

I'm Doug Nuttelman, a dairy farmer from Stromsburg, Nebraska. My wife Gloria, our three sons and I operate a 175 - cow dairy and farm 2,200 acres producing over 3.5 million pounds of milk over the most recent 12 months. We have been in the dairy business for 20 years. I serve on the board of directors of Dairy Farmers of America, Inc. (DFA) a national milk-marketing cooperative based in Kansas City, Mo. with dairy farmer member owners in 48 states. I also serve as chairman of the DFA Central Area Council.

I represent my fellow local dairymen on various state and regional organizations by serving on the National Dairy Promotion and Research Board. I am the past chairman of the American Dairy Association and Dairy Council of Nebraska and past secretary treasurer of the Nebraska Dairy Industry Development board and past president of the Chamber of Commerce.

I appreciate the opportunity to testify at this hearing today.

While organizations that I serve have not officially established positions for all of the 2007 Farm Bill issues, I would like to share my thoughts on some of the major themes that will define the dairy sections of the bill.

1) DFA members are participating with all the other members of the National Milk Producers Federation's Dairy Producer Conclaves to develop a consensus position on Farm Bill issues. We will keep you and your staffs informed of our efforts and seek your counsel on issues as we discuss them.

2) Because we do not think there will be radical shifts in policy direction as a result of the 2007 Farm Bill we support the view that an extension of the current Farm Bill which will work well for most of the nations dairy farm families.

3) We feel the next Farm Bill should maintain some form of an economic safety net for dairy farmers. Safety nets prevent prices from falling so low that businesses become unviable. Because dairy products are such an excellent source of nutrition for our nation and due to the high fixed cost of becoming a dairy farmer and the fact that milk production assets have limited use in any other agriculture enterprises, past Congresses have maintained safety net provisions for the dairy industry. We hope this Congress will continue these policies.

The most important safety net provision we have is the dairy price support program. We favor continued operation of the dairy price support program at a targeted \$9.90 U.S. average manufactured milk price. We would oppose granting the Secretary of Agriculture any discretion, which would reorient its intended purpose away from supporting income to farmers just to result in minimizing government costs - and we may need Congress to instruct the Secretary of Agriculture of this fact in some official manner. Under President Bush's proposed Ag budget the Secretary of Agriculture would be allowed to adjust buying prices for products made from milk (cheese, butter, and nonfat dry milk) so as to reduce the cost to the CCC for products purchased. This could allow for a reduction in targeted support price from that \$9.90 as specified in present legislation.

Additionally, I would request that the Commodity Credit Corporation (CCC) take action and adjust the support program purchase price levels for cheese, butter and nonfat dry milk to

reflect the significant additional costs manufacturers face when selling products to the CCC. The current CCC purchase prices for dairy products do not reflect any costs beyond those incurred for commercial sales. As a result, market prices for individual products have, from time to time, fallen below support levels, allowing the price of milk used to produce them to fall below the statutory support level for milk of \$9.90 per hundredweight at average test. NMPF has provided information to CCC but thus far CCC has been unwilling to take action. The result is that manufacturers will sell to buyers other than CCC at prices below the support level in order to gain a higher value than the support purchase price and the support price targets are not maintained.

Up until the last several months, the CCC has purchased some NFDm - doing what safety nets are supposed to do. The last time milk prices fell to safety net levels was in 2002 when the average Class III price for the year was \$9.74 (below the safety net price of \$9.80 for milk of 3.5% butterfat test). The 10-year average Class III price is \$12.62. Because the price support program is in place and working we hope to avoid a price crash like in 2002 - but if it wasn't around and prices did fall to that level the Nuttelman farm would face a loss in income of \$101,695 on an the most recent years production. That would be hard for our business to withstand. We are very interested in stable policies that help to keep reasonable prices and a safety net that maintains some level of viability for a dairy farm family.

The second safety net provision is the Milk Income Loss Compensation (MILC) program, which DFA supports as long as there are no caps limiting access to the benefits. My farm is affected by the payment limitations, restricting my ability to fully take advantage of this program. Like the price support program I view the MILC program as a valuable safety net for producers pay prices. Its key benefit is that it puts cash in the hands of farmers at the very point it is needed most - the lowest point of the price cycle.

In general the guidelines for a safety net program should be that the program:

not discriminate between farmers of differing sizes;

not discriminate between farmers in different regions of the country;

not be high enough to encourage additional milk production.

The government's safety net policy should only operate at a point where a collapse of producer prices could force too many producers out of business and our nations milk-producing infrastructure would be damaged.

4) We support continuation of the Federal Milk Marketing Order program. Marketing Orders are important to us as they undergird all of our marketing and pricing efforts all over the country. Orders assure dairy farmers a minimum price, assure that all competing milk buyers pay the same minimum price, assure that all dairy farmers share equitably in the returns of the marketplace and assure that the terms of trade are uniform throughout the Order's marketing area. These objectives remain very important ones in the dairy marketplace. Moreover, despite

the claims that they are outdated and not relevant, the primary reasons for the institution of milk orders still exist: There are many more buyers than sellers and the average sized milk buyer is much larger than all but the very largest dairy farms. Milk production is still very seasonal. Milk demand has a weekly and seasonal purchase pattern that requires substantial costs to balance producer supplies with buyer demand. Individual dairymen, and even large groups of dairy farmers, continue to need the stability of Orders to deal with these marketing challenges.

We are, however, becoming very frustrated in our attempts to get the Order system to recognize local issues - such as in our case the problems caused by de-pooling. De-pooling results in farms in the same area getting widely different pay prices in the same month for no valid economic reason. It is just the difference in various buyers' ability to utilize loopholes in the Order regulations.

In addition to making producers upset about the different pay prices depooling and negative PPD's really mess up a producers ability to hedge his milk price. Several DFA members testified about this at a hearing relative to Federal Order 32 and again USDA recognized the problem. I personally have used contracts to try to stabilize my milk price and so have my neighbors. Several people I know have existing contracts out into 2007. The next time we get in this situation - if we don't get a decision, there will be people asking questions and again being upset and concerned.

This should be fixed and we have asked USDA to do so in a hearing. They agreed, saying so in a Recommended Decision issued on February 22, 2006 - but, here we are, nearly six months later and still do not have a Final Decision.

DFA has participated in the industry make allowance discussion in both the California and Federal Order hearings. We understand the importance of product formulas and the need for them in our pricing structure.

DFA continues to support the NMPF compromise position, which calls for a reasoned and limited increase in the make allowances for Class III and IV, if justified by a Hearing Record and found for by USDA. But these changes should be paired with an index that will adjust the formula for energy cost changes and "hold harmless" any change in Class I and Class II prices from any changes in make allowances.

The industry (and USDA according to the "delay Notice) is waiting for a comprehensive study from Cornell University on the product formulas and manufacturing costs. We are waiting until that data is released and plan to review it carefully. We expect to work with the other cooperative members of National Milk Producers Federation to evaluate the Cornell study.

USDA has requested additional proposals be submitted by September 30. If we have any proposals for consideration we will submit them by the deadline.

We seem unable to get the USDA staff to realize the problems this causes and need them to be more responsive. If USDA fails to help dairy farmers in this dilemma we may need legislation to address this issue.

Also, while we are frustrated with the slow pace of change thru Federal Order hearings, we are hopeful that reforms underway initiated by USDA will speed up the hearing process and make it easier to get a Decision.

5) A majority, but unfortunately not all of the nations dairy farmers, have funded and are operating a self-help program - Cooperatives Working Together (CWT). Dairy farmers voluntarily pay 10 cents per hundredweight on all milk produced in order to structure the size of the nations dairy-cow herd and more closely tailor milk supply to demand. Additionally, the program works to assist exports of dairy products in an attempt to market and promote domestically produced dairy products to the world.

However, the CWT program is not intended to replace federal farm programs and can never do so because there will always be those who choose to take advantage of the programs benefits but never pay their share. Even after two years of successful implementation there are still over 25% of the country's dairy farms that choose not to pay in. In spite of our success we still need Congress's help in providing policy support to our industry.

6) Dairy Farmers also see policies outside of the Farm Bill impacting their future such as:

Environmental Policies

The implementation of conservation practices on our farm is extremely important to our operation. Increasing the funding for the Environmental Quality Incentives Program (EQIP) in the 2002 Farm Bill was very significant. We applied and received funding through the EQIP programs to offset the cost for these practices. Without the cost sharing mechanism it would have been difficult to fund some of the necessary and recommended practices.

There is another matter of local interest that I'd like to bring to your attention. Our area is a heavy livestock farming community. As such alfalfa hay is a key commodity and widely grown. However, the farm programs do not provide for any support payment calculations based on alfalfa production. So a primary use of cropland that could meet the program goals is excluded from any consideration.

I want to thank you Chairman Chambliss and Senator Nelson, for cosponsoring Senate Bill S. 3681 as part of a bipartisan effort to clarify that animal manure is not a hazardous waste under the Superfund law or its counterpart, the Community Right-to-Know Act. Congress should clarify that it never intended to jeopardize American agriculture by imposing strict, joint, several, and retroactive CERCLA liability on farmers for their traditional farming practices, including the use of manure as a beneficial fertilizer. I would ask you to urge your colleagues to support this important legislation.

My family has always taken our responsibility to protect the environment very seriously. Dairy farmers and other agricultural producers for years have been regulated and required to have permits under the Clean Water Act, Clean Air Act and numerous state laws and regulations - but never under the Superfund Law. It is essential that Congress protect farmers and

businesses that depend on agriculture from this potential threat to their livelihoods.

Workable Immigration Laws

I support the AGJobs Provisions contained in the Senate version of the Immigration Reform and I ask your support for passage of legislation that contains such language.

Estate Tax issues

We favor the elimination of estate taxes. If this is not possible, we would be in favor of any compromise that reduces the estate taxes.

7) Another reason we support extending the current Farm Bill is so that we can have a more clear view of the Doha Round of the WTO trade talks. We can see no reason to change our programs until we know what the world trade rules will be and more importantly perhaps who will play by them.

We support multilateral trade talks that level the playing field of dairy export subsidies, tariff protections, and domestic support programs.

We can't support a final agreement unless it represents a net increase in our ability to compete against our more heavily subsidized and protected competitors in the EU, Canada and Japan, as well as more balanced trading opportunities with key developing countries.

We support the continuation of the dairy price support program with or without a successful Doha Round. We strongly disagree with those who claim that the price support program must be phased out or eliminated upon completion of the Doha Round.

We support additional legislation to make the import assessment for dairy promotion (15 cent check-off) WTO-compliant by including dairy producers in Alaska, Hawaii, District of Columbia and Puerto Rico. Their inclusion will allow the collection of the promotion assessment on imported dairy products as authorized in the 2002 Farm Bill. Such legislative action is obviously long overdue.

8) We support the Dairy Export Incentive Program (DEIP) and the requirement that the Secretary of Agriculture be directed to see that the allowable amounts of cheese, butter and nonfat dry milk be afforded export assistance equal to what we are allowed under the current WTO agreement. Currently no government export assistance is being offered, even though, by law, the Secretary is directed to do so, and by agreement we are allowed to do so under the WTO agreement.

In closing, Chairman Chambliss and Senator Nelson, I want to thank the Senate Committee on Agriculture, Nutrition, and Forestry for having this series of field hearings. We know we can't explain all of our concerns here in detail but want to make you aware of them so that when we do provide you with additional details you will better understand our concerns. I will be happy to answer any questions, or provide any additional information that you might want.

