Statement to the Senate Committee on Agriculture, Nutrition and Forestry

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Mr. Chairman and members of the Committee, my name is Connie Tipton. I'm the President & CEO of the International Dairy Foods Association (IDFA). Thank you for the opportunity to testify today.

The International Dairy Foods Association (IDFA), Washington, DC, represents the nation's dairy manufacturing and marketing industries and their suppliers, with a membership of 530 companies representing a $90-billion a year industry. IDFA is composed of three constituent organizations: the Milk Industry Foundation (MIF), the National Cheese Institute (NCI) and the International Ice Cream Association (IICA). IDFA's 220 dairy processing members run more than 600 plant operations, and range from large multi-national organizations to single-plant companies. Together they represent more than 85% of the milk, cultured products, cheese and frozen desserts produced and marketed in the United States. IDFA can be found online at www.idfa.org.
We have an unprecedented opportunity with the 2007 Farm Bill to reposition our dairy policies to take advantage of growing global and domestic demand for U.S. dairy products, and to transition to a better safety net for our nation's dairy farmers. It is important to us that we have programs that give dairy producers and processors the opportunity to succeed.
I would like to start off by stating that our organization supports putting in place an effective safety net for dairy farmers. We are committed to working with dairy farmers and Congress on new policies that ensure a healthy dairy industry. To that end, we are releasing a comprehensive set of Farm Bill proposals today in a document, entitled "Ensuring a Healthy US Dairy Industry: A Blueprint for the 2007 Farm Bill." It will be delivered to your offices and is available on the web at www.heathydairyindustry.org.
Our Farm Bill proposals include the follow five suggestions:

? Provide a safety net for dairy farmers that will give them the help they need under a variety of market conditions, not just when prices are low;

? Encourage environmental improvements on farms with direct payments not tied to price or production;

? Permanently reinstate the forward contracting program so that dairy farms and milk buyers can enter voluntary agreements that help level out price volatility;

? Eliminate the dairy price support program and the dairy import assessment and

? Establish a Commission of industry stakeholders to identify and recommend measures for addressing the problems with the Federal Milk Marketing Order system.

The context for these suggestions is a different dairy marketplace than we have ever seen before -- it's a marketplace that offers exciting opportunities for the U.S. dairy industry and there is room for everyone.

Milk prices are expected to reach record highs this year, largely driven by demand for exports of high quality milk powders, whey products and lactose. This demand is expected to remain strong for the foreseeable future. Yet, dairy farms will still be stressed because of extraordinarily high feed costs. Current dairy safety net programs, the dairy price support program and the Milk Income Loss Contract (MILC) program, will not be useful or effective in this market environment.

The dairy price support program is intended to buy basic commodities to prop up market prices when they drop. But it also encourages production of these commodity products because it provides a guaranteed market. This has kept the U.S. dairy industry from responding adequately to the exploding demand for higher value dairy proteins. Today, with record high milk prices the dairy price support program offers no help to producers, yet continues a commodity production mentality. This is a good opportunity to eliminate rather than resuscitate this program.

I would like to stress that we must have adequate resources to give dairy farmers the safety net they need -- a sustainable one that provides support regardless of market conditions or milk prices. We suggest providing assistance that is not tied to price or production and utilizing these payments to encourage environmentally sustainable practices on our farms. We would complement this support with more risk management tools for dairy, such as revenue insurance and forward contracting.

It is vital to our members that we keep our abundant and high quality milk supply, and we have a chance in this Farm Bill to do that with updated policies that allow markets to work better, including international markets for U.S. dairy products. A provision was included in the 2002 Farm Bill calling for new assessments on dairy imports which was never implemented. We believe our trade prospects have changed so dramatically since 2002 that so should our approach on this issue. As our exports are growing and driving better prices for our producers, we think it's the wrong time to put up new barriers to other countries' imports.

Finally, just about every segment of the dairy industry is frustrated with the federal milk marketing order system and wants to see some change. The system, however, is so complicated that it is hard to find consensus about what those changes should be. Both our organization and the National Milk Producers Federation have established committees to review these issues and we think it would be useful for Congress to call for a Blue Ribbon Commission made up of industry stakeholders and experts, to try to find a consensus across the industry for long overdue change to the federal milk marketing order system.

I know that dairy policies have always been one of the most difficult areas to navigate, but I am optimistic that our strong market opportunities will provide the chance for this Committee to come up with positive improvements.

I would like to explore these ideas further, starting with the Federal Milk Marketing Order

program that has regulated milk marketing since 1937. All of these dairy programs are interrelated so an understanding of the basic programs underpinning dairy pricing is essential to developing a comprehensive and meaningful way forward.

Federal Milk Marketing Orders are Well-Rooted in the Past

Federal Milk Marketing Orders (FMMOs) were created in 1937 because Congress wanted to make sure that all Americans had an adequate supply of milk for drinking and to protect farmers' bargaining power when selling their milk to processors. This was in the early 20th Century; dairy production in this country was a horse-and-wagon industry of five million small, low-technology farms limited by a processing sector that lacked today's refrigeration, sophisticated transportation equipment and high tech processing methods. Even though we have seen dramatic changes in technology, transportation, and the economics of the industry, the FMMO system is still in place today to assure an adequate supply of milk and orderly marketing.

Federal Milk Marketing Orders operate as a system of ten geographic regions of the country where USDA regulations determine how much processors have to pay for raw milk. FMMOs allow USDA to administer a discriminatory pricing system that assigns prices to raw milk based on the final product it is used to make. The Class I price is the highest price assigned to beverage milks. Class II prices apply to most cultured dairy products and ice creams. Class III prices are paid for milk used in cheese making, and Class IV prices apply to milk used for butter and nonfat dry milk products. There is no other commodity where pricing is regulated by the government based on the end product use of the commodity. Whether corn is used for feed, food, seed, sweetener, oil, or ethanol, its price is set by the market demand for that corn, yet the grower still enjoys a safety net for his income.

Needless to say, there is nothing simple or easy about the Federal Order system. In order for USDA to administer this complex system, milk processors have to track thousands of business transactions, file monthly reports to the ten milk marketing administrators with details about the location and volume of milk purchases, the composition of milk, and how the milk is used. From a purely business process perspective, USDA requires continual manual reporting of virtually all dairy business transactions, and charges processors a fee -- roughly $50 million annually -- to cover the cost of administering the ten milk marketing regions. Essentially, we are paying the government to set our prices.

Today, nearly 70% of the nation's milk is still sold under the USDA federal order milk price system. Most of the remaining milk supply is regulated under California's state milk marketing system, which is outside of the federal system, and a small percentage is unregulated by any system, but highly influenced by it. A small percentage of milk is also priced under other state regulations.

Federal Orders Maintain a Discriminatory System Out of Sync with Today's Industry Structure

Dairy farms today are vastly different than their predecessors seventy years ago. They have grown in size and gained considerable bargaining power through large, well-organized cooperatives. Today, just over 60,000 commercial dairy farms - that's about 1% of the number

of dairy farms in the 1930s - now produce over 181 billion pounds of milk a year. That amount is 50% more than the amount produced when the government first intervened in the dairy marketplace to assure adequate supplies. Cooperatives now control as much as 86% of the milk supply, up from under 50% in the 1940s. In 2002, according to USDA, the four largest dairy cooperatives handled 41% of the nation's milk supply. Cooperatives have become huge processors, too, manufacturing over 70% of the butter, over 85% of the nonfat dry milk, 40% of the cheese produced in the U.S. and increasingly, other dairy commodities. Some of these cooperatives are far larger than the processors who are their customers.

Even though Federal Orders regulate how processors pay for their milk, only producers (or their cooperatives on their behalf) get to vote on changes to federal milk marketing orders. This leaves processors as virtual "price takers" once a decision has been rendered by USDA, with prices determined by government formula, not by consumer decisions in the marketplace. The Federal Order system also blocks processors from even offering voluntary forward contracts with producers for milk supplies. Cooperatives are not restricted by FMMOs from offering forward contracts - and they have this power over 86% of the milk supply.

Federal Orders Foster Regional Divisiveness

The FMMO classified pricing system impacts regions differently today because of their historical function. In the 1930s, milk could not be stored or transported very far. So Congress, through the Federal Orders, wanted to ensure an adequate supply of milk close to every populated area of the nation. This was accomplished by setting up a milk pricing system that would equalize producer receipts regardless of how the milk is used (called "pooling") and allow higher prices (through "differentials") close to all major urban areas. At that time, Wisconsin and the Upper Midwest were the major surplus milk production areas. So the pricing system was set up to price fluid milk according to the distance the marketplace is from Eau Claire, Wisconsin. Today's differentials for Class I, or beverage milk, are still based on this concept.

As you might imagine, this regionally based pricing system doesn't fit today's milk markets. Milk production has changed dramatically as have the variety of dairy products demanded by consumers. Through the years, Federal Orders have been changed, but every tweak to these historic pricing formulas creates "winners and losers" where one region benefits over the other or one type of dairy product manufacturer benefits over another. As a further complication, the FMMO system still assigns the highest price to beverage milk, the category that faces declining demand as a percent of the milk supply. This distorts marketplace signals and creates a problem by stimulating more milk for fluid use than what is demanded - benefiting producers in marketing order regions where most of the milk is the higher priced beverage milk -- but resulting in lower prices in other regions, where most of the milk goes into lower priced manufactured dairy products.

Dairy is the most highly regulated of all U.S. commodities. Dairy is the only U.S. commodity that has a marketing order system that requires the government, at the approval of producers, to set minimum prices and, on top of this, maintains multiple federal dairy subsidy programs. In fact, the United States is one of the few remaining countries in the world that still intervenes in dairy pricing rather than allowing the marketplace to set prices. Other countries allow the

marketplace to set dairy prices, and utilize other types of support for the farming section, if any at all.

Federal Order Decision Process is Onerous and Inconsistent

Not only is the Federal Order system complex, it utilizes a slow regulatory process. All stakeholders (producers, processors, retailers and consumers) can petition USDA to change Federal Order provisions. USDA considers the petition and must use a formal hearing and rule-making process to implement changes. It is essential that USDA act as a responsible gate-keeper to hold hearings on only those issues that must be addressed and fixed through the regulated system -- and then make sure the regulatory process is completed in a timely fashion. Both of these issues are concerning and frustrating to the industry.

When USDA decides to accept a petition that starts the formal hearing process, the terms of dairy pricing are subject to change, and all milk buyers and sellers must wait for USDA's decision to learn the impact on their business. The cost and duration of the hearing is exacerbated by the time taken away from operating a business to testify. The FMMO hearings can last days and even weeks and often require expert witnesses, legal counsel, an administrative law judge to carry out the proceedings, and a court reporter to record the proceedings. Hearing participants are required to read their entire testimony into the record, often taking hours to complete this initial step before being cross-examined by a bevy of USDA lawyers and counsel representing other interested parties.

For example, USDA is currently undertaking rulemaking to consider twenty different proposals to update various components of the Class III and Class IV pricing formulas. Deliberations of these technical and seemingly empirically-based issues, such as determining the value of whey cream or the "block-barrel spread", will enter their third week of formal hearings in early July. USDA and industry participants have and will continue to expend tens of thousands of dollars to sit through another week of testimony to comply with the strictures of the formal Federal Order process. This onerous process is nearly as arcane and outdated as the Federal orders themselves. Certainly, a simpler streamlined process, such as the less formal "notice and comment" rulemaking used extensively across the federal government, could be used for the majority of federal order issues. Other improvements, such as utilizing the administrative processes in California's state marketing order for federal hearings, could be considered a model. California has predefined hearing schedules, and certain time limits that allow the system to work openly and efficiently.

Historically, USDA has also applied a thorough and critical analysis of any and all FMMO petitions before submitting them to the cumbersome and costly formal rule-making process. However, this appears to be changing. At the end of last year -- a year in which U.S. milk production reached a record high of over 181 billion pounds. USDA initiated an "emergency" hearing to consider a proposal intended to raise prices for fluid milk. The decision to go to a hearing on this proposal came as a complete surprise to Class I and Class II milk processors since the supply of raw milk is more than adequate to supply their needs. USDA is required to base the hearing decision on whether the changes are needed to ensure an adequate supply of fluid milk and orderly marketing. Federal Orders were designed for these purposes only -- not to enhance farmer income. In this case, there was really no legitimate reason for USDA to

agree to hold a hearing to consider raising Class I and Class II prices. At a minimum, USDA should have solicited industry comments as well as convened a pre-hearing workshop, as it did prior to announcing the hearing to update Class III/IV price formulas, to allow industry participants an opportunity to explore whether a hearing was necessary.

Some issues -- like the margins, or make allowances, that product manufacturers can recover in the price formulas -- must be addressed in the Federal Order regulatory process to keep them current. Updating processing costs imbedded in the formulas for milk used in cheese making, for instance, can only be addressed through the rulemaking process. This should be done regularly and in a timely manner. As a comparison to the Federal Order system, California recently updated make allowances for plants based in California. It took California four months to update the make allowances in their minimum price regulations, and they're already planning the next update. USDA's make allowance update, which was requested on an emergency basis before California even got started, has already taken over a year, and provided less than half the relief that California provided to its cheese makers. Under USDA's proposed make allowance updates, plants across the country will have to sustain their losses or go out of business. This unfortunate outcome is more likely in regions where plants are older and smaller.

There are many examples of how illogical, time consuming, and costly the Federal Order system has become. For instance, in 2005, dairy cooperatives in the Central Order, which stretches from Colorado to Illinois and South Dakota to Oklahoma changed the rules to force any processor seeking to qualify for the producer settlement fund, or "pool", to ship a certain amount of their farm milk to a Class I bottling operation, even though it raised costs and there was no business reason to do so. One company executive told me that he has to ship milk that would normally be processed in a Nebraska Class II plant to a Class I bottling facility over 120 miles away just to participate in the pool. Most shocking, at the same time, he has to do the reverse - that is, transport milk that is produced close to their Iowa plant back to their Nebraska plant. This change forces that company and many others to pay extra transportation costs merely to comply with unnecessary federal regulations. Can you understand why businessmen who run dairy processing operations are so frustrated with this system?

Complex Regulations Restrict Market Growth Opportunities

Dairy companies struggle against Federal Order regulatory hurdles, which put them at a competitive disadvantage in competing with other food and beverage manufacturers. The outmoded Federal Order system is not built to allow dairy to succeed in the highly competitive beverage market where other products are not constrained by cumbersome regulatory pricing mechanisms. For other agricultural commodities, unencumbered by price regulation, there are reliable risk management tools for both suppliers and buyers. Commodities purchased by most food processors have market price discovery. Commodity buyers can reliably plan for and even lock in future prices and have regular access to forward contracts with their suppliers. Not so with dairy. Uncertain changes in price regulations, and the lack of universal access to forward contracting and futures markets, means that dairy is increasingly at a disadvantage in the food and beverage marketplace. There is a strong price incentive for buyers to substitute or minimize the dairy protein components in food products - an otherwise growing but competitive market.

The classified pricing scheme also conflicts with the current demand for dairy products. The

system was erected to ensure the availability of fluid milk by assigning it the highest price. However, fluid milk consumption has been on a steady decline. In fact, per capita sales of fluid milk products in 2005 were only 21 gallons, the lowest level on record. Conversely, the demand for yogurts, cheeses and many dry milk products has soared. The increasing demand for dry dairy ingredients, especially dairy proteins, is being driven by products such as pizza, snack foods, sports drinks and nutrition bars. Additionally, cheese and its by-products now account for more than 40% of the U.S. milk supply. Despite this shift, Federal Orders still require the highest prices to be paid for fluid milk, making it more expensive to purchase farm milk for processed products while only providing farmers with a "blend" or average price of all the milk used in their Federal Order marketing area.

An example of marketplace evolution that is hitting up against federal order pricing constraints is whey, a byproduct of cheese that has been unconstrained by government regulation. For years whey was traded in the open market; its price not influenced by an underlying USDA purchase program. Over time, market demand grew because of competitive pricing, and whey products are now valuable ingredients for a myriad of food processing, animal feed and industrial purposes. Exports of whey products have taken off, and because of the increased demand, whey prices have also increased. But even something that has been a success in markets has caused problems in the federal order pricing structure for cheese plants. The federal order price for cheese incorporates a new higher value for whey, so all cheese processors must pay a higher price for their milk, but not all processors are equipped to get value out of the whey to cover the higher cost of the milk. This translates to losses for many cheese plants. This is just one more example of how markets move over time but the Federal Order system can't keep up.

An Ineffective Dairy Farmer Safety Net Compounds Federal Order Problems

Problems with the Federal Order system are compounded by ineffective support programs for dairy farmers. Current safety net programs put in place years ago no longer fit the dairy industry and markets of today. The dairy price support program is intended to keep average prices from falling below a minimum support price, but today's marketplace realities yield it ineffective. While doing nothing to support farm income, maintaining the price support structure only continues to encourage production of basic commodities for a guaranteed market (the government) instead of retooling these manufacturing facilities to produce more products now in high demand in the marketplace, such as high protein milk concentrates and powders.

On top of that, some of the problems attributable to the price support program have been compounded by the Milk Income Loss Contract (MILC) program, which was overlaid on the price support program by the 2002 Farm Bill. These programs work at cross-purposes. The price support program is intended to establish a safety net floor under milk prices-- that is, milk prices are allowed to fall enough to send a signal for the market to adjust. But, when the market price has fallen toward the price support level and thus is calling for an adjustment in supply, the MILC program kicks in. This sends the opposite signal telling farmers to continue producing milk at the same or greater levels. This, in turn, has a further dampening effect on prices, keeping them at low levels for longer periods of time. The two programs are completely counter productive and can result in more federal spending and less economic security for

producers. Under certain market conditions, USDA is essentially paying for milk twice with little or no benefit to the producers.

Under today's market conditions, futures markets are projecting record high milk prices, so no MILC payments will be triggered, yet farm income is severely squeezed by soaring feed costs. This is the ideal time to transition away from the concept of buying commodities and payments tied to price and production and to put scarce government resources toward a safety net that helps farms but encourages markets.

In short, dairy policy is based on outdated supply concerns, instead of solutions which support farm income without negative marketplace impacts that can result in weakening demand for dairy products. MILC was new and untested in the 2002 Farm Bill -- now we need to take the lessons learned and fix the payment program to get it right. Price support is an illusion of security, and should be replaced with real tools that help manage price volatility, and maintain revenue. Now is the right time to make these updates in dairy policy, while demand for dairy products is strong. Congress should phase out the dairy price support program and transition MILC to a new safety net not linked to price or production. This would provide farmers with reliable support, help markets work more effectively, and position the U.S. for continued success in a growing global marketplace.

Federal Orders Are at a Crossroads - A Commission Can Provide a Roadmap for the Future

Dairy processors are not in agreement on the future direction of the Federal Orders, but there is a strong level of discontent with the current system. There are many issues currently being discussed. For example, California's state milk marketing order system is often held up as being faster and more efficient in adjusting regulations to marketplace realities than the federal order system. However, California's quota system is also seen as an impediment to California becoming part of the federal system. But the need for comprehensive reform goes far beyond just these observations. California's administrative processes should certainly be considered as a model of great efficiency, but California should not be brought into the broken Federal Order system without full and adequate study. Furthermore, expanding the Federal Order system to make one national order is also a losing proposition that will only make the pricing system's failings more apparent, accentuating regional disparities and uncertain impacts on consumers.

The Federal Milk Marketing Order system has been around for seven decades - correcting its well-entrenched problems won't be something that can be addressed within the next few months in the heat of a farm bill debate. But, we have a good context for analyzing the Federal Order system and developing a solution:

? The Federal Order system was designed to ensure a local fluid milk supply -- and that's not a problem today;
? The Federal Order system is not a safety net; there are other programs for that purpose;
? Solutions to our current problems cannot be addressed piecemeal because the entire federal dairy policy system is interrelated;
? Record high milk prices and growing global demand provide a golden opportunity to make

significant portions of these interrelated dairy programs more market oriented.

A Commission is needed to study these issues, and pull together the different stakeholders to assist the industry in reaching consensus on the next steps as it relates to the Federal Order system. A national approach, representing the diversity of the industry is the only way that we will be able to get past the individual "winners" and "losers" that would be the outcome of a piecemeal approach.

USDA faces a virtually impossible task of trying to administer a discriminatory, regional pricing system that was built for the marketplace of the 1930's. Today's industry has been fundamentally reorganized and is subject to an entirely new array of market forces. Like a decades old car, the Federal Order system can keep sputtering along, but it needs more than a tune-up -- the Federal Order system needs to be completely rebuilt for the 21st century. In short, it's time to buy a new car. We need a Federal Order Blue Ribbon Commission established in the 2007 Farm Bill to chart the course for the future of milk price regulation in the U.S.

The stakes are high. The dairy industry has grown up around the classified pricing system, and any future changes need to be done thoughtfully and carefully - with balanced input. In the meantime, it is essential that Congress immediately address the issue of a new federal safety net for dairy farmers. Without this, all dairy programs and policies are at the risk of collapse.

Federal Orders and the Safety Net Are Inextricably Linked: Both Need to Change

As I started out by saying, the Federal Order system cannot be viewed in isolation -- it is only part of the government's involvement in dairy. It cannot continue in its current direction of acting as a price support program, without severe negative impacts on the market, such as declining milk demand and increased friction in the industry. The pressure must be taken off of the system by fixing the underlying safety net programs.

The future success of our dairy industry also requires a transition from ineffective policies of the past, to programs that distribute resources more equitably, promote expanded trade, and address today's challenges. In structuring a viable safety net, two important principles come into play. First, we must recognize that price-triggered payments don't help when both milk prices and input costs are high. Second, we must also recognize that it is possible to protect revenue without manipulating prices or disrupting production in the marketplace.

Dairy Needs Improved Direct Payments and Revenue Protection

We support a safety net that will make payments directly to farmers, year round, even at times of higher farm milk prices. A decoupled direct payment program will help farmers of all sizes address higher feed costs, and the higher costs of energy, and environmental compliance. At the same time, we support risk management tools that directly help producers manage price volatility and revenue fluctuations. Unlike the price support system, we think the safety net needs to be directly accessible to producers through options such as affordable revenue insurance. Milk prices are among the most volatile of all agricultural commodities, in part due to the very federal programs that intervene in the marketplace. Revenue insurance is needed to

offer farmers the option of bottom line protection against severe declines in farm revenue associated with price fluctuations and natural disasters. But there is no revenue insurance product currently available specifically to meet the needs of dairy producers. Unlike dairy, most major crops in this country have access to and extensively utilize USDA subsidized insurance products, including farm revenue insurance. If milk revenue insurance were available, it would enable producers to make better long term strategic plans for their businesses and make farm investments with greater certainty.

Permanent Dairy Forward Contracting will Expand Risk Management Tools

Congress should remove restrictions on preventing thousands of dairy farms from using forward contracting of milk sales to protect against future severe milk price downturns and to enhance revenue predictability for planning purposes. USDA operated a pilot program during 2000-2004 that allowed forward contracting for milk that goes into cheese, ice cream, butter and nonfat dry milk, and found that forward contracts were effective in achieving stable prices. USDA also determined that making the dairy forward contracting pilot program permanent will not hurt or undermine the Federal Order system.

In fact, the forward contracting pilot program under USDA's oversight was quite successful for both producers and processors alike. Structurally, a system of forward contracting can streamline the communication of market-based information from the consumer all the way to the producer and thus addresses one of the key problems in dairy price risk. Managerially, forward contracts are relatively easy to use. There is no cash settlement, no premium payment, and no monetary outlay on the part of the producer. The terms, nomenclature and concepts are not foreign to the producer or difficult to learn like futures and options trading. Forward contracting is a very simple and user-friendly risk management tool.

We support Congress making the forward contracting program permanent in the 2007 Farm Bill, with the same level of USDA oversight and no additional USDA restrictions that would create unnecessary bureaucratic red tape.

Promote Long Term Trade Prospects -- Repeal the Dairy Import Assessment

The U.S. dairy industry is in an excellent position to capitalize on growing global demand for dairy products. The U.S. Dairy Export Council estimates that global demand for dairy products will increase by more than 20% in the next few years. With world market prices for dairy products at their highest levels in recent memory, the time is right to reduce our dependency on trade-distorting federal programs, such as the dairy price support program, and eliminate needless trade barriers like the dairy-product import promotion assessment program.

Although the dairy import assessment has not been implemented since it was enacted in 2002, it hangs like a cloud over our industry just as we are poised to capitalize on global trade opportunities and move toward leadership in market-oriented innovation. The assessment would not give any additional support to farmers, but is in violation of our global trade obligations, and is likely to provoke a challenge through the World Trade Organization and risks retaliation against U.S. exports of all types. Imported dairy products would be required to pay into the domestic promotion programs, but these products would not benefit from the

advertising and other promotion activities. Fluid milk imports are virtually non-existent and the volume of cheese imports is capped by strict quotas. Imported high protein dairy ingredients, use predominantly in products outside the dairy case, would not benefit from cheese and milk advertising.

Congress should use the opportunity offered by the 2007 Farm Bill to repeal the assessment and help make federal dairy policy more consistent with the nation's global trading obligations.

Conclusion

We recommend a two step process to get dairy policies in line with where the industry is today and position the dairy industry capture greater demand for dairy products here and abroad. First, fix the safety net and ensure that our dairy policies support expanding export market opportunities. The authority for the MILC and price support programs are coming to an end with this Farm Bill, offering Congress an opportunity to put a more viable safety net in place. The safety net can be improved by transitioning MILC from a trade and market distorting program into a decoupled direct payment program, while phasing out the price support program, and offering more risk management tools for dairy producers through forward contracting and revenue insurance. Along with removing artificial barriers to trade like the dairy import assessment, these new ideas are fair to all farmers, don't distort the market or hamper demand for dairy products, and are consistent with U.S. trade goals.

Second, establish a blue ribbon commission made up of producers, processors and experts to recommend ways to streamline and simplify the system, increase its responsiveness to market forces, and ensure that it's still serving the best interests of the industry and consumers. The time to implement the longer term solutions to fix the Federal Milk Marketing Order system will follow after the commission has reached consensus and issued recommendations.

IDFA represents companies -- large and small, public, private, and producer owned -- that build demand for U.S. dairy products; and who are dependent upon a stable and healthy U.S. milk production sector. We support and uphold the importance of federal programs that ensure dairy producers have equal standing to operate their dairy businesses to take advantage of growing markets in the U.S. and abroad.

U.S. milk production was at a record high in 2006 at over 181 billion pounds. If our milk supply continues to grow as it has in the past (production has increased by over 50 percent in the past 30 years), protecting the processing sector's capacity to buy more and more milk -- that is, to grow demand -- is equally important to ensure a healthy dairy industry. Members of this subcommittee understand this obvious point, but it needs to be reinforced that a safety net for farmers does not help farmers in the end, if those very government programs negatively impact the outlets and growth opportunities for milk and dairy product demand here and abroad.