

Testimony for PA House Ag and Rural Affairs Committee Hearing
Monday August 24, 2009
Uniontown PA

Chairman Hanna, Chairman Maher, and members of the House Agriculture and Rural Affairs Committee; thank-you for the opportunity to testify today on the issue of dairy farm profitability in Pennsylvania; my name is John Frey and I am the Executive Director at the Center for Dairy Excellence. The center is a 501c6 non profit created by Secretary of Agriculture Dennis Wolff and Governor Edward Rendell. We have our offices at the Pennsylvania Department of Agriculture and provide ongoing consulting to the department in areas impacting the dairy industry. Our mission is to provide resources and programming which enhance profitability, sustainability, and the viability of the dairy industry in the Commonwealth. You have provided ongoing support of the Center for Dairy Excellence and the work we are doing to help all dairy farm families throughout Pennsylvania and we at the center are very grateful for that.

In 1985, there were 21,000 dairy farms in Pennsylvania. By 1995 this number had decreased to 11,800 dairy farms and today this number is 7600 according to NASS.(National Ag Statistics Service) Dairy represents over 42% of the Agriculture economy in Pennsylvania; it also represents over 40,000 jobs from service providers to veterinarians to accounting services and supply businesses like feed and nutrition to equipment.

The dairy farmers in Pennsylvania and across the US are in the midst of an unprecedented economic crisis. The foundation of this crisis is a severe drop in milk prices which has all dairy farmers selling milk for approx. \$12.00 per hundred pounds (HWT) while experiencing cost of production (COP) that is somewhere between \$17.50 and \$24.00 per one hundred lbs.; these negative margins translate into net losses of approximately \$1000.00 per cow for calendar year 2009. For a 100 cow dairy, this translates into lost equity of \$100,000.00; for larger dairy farms, this figure escalates even higher. Those most affected are young dairy producers new to the industry and those who recently recapitalized and expanded to accommodate additional family members joining the business; again impacting the next generation of dairy food producers. My heart goes out to these young entrepreneurs impacted harshly by this current economy. Our office fields “what should I do” calls and questions on a daily basis.

At the core of these low prices is an imbalance of supply and demand largely due to lost markets both internationally and domestically; international sales alone for dairy products has dropped 50% from one year ago. The drop in demand is the result of lost competitive advantages enjoyed by our currency, declining restaurant sales domestically, and other variables impacting consumption around the world. Previous to this severe down turn, our industry experienced cyclical markets impacted by supply and demand – all able to be weathered by effective business management practices and existing support programs. This current crisis is impacting all farms and threatens to remove many farm family businesses contributing to the food supply and rural economy. Even the most efficient dairy businesses are not immune to massive equity erosion. A few statistics we have gathered include:

1. The downturn could eliminate 25% of PA dairy farms or approx. 1875 farms
2. This would result in the loss of 100,000 cows from the state herd

3. Every nine cows in this robust industry creates, or retains, one job related to dairy production. Losing 100,000 cows means over 11,000 lost jobs.
4. Research done by the University of Wisconsin shows each dairy cow contributes at least \$13,700.00 to the regional economy. 100,000 fewer cows would have a negative impact on rural economies to the tune of nearly 1.4 billion dollars.

And my last statistic speaks to the future opportunities we have to profit from this critical dairy food industry here in the Commonwealth. Pennsylvania dairy farms feed the “Boston to DC Corridor” – statistically, we remain the number 2 state for # of dairy farms and the #5 state for milk production. We live within a one day drive of 50% of the US population. Dairy not only affects Agriculture, it affects all rural economic growth here in Pennsylvania. It is often referred to as a renewable resource as each dollar in milk sales is spent numerous times over in the region it was generated. While we know businesses must grow to survive, our model for dairy production here in Pennsylvania is one of sustainability; relatively small family farms (80% < 100 cows) where feed is produced on land owned by the farm family.

What can be done to ensure viability of our dairy industry? I believe that both short term actions and long term strategies are needed for survival.

1. Short term actions:
 - a. The most recent Federal Farm Bill or “Food Act” as it was originally called included numerous things directed towards the dairy industry and dairy policy. One vital thing the Farm Bill included was the development and implementation of a bi-partisan committee to evaluate the effectiveness and relevance of our current federal order system and federal dairy policy based on this system (this current federal order system was developed in the 1940’s). This committee was to be developed “when funding was available”. To date funding has not been made available in spite of numerous generous allocations directed towards agriculture. I believe this committee becoming a high priority, which is to be comprised of industry experts from each layer of the supply chain, is critical to the future of dairy production, manufacturing, and store sales. Currently, the USDA is considering calling an “internal” committee to replace this extended version called for in the Farm Bill. The House Ag and Rural Affairs Committee could be instrumental in communicating to the PA congressional delegation, that the original intent of the Farm Bill be implemented as intended.
 - b. An increase of the federal dairy support price from its current level of \$9.90 to \$12-13.00. This has recently been approved for August – October; currently the US Senate has proposed another \$350m for November – January. Encouragement, by the PA House Agriculture and Rural Affairs Committee, to the PA Congressional delegation in Washington DC, to approve this allocation of funding would be appropriate in our opinion. This price support program represents the point where dairy products are purchased by the Federal Government by the Commodity Credit Corporation and later placed back onto the market when the market price is higher and demand seems to be closer to equilibrium with supply. In some cases, these purchased products are

allocated to regional food banks and feeding and nutrition programs for hungry people. Raising this support price has a direct impact on supply and in turn, increases farmer pay price.

- c. Revise Federal MILC payment program (Milk Income loss contract) by increasing the trigger price for market loss payments. Currently, this program pays 45% of the difference between a “trigger price” of \$16.94 and the current Class III price. This has resulted in several months’ payment of nearly \$2.00 / HWT on the first 2.98 million lbs. produced per year. We have proposed to the US House and Senate Ag Committee an increase to 79%; however, this would require an act of Congress to re-open the federal farm bill. It should be noted that many Amish Dairy farmers do not participate in this payment program.
- d. Support increased funding for state, regional, and federal nutrition programs including WIC and Senior Feeding Programs
- e. The Pennsylvania Milk Marketing Board has provided over order dairy premiums to dairy producers and has maintained a minimum store price which has allowed processors and retailers to capture a consistent margin. This has resulted in consistently higher prices for dairy producers. In fact, in the month of June according to NASS (National Ag Statistics Service) the Pa price paid at the farm was the 3rd highest in the US, surpassed only by Florida and Virginia. Historically, Pennsylvania dairy farmers have received between 45-52% of the retail price of fluid milk. Currently, however, this ratio has been closer to 33%. Recently the PMMB had an opportunity to take action during this devastating period and provide additional premiums for dairy farmers and voted not to do so. Whether it would be additional premiums for PA produced milk or lowering the current mandated margin for processors and retailers, I believe that based on current margins an opportunity exists to decrease both processor and retail margins which would lower the PMMB minimum retail price for consumers and potentially increase sales, thus decreasing overall supply. Today represents an unprecedented and much needed opportunity for the PMMB to bring new value to dairy producers in the Commonwealth.
- f. Support a reallocation of First Industry Funds from tourism to agriculture to encourage continued investment in growth and investment on dairy farms.
- g. Initiate a “Pennsylvania Dairy Caucus” here among the Pennsylvania General Assembly which meets throughout the year to discuss dairy markets, economic conditions on the farm, and dairy food availability to consumers throughout the Commonwealth.
- h. Support the Ag Excellence Line which funds the Center for Dairy Excellence. Our organization provides ongoing leadership to and communication with this vital industry. An example of this is in July – August alone we will have interacted with nearly 1000 dairy farmers through CDE events and initiatives. Also included in our work is the facilitation of the NEDLT or Northeast Dairy Leadership Team. This small group of industry leaders which includes Secretary of Agriculture

Dennis Wolff and his counterparts from Vermont and New York meet routinely to discuss the challenges facing our regional industry and communicate routinely with the Northeast Congressional delegation in Washington DC regarding potential solutions. The daily work of the Center for Dairy Excellence includes surrounding dairy farmers with resources from dairy professionals to business professionals through our Dairy Profit Team program which over 200 farms have or are using routinely. We recently announced a partnership with SCORE (Service Core of Retired Executives) to bring new insights to these dairy teams. We have an extensive list of tools for dairy farmers to use including business planning templates for dairy, risk management information and resources to help them understand and capture market opportunities. We also place professionals on dairy farms to help uncover performance bottlenecks and to help in succession planning. Last year we partnered with the Pennsylvania Dairy Promotion Program to work with the Highmark Foundation on the Healthy High 5 Nutrition Campaign to make available “Discover Dairy”, a state education standard approved dairy educational lesson series, in over half of the school districts in the Commonwealth. We’ve done this because consumers remain far removed from their food source and fewer and fewer are consuming their national dietary guideline of “3-a-day of dairy”. According to industry sources, if every US man, woman, and child were to consume their 3-a-day, we’d have to increase US production by nearly 50%. Thus, we are working to stimulate demand domestically. Lastly, we built the most comprehensive animal welfare program to date and are working to provide an avenue of farmer certification as food retailers across the country are telling us “consumers want to be assured of optimal animal care”. Recently, we have partnered with national dairy organizations to take a version of this program national. I am one of 10 people, across the country, serving in an advisory capacity to bring this national project to fruition.

2. Long term strategies
 - a. Allocate funding to subsidize or buy down costs associated with risk management options used to mitigate price volatility. We believe very strongly that any changes made to federal pricing mechanisms cannot remove all volatility from this commodity based market; we also believe that an understanding of fundamental risk management tools will become an essential component of dairy business management. Currently in the Midwest region of the US, nearly 1 in 2 dairy farms have an open application with a cooperative or trading company from which to be able to purchase risk management options at any time. In Pennsylvania, our estimate is that only 1 in 20 dairy producers have such an agreement in place. Allocating funding for a “dairy options pilot program” would support our work at the center which has maintained a strong focus in this area. Currently, the USDA Risk Management Agency has a unique program which is privately owned called Livestock Gross Margin for Dairy – which combines a put option on milk price and call options on

feed components. This program needs ongoing encouragement from the PA House Ag Committee to the Federal Crop Insurance Board to make this program more user friendly.

- b. Increase low interest loan availability through FSA programs
- c. Initiate statewide tax credits for dairy facility modernization and renewable energy projects on dairy farms. Last year, Representative Art Hershey introduced “Dairy-MAX”; a tax credit program to modernize dairy production facilities on farms in Pennsylvania. Wisconsin, the only state with more dairy farms invested over \$200 million in tax credits for this purpose from 2003-2007. As a result, their dairy production has increased by over 10% in the past five years. The impact on new construction and other infrastructure enhancement has been nothing short of phenomenal. A similar program in Pennsylvania would make great strides in providing new vitality to rural communities across the Commonwealth. For us to compete with regions with vast land resources like the Western and Midwestern states, initiatives like DAIRY-MAX will be important to preserve the next generation of dairy farmers.

In summary, I would like to say thank-you to the House of Representatives for this opportunity and for your past support of our work through the Agriculture Excellence initiative. Pennsylvania has a very sustainable model for dairy; we view your investment in us as seed money directed to ensure a healthy and growing rural dairy and agriculture landscape across Pennsylvania.