

National Family Farm Coalition Testimony Subcommittee on Department Operations, Oversight, Nutrition and Forestry "State of the Dairy Industry" Hearing

May 20, 2003

The National Family Farm Coalition (NFFC) serves as a national link for grassroots organizations working on family farm issues, representing 32 grassroots organizations in 30 states. Through the NFFC, these organizations collaborate regionally on nation-wide campaigns making the most of every group's experience, resources, and impact. Member organizations, comprised of farm families and concerned citizens, all suffer from the ongoing and deepening economic recession in rural areas caused primarily by historically low farm prices and the increasing corporate control of agriculture. NFFC unites these farm organizations in their common concerns and provides a forum in which to work for a change in farm policy.

To address the current dairy crisis across the nation, NFFC created a dairy subcommittee, a sector of its Farm & Food Policy Task Force. Farmers from Vermont to California participate in the dairy subcommittee, formulating national strategies to: combat corporate campaigns for milk protein concentrates (MPCs), write effective dairy policy alternatives (found in NFFC's Food From Family Farms Act) and petition government agencies to uphold the law.

It is no secret that dairy farmers find themselves in devastating times. Bryan Wolfe, Vice President of the Ashtabula, Geauga & Lake County Farmers Union in Ohio, touched base with his local farmers. "Clearly they felt great frustration and despair about the future of their farms," Wolfe said. "They commented on totally inadequate milk prices, dismal crop progress (or total lack of progress) due to recent weather conditions, their inability to secure bank loans or support, and the extremely high costs of maintaining equipment-these farmers are desperate."

The average dairy farm lost \$1.21 per hundredweight in 2001. U.S. Department of Agriculture (USDA) officials claimed a national dairy industry expansion led to 2002 price plummets. Rising land values in California, however, provided an opportunity for some dairy farmers to expand in Western states, like Utah and New Mexico, where land costs prove significantly lower. Therefore, in 2002 production expanded in only five out of the 15 major dairy states, all concentrated in the Western U.S.

"The ever-expanding factory-style dairy farms in the West led to an oversupply of milk," said Executive Director of the Hartford Food System Mark Winne. "This left dairy farmers across New England receiving the lowest milk payments in 25 years-\$1.04 per gallon-yet their production costs are more than \$1.50 per gallon."

None of these issues came up during the House Agriculture Subcommittee on Department Operations, Oversight, Nutrition and Forestry hearing on May 20, 2003, however, held to discuss the state of the dairy industry. Various dairy industry representatives testified—all from the largest sectors such as the National Milk Producers Federation and the International Dairy Foods Association. Almost all testifiers uttered the phrase "current dairy policies and programs are not working," at one time or another during their statements—at no time, however, did they stop to explain why. U.S. dairy policy fails because it does not: include a cost of production formula, re-establish fair farm-gate price funding in the market place, and/or allow the market place to stabilize properly.

Milk cooperatives began with good intentions, authorizing farmer associations to form voluntary cooperatives for the producing, handling, and marketing of agricultural products. This risk management tool, designed with farmers in mind, delivered prices at the cost of production plus a return on investment to producers. Current dairy policy, however, does not include a cost of production formula. Furthermore, dairy payments allotted in the 2002 Farm Bill, while helping a small amount with farmers' monthly cash flow, further depress farm prices at a time of increasing national budget deficits.

Therefore, the NFFC strongly supports a national dairy policy that would implement a cost of production formula using USDA Cost of Production figures plus any additional factors not adequately reflected in these data. This policy approach would also apply to feed grains and wheat. America's current cheap grain policy is fueling the expansion of corporate livestock and dairy operations because it is "cheaper" to buy the feed than to grow it. Farmers who produced feed for dairy cows lost \$76.98 per acre in 2001, down from a loss of \$128.17 in 2000 for corn productionⁱⁱ. For soybeans, the other important feed ingredient, crop farmers lost \$85.68 per acre in 2001ⁱⁱⁱ.

Today, the largest milk cooperatives in the U.S. abuse the power to collectively bargain on behalf of dairy farmer members in order to obtain just and equitable milk pricing. In fact, many milk cooperatives and dairy processors work collaboratively to keep farm milk prices low, reducing corporate costs. Thus, re-establishing fair farm-gate prices in the market place proves vital to effective dairy policy.

As it stands today, however, the U.S. government allows corporations to work both sides, buying domestic products significantly below the cost of production while generating additional profits from low-cost imports also supplemented by taxpayers money. For example, Dairy Farmers of America (DFA) is a dairy cooperative for U.S. dairy farmers. It controls 29 percent of the nation's milk, holds 11 import licenses and maintains multiple partnerships with foreign and domestic institutes that hold a vested interest in keeping farm milk prices low.

The record shows that in the first week of May 2003, DFA sold 1,533,019 pounds of cheese to the USDA's Commodity Credit Corporation (CCC) surplus program. In the same week, DFA, in a joint venture with New Zealand giant Fonterra, sold 1,061,748 pounds of powdered milk to the CCC from Portales, New Mexico. Thus, in one week, DFA and its New Zealand partner garnered \$2,583,856.10 from U.S. taxpayers, contributing to the illusion that America's dairy farmers produced more than the market demands.iv

The Subcommittee only heard one "family farmer voice" during its hearing. This farmer, a dairy producer from Bridgewater, Virginia, spoke for five minutes-he also happens to be a DFA Corporate Director.

John Bunting, a New York dairy farmer and NFFC dairy subcommittee member, compiled several graphs illustrating the dairy industry situation using USDA data. Bunting found that domestic milk production is actually in a deficit situation, not meeting U.S. consumer dairy demand. Moreover, USDA skews the data for domestic dairy consumption by not including imported dairy powders such as MPCs. Including these figures would demonstrate an additional shortfall of U.S. milk production by five to 10 percent.

In 2000, over 52,000 metric tons of MPC entered the U.S.-the equivalent of 4.6 billion pounds of domestic milk. MPC is shipped to the U.S. as a chemical or pharmaceutical product, circumventing dairy tariff and quota rate schedules, allowing corporations to skirt the limits imposed by current trade agreements. Since 2000, use of MPC imports in dairy products dramatically increased each year.

Increasing MPC use leaves more dry milk on the market, which CCC buys under its price support program. From 1996 to 2000, CCC support program costs increased by \$572 million: an additional cost to taxpayers directly linked to displaced dry milk saturating dairy markets.

Dairy processors directly link MPCs use to higher profits and depressed farm milk prices. A current MPC patent application by Kraft Foods North America, Inc. states:

"[0011] It would be beneficial to provide a process cheese base prepared with edible powders as a substitute for some or all of the natural cheese normally used in the production of process cheese for several reasons. Unlike natural cheese, such powders have the advantage of an extended shelf life. Thus, unlike natural cheese, these powders can be purchased when supplies are high and prices are low, and then used over an extended period of time. Further, it is often cheaper to purchase such powders than natural cheese."v

Thus, NFFC requests the 108th Congress work to prevent the illegal use of MPCs in standardized food products by forcing the Food and Drug Administration (FDA) to enforce federal standards and take regulatory action against illegal, adulterated products. The FDA never approved MPC as a food

ingredient because it does not meet "Generally Regarded as Safe" (GRAS) standards. By law, any food ingredient not in common use before 1958 must meet GRAS standards. In these vulnerable times, food safety should be of utmost importance to U.S. lawmakers; currently, MPC freely enters the U.S. as a white-powder substance, often times not inspected at port entries, much less for human consumption.

Finally, current dairy policy does not allow the market place to stabilize. As exemplified, current dairy policy is costing America's taxpayers while enabling dairy exporters and purchasers of U.S. milk to buy from the farmer at the cheapest possible price. Moreover, the government does nothing to protect the consumer, who continues to pay the same or increasing prices at the grocery store for dairy products while the processors and retailers reap record profits.

For example, while New England dairy farmers suffer through the lowest milk prices in 25 years, the region's predominant dairy processor, Dean Foods (formerly Suiza) profit from an increasing wholesale-retail price spread. Currently, America's farmer receives only 28 percent of the product's retail price. Meanwhile, Dean's stock rises from just under \$30.00 in September 2001 to \$45.75 after profiting from low farm milk prices.

Based on recent research published by Ron Cotterill at the University of Connecticut, the retailers gross nearly \$2.00 for every gallon of milk supermarkets sold, proving current dairy policy failed to address obvious market signals.vi

Perhaps the current dairy policy failed to respond to market signals because large dairy operations inherently fail to respond as well-if the market signals there is too much milk, large dairy operations respond to these low milk prices by producing more milk. If milk prices rise, large dairy operations tend to expand. Because large dairy operations depend on purchased stock for expansion, many also depend on cattle replacements to maintain its herd.

>From 1998 to 2002, the U.S. imported 298,000 dairy cattle from Canada whereas in 1997, the U.S. imported only 19,000. Therefore, in 2002 the U.S. dairy herd increased not because of high milk prices but because mainly large dairy operations imported 62,000 cattle to "maintain" and "expand" production. Under a diversified, sustainable dairy operation, this type of expansion is unnecessary. Moreover, the large dairy operations depend on a minimum-wage labor force, many that work long hours and perform multiple milkings everyday. Increasingly, this labor force consists of Latino immigrants.

During the hearing dairy producer Chuck Ahlem, owner of a 1,700-cow operation, referred to contamination risks like mad cow disease (bovine spongiform encephalopathy or BSE) and emphasized tracking system needs, especially within larger operations deemed more efficient by USDA economist

Keith Collins. Country of Origin Labeling (COOL) as described in 2002 Farm Bill guidelines would require these tracking systems, yet many companies claim the tracking system implementation is too costly. Ironically, as Ahlem emphasized its need during questioning, Secretary Veneman announced the latest Canadian BSE outbreak. For public health safety, consumers must maintain the right to know where his/her food originates and what happened to it along the ever-shortening value-added chain.

The question consumers should be asking themselves is: "What is the price of public safety and why do corporations feel the need to hide this information?"

In closing, consider this: in 1952, President Hoover reflected upon the policy path chosen during the Great Depression (1929). Hoover said: "Secretary of the Treasury Mellon, who felt that government must keep its hands off and let the slump liquidate itself had only one formula: 'Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate.' He insisted that, when the people get an inflation brainstorm, the only way to get it out of their blood is to let it collapse."vii

This testimony reflects the views and beliefs of NFFC's farmer members. If the present day "leave it alone liquidationists" dictating present dairy policy fails, then America's dairy infrastructure will collapse without a "plan B," leaving the nation's dairy supply vulnerable and completely dependent upon foreign imports. There will be no sustainable dairy farms. There will be no viable rural communities. There will be no dairy farmers left. "Right now the hope of recovery is gone," said Bunting. "Because of low milk prices, most farmers don't have the money to plant spring crops and farms are collapsing faster than anyone could have anticipated."

NFFC urges the 108th Congress to establish sound dairy policy now-do not rely on the National Milk Producers Federation's (NMPF) "quick-fix Band-Aid approach" Cooperative's Working Together (CWT) Program. The CWT program, as proposed by NMPF, would charge every dairy farmer an assessment, or "tax," used to finance a dairy-herd reduction, theoretically decreasing milk production. The fact of the matter is the CWT program will finance a "herd retirement program" in the Western states, states that create America's dairy surplus, with taxes from farmers who can least afford it-those in the Northeast and Midwest. The CWT program is dangerous because desperate times call for desperate measures-if NMPF allows all farmers to participate, farmers in the most desperate economic situation will choose to sell-out. "One farmer said that if the CWT whole-herd buy-out program is instituted, he will 'jump' on it," said Bryan Wolfe. "Because he's had enough."

Unlike NMPF's unsustainable approach to managing a very serious dairy crisis, the NFFC's policy approach would help stabilize supply with demand and create a dairy system that truly works for the nation's dairy farmers, rural communities, and consumers. A serious, long-term national dairy policy

must be considered by the 108th Congress today-NFFC challenges Congress to tackle a much needed "plan B" approach to America's failing dairy industry.

i <http://www.ers.usda.gov/data/costsandreturns/data/current/C- Milk.xls> cell C44

ii <http://www.ers.usda.gov/data/costsandreturns/data/current/C- Corn.xls> cell C36 & C35

iii <http://www.ers.usda.gov/data/costsandreturns/data/current/C- Soyb.xls> cell C35

iv <ftp://ftp.fsa.usda.gov/public/dairy/%5C/DAIR0502.TXT>

v US Patent application No. 20020071897

vi <http://www.sp.uconn.edu/~cotteril/PressRelease41103.pdf>

vii http://www.geocities.com/mb_williams/hooverpapers/1929/paper19291029.html