

**Farm Bill Listening Session**  
**Senator Lugar & Congressman Stutzman**  
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Senator Lugar & Congressman Stutzman, I sincerely appreciate your hosting of this Listening Session to provide the opportunity to share issues that need to be addressed in the next Farm Bill concerning Dairy Policy.

Much of what exists today in dairy policy has ties to the 1930's & 40's when concern for an adequate supply of safe dairy products was an issue for US Consumers. Today much of that current policy constrains the dairy industry in a market that is much more than just the US consumer. While growth in demand here in the US is somewhat flat there is a rapidly growing demand on the world market for the high quality, nutritious food components made from milk.

Under current policy, the history of pricing dairy products, placed our producer prices for milk above world prices. However, that began changing as we moved into the 21st century and was becoming evident prior to the world economic crisis of 2008 & 2009. During and following that crisis, the US producer prices have fallen well behind other major world competitors. Much of that has to do with the way US dairy products are currently priced and what products are produced.

Of particular concern is the lack of market transparency, which allows a handful of influential traders on the Chicago Mercantile Exchange (CME) -- who trade less than one percent of the cheese and less than two percent of the butter -- to, in effect, set the price paid for all milk at the farm gate. This is the beginning of a poor price discovery process. As recent as 2007, the Government Accountability Office (GAO) concluded that the CME is "vulnerable to manipulation". For that reason the 2007/08 Farm Bill included language in Section 1510 to move to " more frequent electronic reporting" of dairy products from the current once weekly non-electronic reporting. That mandate particularly the more frequent reporting has not yet been implemented. Dairy is the only agriculture commodity without daily reporting and competitive pricing.

One of the major factors reducing our US product value currently in the world markets is the fact that US processors have historically made Non Fat Dry Milk Powder, which is very outdated as a commodity. We have used that product as our world commodity and also sold that product as a surplus product to the government. However, the world demands other higher quality products and we produce only limited supplies of these products in the US.

Demand on the world market has caused the development of these more refined dairy products that bring much higher prices than NFDM. US processors have not moved to manufacture those products and currently indicate they have no desire to rapidly make those changes.

The US Dairy Export Council (USDEC) has indicated a window of opportunity for the US to become a consistent supplier of these new products to the world. Delaying this process will allow other third world countries to build and develop an industry to attempt to fill this unmet demand. You can read a white paper on these issues at The Innovation Center for U.S. Dairy:

<http://www.usdairy.com/Globalization/GlobalImpactStudy/Pages/BusinessCase.aspx>

The July 2011 Marketing Service Bulletin provided by the USDA Federal Milk Market Administrator shares that there is no surplus of milk in the US.

With a free and open marketing system, the US Dairy Industry actually has growth potential. With more transparency in the market, the producers will get their fair share of the consumer's dollar. With more products produced to meet world demand, times of market stress will be much less. Under this plan, supply management would not be essential, and margin protection could be best managed using the current Livestock Gross Margin (LGM-Dairy) Program. This LGM-Dairy program could supply that margin to producers who require that service if it

were expanded with the current dollars now being invested in outdated dairy programs. It would also not be a mandatory program for all. I encourage you to consider these options in the next Farm Bill.