk Income Loss Contract (MILC) program that emerged out of the 2002 farm bill has proven to be a very effective safety net, and has helped us move away from some of the contentious inter-regional conflicts that were commonplace in dairy in the late 1990s and the early part of this decade, particularly with regard to regional dairy compacts.

Because of the counter-cyclical nature of the MILC program, the program has proven to be very cost effective. Assistance is only provided to producers when market prices fall below target levels and remains dormant when market prices are strong. Indeed, the MILC program was dormant for much of 2004 and 2005. Without question, our producers would far prefer to see market prices remain strong so the MILC program would remain dormant. However, when prices do fall to low levels, as they did in 2002 the first half of 2003, and parts of 2006, the assistance provided by the MILC program has been critical. We propose that the MILC program be re-implemented (without a diluted formula) as it was when it originally emerged from the 2002 farm bill.

One of the other tools used by Congress to improve the effectiveness and limit the taxpayer costs of the MILC program has been to place a volume cap to limit the benefits to the first 2.4 million pounds of production per operation, roughly equivalent to the production of about 120-140 cows, depending on a farmers' production per cow. All producers are eligible for benefits, but not beyond the 2.4 million pound annual cap. It is important to note that 82 percent of all dairy farms in the nation are fully covered under this cap. Yet even those that exceed the cap receive great benefits.

The MILC program has proven beneficial to the vast majority of dairy farms in the nation. With regard to the Upper Midwest specifically, there is no doubt that the program has helped us to maintain our productive capacity during low milk price cycles. In that context, it is worth noting that dairy cow numbers in Wisconsin increased in 2005. This is the first time since 1994 that January-December dairy cow numbers in Wisconsin have not shown a reduction. Arguably, the MILC program is one of the factors helping our region turn around.

As we move into the next farm bill debate, it is critical for our dairy industry and our rural communities that the MILC program or a similar type of counter-cyclical DIRECT safety net program be continued.

#### Consistency in our Trade Policies and Tariff Schedules

Gone are the days when the U.S. dairy sector could operate without regard to the global market. The opportunities and challenges of international trade are a reality for U.S. dairy. In that regard, it is critical that we review our trade policies and those of our trading partners, to assure that we have consistent and rationale policies as we move into the future. Specifically, during the Uruguay Round of WTO trade negotiations, tariff rate quotas were placed on imports of traditional dairy import product classes such as cheese, butter, and nonfat dry milk. However, we failed to recognize emerging trends in international trade, particularly with regard to milk protein concentrates (MPCs), and we failed to create tariff rate quotas on those milk protein products consistent with other dairy product classes. As a result, we have seen instances in recent years during which MPC imports to the United States have surged.

In March of 2001, a General Accounting Office study requested by Congress determined that MPC imports increased 56-fold from 1990 to 1999, with a near doubling of the MPC imports in 1999 alone. Not only do these import surges affect farmers' milk prices domestically, they also have a cost to taxpayers. In a May 2004 study by the International Trade Commission, it was determined that about 35 percent of the Commodity Credit Corporation stock build up of nonfat dry milk between 1996 and 2002 was attributable to displacement of domestically produced nonfat dry milk by imported milk protein products.

It is critical that we modify our tariff schedules to place tariff rate quotas on MPCs and casein, as proposed in legislation introduced by Congressmen Obey (H.R.521) and Senators Craig and Clinton (S. 1714) in the last Congress. This legislation would not attempt to stop MPC and casein imports altogether. It would merely place commonsense limits to assure that the U.S. doesn't experience major surges of MPC imports again, as we did in the 1990s. The United States is currently the only dairy import-sensitive nation in the world that has not imposed such limits on MPC imports. It's time for us to push for more consistency in our tariff schedules,

and to fully recognize and respond to our own market vulnerabilities, as have many of our trading partners.

While Congressional rules of jurisdiction may make it impractical to address important trade legislation such as this through the Farm Bill itself, I urge Congress to move this legislation on a parallel track.

#### Conclusion

As the Committee prepares to craft the 2007 Farm Bill, I urge your support for a two-pronged dairy safety net, as represented by a modified price support program and a continuation of the MILC program. Together these programs will provide a credible safety net for dairy farmers over the life of the new farm bill.

I thank you for this opportunity to testify.