DPAC Dairy Policy Action Coalition

A coalition of grassroots dairy producers actively participating, with a unified voice, on policies and issues affecting milk pricing.

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RE: Dairy Legislation & Dairy Hearing, Sept. 8, 2011 **September 8, 2011**

The 2011 board of directors of the Dairy Policy Action Coalition (DPAC), all active dairy farmers from PA, NY, OH, IN, WI, NC and TN, along with ad hoc members serving on action groups from additional states, including MN, MI, MD, VA, AR, MS, KY, GA, and FL—adopted a resolution in February 2011: *"As a grassroots coalition of dairy producers, we cannot endorse National Milk Producers Federation's 'Foundation for the Future' based on the information available at this time. We are working on an alternative proposal."* and have spent the last 20 months gathering input, building a coalition and prioritizing the issues dairy farmers can agree on.

With the release of Rep. Collin Peterson's "Discussion Draft Dairy Legislation", concerns have only deepened regarding the package of proposals called "Foundation for the Future," developed by National Milk Producers Federation; which represents the major milk processing cooperatives, not necessarily the grassroots dairy farmers who produce the milk and shoulder the price risk.

DPAC believes now is the time to empower U.S. dairy farmers, by adopting policies that equip U.S. dairy farmers to supply the global markets of the 21st Century and position U.S. dairy farmers for the opportunity to be profitable.

We believe the best way to achieve this is through:

1) A simpler and more transparent pricing system that restores confidence and competition.
2) Dairy product price and volume reporting that is more timely and transparent (daily reporting from more plants and including more products).
3) Federal policies that encourage product innovation and market development.
4) Incentives for self-help and voluntary risk management that reduce reliance on subsidies.
5) A voluntary market adjustment tool that is producer-funded to put producer dollars back in the pockets of producers when they most need it instead of taxing them when they can least afford it.

As dairy farmers, we object to proposals that add more layers of centralized government control on top of the current system, which is overly complex, lacks transparency and has poor price discovery. And, while we agree with the Discussion Draft's proposal to eliminate the Dairy Product Price Support Program (DPPSP), we object to the replacement it suggests and find it incredible that this legislation is poised to foist a government-mandated supply control program and "production tax", partially earmarked for the U.S. Treasury, onto American dairy farmers without their consent.

I. We oppose Foundation for the Future's (FFTF) Dairy Market Stabilization Program (DMSP) as the wrong approach for the future because:

1) It sends a signal to the rest of the world that the U.S. will continue to serve as the balancer of the world supply instead of a leader in supplying the world.
2) It interferes with our ability to develop global markets through long-term customer relationships.
3) Instead of delaying price recovery with government inventories, as happened in 2009 under the DPPSP, this supply-control program would decrease exports and increase imports by letting the world know the American dairy farmer will cut back production or face taxation according to national margin triggers based on a government formula. Other nations will continue to develop long-term customer relationships while the U.S. government forces the U.S. dairy industry to remain as the erratic supplier in the world, leaving the U.S. dairy farmers shouldering global risk as the world's 'balancing plant' instead of sharing global risk as a world marketer.

4) Even if, as FFTF creators say, this plan mediates the highest highs and lowest lows in the market, we must remember that the U.S. cannot control milk production in the rest of the world and does not do a very good job protecting domestic markets from imports. Thus, this supply-control plan unilaterally discriminates against U.S. dairy farmers. It is doomed to create more frequent cycles of volatility, and as U.S. dairy farmers are forced to cut back or be taxed over the next seven years covered by the legislation, their opportunities to develop world markets and customer relationships will diminish.
5) Government control of the U.S. milk supply is not helpful to dairy farmers' net farm operating income; the statistic that matters more than volatility. FFTF includes a "production tax" that would "trigger" when farmers can least afford it and which interferes with the ability of dairy farmers to operate and invest in their businesses.
6) This centralized, one-size-fits-all program ignores the fact that today's dairy markets are global, national, and also still regional in nature. The DMSP creates winners and losers instead of letting the collective wisdom of the markets work in that regard. It does not consider regional supply issues, in effect forcing deficit regions to subsidize the transfer of more of their infrastructure and next-generation opportunities to surplus regions over time. Studies clearly show this pattern of revenue loss to regions. Analysis also shows that the DMSP will accelerate consolidation within the industry. Each of the current milk sheds in the nation need a certain level of infrastructure supporting farms and vice versa, or their respective dairy industries (and the many jobs that go with them) will unravel. The government should not be picking the winners and losers in this way.
7) Perhaps most disturbing, the program really constitutes taxation without representation. As American dairy farmers, we will not be afforded the opportunity to vote on this program that would trade – without our consent – our freedom and right to control our business decisions for the false hope of government security.

Simply put: No other commodity is handled this way, and we believe that creating even more government control of this industry is not the solution to our problems. We believe there is a better way.

II. We propose a compromise in *Cornerstones for Change* because:

1) Producer-funded incentives and voluntary tools allow us to use our skills to manage our business margins instead of having our businesses controlled by national margin "triggers" set by government formulas.
2) We have developed a compromise – a simple and fair <u>producer-funded and voluntary</u> 'market adjustment tool' – that leaves the business decisions about production in the hands of individual farm business owners, <u>not the government</u>.

III. While we appreciate the effort that must have gone into generating 62 pages of Federal Order Milk Price Reform, we believe this portion of the Discussion Draft actually makes the pricing system more complex and does not improve transparency in the marketplace.

It describes, in reality, what would still be a four-class system, not a two-class system, and it contains none of the critical changes dairy farmers seek in dairy product price reporting. The nation's leading dairy experts even question the use of such extensive regulatory language in this legislative document.

The Discussion Draft is also silent on the issue of transparency through more frequent reporting of more products by more plants. It is critical that sellers have access to the same information about daily prices and sales volumes as the buyers of their milk have. Since we, as producers, are expected to use risk management tools in our business planning, we should be treated as businessmen with access to real-time, real-market data all other commodities enjoy.

IV. DPAC's *Cornerstones for Change* focuses on these issues by: Developing a simpler and more transparent pricing system based on two classes of milk: Fluid and Manufacturing.

We are working with other organizations and experts on the best process for working toward establishing a competitive pricing system that moves milk more quickly between uses to its highest value, and a uniform minimum component value for one manufacturing class.

V. We also have concerns about the DPMPP contained in the Discussion Draft as the new "safety net" for U.S. dairy farms because it does not have the flexibility that is offered by individual, *voluntary* margin insurance tools (like LGM-Dairy).

Frankly, we do not believe that a national margin-based insurance plan protects producers. If passed, it would reduce the chances that Congress will ever have the appetite to deal with the far more critical structural issues in this industry, including how milk is priced, how the industry will innovate and supply the global markets of the 21st Century, and how the dairy farmer's share of the consumer dairy dollar has eroded.

It also appears that the DPMPP is too expensive to stand on its own without having the supply-control program funneling 50% of the "production tax" collected from dairy farmers into the U.S. Treasury, as the details of the Discussion Draft reveal.

We understand that the CBO score on the Peterson Draft shows the DPMPP would cost $834 million over the next 10 years' baseline and that the supply management program (DMSP) would collect $882 million in penalties from farmers over that 10 years, as well as $60 million in premiums for purchasing supplemental margin insurance. We also understand that if the DPMPP were in effect in 2009, the government would have had liabilities of $5 billion, which is 12 times greater than the government's liabilities estimated at $400 million had individual margin insurance like LGM-Dairy been widely available and widely used under the crop insurance title. These figures are part of an in-depth report we are preparing for publication and to share with members of Congress as they deliberate dairy policy in the Farm Bill.

VI. We are interested in working with Congress, the industry, and Secretary Vilsack's Dairy Industry Advisory Committee to modify the current Milk Income Loss Contract (MILC) program to meet federal budget constraints by offering producers a choice: direct payments through MILC or subsidized LGM-Dairy under the crop insurance title as a public/private partnership where producers can manage their individual risk instead of being controlled by a national margin and national supply management program.

Let's be honest here. MILC is a targeted program covering a capped amount of production per farm. The purpose was to benefit smaller farms, recognizing that the economic health of many rural communities depends on the infrastructure of small to mid-sized family farms throughout a region.

This dispersion of farms also supports the economic engine provided by other small businesses and the small to mid-sized processing plants, which have been innovative and forward thinking in product and market development in contrast to the relocation of large cooperative-owned powder, butter, and cheese plants, where volume premiums reward the largest producers and built-in government-set "make allowances" encourage large-scale, high-efficiency throughput over robust, market savvy product development. The consumer has also indicated a desire for local food and the rural fabric that comes with it.

MILC can certainly be improved, and will, on its own, diminish in the amount of federal dollars used due to the growth in average herd sizes and the payment caps that are in place. A transition toward underwriting margin-based voluntary tools is certainly worthy of consideration as all farms can use such tools.

In conclusion, what we as dairy farmers want is a fair shot at a free market. We understand that won't happen overnight because the government has staked its claim of control on the dairy industry 70 to 80 years ago and yet it is the U.S. dairy farmers who ultimately pay the piper as well as paying the fees to administrate the USDA Federal Orders. We are simply asking for logic and liberty to prevail in 2011-12, so this Farm Bill does not mark the point in time at which the government staked an even larger claim of control (and taxation) over the small business decisions of individual dairy farmers across the United States of America.

The U.S. dairy industry is at a crossroads, and we look forward to sharing with all interested parties more details about *Cornerstones for Change* with the ultimate goal of improving federal dairy policy.

The grassroots dairy producers of DPAC are grateful for this opportunity to submit these comments on this important matter of federal dairy reform. Please do not hesitate to contact our correspondence secretary Sherry Bunting at 717-445-7531 to speak with dairy producers from many states serving on the DPAC board.

Kindest Regards on behalf of the DPAC board of directors and ad hoc members,

Clifford Hawbaker   Robert H Barley   Daniel A Brandt

Cliff Hawbaker, chair   Rob Barley, vice chair   Dan Brandt, vice chair