Testimony
Presented to:
Committee on Agriculture, Nutrition and Forestry, Subcommittees on Production, Income Protection and Price Support and Domestic & Foreign Marketing, Inspection, & Plant & Animal Health

Presented by:

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Senator Casey and Senator Gillibrand, distinguished members of the Committee on Agriculture, Nutrition and Forestry, Subcommittees on Production, Income Protection and Price Support and Domestic & Foreign Marketing, Inspection, & Plant & Animal Health, thank you for inviting the Commonwealth of Pennsylvania to be a part of this important hearing assessing the national dairy crisis. On behalf of Governor Edward G. Rendell it is my honor to testify before you today. As you know, Governor Rendell has been a strong leader in seeking new and innovative tools, programs and policies to help our state's dairy industry grow and become more profitable. We appreciate your interest in the dairy industry, and we look forward to working with you and the Committee to find common sense solutions to help make the industry stronger.

On behalf of PA's 7,600 dairy farm families, Thank you for your support of the recently $350 million enacted supplemental support for dairy. This will help address the immediate pain and buy some breathing room at the farm level.

We never want to waste a crisis and we have one in dairy. It is both a crisis in confidence and a crisis in income. We must use this rare moment to reform our pricing system, better understand the dairy market dynamic's and most importantly, change our approach to managing risk at the farm level.

Regarding reform, we must improve the systems of price discovery; the U.S. dairy industry would benefit from a reliable and transparent method of price discovery for dairy commodities. It is questionable whether that exists today. The CME market for cheese and butter is thinly traded and is the market of last resort for both sellers and buyers. Yet, it is these transactions and only these that send the signal to USDA/NASS for prices of dairy products which the Federal Milk Marketing Order System depends on for market prices of dairy commodities. The problem with the latter is that the NASS survey creates a lag in pricing information (1-2 weeks). What is needed are improvements in the NASS surveys; eliminate the lag, apply it to all dairy products sold including inventories in cold storage facilities, and make reporting on a daily basis mandatory in the same way other protein commodities report. We believe this important change represents a major step forward by our industry, could be implemented by NASS or AMS and would represent a minimal investment.

We would also suggest improving the integrity of the marketplace by creating an alternative to the CME market or consider using a collection of price discovery tools that, collectively, would more accurately reflect current market conditions of supply and demand. These tools could include the futures market prices, reporting's of actual prices paid from mandatory pricing surveys, and CPI numbers which represent input costs of corn, energy, and other input costs to farmers. Each factor would be assigned an appropriate weighting and would have numerous benefits to dairy farmers. By using a collection of discovery tools for price like cash and futures markets, pricing surveys, and input cost calculations, the integrity of the marketplace is improved, and extreme price fluctuations are abated.

My most important recommendation here today would be that USDA and Congress work together to provide dairy producers with additional workable, affordable and meaningful risk management tools like Dairy-LGM insurance and a Dairy Options Programs. These tools build on current programs and represent the next generation of dairy margin protection; USDA should consider providing funds to offset the costs associated with producer participation in LGM and funding for a Dairy Options Pilot program. Dairy-LGM is based on milk income over feed costs, which the program calls a "gross margin". The insurance program covers the difference between the expected gross margin (insurance guarantee) and the actual gross margin for the producer's selected months, based on a targeted amount of milk. Future prices from the CME are used to determine value, Class III milk, and corn and soybean meal. Future prices result in uniform commodity prices for all producers.

In Pennsylvania there has been a large learning curve with Dairy-LGM for the crop insurance agents, educators and producers. From what we can see it would have performed exceptionally well this past year for the producers who purchased it. The new changes allowing producers to use default feed values has had a positive response. Changing the sales closing to a slightly longer period has also been helpful. There are still some issues that cause some reluctance in acceptance and administrative difficulty. For instance, the entire premium is due up front—and as you know the dairy industry operates on a cash basis—something they are extremely short on right now. It would be a significant help if producers could pay the premium incrementally out of their milk check. This could possibly be worked out via an agreement with the milk buyer. Secondly, a federal subsidy would go along way in helping with the sticker shock. Other crop insurance products have a federal subsidy and it goes a long way in helping producers better afford crop insurance and to afford more meaningful coverage levels. Most dairy farmers do not dabble in the commodity markets either because of insufficient milk quantities, lack of knowledge, or not enough time. From my perspective, I believe USDA and Congress must move away from product price support programs to a risk management based system for providing support to the US dairy industry as, without true dairy pricing reform, we are likely to continue in this cruel system of extreme highs and lows of dairy prices.

Next, I would recommend studying the economic benefits to the producer of establishing two classes of milk; Fluid and manufactured classes with prices for each class being determined using fat, protein, and other dairy solids. Several years ago when Pennsylvania originally recommended this concept during the 2008 Farm Bill debate, it was met with little interest. However, now more and more producers, cooperatives and others are willing to explore this concept. I also believe the U.S. is in a good position to become a significant player in the global export markets for dairy ingredients and for this opportunity to continue to grow. The changes that are needed include: changes to the Dairy Price Support Program which is a deterrent to producing products for export markets and should be thoroughly reviewed, eliminated, or adjusted to become more flexible as to not inhibit the manufacture of Nonfat Dry Milk for export but to provide incentives for new product development domestically. In addition to the price support program, I believe the Federal Order system needs to be thoroughly evaluated to determine relevance to today's market opportunities. Included in this review would be a reevaluation of the Make Allowance system being paid to dairy processors and manufactures. This system is clearly a disincentive for product development and puts the United States in an uncompetitive position in the world market. Rather than using dairy components (fat, protein and others) for the most marketable "highest and best" use, the incentive is to produce milk powder, add to our inventories, and lose ground in areas of product innovation. As a result, the US finds ourselves relying on foreign innovation and the subsequent importation of innovative dairy products. I also feel Congress needs to revisit standards of identity for products being used for dairy manufacturing but not being considered dairy ingredients. We must apply the same standards to domestically produced products as well as imported products and would urge Congress to conduct a comprehensive review of all trade agreements to determine their impact on the domestic dairy industry.

Pennsylvania has nearly 8,000 dairy farms; surpassed only by Wisconsin. My fear is that we could lose 1,500 Pennsylvania family dairy farms in the next 12 months. Our existing farms produce 10.6 billion pounds of milk annually, which represents 5.6 percent of the US milk production. These farms spend most of their money locally to produce milk, thus supporting local businesses and the tax base. Because dairy farms spend money locally, they have a multiplier effect of about 2.5. In other words, for every $1.00 spent by a dairy farm about $2.50 in wages and related business activity is pumped into the local economy. It is estimated that dairy production and its associated businesses added on average over $4.2 billion dollars per year in activity to Pennsylvania's economy from 1998 to 2002.

It is because of the magnitude of the Dairy Industry in the Commonwealth, our Pennsylvania Dairy Task Force and Center for Dairy Excellence were created. The Task Force is a group of 100 dairy producers and industry professionals who meet routinely throughout the year to evaluate opportunities to improve the profitability of our industry. The Center for Dairy Excellence provides leadership to this process and activates the initiatives that result from these discussions. This focused approach has worked extremely well and has resulted in a reversed trend of declining milk production. It has also become a model for resource coordination and leadership used in other states in numerous sectors of agriculture. Business Planning tools, Dairy Farm Boards of Directors called “Profit Teams”, Risk Management resources, dairy mentors, and educational programs are examples of work done by the center.

As a result of the focused work done in Pennsylvania, the Northeast Dairy Leadership Team was formed. This regional effort is based on a Memorandum of Understanding signed in 2006 between the Secretary’s and Commissioner of Agriculture from New York, Vermont, and Pennsylvania. The NEDLT consists of approximately 10-20 industry leaders from each of these 3 states and meets routinely throughout the year. The work of the NEDLT has resulted in a regional approach to discussion and collaboration and has been an effective vehicle as we evaluate programs and opportunities to both sustain and grow our regional industry. The NEDLT discussions include areas around farm profitability, dairy legislation, regional milk production, and consumer outreach.

In addition to these vehicles for dairy industry support, the Commonwealth has a Pennsylvania Milk Marketing Board which sets minimum retail prices for milk and establishes dairy farmer premiums for fluid milk produced, processed, and sold in Pennsylvania. The PMMB was established in 1937 to regulate and ensure a sufficient supply of milk by keeping each segment of the industry economically healthy. Last month, Governor Edward Rendell asked the PMMB to explore all avenues available to address the price collapse.

As we approach the 11th month of these low prices and subsequent erosion of equity on farms, the breaking point is near for many dairy businesses. We would request expanded availability of guaranteed and direct loans through FSA. This would provide additional capacity for commercial banks and the farm credit system to work with dairy customers and the Farm Service Agency. As a result, dairy operations would have additional interim funding as supply and demand find equilibrium. These additional loans and guarantees will not change equity positions but will provide necessary operating funds for both farms and supporting infrastructure.

Throughout the Governor’s travels, he has come upon countless Pennsylvania dairy farm families who are struggling to pay increasing feed, fuel, fertilizer and other bills. Many dairy farmers worry that if economic conditions do not improve within the dairy industry, they will be forced to sell their cows and look for other occupations in order to make a living. The dire economic situation which confronts the dairy industry in the Northeast and elsewhere prompted Governor Rendell to explore new directions in dairy policy. The Governor recognizes that there are some problems associated with the current structure of the Federal Milk Marketing System, specifically the high volatility of prices, the gap between cost of production and the price paid to farmers, and the overall complexity of the system.

U.S. dairy policy is too complex and limits market creativity and dairy product innovation. With slow growth in domestic consumption of dairy products, dairy policy changes need to stimulate new product development to meet the growing export market. This would have the added benefit of removing some farm gate price volatility, which has consistently been an extreme hardship on Pennsylvania producers. Pennsylvania farmers have voiced the need for dairy reform loud and clear to me.

The dairy industry is critically important to our economy and quality of life and therefore must be nurtured and supported. Having the right state and federal dairy policies in place will be critical to improving farm income, capturing international markets, and encouraging investments at all levels of the industry – from the farm to processors. For these reasons, I would ask for your support to encourage dialogue among policymakers and the dairy community. It is our goal, in the final analysis, that the U.S. dairy industry be stronger – both here at home and around the globe.