

STATEMENT OF THE
NATIONAL MILK PRODUCERS FEDERATION
CONCERNING

THE 2007 FARM BILL

TESTIMONY BEFORE THE
U.S. SENATE AGRICULTURE COMMITTEE

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PRESENTED BY
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Thank you Senator Harkin, and Ranking Member Sen. Chambliss, for the opportunity today to present ideas on the future direction of farm policy.

This is the testimony of Jerry Kozak, the President and Chief Executive Officer of the National Milk Producers Federation in Arlington, Virginia. NMPF is the national voice, here on Capitol Hill and with government agencies, of nearly 50,000 dairy producers. We develop and carry out policies that advance the well-being of U.S. dairy producers and the cooperatives they collectively own. Cooperatives handle approximately 85% of the U.S. milk supply.

My testimony today focuses on the proper role for the federal government in assisting the domestic dairy industry through the upcoming Farm Bill. This is obviously a critical issue for all dairy farmers from coast to coast.

The formation of federal farm policy must take into account and balance many different - and sometimes competing - factors: the needs of producers and consumers, budget and political priorities, trends in domestic and international markets, animal and public health prerogatives, and others. The final result is inevitably a synthesis of ideas.

For the upcoming farm bill, the National Milk Producers Federation (NMPF) has striven to achieve the same type of balance and synthesis. We are taking ideas that have been successful in the past and, where appropriate, building on them. Our policy recommendations are intended to help the dairy producer sector in the future. Farming and food production is evolving, and so, too, must federal policies evolve to reflect new realities.

The members of NMPF have deliberated for more than a year on the best path to take in the future. Last winter, we held regional listening sessions, our Dairy Producer Conclave meetings, to obtain direct input from farmers, and to get them to discuss the pros and cons of various approaches. These farmers not only represented NMPF's members, but we also had producers

from other state and national organizations as well.

That input was then analyzed by our Economic Policy Committee, which last fall and winter developed a detailed series of proposals. Those proposals ultimately were approved last month by our Board of Directors. The resulting proposal is a reflection of our broad-based membership, and was achieved through collaboration, compromise, and ultimately, consensus.

NMPF recognizes that one dairy program cannot meet the needs of all producers and, as a result, we firmly believe that a multi-faceted approach is necessary in order to create a more effective, market-oriented safety net. Our plan was created with extensive input and discussion by dairy producers throughout the nation, taking into consideration the concerns of producers of all sizes and in all regions of the country.

The end result of these extensive considerations is a far-ranging package of individual proposals. Each is important in its own way, and each deserves to be included as part of the entire Farm Bill.

Here are the specific hallmarks of our proposal:

- ? It is fair and equitable, without regional biases. All farmers are treated equitably.
- ? It is predictable, and allows for better planning and fewer market uncertainties.
- ? It is market-oriented, and acknowledges the fact that signals about supply and demand should be delivered to farmers.
- ? It establishes a true safety net, ensuring that the federal government is there when needed. But at the same time, it doesn't provide undue price enhancement.
- ? It is forward looking, with new initiatives, acknowledging new technologies and our changing industry.
- ? It is compliant with our WTO commitments, and, we feel, beyond challenge.
- ? It is comprehensive, because it addresses all areas affecting dairy production.
- ? Lastly, and certainly not least, we believe it is politically practical. This package has been thoroughly debated within our entire membership. Because of the breadth of our membership, I feel confident in presenting to you a wide-ranging package for your committee's consideration.

The full package, including detailed descriptions of our proposals and their costs, is attached for the record.

National Dairy Policy Direction
2007 Farm Bill

The National Milk Producers Federation (NMPF) is a farm commodity organization representing most of the dairy marketing cooperatives serving this nation.

NMPF members market a majority of the milk produced in the U.S., making the NMPF an effective voice on national issues for dairy cooperatives and their dairy farmer members.

NMPF provides a forum through which dairy farmers and their cooperatives formulate policy

on national issues that effect milk production and marketing. NMPF's contribution to this policy is aimed at improving the economic well-being of dairy farmers, thus assuring the nation's consumers an adequate supply of pure, wholesome milk and dairy products.

The policies of the NMPF are determined by its members from across the nation. Therefore, the policy positions expressed by NMPF are the only nationwide expression of dairy farmers and their cooperatives on nation-al public policy.

Summary of NMPF Farm Bill Proposals

Dairy Product Price Support Program

The current milk price support program would be replaced by a program that supports specific dairy product prices, improving the effectiveness and predictability of this critical government safety net.

Milk Producer Security Program

The current MILC payment program would be replaced by a direct payment program that delivers a regular, consistent payment to farmers (decoupled from price and future milk output), in order to help them plan and budget in this new high cost of production environment.

Promotion Assessment on Imported Dairy Products

This farm bill needs to take the measures necessary to ensure the implementation of the promotion checkoff on imported dairy products, an item included by Congress in the 2002 Farm Bill, but never implemented by USDA.

Energy Programs

Through additional federal investments in bioenergy research initiatives, dairy producers will be able to better capture the energy value of their animal waste, which will help improve air and soil quality, providing greater sources of renewable energy, and create economic growth in rural communities.

Conservation Programs

Expanding the scope and funding for both the Environmental Quality Incentives Program and the Conservation Security Programs will help dairy producers implement management practices that improve the environment and conserve natural resources. The programs need to be better targeted to livestock producers and be exempted from arbitrary income limitations.

Human Nutrition Programs

The importance of dairy products in Americans' diets has been cited in the 2005 federal dietary guidelines. This farm bill should enhance the role of dairy foods in federal feeding programs, including the school lunch and other important human nutrition programs.

Animal and Public Health Protection Programs

The government must maintain funding to control animal diseases including brucellosis, bovine tuberculosis and Johne's disease, as well as funding for the dairy indemnity program and the national animal health emergency management system. In addition, Congress should create a

new program to help manage the disposal of potentially high-risk animal products.

Trade Expansion Programs

Helping develop overseas markets for U.S.-produced dairy foods has been a crucial role for all recent farm bills. Funding needs to continue to be devoted to the Dairy Export Incentive Program, the Market Access Program, and the Foreign Market Development Program.

Risk Management Program

This farm bill can include a risk management tool for producers through the creation of a forward contracting program for manufactured classes of milk, providing certain producer safeguards are also included, and providing that the program's inclusion is predicated on the passage of the other farm bill elements that NMPF is recommending.

Dairy Product Price Support Program

Summary

Congress has for many years authorized the USDA to establish a price support program as the primary economic safety net for dairy farmers. We would like to improve the effectiveness and predictability of that program by altering it to support specific product prices.

Background

The price support program has historically been the primary economic safety net for dairy producers. It was designed to protect dairy producer income during periods of unusually low milk prices brought on by exceptionally large surplus production. It operates through USDA's Commodity Credit Corporation (CCC), which purchases quantities of cheddar cheese, butter and nonfat dry milk that would not otherwise clear domestic commercial markets at announced purchase prices. The current milk price support program has prevented the loss of approximately \$1.5 billion per year in dairy producer income during 2000-2006 at an approximate cost to the government of \$340 million per year.

The current milk price support program statutorily supports the price of the farm-level milk price through purchases of cheddar cheese, butter and nonfat dry milk. Congress establishes a benchmark minimum price--\$9.90 per hundredweight, under current statute -- and directs the USDA to support that price.

Despite the fact that the milk Price Support Program has helped dairy farmers throughout the years, the considerable discretion that exists in administering the program has undermined the program's effectiveness. The price of milk used to produce cheese has dropped well below the \$9.90 per cwt. support level in recent years. In fact, during the five-year period of calendar years 1999-2003, the Class III price fell below the price support level a total of 18 months, or 30 per-cent of the time.

Because the USDA can make unanticipated adjustments in the relative purchase prices of butter and nonfat milk powder, the current program can be capricious and unpredictable. The current milk price support program also generates a large Aggregate Measure of Support score within the U.S. WTO Amber Box, even though it provides mostly standby safety net support at

relatively low cost to the government.

NMPF Proposal

Extension of and Improvements to the Program. NMPF supports the concept of a dairy price support program, but we are proposing altering the program to a "Dairy Product Price Support Program" that supports only the individual prices of cheddar cheese, butter and nonfat dry milk, removing all other dairy products from support. The Commodity Credit Corporation (CCC) shall offer to purchase these products at prices not less than:

Cheddar Cheese, blocks \$1.19 per pound

Cheddar Cheese, barrels \$1.16 per pound

Butter \$1.07 per pound

Nonfat dry milk \$0.84 per pound

These prices are determined by using the Federal Milk Marketing Order pricing formulas for Class III and Class IV milk that were in effect on January 2001, working backwards from the \$9.90/cwt. support price for milk, to determine corresponding support prices for butter, nonfat dry milk and block cheese. The barrel cheese price above is determined by deducting three cents per pound from the block cheese purchase price.

In 2003, NMPF requested that USDA adjust the existing CCC purchase prices to reflect additional costs that processors face when formulating products for sale to the CCC, above and beyond the costs of manufacturing products for the commercial market. The CCC purchase prices that NMPF recommended at that time are reflected in the prices above. An additional factor is that USDA recently proposed an increase in the manufacturing margins for dairy products whose commercial sales are surveyed for the NASS prices report. These increases are also reflected in the above prices.

To ensure that costs of the program can be contained whenever product purchases and inventories might become excessive, the Secretary of Agriculture would have the authority to make the following temporary, one-month adjustments to these purchase prices whenever CCC net removals of these products during the preceding twelve consecutive months exceeded the following levels (net removals equal CCC purchases plus DEIP exports less sales from CCC inventories for unrestricted use):

Preceding 12-month Authorized CCC purchase price
Product net removals exceeding reduction for the following month

Cheddar cheese 200 million pounds \$0.10 per pound,
Cheddar cheese 400 million pounds \$0.20 per pound,
Butter 450 million pounds \$0.10 per pound,
Butter 650 million pounds \$0.20 per pound,
Nonfat dry milk 600 million pounds \$0.05 per pound,
Nonfat dry milk 800 million pounds \$0.10 per pound.

The CCC shall also have the authority to sell its uncommitted inventories of dairy products for unrestricted use at prices no lower than the current market price or the following, whichever is

greater:

Cheddar Cheese, blocks: \$1.31 per pound,
Cheddar Cheese, barrels: \$1.28 per pound,
Butter: \$1.18 per pound,
Nonfat dry milk: \$0.93 per pound.

The cost of the program would be basically the same as the current CBO baseline, which projects that the entire cost of CCC purchases under the current dairy price support program will average just \$35 million per year during fiscal years 2008 through 2017.

Milk Producer Security Program

Summary

NMPF is supporting a program featuring direct payments to farmers program that improves on the present MILC program by making it more predictable and effective.

Background

The current Milk Income Loss Contract Extension (MILCX) program provides payments to dairy farmers whenever the Boston Class I milk price falls below \$16.94 per cwt. Producers are paid 34% of the difference between that target price and the monthly Class I Boston price (which is a reduced rate from the 45% level in the original MILC program of 2002-2005). Payments are made on up to 2.4 million pounds of milk per year marketed by an individual dairy operation. Payments totaling \$350.6 million were made to 52,827 dairy operations, at an average payment rate of approximately \$0.50 per cwt., under the current program during fiscal year 2006.

In an era of relatively higher milk prices, but with higher energy and feed input costs, the MILCX program will may not generate an adequate level of support to protect small dairy farmers. Also, payments under the current MILCX program will could eventually need to be notified to the WTO as a form of trade-distorting support, adding to the already significant Amber Box score generated by existing U.S. dairy programs.

NMPF Proposal

Extension of and Improvements to the Program

NMPF supports a direct payment program in the Farm Bill, albeit one that proposes changing the current MILCX program to a "Milk Producer Security Program" that providing support to individual dairy producers at a fixed level annually, based on their historic milk production.

Each producer would be assigned a production base equal to the annual average of the commercially-marketed milk production from their dairy operation during calendar years 2005 and 2006, or their production during calendar year 2006, at the option of the producer, but the producer must be in business when the Farm Bill is implemented.

Each producer would receive a payment each year that is equal to the production base of their dairy operation multiplied by a payment rate of \$0.50 per cwt., up to a limit of \$40,000. Multiple owners of a single dairy operation would receive pro rata shares of the annual

payment amount for their jointly-owned operation. The three entity rule should apply to dairy farms unless this is changed during the 2007 Farm Bill to increase the access to payments by producers. Current production by a dairy operation would not be a condition for a producer to receive an annual payment under the program. This program is also more market oriented, in that it would allow producers to better plan for their businesses during the duration of this farm bill.

The \$0.50 per cwt. payment rate is comparable to the payments that producers have received under the current farm bill. The MILC's average payment rate was \$0.673 per cwt., while the MILC Extension's average payment rate was \$0.397 per cwt. (paid on up to 2.4 million pounds production in a fiscal year).

The \$40,000 payment limit corresponds to an annual production volume of 8 million pounds of milk and a dairy operation of 405 cows, at the 2005-2006 U.S. average level of milk production per cow. The average U.S. producer, with 125 cows and 2.5 million pounds of production annually, would receive \$12,500 annually under the MPSP.

The cost of this program is estimated to be \$475 million per year, about one-third more than the cost of the current MILCX program during fiscal year 2006. Because the payments are not based on either current milk production or current prices, they are fully decoupled payments that would be notified in the WTO Green Box.

Promotion Assessment on Imported Dairy Products

Summary

NMPF supports the final implementation of the pro-motion assessment on imported dairy products in the next Farm Bill.

Background

U.S. dairy farmers in the continental 48 states pay \$0.15 per hundred pounds of milk marketed as part of the dairy checkoff program, which promotes over-all dairy consumption in the U.S. Imported dairy products benefit from this growth in consumption through higher demand for dairy products in this, the largest consumer market in the world. Imports represent 4% of U.S. dairy consumption, but imported dairy products do not help promote the growth of this market as American farmers do. In the 2002 Farm Bill, Congress required the dairy checkoff program to be applied to imported dairy products. However, because of technical objections to the structure of the program, this provision was not implemented. However, the United States Department of Agriculture included the import assessment in its 2007 Farm Bill proposal, recognizing the fairness of the issue, and the agency's preparedness to implement this measure as soon as Congress acts on fixing the promotion language. There is no budget cost associated with this proposal.

NMPF Proposal

Creation and Final Implementation of the Program

We support the role of the dairy checkoff, and believe it should be applied to all states, in

addition to imports. Congress can address this oversight by applying the dairy checkoff to all 50 U.S. states, plus Puerto Rico -not just to those in the contiguous 48 states. This would address the necessary implementation issue so that imported dairy products would then be required to pay their fair share towards the benefits they share from higher consumption of dairy products in the U.S. The USDA Farm Bill proposal as mentioned before specifically singles out this provision as something in need for final implementation. We estimate that this technical correction would allow for an additional \$11 million annually in checkoff revenue to further develop the market for all dairy products.

Energy Programs

Summary

NMPF supports equitable access for U.S. dairy producers to participate in the Farm Bill Energy Title in order to promote renewable fuels that foster greater energy independence, improve air and water quality, provide value-added opportunities for dairy producers, and create rural economic development.

Background

U.S. dairy producers face dramatically increased costs of production due to substantially higher feed costs as well as mounting pressure to reduce air emissions. NMPF proposals under both the Energy and Conservation Titles will work not only to help relieve these dual economic pressures on U.S. dairy producers, but the proposals will also generate new, renewable, and clean burning sources of energy while improving air and water quality and reducing greenhouse gases. Moreover, this value-added opportunity for dairy producers and the resulting increased supply of low cost energy to area consumers will also improve the economic well-being of our rural communities.

Specifically, NMPF proposals will result in more U.S. dairy producers creating on-farm renewable energy systems that capture methane from animal waste and concentrate and utilize that methane in the generation of electricity and natural gas to power their farming operations as well as area homes and businesses. NMPF's proposals are a win-win-win proposition, improving air and water quality, providing greater sources of renewable energy, and creating economic opportunity and growth potential for both producers and rural communities.

NMPF Proposal

Section 9006, The Renewable Energy Systems and Energy Efficiency Improvements Loan Guarantee Program

Extension to and Improvement to the Program

NMPF supports extension of the Section 9006 program, which has proven extremely effective in helping U.S. farmers and ranchers reduce energy costs and consumption while helping the nation meet its energy needs. The Section 9006 program has also helped support and stimulate rural economic development by helping producers create new sources of income, new jobs, and new uses for agricultural products and wastes.

In order to advance commercial application of animal waste to energy projects and provide

more equitable access to the Section 9006 program for U.S. dairy producers, NMPF proposes to increase the loan cap for animal waste renewable energy projects to \$100 million per project and to exempt these projects from the cap on loan guarantee fees. The NMPF proposal is consistent with the Administration proposal to foster increased cellulosic ethanol projects. As is the case for cellulosic projects, the large scale investment required, the uncertain risks involved, and the urgent need to diversify energy sources for economic and security reasons, make these improvements to the Section 9006 program necessary for serious advancement of animal waste to energy projects.

Biomass Research and Development Act of 2000

Extension to and Improvement to the Program

NMPF supports extension of the Biomass Research and Development Initiative (BRDI), which is the multi-agency effort to coordinate and accelerate all Federal biobased products and bioenergy research and development. This program was reauthorized through 2007 in section 9008 of the Farm Security and Rural Investment Act of 2002. NMPF supports increased annual competitive grant funding under the Biomass Research and Development Initiative with a focus on animal waste to renewable energy biomass research.

Bioenergy and Bioproducts Research Initiative

Creation of and Improvements to the Program.

NMPF supports the Administration proposal to create a Bioenergy and Bioproducts Research Initiative, in order to increase the cost effectiveness of bioenergy by facilitating collaboration between Federal and university scientific experts. A USDA bioenergy and biobased laboratory network utilizing existing USDA research facilities and engaging universities through a competitive process could aid in improving biomass production and sustainability as well as biomass conversion in biorefineries.

NMPF supports the creation of regional technology review centers as part of the proposed initiative, in order for USDA and universities to collaboratively test systems prior to their deployment by producers.

Federal Procurement of Biobased Products

Improvements to the Program

NMPF supports clarifying language, consistent with the Administration proposal, to ensure that biobased products are defined to specifically include renewable energy derived from animal waste. U.S. government departments and agencies ought to be required to procure energy supplies from entities that provide net metering or otherwise buy natural gas from animal waste to renewable energy projects.

Conservation Programs

Summary

NMPF supports equitable access for U.S. dairy producers to participate in the Farm Bill Conservation Title, in order to implement important conservation practices that protect and

enhance water and air quality, soil conservation, wildlife and wildlife habitat. These practices will increasingly help producers meet regulatory requirements and reduce greenhouse gases.

Background

Important and substantial gains have been made over the last quarter century in the area of conservation, with every successive Farm Bill Conservation Title improving upon the milestone achieved by the Farm Bill before it. The 1996 Federal Agriculture Improvement and Reform Act and the 2002 Farm Security and Rural Investment Act both substantially increased the funding, scope, and, consequently, the reach and positive impact of the Farm Bill with respect to conservation.

While conservation efforts were once primarily focused on land retirement and row crops, programs under the conservation title now also work to more effectively address the needs of working farms and ranches, including dairy operations.

Congress has long recognized that farmers and ranchers, including our nation's dairy producers, are on the front lines of effective conservation efforts, and that voluntary, cost-share incentive programs are the most effective tools in meeting important conservation objectives. In turn, U.S. dairy producers have responded by stepping up to the plate and investing substantial personal time, energy, and money to implement important conservation practices promoted by the Farm Bill.

The result has not only been greater economic stability for the U.S. farming, ranching, and dairy operations that shoulder much of the load in advancing the cause of conservation nationwide, but also a substantial conservation dividend for the country, including cleaner air and water.

Still, many challenges remain, with increasingly aggressive goals with respect to air and water quality (including increased focus on greenhouse gas emissions). However, inadequate funding for these conservation initiatives will make it harder to achieve these goals. Today, for instance, conservation programs, such as the Environmental Quality Incentives Program (EQIP) and the Conservation Security Program (CSP), are either substantially over subscribed or are simply implemented too narrowly to fully address current needs.

NMPF supports greater investment in key conservation initiatives, in addition to the traditional safety net provided under the Commodity Title, so U.S. dairy producers can help achieve important national conservation objectives.

NMPF Proposals

Environmental Quality Incentives Program (EQIP)

Extension of and Improvements to the Program

NMPF supports the extension of the vitally important Environmental Quality Incentives Program (EQIP). EQIP was reauthorized in the Farm Security and Rural Investment Act of 2002 to provide a voluntary conservation program for farmers, ranchers, and dairy producers

that promotes agricultural production and environmental quality as compatible national goals. EQIP offers financial and technical help to assist eligible participants install or implement structural and management practices on eligible agricultural land. While EQIP has been enormously successful in meeting important conservation objectives, the full benefit of the program has not been realized due to oversubscription and inadequate access to the program for livestock and dairy producers. NMPF supports (1) a substantial increase in EQIP funding; (2) increasing the allocation of total EQIP funding to livestock and dairy producers, from 60 percent to 75 per-cent; (3) providing special consideration to proposals offering both air and water quality dividends; (4) expanding program eligibility to lands on which corn is completely harvested, provided that animal waste is applied according to local, state, regional, or federally approved nutrient management plans; (5) consolidating programs that offer financial assistance to producers through cost-share incentives for working lands under one EQIP umbrella; and (6) focusing the Conservation Innovation Grants program within EQIP on proposals that offer additional benefits along with improved air and water quality, such as energy generation and greenhouse gas reduction with funds dedicated specifically to these types of projects. Provide funding for the Idaho Center for Livestock and Environmental Studies.

Conservation Security Program (CSP)

Extension of and Improvements to the Program

NMPF supports extension of the Conservation Security Program (CSP). CSP is a voluntary program that provides financial and technical assistance to promote the conservation and improvement of soil, water, air, energy, plant and animal life, and other conservation purposes on private working lands. Working lands include cropland, grassland, prairie land, improved pasture, and range land, as well as forested land that is an incidental part of an agriculture operation. Because CSP has been arbitrarily limited to certain watershed areas, the full benefit of this program, as envisioned by Congress, has not been realized. Moreover, certain restrictions imposed have impeded the program's ability to address stated conservation objectives such as using funds for animal waste storage and treatment facilities. NMPF supports (1) increased funding for CSP; and (2) allowing producers to improve air quality by permitting the purchase of equipment and facilities related to animal waste treatment.

Adjusted Gross Income Limitation

Repeal of the AGI Rule

NMPF supports the repeal of the adjusted gross income limitation with respect to the programs offered under the Conservation Title of the Farm Bill, because these arbitrary limits can undermine the very objectives sought to be advanced under the Title.

Human Nutrition Programs

Summary

NMPF supports a strong emphasis on dairy products in federal feeding programs, as

evidenced by science-based research on the important role played by dairy foods in people's diets, particularly school children. Dairy products are one of the key "food groups to encourage" in the 2005 Dietary Guidelines for Americans, and because of their nutritional benefits, it is critical that federal nutrition programs, including school lunch, WIC and food stamps, continue emphasizing them in a prominent role.

Background

With rising childhood obesity rates one of the key public health issues in America today, there is an increased urgency to counteract this trend, particularly among school-aged children. The U.S. Departments of Agriculture and Health and Human Services have conducted extensive research into the roles of various foods in a healthy diet. The resulting 2005 Dietary Guidelines for Americans recommend increased consumption of whole grains, low-fat dairy, and fruits and vegetables to improve health. These foods are good sources of the "nutrients of concern" that are low in children's diets: calcium, potassium, magnesium, fiber and vitamin E. Dairy products provide high levels of key nutrients, making them nutrient-dense foods, and are among the most widely accepted and cost-effective foods available in our food supply.

According to USDA, increased intakes of fat-free or low-fat milk products are likely to have important health benefits for most Americans, including schoolchildren. For instance, key guideline recommendations include three cups per day of fat-free or low-fat milk, or equivalent milk products, for adults and children aged nine years and older, and two cups per day of fat-free or low-fat milk or equivalent milk products for children aged two to eight years.

Children need adequate calcium, vitamin D, protein and other nutrients in milk for proper bone growth and maintenance. Milk, yogurt and other dairy products are the number one source of eight important nutrients in the diets of children between the ages of 2-18. In addition to protein and calcium, dairy products are also the primary source of potassium, magnesium, phosphorous, riboflavin, vitamin A and vitamin B-12 in children's diets. Dairy products are critical for children's proper bone growth and maintenance. Low calcium intake among children and adolescents is of particular concern because teenage years are a period of rapid skeletal growth during which time there is a critical window of opportunity to maximize peak bone mass and protect the skeleton against future risk of osteoporosis.

Research focusing on children and adolescents strongly supports a favorable association between dairy foods, calcium, and healthy levels of body fat. Research has shown that low levels of dairy intake maybe associated with a greater acquisition of body fat during childhood.

While the new Dietary Guidelines also recommend increased intake of whole grains and fruits and vegetables, in addition to non-fat or low-fat dairy products, NMPF is deeply concerned that proposals which seek to pick and choose among these key food groups would undermine the very goal of the guide-lines by working to unbalance the more balanced diet the guidelines seek to promote.

NMPF Proposals

Healthy Diets in Schools Initiative

Support for and Improvements to the Program NMPF supports USDA's goal of complying

with the 2005 Dietary Guidelines for Americans in its school meal programs. NMPF believes that any increased use of Section 32 funding for the purpose of complying with 2005 Dietary Guidelines ought to be used to fully comply with all of the guidelines, including full implementation of the recommended intake of non-fat and low-fat dairy products. Toward this end, NMPF specifically supports increased access to yogurt and lactose-free milk, which are currently of limited availability in schools. In addition, USDA could establish a program to assist schools in adopting the "New Look of School Milk" (NLSM) program created by the National Dairy Council, in conjunction with the School Nutrition Association. Schools that have adopted NLSM -including simple improvements like packaging, better refrigeration, and merchandizing - have seen double-digit improvements in milk consumption.

Women Infants and Children Program

Support for and Improvements to the Program

NMPF strongly supports the WIC program, which serves to safeguard the health of low-income women, infants, & children up to age five who are at nutritional risk. WIC provides nutritious foods to supplement diets, information on healthy eating, and referrals to health care. While WIC is not authorized in the Farm Bill, previous Farm Bills have served as a vehicle for improving this vitally important program.

Current nutritional science, including the 2005 Dietary Guidelines for Americans, should be incorporated in updating WIC food packages, with the recommended increases for non-fat and low-fat dairy products, whole grains, and fruits and vegetables. NMPF believes that dietary guidelines should not be partially implemented, providing increased participation under the WIC program of some recommended foods while neglecting other foods recommended under the guidelines. Nutritional science, rather than other factors or concerns, should determine WIC food packages.

Food Stamp Program

Support for and Improvements to the Program

NMPF strongly supports the Food Stamp Program, which is the cornerstone of the nation's nutrition assistance programs, serving one in five Americans. The goal of the Food Stamp Program is to increase the nutritional levels of low-income households. The program also provides nutrition education designed to help low-income individuals choose healthy foods and active lifestyles. During Fiscal Year 2005, the Food Stamp Program served approximately 26 million people in an average month. While the Food Stamp Program is not authorized in the Farm Bill, previous Farm Bills have served as a vehicle for improving this important program.

Current nutritional science, including the 2005 Dietary Guidelines for Americans, should be incorporated in the decision-making process for purchases made through the Food Stamp Program.

Evidence-Based Library at the USDA Center for Nutrition Policy Promotion

Support for Program

NMPF supports the continuation of an Evidence-Based Library at the USDA Center for

Nutrition Policy Promotion, providing for public access and input into the library, and creating a one-stop source for nutrition data. Evidence-based nutrition incorporates a systematic review of scientific evidence in making nutritional decisions by integrating best available evidence from scientific literature. USDA is developing an evidence-based library for nutrition information that will be valuable as the 2005 Dietary Guidelines for Americans are revised in 2010 and beyond.

Animal and Public Health Protection Programs

Summary

Programs that address food safety and animal health are a crucial part of federal farm policy, and there are several that deal with animal - and ultimately, human health - that need to be featured in the 2007 Farm Bill. These include programs to control brucellosis, bovine tuberculosis and Johne's disease. In addition, the dairy indemnity program needs to be fully funded, and a new program to dispose of potentially-risky cattle products should also be featured.

NMPF Proposals

Johne's Disease Program

Over 20% of all dairy herds may be infected with *Mycobacterium paratuberculosis* that causes Johne's disease, a chronic infectious animal disease of the intestinal tract in livestock. Johne's disease causes losses in milk production and an eventual wasting away of the animal. If not detected and eliminated, the disease may spread throughout the herd. The USDA National Animal Health Monitoring System (NAHMS) Dairy '96 Health and Health Management Survey found that lower milk production accounted for 85% of the economic impact of Johne's disease among dairy herds with greater than 10% clinical signs. This animal disease, for which there is no cure, is projected to cost U.S. dairy producers in excess of \$200 million annually. The Johne's Disease Control Program is designed to provide important testing to encourage dairy producers to voluntarily test for Johne's disease and to remove infected and exposed animals from their dairy herds. Additionally, the program encourages dairy producers to conduct necessary herd risk assessments and utilize best management practices to develop appropriate Johne's Herd Management Plans to prevent further introduction and spread of the disease. As of October 3, 2006, nearly 8500 herds have enrolled in the Johne's Disease Control Program conducting over 900,000 cultures and tests for Johne's disease in 48 states. The Johne's Disease Control Program is currently authorized through 2007.

Extension of the Program

The Agricultural Research, Extension, and Education Reform Act of 1998 (7 U.S.C. 7621 et seq.) Sec. 409 (Johne's Disease Control Program) should be amended to authorize appropriations for the Johne's Disease Control Program through fiscal year 2012.

Bovine Tuberculosis Program

Tuberculosis is a contagious disease capable of infecting both humans and animals. Bovine tuberculosis (*Mycobacterium bovis*) is zoonotic, meaning it can be transmitted from livestock to humans and other animals. Unless the disease is eradicated from the U.S., it will continue to

spread, creating an adverse impact on animal and public health, increasing the cost of animal production and negatively impacting the U.S. trading status.

Scientific evidence suggests that infected free-ranging deer are transmitting tuberculosis to nearby cattle. Such transmissions have been identified in Michigan and Minnesota, with cattle detected as being affected with tuberculosis from infection in wildlife, primarily from free-ranging deer. Transmission of tuberculosis from infected captive deer and elk also threatens U.S. cattle and other livestock.

Increased bovine TB surveillance is necessary to permit the U.S. to eradicate bovine tuberculosis and prevent further regression of the program. As remaining pockets of infection become less numerous and isolated, a greater surveillance effort is needed to ensure that other areas remain free and do not become reinfected. Increased surveillance is also necessary to support international regionalization standards adopted under the World Trade Organization, and to accommodate international regionalization requests.

Extension of the Program

Maintain adequate funding for USDA/APHIS Bovine Tuberculosis Eradication Program to achieve eradication through line item funding for the Bovine Tuberculosis Eradication Program under the USDA/APHIS Veterinary Service Budget. A total of \$35 million is needed to achieve eradication.

Brucellosis Program

Brucellosis (known as undulant fever) is a contagious, costly disease of ruminant animals that also affects humans. Although brucellosis can attack other animals, its main threat is to cattle, bison, and swine. In cattle, the disease currently localizes in the reproductive organs and/or the udder. Bacteria are shed in milk or via the aborted fetus, afterbirth, or other reproductive tract discharges.

Brucellosis eradication is nearly complete in the U.S. Fiscal Year 2006 ended with 48 States and three Territories classified at Brucellosis Class Free state status, and two states classified at Brucellosis Class A state status. The two states classified as Class A at the end of FY 2006 were Texas and Idaho. Idaho lost its Brucellosis Class Free state status due to the discovery of two brucellosis infected herds in November 2005. Texas released its last known brucellosis affected herd from quarantine in September 2006, completing a twelve-consecutive month period without discovering any additional brucellosis affected herds.

Extension of the Program

Maintain adequate funding for USDA/APHIS Bovine Brucellosis Eradication Program to achieve eradication through line item funding for the Bovine Brucellosis Eradication Program under the USDA/APHIS Veterinary Service Budget. A total of \$12 million is needed to continue the program. Given the uncertainties associated with requesting funding each year to maintain the necessary brucellosis surveillance and laboratory support, additional line-item budget funding would provide greater stability for the program.

National Animal Health Emergency Management Programs

There is clear need to defend the agriculture and food system in the United States against terrorist attacks, major disease outbreaks and other all hazard type emergencies, including natural disasters. All of this requires national coordination. Critical to this need is the ability to implement Homeland Security Policy Directive #9 at the local, state and regional level to prevent, to mitigate and recover from any major agriculture or food related emergency. Such preparation will also leverage the value and capability of federal emergency management support, and enhance the ability of private industry to recover quickly from a major agriculture emergency.

Additional federal support is needed to address research of high-consequence animal and plant diseases, select biological agents and to determine the fate of such agents when introduced into the food supply.

? Creation of New Program. The Secretary of Agriculture shall be given authority to create a National Animal Health Emergency Management Center under the administration of the Animal Plant Health Inspection Service (USDA/APHIS).

? Extension of Program. Authorization for \$30 million per year to fund modernization of laboratories designated under the National Animal Health Laboratory Network (NAHLN).

? Extension of Program. Authorization for \$40 million per year to fund enhancement for the ability of the National Veterinary Stockpile to inventory and strategically deliver within 24 hours required emergency veterinary supplies to meet an all hazards emergency response objective, including the ability to respond rapidly to all major foreign animal disease select agents.

? Extension of Program. Authorization for \$2.0 million per year for Cooperative State Research, Education and Extension Service (CSREES) to permanently fund the Food Animal Residue Avoidance Databank (FARAD).

Dairy Indemnity Program

It is critical for livestock producers to know the degree of indemnification that can be expected in the event of a serious foreign animal disease outbreak. Immediate cooperation and support of livestock producers is required to report disease outbreaks and to prevent transmission of the disease through the appropriate biosecurity measures. Cooperation may be jeopardized if appropriate indemnification cannot be assured in an expeditious manner.

The USDA Animal and Plant Health Inspection Service (APHIS) administers regulations that provide for the payment of indemnity to owners of animals that are required to be destroyed because of communicable livestock diseases that threaten the domestic livestock industry. The regulations authorize payments based on the fair market value of the animals destroyed, destruction and disposal costs, and cleaning and decontamination costs associated with an outbreak. In 2002, USDA proposed changes to the regulations to help ensure a successful control and eradication program in the event of an outbreak of Foot and Mouth Disease. The

proposed rule has not been promulgated to address indemnification for FMD, nor has a more comprehensive rulemaking been proposed to address indemnification of the other foreign animal diseases.

The Dairy Indemnity Program provides payments to dairy producers who have been directed by a public regulatory agency to remove their milk from the commercial market because it has been contaminated by pesticides, toxic substances and chemical residues other than pesticides, nuclear radiation or fallout. However, the Dairy Indemnity Program does not currently provide indemnity to dairy producers for the temporary loss in milk market access due to a foreign animal disease outbreak.

Extension of the Programs

? Direct USDA to finalize indemnity rules and regulations that would compensate affected producers for depopulation of livestock, destruction of personal property and decontamination costs associated with a foreign animal disease outbreak.

? Amend the Dairy Indemnity Program (7 USC §450j-1) to indemnify dairy producers for the temporary loss in milk market access due to a foreign animal disease outbreak and extend authorizations through 2012.

Specified Risk Material Disposal Program

On October 6, 2005, FDA proposed amendments to strengthen their existing BSE feed rule and prohibit the use of specified risk materials (SRMs) in feed. If finalized, this rule will have at least two important impacts on dairy producers.

? A shift in the value of dead cattle from being a by-product, to a disposal liability for producers. This could end the current dead animal removal system limiting dairy farmer's options.

? A shift to on-farm disposal, rather than at plants that undergo APHIS inspection, would reduce animal disease surveillance and monitoring, especially for those animals that need to be monitored.

A significant national and local emergency management concern is the need to preserve the integrity of the rendering industry. If the rendering industry down-sizes due to financial hardship from an expanded specified risk material feed ban, then a significant fraction of the available surge capacity will not be available for use by emergency responders.

The continued collection of high risk animals enhances national animal disease monitoring and surveillance by APHIS. If the proposed FDA SRM feed ban rule is implemented before a national SRM disposal plan is in place, then a significant reduction in the rate of dead stock removal will occur, greatly exacerbating on-farm and off-farm disposal of animal carcasses.

Creation of New Program

A national Specified Risk Material Disposal Plan should be established by the USDA, in conjunction with the EPA and FDA. This plan should protect the public health and

environment, while adding value to meat and bone meal and other rendered materials which cannot be utilized in livestock or pet feed. The Secretary shall also be directed to authorize special grants and low interest rate loans to undertake the development of disposal options for SRM's and other rendered products which cannot be utilized in livestock or pet feed if an expanded SRM feed ban rule is promulgated by FDA.

Trade Expansion Programs

Summary

NMPF supports the continuation of three important export related programs: the Dairy Export Incentive Program, the Markets Access Programs, and the Foreign Market Development program, because of their vital role in helping develop new and existing markets for U.S.-produced dairy foods.

NMPF Proposals

Dairy Export Incentive Program (DEIP)

The DEIP is an integral component in the existing U.S. dairy support system. This mandatory program is operated at the discretion of the U.S. Secretary of Agriculture. It provides bonuses for limited quantities of cheese, nonfat dry milk (NFDm), and butterfat to assist in their export, in accordance with U.S. WTO export subsidy limitations. This program serves as an essential leg of support to the U.S. dairy industry by countering the continuous export subsidies from Europe. Under World Trade Organization (WTO) rules, the U.S. is permitted to use DEIP for 3,030 metric tons (MT) of cheese; 68,201 MT of NFDm; 21,097 MT of butterfat; and 34 MT of other dairy products each year. These are small quantities compared to the much larger amounts used by European dairy exporters. The EU is allowed to export 321,300 MT of cheese; 272,500 MT of skim milk powder; 399,300 MT of butterfat; and 958,100 MT of other dairy products.

Extension of the Program

We are requesting that Congress reauthorize this essential market development tool to help our dairy industry more effectively compete, when necessary, in a world market grossly distorted by the EU's dairy export subsidy program

Market Access Program (MAP) and Foreign Market Development Program (FMD)

MAP and FMD are programs designed to assist U.S. exporters in addressing market access problems over-seas, and to help promote greater use of U.S. agricultural products abroad. They require a substantial cost share from the farmers and other participants in the programs in order to complement the funding provided by MAP & FMD.

This cooperation between the private sector and the government has worked extremely well for the U.S. dairy industry over the past few years. Thanks in part to the work that these programs have helped make possible, U.S. dairy exports have increased by approximately \$757 million over the past five years, growing by 67% between 2001 and 2006. We hope to continue that great track record of successful cooperation throughout the next Farm Bill to see continued

expansion of U.S. dairy exports.

Extension of and Improvements to the Programs

We are requesting that Congress restore the authorized annual funding level for the Market Access Program to \$325 million, the amount for which it was initially authorized in the 1985 Farm Bill. We are also urging that no less than \$50 million be authorized for Foreign Market Development, which equates to this program's 1986 funding level once adjusted for inflation. These programs are vital to continuing to grow the U.S. dairy industry's presence in the fiercely competitive global dairy market.

Risk Management Program

Summary

NMPF's farm bill package includes a risk management tool for producers through the creation of a forward contracting program for manufactured classes of milk under the Federal Milk Marketing Orders.

Background

Forward contracting has become a common way of setting prices for hog and poultry producers. These contracts are less common for dairy farmers, partly because they are hard to reconcile with the minimum price protections in Federal Milk Marketing Orders.

For 70 years, minimum prices set under Federal Orders have helped farmers get a fair price from milk processors, who must pay at least the order's minimum market price, whether they have a contract or not. This has been an important protection from contracts that might undercut the market price for producer milk.

Congress tried to provide milk producers with new opportunities to manage price risk when it approved the Forward Pricing Pilot Program in 1998. This exempted handlers from paying producers or cooperatives the Federal Order minimum price for milk under a forward price contract. However, this broad exemption stripped participating producers of all their minimum price protections, so NMPF supported allowing the program to expire at the end of 2004. Processors and some producer groups want to revive the Forward Pricing Pilot Program; others worry that such a wide exemption for any handler using forward contracts could make Federal Order minimum pricing ineffectual.

NMPF Proposal

Creation of Forward Contracting Program

NMPF proposes that a forward contracting program be enacted as part of the Farm Bill, but only with meaningful protections for participating producers, and is predicated on the inclusion of the other elements that NMPF is recommending in this booklet, in particular the import assessment, the dairy product price support program and the producer security program. Inclusion of this program as part of the farm bill does not equate to an independent endorsement of forward contracting within the Federal Milk Marketing Order system.

Specifically, NMPF proposes the following:

? Assure that participation in the program is not a handler's condition of receiving producer milk. A processor's offer of a forward pricing contract to a producer or cooperative must also include an offer to receive the same milk under the same terms, but at the Federal Order minimum. Then it would be clear that the producers had a free choice between participation in the forward contracting program and Federal Order minimum pricing.

? Provide for the enforcement of payment under the contract. Under the pilot program, there was no requirement by USDA that the handler make proper payment under the contract. In order to afford fair protection to producers under this program, contract payments should be enforced by USDA in the same way that minimum values are enforced for other pooled milk.

? Allow only manufactured classes of milk to be contracted. Contracts for Classes II, III and IV would be permitted, but not for Class I (fluid milk). This was the same as in the pilot program.

? Sunset the program. A sunset date at the end of the next Farm Bill would allow Congress to reevaluate the program before reauthorizing it, and thus is essential to ensure the program's ongoing integrity.