Statement of the

New York Farm Bureau

To the Senate Committee on Agriculture, Nutrition and Forestry

Subcommittee on Domestic and Foreign Marketing,

Inspection, and Plant and Animal Health

"Legislative Responses to the Dairy Crisis: Reforming the Pricing Structure"

Presented by Dean E. Norton, President, New York Farm Bureau

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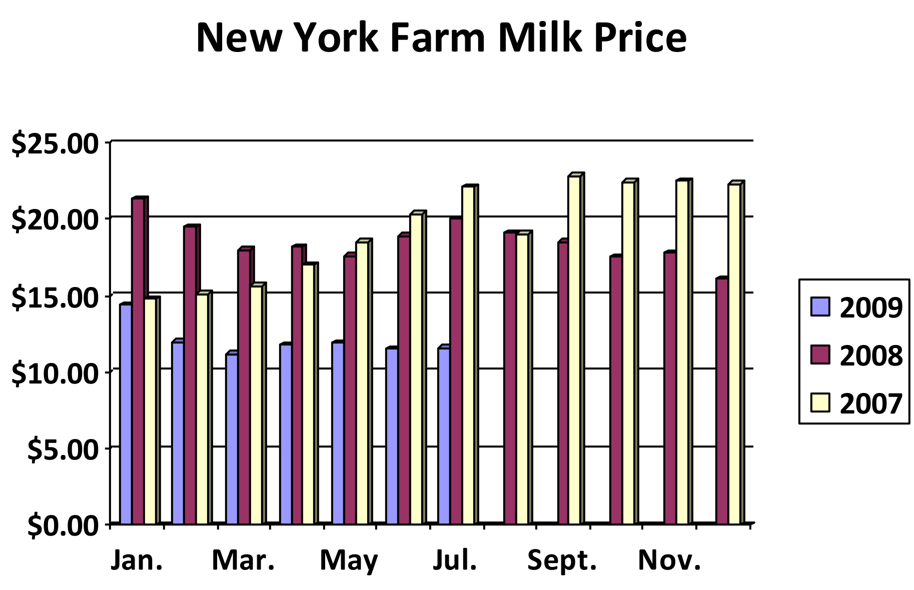
Thank you for inviting me to testify before you today. My name is Dean Norton and I address you as a dairy farmer, agricultural consultant and President of the New York Farm Bureau, the State's largest general farm organization. I represent more than 30,000 family farm members, including many dairy farm families struggling under the weight of this economic crisis.

You have just heard from a diverse group of dairy farmers. The impact of low milk prices on entire communities could not have been more eloquently expressed and I know that you and your colleagues have been affected by these real-life experiences. Our dairy farmer-members share their blunt assessment of this dairy crisis and the sheer determination needed to survive these cyclical pricing downturns.

FARM MILK PRICE AND PRICING STRUCTURE REFORM

Dairy farms throughout New York, the Northeast and the nation are indeed facing the worst economic crisis they have ever experienced. This crisis is impacting every farm regardless of size or geography. The combination of extremely low milk prices well below those of 25 years ago along with very high fuel, feed, energy, fertilizer and other operating costs have resulted in unprecedented losses for all dairy farms. Even with the inclusion of the feed cost adjuster in Milk Income Loss Contract (MILC) payments, which we owe to your efforts during negotiation of the 2008 Farm Bill, farmers are not able to cover their costs of production. In simplest terms, farm families are getting paid nothing to cover their living expenses and bills, and then losing money per hundredweight (cwt) on top of that.



It is important to remember that dairy cows are not like water faucets—you cannot turn them on and off when you need, or do not need milk. Production takes a relatively long time to gear up to meet demand, and after production has increased, lower demand can result in overproduction and thus lower prices. For this reason, it is critical that there be price stability at the farm level.

There is enormous frustration amongst our producers that the milk price paid to farmers is based on a price discovery mechanism dependent on the Chicago Mercantile Exchange (CME). Both complex and erratic, price stability for fluid milk has been elusive under this pricing mechanism based on CME's cheese and butter markets. Because of this, NYFB recommends decoupling of Class I or beverage class milk from manufacturing milk in price determination.

Similarly, there is enormous frustration that the federal Milk Marketing Order System does not offer adequacy or stability in pricing for fluid milk. It is clear that a systemic review and overhaul of the federal Milk Marketing Order System and its relationship to the CME should be undertaken in an effort to avoid extreme cyclical downturns so that dairy farmers are not forced to seek emergency government assistance simply to survive. While the Milk Income Loss Contract program has helped New York dairy farmers somewhat during this price downturn, a regional pricing program that extracts its value from the market instead of the taxpayers, similar to the Northeast Dairy Compact that expired in 2001, would be far more effective.

Because of the movement of milk and milk products across state lines, no state acting alone can "solve" the milk price issue within its boundaries. The Northeast region is a major "milkshed" to some of the nation's largest population centers. Under the FMMO, our dairy farm families are currently reliant upon a nationally-based pricing system which balances national supply and demand, but does not always recognize the regional production needs throughout the entire nation. This system also tends to penalize areas with higher costs of production which are closer to existing population centers, such as in our geographic region.

Recognizing this, the Northeast State Farm Bureaus and their producers are working together to capitalize on our assets and ensure that the milk pricing structure works for our region. It is clear to the Northeast Farm Bureaus that the federal order system must be reformed to accommodate regional variations in fluid milk production in order to keep milk supply near population centers. Several weeks ago, New York Farm Bureau and twelve other Northeast State Farm Bureaus sent a joint letter to USDA Secretary Tom Vilsack making such a request (please see attached addendum).

Senator Gillibrand, we also make this request of you and the Senate Agriculture Committee. Please use the Committee's position and authority to examine the federal order system in depth with the intent of making it more responsive to fluctuations in farm milk prices and regional variations in fluid milk production. We need our order system to be transparent, projective and more suitably reactive to markets.

We also ask that you consider other options that accomplish the same goals of profitability and stability within the dairy industry. New York Farm Bureau suggests that Congressional authority be granted legislatively to allow two or more states to work cohesively to best utilize their milk pricing laws. Allowing states to work together to establish over-order prices for fluid milk will prevent disruption of movement of manufactured dairy products but achieve some stability and retention of farms in the region.

BUSINESS CLIMATE

Volatile and inadequate milk prices are not the only impetus for this crisis. While not a root cause, a contributing factor to our current quandary is the influx of imported Milk Protein Concentrates onto our domestic markets at the most inopportune time. While MPC imports were not great in volume, they were received by U.S. markets in November and December of last year when U.S. and global demand was waning due to the worldwide recession. When our dairy industry could least afford it, our dairy supply/demand relationship was compromised by these imports. At the very least, MPC imports should be restricted as to how much may be received by the U.S. in a one month period to prevent flooding of our domestic markets.

Dairy promotion fees which are dedicated to building consumer demand for dairy products should also be collected on all imported MPCs, casein, dairy and cheese products. Our foreign competitors are currently enjoying the benefits of national dairy advertising being paid by our U.S. dairy farmers. It is like we are giving away our retail market to our foreign competitors and paying them to take it from us! U.S. dairy farmers have been contributing 15 cents for each cwt of milk they sell to fund national advertising and nutrition research to increase U.S. milk product consumption. The USDA is currently delaying implementation of a regulatory proposal to assess 7.5 cents per cwt on all dairy-based imports, including cheese and butter products, as well as dry ingredients such as casein and MPCs. Statutorily authorized under the 2008 Farm Bill, NYFB recommends that USDA enact this promotion assessment on all imported MPCs immediately and require that this fee on imports be equal to what is paid by U.S. farmers, which is currently 15 cents.

New York's business climate makes it difficult for the family farm to survive these pricing lows and continue to grow the next generation into the business. Farmers face and comply with a multitude of regulatory and statutory requirements – on the state and federal level. Adding to this burden would make New York's business climate more onerous than it already is. This is unacceptable for our farmers that compete in a global market to sell dairy products with foreign and domestic competitors who do not have to tolerate such rigorous and expensive mandates. As you take up climate change, health care reform and food safety legislation during the remainder of Congressional session, please be judicious in your consideration and hold our farm businesses harmless from overreaching policy.

Outside of New York's hostile business climate, access to adequate and reliable farm labor is a priority concern for our dairy farmers. Our state's dairy industry will look considerably different if our farm families are not able to access a skilled and willing workforce which cannot be found in the U.S. U.S. residents do not want to endure the long hours and hard labor that our dairy farmers require of themselves and their families to run their farms. In order to fill this workforce gap, passing and enacting a viable, agricultural guest worker program either as a standalone initiative, such as AgJOBS, or as part of comprehensive immigration reform is one of our highest legislative priorities. NYFB asks for your cosponsorship of AgJOBS and advocacy with the Senate leadership to bring the issue of agricultural guest labor to the Senate floor by the end of this Congressional session.

Lastly, many New York's farm families survived the last pricing downturn in 2006 by relying on credit to pay their operating costs. Farm families once again find themselves turning to this last resort to pay farm operating expenses, make payroll and milk cows for another day. While farm milk prices are predicted to rise through the end of the year, they will not be sufficient for many farmers to satisfy their debts and pay for current expenses needed to run the farm.

While we sincerely appreciate and applaud USDA's and your efforts to increase dairy support prices under the Dairy Price Support Program, the financial impact of these actions may not be reflected in farm milk checks until March 2010. Presently, if not in the coming months, many farms will have neither the cash nor the ability to borrow the funds needed to purchase necessary feed for their cows and seed, fertilizer, fuel and other seasonal costs if emergency assistance is not provided for the dairy industry immediately.

Our farm families cannot stomach the milk price roller coaster ride any longer. NYFB recommends that retroactive MILC payments for 2009 continue to be pursued. NYFB also asks for an increase in the annual production cap for MILC payment eligibility to allow for more producer participation. NYFB also recommends that the Senate Agriculture Committee ensure a strong and adequately-funded Farm Service Agency loan guarantee program make it through the 2010 budget process. All of these measures would allow for business recovery for dairy farmers who would not be able to do so otherwise.

CLOSING

In closing, there is no question that finding a solution to the cyclical dairy pricing crisis is a significant challenge. But I am confident that enough people, from producer to consumer, recognize that something must be done so that the depth and length of price downturns can be avoided in the future.

NYFB looks forward to working with you and Committee staff on what I know is a common objective: ensuring the stability and long-term viability of the dairy industry here in New York and nationwide.

Thank you for giving me the opportunity to speak to you today. We appreciate your immediate attention and concrete actions to assist our dairy farm families.

I would be happy to answer any questions you may have at this time.