Mr. Chairman and members of the Committee, my name is Ken Hall. I am a dairy producer from Terreton, Idaho and I am before you today representing myself and also the Idaho Dairymen's Association (IDA). IDA was formed as a dairy producer advocacy group in 1944 and has a dairy producer board of directors that is elected by their peers. All dairy producers in Idaho are members of IDA and pay a $0.001/cwt assessment to cover the cost of the organization.

I began working in the dairy industry in 1979 by managing dairy operations for the Church Of Jesus Christ Of Later Day Saints in Idaho, Utah and Maryland. From 1989 to 1993 I managed Masstock Dairy, a 3500 head operation located in Georgia. In 1993 my wife, Carol, and I started Hall Dairy, LLC and we started our own operation in Terrreton, Idaho with 100 cows. Today we are milking 2000 head.

The upcoming farm bill debate should be utilized as a time of review to determine the long-term effectiveness of agricultural programs. Since the 1930's the government has attempted to assist agricultural producers by replacing the "signals" of the market that would impact price by keeping supply and demand in check with government "signals".

If the intent of the government "support" programs is to provide an adequate return on time and investment, then the outcomes show that the programs have failed. In 1981 the Class III price, which is the basis for all milk pricing, and presently the high water mark for pricing in Idaho, averaged $12.57/cwt. In 2000 it averaged $9.74 and in 2004 it averaged $15.39. For the 48 months representing 2000 to 2003 40% of the time the monthly Class III price was below the $9.90 support price with November of 2000 dipping all the way down to $8.57. This extreme volatility and pricing that is lower than prices producers received over 30 years ago is a direct result of failed government programs that do not allow the market system to work. The same results can be seen in the corn market the average price per bushel in 1981 was $2.92 today that same bushel sells for $2.40.

How do agriculturalists survive? They expand by planting more acres or milk more cows, and adopt technology that increases yields. Those who can't adjust leave the business. Since 1981, commercial dairies, those with licenses to sell milk, have been reduced from 225,000 to 64,000, a 72% reduction. This begs the question, are the government dairy support programs working? The short answer is "no."

An example of such a program is the Milk Income Loss Contract (MILC). I believe that it interferes with the free market system by sending false market signals. It also interferes with other government dairy price support programs, and discriminates against producers and their operations based on size. In the 2004 United States Department of Agriculture (USDA) "Economic Effects Of US Dairy Policy and Alternative Approaches To Milk Pricing" Report to Congress stated that "there is a basic incompatibility" between MILC and other pre-existing dairy-subsidy programs.

The Agriculture Department found that MILC does in fact artificially depress the price of milk by encouraging overproduction. "The price support program and the MILC program provide an example of problems that can be caused by conflicting policy outcomes." In reality, MILC distorts the market and conflicts directly with other pre-existing subsidy programs all at a cost close to $2 billion since its inception, nearly twice the $1 billion originally budgeted for it. The milk price-support program, which dates to the Depression-era Agricultural Adjustment Act, should also be reviewed to determine if it is fulfilling its purpose as intended or inhibiting the market system to function. Under that program, the government steps in and buys dairy products when the price falls below a certain level. If that support price is set low enough, it provides some income security to farmers while allowing the market to slowly clear and production to fall to the point where prices can rise again. It is our belief that the program no longer serves its stated purpose and allows the price of milk to stay low for an extended period of time, longer than if the market system was allowed to function without government interference. As I stated above many times since 2000 the Class III price dropped below the support price. When this occurs, the pay price for Idaho producers both when we were in a Federal Milk Marketing Order (FMMO) and now that we are no longer a part of a FMMO, drops below support.

As stated above Idaho Dairymen's Association represents all of the dairy producers in Idaho and although Idaho is viewed as a large dairy producer state over 49% of our producers milk 200 cows or less and receive full benefit of the MILC program. Due to that fact, we studied the MILC program thoroughly before coming to a position of opposition. Utilizing the factual data presented by both USDA and agricultural economist we struggle to understand why those who have the best interest of dairy producers in mind, including members of this esteemed committee and farm organizations, would continue to support dairy programs that have failed the industry.

One tool that I would encourage including in the 2007 Farm Bill is permanent authority for all dairy producers to use forward contracting. Simply put dairy forward contracting provides price stability by allowing dairy producers to manage risk. USDA tracked performance during the 2000-2004 pilot program and found that forward contracts were effective in achieving stable prices.

Utilizing forward contracts, dairy producers can service debt more easily, obtain more favorable financing, expand their operations and guarantee a margin above the cost of production. Dairy producers deserve to have a tool that provides them with the freedom to price every pound of milk they sell before it is produced.

Forward contracting is extensively utilized by other commodities, even those with government support programs, because it allows the buyer and seller to mutually agree on an advance price so they can have a more predictable basis for planning their investments, financing needs and growth.

Congress provided the necessary tools for agriculturalist to control their destiny in February of 1922 with the adoption of the Capper-Volstead Act. The Act, as you're aware allows producers the freedom to work together. National Milk Producers Federation has taken the lead in the formation of Cooperatives Working Together (CWT). The program, which is producer funded, is an example of the Capper- Volstead functioning as intended. Although approximately 50% of the milk produced in Idaho is marketed directly to processors and not through cooperatives 84% of the milk produced in the state is participating in the self help program.

It is our estimation that the elimination of government-sponsored agriculture programs would allow the free market system to work with producers being protected through the ability to work together under the protection of the Capper-Volstead Act.

I greatly appreciate this opportunity to testify before you. Thank you.