



National Family Farm Coalition

110 Maryland Avenue, NE Suite 307 • Washington, DC 20002 • (202) 543-5675 • Fax (202) 543 0978 • nffc@nffc.net • www.nffc.net

STATEMENT OF PAUL ROZWADOWSKI

On Behalf of the National Family Farm Coalition
before the
U.S. HOUSE OF REPRESENTATIVES
HOUSE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY
July 21, 2009

Mr. Chairman, ranking member and other members of the committee, thank you for giving me the opportunity to come here to testify on the dairy crisis that is causing economic devastation across the nation and putting our nation's food security at risk. I am a dairy farmer from Stanley, Wisconsin. I milk 60 cows on 375 acres and have been a dairy farmer for 30 years. I currently serve as the Dairy Subcommittee chairman for the National Family Farm Coalition. NFFC has dairy farmers from across the country as part of its membership, from California to Wisconsin to Pennsylvania to New York. We also have organic dairy groups who are part of our membership. In the short term, dairy farmers need an \$18 emergency price floor for all manufactured milk. In the long term, we need to revamp our failed milk pricing system and antitrust reform of our heavily consolidated industry that has left farmers with few options to market our milk.

In my area, farmers are burning up their equity accumulated over their lifetimes. One farmer in my area had to cash out his wife's IRA just to get crops planted this spring. My parish priest in my small town has had to counsel one or more dairy farmers a week to prevent their suicides. And we know of reports across the country of farm suicides that have already occurred.

All of us, whether we are small or large farms, conventional or organic, have believed for a long time that our industry was in a crisis. During the Farm Bill, NFFC was one of the few farm groups warning about this coming catastrophe and urging that the current milk pricing system had to be replaced because it was prone to manipulation by a few corporate interests and fostered unsustainable volatility. Now, as we confront 1970s prices for our milk and the worst conditions I have ever seen in three decades of farming, we still believe fundamental change is needed to address the corruption and greed that is at the root of this crisis. Dairy prices have crashed to 1970s levels not because of any supposed overproduction, but because of a pricing system easily manipulated on Wall Street, a flood of untested imported dairy ingredients, and dairy cooperatives that have long ceased to represent their farmer memberships. We believe industry groups such as the International Dairy Foods Association and so-called dairy cooperative groups like National Milk Producers Federation have failed America's dairy farmers and are the

reason why we have barely 60,000 dairy farms left in the country. So long as Secretary Tom Vilsack and Congress continue to take their policy cues from these industry outfits, we will never solve our dairy crisis.

The National Family Farm Coalition has been working tirelessly for over a decade to represent the real voices of dairy farmers from across the country and to expose corruption in the dairy industry. We have been among the few raising questions about our dairy co-ops, the pricing system and the deep-seated corruption of our so-called industry groups such as National Milk Producers Federation. NFFC's work helped to launch the Department of Justice's two-year antitrust investigation into Dairy Farmers of America, the nation's largest dairy cooperative. The findings of that investigation have never been released. We have repeatedly requested that the Senate Judiciary Committee look into investigating DFA's activities, but to no avail. NFFC members also protested at the Chicago Mercantile Exchange where cheese prices are determined. Our efforts led the Commodity Futures Trading Commission in December 2008 to issue an unprecedented fine of \$12 million against Dairy Farmers of America. NFFC in 2007 brought to the attention of USDA price misreporting of nonfat dry milk prices, costing dairy farmers at least \$50 million. To date, dairy farmers have not been compensated for this egregious error that occurred as a result of incompetence on the part of our main dairy cooperatives. NFFC also helped to release a report earlier this year showing the false myth that overproduction was behind the current price collapse when we are currently importing record amounts of milk protein concentrates from foreign countries. On these antitrust and corruption issues, dairy lobbyists such as IDFA, National Milk Producers and our major co-ops have remained virtually silent while continuing to support a pro-free trade, globalized dairy industry that only benefits the bottom lines of processors seeking the cheapest ingredients. These groups have proven over and over that they do not care about the well-being of America's dairy farmers.

Immediate Actions

NFFC, along with Farm Aid, has repeatedly urged Secretary Vilsack to exercise the authority he has under Section 7 of 608c(18) of the 1937 Agriculture Act that gives him authority to adjust the minimum price of milk under the FMMOs if the price "is not reasonable in view of the price of feeds, the available supply of feeds, and other economic conditions which affect market supply and demand for milk." Over 13,000 faxes and letters have been delivered to USDA demanding that farmers receive an \$18 emergency floor price. Farmers do not like the idea of receiving taxpayer money from Milk Income Loss Contract payments. While a doubling of MILC payments may address some of the problems short-term, NFFC believes farmers should not be deriving their income from taxpayers, but from processors, many of whom are enjoying record profits. Dean Foods, the largest fluid milk processor in the country, saw profits double to \$76 million in the first quarter of this year while Kraft Foods saw a \$60 million increase in first quarter profits.

Fixing The Broken Dairy Pricing System

Longer term, in order to stabilize our industry and ensure consumers have access to local sources of fresh dairy products, we need a new pricing system and a reasonable supply management program. Instead of spotlighting our broken dairy pricing system, industry representatives continue to focus on the Dairy Export Incentive Program, National Milk's Cooperatives Working Together's "cow retirement" program, and more government purchasing of dairy products, none of which have made a dent in the crisis. Our milk prices are currently determined in large part by cheese trading at the Chicago Mercantile Exchange. These thinly traded markets are easily manipulated by large corporate players, such as Kraft Foods and DFA. The Government Accountability Office in 2007, at the request of several U.S. Senators, found that the CME was highly prone to manipulation and the December 2008 fine of DFA only confirmed what many farmers suspected for years as we struggled with extreme volatility with our prices. It is unconscionable to have a pricing system that has no basis in supply and demand. Farmers should not be receiving prices that are lower than what they were 30 years ago, not even accounting for inflation! In 1980, the dairy support price was \$13. In recent months, we have received between \$9 and \$11 for our milk. This is unacceptable and it is time to change the system to finally account for farmers' cost of production in the pricing formula.

New Dairy Pricing Bill

NFFC supports a bill introduced in the Senate by Senators Bob Casey and Arlen Specter, S. 889, the Federal Milk Marketing Improvement Act, that would establish a national average cost of production. The only supply management we have now are low prices that drive farmers out of business. This just hurts all our rural communities and puts at risk our domestic food supply. S. 889 would have a supply management that maintains supply in line with demand and gives farmers a fair price. S.889 would have two classes of milk and would price milk based on a national cost of production. All manufactured milk will be classified as Class II milk. The values of Class I milk will be determined by adding the existing Class I differential in each Federal or state market to the Class II price. For instance, in Federal Order #1, if the Class II price were \$21.00 per cwt, then adding the Order #1 Class I differential of \$3.25 per cwt would establish a Class I price of \$24.25 per cwt. The price paid to dairy farmers would be slightly over \$22.00 per cwt. S. 889 would also institute an inventory management in case of true overproduction after accounting for imports. Every two months, the Secretary can determine whether there is an excess of milk and milk products being produced in the United States. USDA Secretary must factor in products including cheeses, butter, butterfat, milk powder, ice cream, yogurt, as well as substitute dairy ingredients such as milk protein concentrates, casein, caseinates, whey protein concentrates. If the Secretary determines there is excess production, milk prices for producers may be reduced for not more than 5% of all milk produced. There will be no reduction in prices received by producers unless there is a positive trade balance in dairy products (i.e. exports are higher than imports). Producers can receive a reduced price for milk of up to half the Class II price. Further deductions

may be taken for producers with more than 3 million pounds of milk. New producers are exempt from these guidelines for one year.

IDFA has suggested that dairy producers should utilize risk management tools such as futures contracts and forward contracting. These tools are simply designed to pay producers below the FMMO minimum price. A USDA study shows farmers lost \$28 million through their pilot forward contracting program. The 2008 Farm Bill unfortunately revived the forward contracting program. Sixty thousand dairy farmers cannot hope to attain a fair price when the industry is so heavily consolidated and controlled by a few key players, including Dean Foods in the fluid milk market, Leprino Cheese for the food processing sector and Kraft Foods for the retail sector.

Controlling Imports

The reaction from USDA and our dairy cooperatives to stem the current crisis so far has been to get the government to buy up supposed surplus products and help subsidize exports. USDA has spent millions to purchase products for international food aid and to distribute to local food banks. USDA has also, at industry's behest, revived the Dairy Export Incentive Program. National Milk Producers Federation has been promoting for six years its Cooperatives Working Together program. CWT attempts to control U.S. dairy production through herd retirements. It has been an utter failure at stabilizing milk prices and also lower cull-cow prices, further hurting farmers' income. Farmers who have been milking for decades are now seeing a lifetime's work go up in smoke as their herds, including even bred heifers, are being sold off to the CWT program. The Pope this week noted we have 924 million hungry people in the world today, yet farmers are selling their cows to CWT instead of helping to produce the vital dairy products that could be used to feed the hungry. One respected farm reporter said, "CWT is a bloody and heart-breaking supply-management program that isn't working... At best, it's a poor way of managing the milk supply. At worst, it's a sinister scheme for killing off the nation's dairy industry so that cheaper, foreign sources of dairy products can be utilized." None of these supply stabilization programs, from export subsidies to CWT, will work so long as we cannot control dairy imports flooding our markets and displacing U.S. farmers' quality milk.

Currently, the U.S. has seen record imports of milk protein concentrates, which have never been approved as "Generally Regarded as Safe" by the FDA. For the first two months of 2009, there was a 71.8% increase in MPC imports compared to 2008. Seven thousand metric tons of MPCs were being imported in February, the highest ever on record. Yet USDA and industry continue to insist on an oversupply of milk and downplay the impacts of imports.

Consumer Gouging

The collapse in dairy prices has not been a benefit to consumers, as seen in the profits experienced by dairy and food processors. While prices paid to farmers have dropped 50%, consumers have certainly not seen a 50% drop in prices at the grocery store for

milk and cheese. Dean and Kraft's profits show that consumers are still paying exorbitant prices in many parts of the country for milk and cheese.

Fallacy of Global Markets

The industry and our dairy cooperatives have continually promoted the false idea that global exports are the key to helping improve milk prices. Food processors and dairy co-ops are continually trying to degrade standards of identity for milk to allow for inferior and cheaper dairy ingredients to be used, instead of U.S. farmers' wholesome fresh milk. Industry has tried to allow for the use of more MPCs to be used in cheesemaking and wants ultrafiltered milk to be labeled as simply "milk." Consumers thinking they are getting real milk in their dairy products are now seeing these milk substitutes, many coming from foreign countries, in everything from coffee creamers to macaroni and cheese. MPCs, which are the dry powder form of ultrafiltered milk, remove many of the vitamins and minerals contained in real milk. MPCs were originally intended for use in industrial glue and are sourced from countries that include China and India! They may even be coming from water buffaloes and not cows. No consumer is clamoring for "innovative" dairy products containing more fake milk substitutes using imported materials. Only the industry, such as IDFA's members, supports such innovation not to address consumer demand, but to fatten their own profit lines. NFFC supports the immediate closure of loopholes allowing for the import and use of MPCs and passage of the Milk Import Tariff Equity Act. Consumer interest and trends have shown a strong preference for local sources of fresh dairy products. This is the exact opposite of industry's vision of a "global marketplace." NFFC remains greatly concerned about the Federal Milk Marketing Order Review Commission called for by the 2008 Farm Bill to examine milk pricing. The Commission emphasizes ensuring globally competitive dairy markets at the expense of a fair price for dairy farmers. Also, the Commission explicitly calls for "evaluating the nutritional composition of milk, including the potential benefits and costs of adjusting the milk content standards." We believe this is a dangerous attempt by food processors to water down the definition of milk to include MPCs and ultrafiltered milk.

Dairy farmers have also never seen the trickle down effects of export markets. When dairy prices were relatively higher in 2007 due to supposed export demand for nonfat dry milk, U.S. prices consistently lagged behind the world price and behind the EU and Oceania (New Zealand and Australia). Through the work of NFFC member John Bunting, we helped expose price misreporting in 2007 on the part of DairyAmerica, the marketing agency for nonfat dry milk exports. DairyAmerica is made up of several major U.S. cooperatives, including DFA. It was discovered that from August 2006 to April 2007, DairyAmerica had submitted erroneous nonfat dry milk powder prices to the NASS survey that helps determine milk prices. NFDMP prices reported to NASS consistently lagged behind world prices. A June 2008 report released by the USDA's Inspector General estimated farmers lost at least \$50 million due to this scandal. To date, USDA has offered no compensation to farmers for this enormous loss. NFFC believes this is a gross underestimate of the real amount of losses. I am now part of a class action lawsuit filed in March 2009 on behalf of dairy producers in twenty five states against

DairyAmerica. I believe the price misreporting scandal shows why reliance on global exports will never benefit dairy farmers, but only the processors and cooperatives that do the exporting. This is also why the DEIP program is unlikely to benefit farmers.

Antitrust and Fair Competition in Dairy Markets

An April 2004 meeting, organized by NFFC and attended by New York Attorney General Eliot Spitzer, was held in Syracuse, New York, on dairy antitrust issues. The meeting helped spur investigations to finally look at the market abuses on the part of our dairy cooperatives. The Department of Justice's antitrust division then launched a two-year investigation into DFA and its market collusion with the likes of Dean Foods and others. The Bush Administration never allowed charges to be brought forth, despite evidence of severe anti-competitive practices on the part of DFA. NFFC is working with the DOJ to see if this case can be revived again and justice served for dairy farmers who suffered from DFA's abuses and in many cases were driven out of business. In addition, two antitrust lawsuits have been brought by DFA members and customers against the co-op and in April 2009, a shareholder lawsuit against Dean Foods was filed alleging illegal marketing practices harming farmers. Through all these years of antitrust problems and failures to have a truly free and competitive dairy market, Congress has failed to examine these incredible market failures in our industry while continuing to rely on policy advice from these same players.

Organic Dairy in Crisis

It is not just conventional dairy farmers who are being threatened with bankruptcy. Organic dairy farmers, many of whom invested heavily to switch to organic production, are suffering the same tragic effects of this current crisis. Processors have now cut the price of milk for farmers, and imposed production caps. Many family farmers are now in danger of losing their farms.

The same corporate processors who control conventional dairy production are now threatening the viability of the organic dairy industry. In addition to the serious financial losses some farmers are experiencing, two of the largest organic milk processors and handlers, Dean Foods (marketing Horizon milk) and HP Hood, which owns Kemps dairy in the Midwest (marketing Stonyfield milk) have informed some of their farmers that they will not renew their contracts.

Enforce Organic Dairy Standards

In the dairy sector, there are now estimated to be 20 large industrial dairies, each milking thousands of cows, producing as much as 40% of the nation's organic milk supply. Under the Bush administration, the USDA was accused of "looking the other way" as large corporations invested in organics while allegedly violating federal standards. These corporations have, in essence, signed a financial death warrant for these farmers. Without contracts to sell organic milk, many of these operators face bankruptcy and risk losing the farms that have been in their families for multiple generations.

For years, members in the organic community and the National Organic Standards Board, the expert panel set up by Congress, have appealed to the USDA to crack down on “scofflaws” bending the organic regulations on giant factory dairies, mostly in the desert-West. NFFC urges Secretary Vilsack and Congress to view this as a legitimate emergency and take immediate action, to shut down the giant farms that are violating federal organic law. If nothing is done, many of the ethical, hard-working farmers who built the organic dairy industry will be driven out of business by those who are unethically skirting the law.

The dairy industry, conventional and organic, contributes over \$20 billion to Wisconsin’s economy. We help support thousands of jobs in rural communities. The current crisis is now putting our entire rural economies in jeopardy, from our feed suppliers to equipment companies to veterinarians to local small businesses. USDA and Congress need to start listening to the voices of family farmers and not those of the industry who are in large part responsible for this mess. Unless action is taken immediately, we will see one-third of our remaining dairy farmers go out of business very soon. Consumers in the very near future may have to rely on Chinese imported dairy products for their food supply. For the sake of our rural economies and our national security, let us work towards ensuring we will always have a viable American dairy industry and consumer access to safe, quality, and real dairy products.

###

The National Family Farm Coalition (NFFC), founded in 1986, provides a voice for grassroots groups on farm, food, trade and rural economic issues to ensure fair prices for family farmers, safe and healthy food, and vibrant, environmentally sound rural communities here and around the world. For further information about the organization, visit www.nffc.net.