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Statement of
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Executive Vice President

on behalf of

Northeast Dairy Foods Association, Inc.

Before the
United States Senate
Committee on Agriculture
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Senator Gillibrand, thank you for the opportunity to appear before you today and provide you with statements regarding the U.S. dairy pricing structure. My name is Bruce W. Krupke, I'm the Executive Vice President for Northeast Dairy Foods Association, Inc. which was formed in 1928. I am here representing the 111 member companies of our full service trade association of fluid milk processors, distributors and manufacturers of ice cream, yogurt, cheese, sour cream, cottage cheese, cream cheese, butter, whip cream and dips among many others. Collectively these companies employ over 18,000 people here in New York State. Most importantly these companies are the buyers of raw milk and the customers of dairy producers.

As you and the United States Senate Agriculture Committee consider the national dairy pricing system I would like to provide you with our association's positions on a few critical policies. Our association supports the current Federal Milk Market Order (FMMO) system. It is our position the FMMO system is working as created and intended. We support the system because the formulas USDA uses to calculate monthly producer prices is based on supply and demand factors.

Our association believes it is very important any system mandated by the Federal Government which ultimately prices raw milk is based on competitive policies and encourages efficiencies within the entire dairy industry. Another policy we regard as very important for any pricing system is that it be fair for all participants, producers, processors and consumers. We support the ability of dairy producers to compete for buyers of their raw milk, either as members of cooperatives or as independents. We do not support policies that artificially inflate the raw milk price that is not based on supply and demand and is not fair and competitive. We do not support state programs that usurp or interfere with the FMMO program.

New York State has approximately 600 companies licensed and engaged in processing, manufacturing, hauling, distribution or that are bargaining agencies. Of the 600, about 300 distribute milk and dairy products to retail and foodservice locations. Of the 300 there are 31 pasteurizing milk plants and 69 manufacturing plants. For perspective 25 years ago in 1983 there were 100 milk plants and 71 manufacturing plants. Our industry, like the number of dairy farmers have dramatically contracted and consolidated.

Here in New York State and the Northeast U.S. we are blessed with an adequate raw milk supply. There is not a milk shortage. In a week, schools across the state will open and our milk plants will easily be able to service their customers. The reason there won't be a problem is because milk production overall and per cow here in New York State and key areas of the nation have steadily increased over time.

As the customers of raw milk our member's are similar to any consumer. We need a consistent and adequate supply of quality raw milk for our processing and manufacturing plants. They want a good price, good quality and sufficient supply to choose from. Although these wants are really more like mandatory needs. New York State and the northeast for that matter are fortunate to be in close proximity to both their raw milk supply and to millions of consumers. We have a very good mix of all types of Class I, II, III and IV milk and dairy product plants that provide us operating efficiencies..

It is very important for you to understand our milk processing and dairy product manufacturing plants need to be competitive. We compete with companies from all across the U.S. What we need is to have access to a good supply of raw milk but even more importantly we need producers that are efficient and cost productive. Our members survival requires them to procure raw milk at the best competitive

price. If other regions of the country has lower priced raw milk, producers in our region as well as our association members will lose market share. We will be beat out by our competition from the West and upper Mid-West.

There is no question, prices dairy producers being paid over the past 6 months have been unusually low, painfully low. Although, those prices have been tempered with additional income from the enhanced Federal MILC program and recent adjustments to dairy price supports. Dairy producer prices have been further enhanced by buyers of raw milk who pay voluntary premiums, this is extra money paid to the dairy farmer that is over and above the minimum mandated FMMO price. These payments are paid based on quality, quantity, competition and loyalty.

With a strong dairy industry in the state and region, why is it that raw milk prices dairy farmers are receiving now are low? The simple reason is due to a basic national over supply and reduced domestic and export demand. Too many of the same people are doing the same thing all at the same time. If allowed, the system will eventually correct itself without further government intervention. In fact we believe the low price cycle has passed and increased demand has begun.

What should the Federal government do when considering changes to the current system?

- First and most important, any program whether it is a government program or voluntary industry initiative needs to focus on increasing consumption and sales of milk and dairy products. We have lost sales of fluid milk to competing beverages which has been the single largest reason why prices are lower for producers. Any program, law or regulation that stymies milk consumption should not be implemented or passed. This includes changes to the National School Lunch program or WIC.
- Before any changes to the Federal Milk Market Orders are proposed or enacted, they should be carefully reviewed by experts from the industry who clearly understand milk marketing from farm to consumer.
- Any changes to the FMMO should mandate and include all dairy producers in the nation. How can a fair program be established if some producers are not participating while others enjoy advantages or protections, either regional or by state? Participation should be mandatory for all U.S. producers in any milk marketing program.
- Any program changes should be implemented to allow producers to compete on a world market. We cannot survive if we do not have a world marketplace to sell excess products at competitive prices.
- Programs that try to manage raw milk supplies should be discouraged. Supply management only decreases cost efficiencies, technologies and growth. To be a world leader we need all three of these examples to compete and survive.
- Although the volatility of raw milk prices have been dramatic, they are a direct result of government intervention dating back to the Regan administration. The whole herd buyout in the late 80s started the cycle of reducing herds, leading to decreased supply, then higher prices then eventually to over production and lower prices. Less, not more government intervention should be the policy. The law of supply and demand will work if left alone.

We do not support the U.S. Senate's recent move to add \$350 Million for programs under the Farm Service Agency. Additional government purchases of commodities will have a number of consequences. New York State producer raw milk prices will be harmed further if passed into law while California dairy producers will benefit from this program. If passed California producers will continue to over produce raw milk and Class IV products flooding the markets. This will further prolong or force raw milk prices down even lower for New York milk producers.

Dairy producers in other parts of the country are currently finding and implementing new methods and technologies that will make them more competitive with New York's producers. We encourage New York and northeast producers to utilize the many public and private options to increase revenues, protect costs and lock in prices.

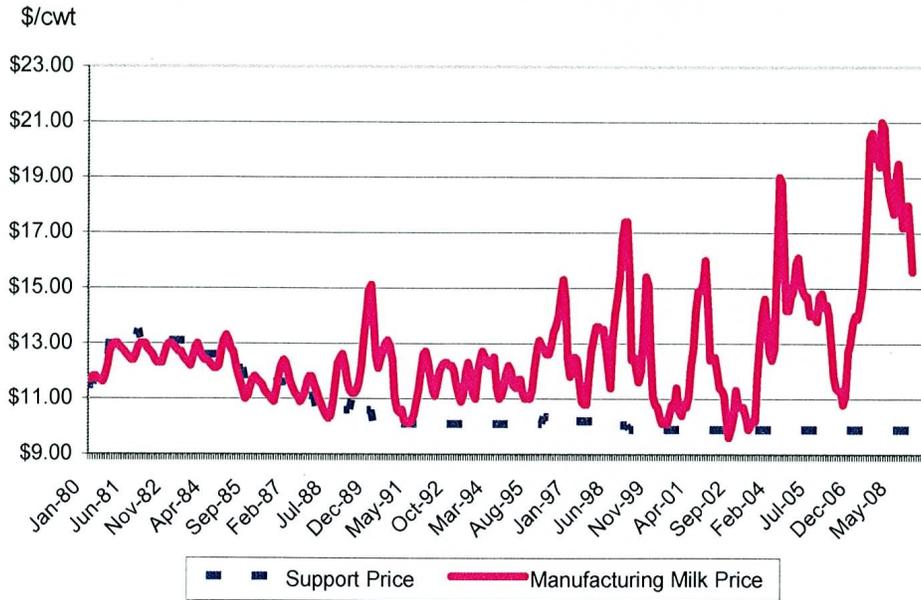
The dairy industry needs practical market driven solutions. The industry needs to build a consensus between producers and processors to find equitable solutions. Government needs to listen carefully to the entire dairy industry to help implement effective and lasting improvements for dairy producers , processors and manufacturers.

On behalf of the Northeast Dairy Foods Association, Inc., our members, and affiliates I thank you very much for inviting us to comment.

Respectfully,

Bruce W. Krupke
Executive Vice-President

Price volatility has increased as support price has fallen



Source: ERS, AMS.