

Testimony of Barb Hanselman

Good afternoon. I would first like to thank the Honorable Kirsten Gillibrand for allowing me to speak on behalf of dairy farmers. I would like to convey to you, Madam Chairwoman, Congressman Massa, Congressman Lee, and other officials about my concerns and hope for the future of the dairy industry in the United States.

My name is Barbara Hanselman. I am a New York dairy farmer with a deep concern for my fellow dairyman, and for the continued strength of the dairy industry, in all its breadth, in the United States. My husband, Ernie and I farm in Delaware County. We milk 60 cows in and our farm is located in the New York City Watershed. Our farm has a whole farm plan that protects the water that our downstate friends drink. We have seven children who have contributed to the success of our operation. It is truly a family operation. Without our children, or the ability to share a line of machinery and family labor resources with Ernie's parents, or the support and advice of both sets of parents, or the comradery of a farming community, we would have never made it. The **challenge** to be profitable as a progressive dairyman has been difficult. In order to stay in business during the low times that our dairy industry is plagued with, we learned to be enterprisers. I have baked and sold pies, sticky buns, breads, and cakes for thirteen years. I have taught sewing to young children in an arts and education program. We started a roadside market, offering sweet corn and pumpkins. This is in addition to being a full-time dairy farmer. Our oldest son, Seth, chose to return to the farm after his college graduation. This was exciting, but brought about a new challenge- we needed his strength, his new ideas, his youth, but we needed to be able to make it worth his while. Land came available to rent, and now we also have a crop enterprise, growing corn silage and hay for neighboring dairymen. It appears that we have additional children who wish to return to our operation in production agriculture. It is not because we have made tons of money and this seeds their want to become what we are- it is because we have a rich life.

I must say, and I am the eternal optimist, that this is a very difficult time. Presently dairy farmers are besieged by the worst financial crisis in history. A booming dairy export

market with a huge heifer herd to fuel it has now been crushed by the dismal national and global economy. In addition, high input costs, especially feed, fuel, and fertilizer, big business dairy processors and cooperatives, and a framework dairy policy that is archaic and no longer serving its purpose has set our industry up for the perfect storm. I am most anxious during this dairy crisis about how many dairymen will be forced to exit this business. It will not be because of poor management or lack of ambition, it will be because of our archaic federal milk marketing system, our national cheap food policy, our government's lack of concern for the domestic producer replaced by the stronger concern of global market share, and the takeover of big business in the dairy arena, that allowed their demise. There are forecasts that 25% of the current dairy farms will be forced out of their livelihood before our industry "rights itself". As we struggle to survive through this time, we need to make changes to insure our dairy industry's long-term strength and viability.

The strength of a country rests on its ability to feed itself, and feed itself well. Food is the most basic necessity, the first in need after water for a human. The fact that the farmers of the United States insure our government the ability to feed its people, as well as many other nations' peoples, grants this country the super power status that we enjoy. We are a nation built on peace, because our basic food needs are met. Because of this, we have large domestic social programs, we send troops to other parts of the world, and we extend humanitarian efforts to other nations in need. With less than less than 2% of this country's population involved in food production, there is a large share of the population that does not understand agriculture. Although this is true, we all share a common ground. We all need to eat.

The United States Dairy Farmers, in all of their breadth and diversity, are key to this country's homeland security and rural community's infrastructure. Dairy farmers produce a food that is highly regulated, and therefore safe for our country. The number and variety of size and type of operations, located throughout the US, helps provide homeland security to our country. The US dairy farmer provided 37 billion dollars to the rural infrastructure of the United States last year. A dollar earned by a dairy farmer is

turned over four times in its community, helping nurture and secure the economy of our rural towns and counties.

Several sectors of agriculture have struggled with the monopolization of their industry. Grains were the first commodity, followed by poultry, pork, and then beef. Dairy presently risks the same demise. Several industries in our nation, the textile industry to name one, have all but vanished from American soil. Other industries have outsourced large shares of their business to other countries that have less restrictions on labor and manufacturing in order to be more profitable. Do we as a country, do we as a government, want to outsource our food? Do we want to depend on other countries to insure that the people of our country are fed, fed well, and fed safely? Do we want just a small handful of the population control the entire population's food? As a dairy producer, I want to see an ample supply of quality milk produced throughout the United States.

PRODUCER ISSUES

The greatest challenge as a producer I have today, is the disjunction between the price I am paid for the milk I produce, and the expenses it cost me to produce it. The ag policy in our country allows the value of ag commodities to be based on their global market value, not on the domestic cost of production. This gives the United States huge strength in trade. Ironically, although I am the base of the pyramid, I have no insurance that my costs of production are covered, nor do I have any control over the price I am paid for my high quality product. In the first eight months of this year, the average price paid me per hundred pounds of milk produced was \$13.22. My cost of production per hundred was \$15.79 without being paid for our labor and management. This is just to cover our expenses, not to live.

If I have no guarantee of being paid for my production costs, I have no understanding of why processors are guaranteed their costs of production. Through federal policy, processors are insured that their costs of production will be covered. This is called the make allowance. There were federal hearings two years ago that allowed for their upward adjustment. If the price of milk falls below the level that will cover this expense,

farmers have it deducted from their milk check. The make allowance is covered in the “solid not fat component” of our milk check. The price of this component was low enough from October of '08 to May of '09 so that producers had money removed from their checks to cover the processors guaranteed make allowances.

As our price rides the highs and lows, the retail price bounces with it. When our price increases, the retail price surges with it. When consumers ask why, the response is that farmers are demanding for the price of their milk. We do not demand, federal policy dictates our price. When our price slides backwards, the retail price never slides back to the low we are experiencing. Where does the excess go? Presently dairy's largest processor, Dean Foods, has posted profit gains for the first two quarters of 31 %. DFA, our country's largest dairy cooperative has posted first and second quarter profit gains of 147% and 45% respectively.

I tried to find out how much it cost to process a gallon of milk. It is not information that is easy to get. The best I could do was from one year ago, when a fellow farmer was involved in news report about the price of milk. The TV news team research showed that it cost 81 cents per gallon to pasteurize, process, package, and deliver one gallon to the grocery store. There were 45 cents indicated for federal fees and store overhead on the retail end. The average grocery store price in New York for a gallon of milk last month was \$3.16. This means there is an approximate profit margin for the processor and retailer of a dollar a gallon. Remember, I receive 92 cents a gallon right now, with a negative profit margin, and I pay for the hauling to the processor out of my 92 cents.

That brings us to the issue of who pays for the hauling. The farmer pays for the hauling even though we relinquish risk at the time of pickup. We have very little say about the variability and changes in hauling costs. Producers pay a hauling charge, a stop charge, and a fuel surcharge as their transportation costs. These costs are deducted from the gross pay in our milk check. This month's milk check paid us \$ 11.71 per hundred pounds produced (the price is based on the level of protein, butterfat, and other solids

components, as well as a producer's location in relation to Boston in this Federal Order). But this is misleading- we had \$.77 per hundred deducted for transportation, as well as \$.15 per hundred for promotion through the dairy check off program, and \$.10 per hundred for the CWT program. So our adjusted pay was \$10.69 per hundred.

The United States legal limit for somatic cell count is 750,000 cells per milliliter. The legal limit for the European Community, is 400,000 cells per milliliter. I feel that our limit should be changed to be in synch with the rest of the major dairy producing countries in the world market, especially if there is too much milk in the United States. At the very least, the standard should be enforced.

MARKET ISSUES

The price of milk is decided by the trading of less than two per cent of the milk produced in this country on the Chicago Mercantile Exchange. The pricing structure is formatted so that cheese traded today will dictate the price of milk three months from now. Do vegetable growers get the price decided for their lettuce, and paid them, by the cost of the salad it produced three months later? The fact that such a small percentage of the country's milk production is being traded to dictate the other 98%'s price, as well as having so few participants in trading, would seem that there could be a great chance for anti-competitive conduct. In fact, there has been investigation by the Justice Department in some of the activities of members of the industry. There have been concerns of price fixing, price manipulation, and predatory behavior.

There are four classes of milk - Class I is fluid milk, Class II is soft cheeses and yogurt, Class III is hard cheeses, and Class IV is butter and nonfat dry milk. The blend price paid farmers is based on the utilization of these classes by the federal order it is produced in. There are now more products manufactured that can not be clearly defined by these parameters. Are drinkable yogurts a Class I product or Class II product? What category is whey concentrates, milk protein concentrates, and milk protein isolates? The ability to separate milk into many components has been positive for the milk industry and

its utilization, but the federal pricing system needs to change in order to address the flexibility of milk and milk products.

Another concern in the dairy industry today is the role of cooperatives, and the role of the processors. I am a cooperative member, because there are services available to me by being a cooperative member. I am not sure though that the huge cooperatives that dominate our industry always have the farmers' best interests as their primary interests. In the dairy industry, the mega processors such as Dean Foods, which process 30% of the fluid milk in the country, and as much as 90% in some states, dictate a lot of how our cooperatives interact with us as producers. They have played a huge role in dictating how the consumer decides to buy what milk, what technology should be used in producing milk, and what milk is good (or bad) for them. They have initiated changes in the standards of milk quality, that helped them have the ability to move milk around the country and extend shelf life of milk in the grocery, NOT to insure a safer, better tasting product to the consumer. I am not opposed to change, but I am opposed to it when it is at my expense and their increased profitability.

Relative to the global dairy market, it is paramount that the standards of production of milk and milk products be held to the same level for imports as they are domestically. There are milk protein concentrates and milk protein isolates imported into the US and used in domestic cheese and other dairy product processing from countries that have lower standards of production than the United States. They are less regulated, and therefore cheaper than domestic product for the processor to use. They also are imported into this country as a nonfood, and therefore do not have to pay a tariff that other foods do. I encourage our Senate to support and pass Bill 154, the Milk Import Tariff Equity Act, so these products that are used as foods, pay tariffs as foods. This will level the playing field between the US dairy producer and imported products. It is a global economy, but we as US consumers need to know that the same standards and regulations that US dairy producers uphold, exist for the products that are imported. This alone will be the guarantee of high quality dairy products and food safety for the US consumer.

I do feel that one of the issues relating to the oversupply of milk in this country is the same problem that is facing a large share of America today. That is the huge extension of credit to some dairies, without regard to liquidity, but only to cash flow at a snapshot point in time. That is, that the financing institutions in this country were allowed liberties in loaning money, as well as the people who borrowed it, without being forced to assume the risk of it. We live in a time where people no longer say, I can pay this off in X years, but instead it is the ability to cash flow the payment *at the time that the money was extended to the individual*. There is no thought on some individual's minds of ultimately paying off what was extended them. Too much of a lot of things are banked on huge risk, not responsible risk. In the dairy industry this meant that during a time of high pricing, millions of dollars were extended for expansion of the industry, banking on risk, not historic data, only to see it now on the verge of crumbling.

I am in support of a mandatory supply management system. The global and domestic market, processors, cooperatives, and most of all producers, would benefit from a more stable milk supply. These highs and lows are killer for producers, but they cause issues with other parts of the industry, including the services that support dairy production. Each low time changes the infrastructure of our dairy industry, that cannot be reclaimed or rebuilt during the highs. History has shown that our country usually has a year over year increase in demand for dairy of about 3%. Presently for the year, there is an increase in commercial disappearance of fluid of just over 1%, yogurt, an increase of 5%, and cheese of 3%. This is during poor economic times. I would encourage a supply management system that is two tiered. All dairymen would receive a base that is reflective of their historic production. Tier I pricing of the base would be highly dictated by the costs of production and Class I and II utilization. Tier 2 pricing would be dictated by the more volatile portion of our milk supply, the portion of the milk supply that is now covered by the make allowance, the hard cheese, butter, and powdered portions, the portion that is most dictated by the global economy. I am not an economist, and I do not feel that I can draft a policy. I do know that for the strength and viability of this industry, there needs to be a new federal milk marketing policy that keeps our dairy industry strong through out the United States.

Lastly, this is an industry that needs young people. Dairy farming is physically demanding. It is an industry filled with stress because you are not only at the mercy of the volatility of milk prices, you are also at the mercy of the weather, crop and animal health, volatility of input costs, and labor issues. It is a rough industry for young people to enter because there is way too much capital needed to start up without borrowing large sums of money, and there is no way to budget accurately, or cash flow the huge price deficits that dominate our industry. It is very hard to get credit extended to a dairy farmer at this time unless they have substantial equity, or they are guaranteed by the Farm Service Agency. An industry is only vital when there are young minds and strengths to fuel the future, to guarantee its perpetuation. As we go forward, we need policy that encourages young progressive farmers to enter, and allows them to survive.

Once again, thank you for this opportunity. The United States needs to keep the dairy industry and all of agriculture strong. It is a matter of feeding our population safely, a matter of homeland security, a matter of strong rural communities and open spaces, and a matter of positive trade balance.

I would be happy to answer any questions.