REVIEWING THE STATE OF THE DAIRY ECONOMY

HEARING

BEFORE THE

SUBCOMMITTEE ON LIVESTOCK AND FOREIGN AGRICULTURE

OF THE

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REVIEWING THE STATE OF THE DAIRY ECONOMY

TUESDAY, APRIL 30, 2019

House of Representatives,
Subcommittee on Livestock and Foreign Agriculture,
Committee on Agriculture,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:01 a.m., in Room 1300 of the Longworth House Office Building, Hon. Jim Costa [Chairman of the Subcommittee] presiding.

Members present: Representatives Costa, Brindisi, Hayes, Craig, Harder, Vela, Carbajal, Bustos, Panetta, Peterson (*ex officio*), Rouzer, Thompson, Hartzler, Kelly, Marshall, Bacon, Hagedorn, and Conaway (*ex officio*).

Staff present: Lyron Blum-Evitts, Emily German, Ross Hettervig, Matt MacKenzie, Tom Mattocks, Troy Phillips, Anne Simmons, Katie Zenk, Bart Fischer, Ashton Johnston, Rachel Millard, Patricia Straughn, Trevor White, Dana Sandman, and Jennifer Yezak.

OPENING STATEMENT OF HON. JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

The Chairman. The Subcommittee on Livestock and Foreign Agriculture will now come to order. This hearing of the Subcommittee of Livestock and Foreign Agriculture is entitled, *Reviewing the State of the Dairy Economy,* all of us who represent various portions of American agriculture understand the importance of the dairy industry today and historically, and we know the challenges that the industry has been facing.

Last year in a bipartisan effort, we decided to really take a closer look at the dairy title, and we made changes. We made changes because we thought it was a reflection of the need that was resulting in the hard-hit changes that have been taking place with the dairy industry across the country.

Part of this morning's hearing is to really get our witnesses' take on what direction we need to be going, what efforts that the Committee needs to be following with regards to implementing the changes in the dairy title.

Let us begin with the opening statements, and we look forward to hearing the witnesses' testimony.

As we understand, as I stated, the dairy industry in America is facing a crisis. This hearing is just one part of the Subcommittee's efforts to continually respond to those challenges. There will be subsequent hearings and workshops around the country as we work with the United States Department of Agriculture to implement the new title. Addressing these critical problems, I believe, is one of the highest priorities of this Subcommittee. In speaking with our Chairman, Collin Peterson, I know how much he feels that this is critical.

We all represent important parts of America's dairy country. The United States, though, the reality is we have lost almost 20,000 licensed dairies in the last 10 years, 20,000 licensed dairies. Nearly ever day it seems another national story about the family farmers making tough choices on having to sell their dairy. They don't do it by choice. My family has been involved in the dairy industry for three generations. I know how families feel. The dairy is a part of their sum and substance, and in California, we have the nation's top dairy-producing state. Dairies that have been passed down from generation to generation, including the one I grew up on. This issue: I have a lot of personal reflections on.

But let's be clear about the facts. The dairy industry provides nearly one million jobs in the United States, an economic impact of over $200 billion. In my district alone, dairy contributes over $2 billion to the local economy. When we lose a dairy farm, we lose those jobs, we lose the investments that the farm provides.

As I said, we worked hard in the last farm bill to make changes in the dairy safety net. Yesterday, I met with the United States Department of Agriculture Under Secretary, Bill Northey, who told me that they are making progress in getting the new Dairy Margin Coverage Program implemented.

This morning, as some of you may know, the United States Department of Agriculture will announce an online decision tool that will let farmers estimate how the Dairy Margin Coverage could work for them, and that is welcome news because we are pushing them to get this process out there.

As soon as later this week, we hope, the USDA will send out letters to dairy farmers that participated in the Margin Protection Program and let them know what premium refund or credit they will be able to receive.

These updates are good news, but unfortunately, the expected start of the Dairy Margin Coverage signup is still June 17. I appreciate the priority that Secretary Perdue and the USDA has put on implementing the Dairy Margin Coverage Program, but I know time is of the essence. For many of these dairymen and women, they are looking as to how long they can survive. And therefore, when they have had to endure years of low margins when their input costs exceed their receipts on a monthly basis, how much longer can they hold on? And of course, the loss of the dairies over the last 10 years is a reflection of that loss of equity.

When we look at the dairy industry across the country and the regional challenges that we face, I have learned clearly in the 15 years I have been in Congress that one program doesn't fit all farms equally. And so, when we made the changes last year, we tried to take that into account. That is why I strongly supported the more Risk Management Agency insurance products for dairy farms, and made sure that farms could participate in both the Dairy Margin Coverage and Livestock Gross Margin insurance for dairies. Both Chairman Peterson and our previous Chairman that is here worked very closely in trying to make sure that we kept all the options in the menu.

In addition to a thorough farm bill implementation oversight, the Subcommittee will also focus on other issues impacting our dairy farmers. And what are they? Well, they are trade and labor. U.S. dairy is fighting hard in global markets to face these challenges. We are hoping that progress is being made on the reauthorization of the USMCA, or NAFTA 2.0, whatever you want to call it, but Mexico is a top destination for the United States dairy industry, and it needs to be maintained, and I believe, expanded. And while the U.S.-Mexico agreement allows Canada to keep the bulk of their current domestic system under a supply management scheme, which we actually looked at here some 5 years ago, recent International Trade Commission economic analysis indicated that the proposal forecasts, if we implement the new United States-Mexican-Canada trade agreement, that would provide an additional $300 million, they estimated, additional dairy exports under the agreement. Frankly, I hope we can do better. That is positive, but I think more can be done.

The last area that is of critical need to our dairymen and women around the country is a reliable workforce. Trying to come up with an immigration solution for agriculture is long overdue. Some of us have been laboring on this for many, many years under multiple Administrations. I have been calling for comprehensive immigration reform. I don't think that is going to happen in this Congress, but maybe we can get something done incrementally to provide a more stable workforce for the dairymen and -women, and agriculture industry in general.

We in Congress need to find ways to address these challenges, both current and future workforce needs, including access to a year-round visa program. And whether or not modification in the H–2A actually is a way to do that remains to be seen, but there are things that need to be done, clearly.

I know from my personal experience and generations in California, working on a dairy was always considered a high-skilled, valuable, good paying job, considered a blue collar job basically among agricultural workforce, because it is year-round, and there are number of benefits that come from working on a dairy.

I hope a legislative fix that we are working on will come to fruition. I take to heart Secretary Sonny Perdue's call for legislative reform, and I hope that he will continue to be engaged in this effort as we work on a plan.

With that said, we have our Ranking Member here, and I would defer to him for an opening statement. And we look forward to doing right by our dairy farmers, our men and women who work every day, because cows are milked 365 days a year, to put that food on America's dinner table every night.

I look forward to the conversation that we have.

[The prepared statement of Mr. Costa follows:]

Prepared Statement of Hon. Jim Costa, a Representative in Congress from California

America's dairy industry is in crisis and today's hearing is just one part of this Subcommittee's continued effort to respond to the challenges facing dairy farmers across this country. Addressing these critical problems is a top priority for the Livestock and Foreign Agriculture Subcommittee. The United States lost nearly 20,000 licensed dairies over the last 10 years. Nearly every day, it seems, there is another national news story about family farmers making the tough choice to stop milking cows.

California is the nation's top milk producing state and many dairies in my district have been passed down from generation to generation, including the one I grew up on. The issue of dairy is personal to me and will continue to be a major focus, going forward.

Dairy directly provides nearly one million U.S. jobs with an economic impact of over $200 billion nationwide. In my district alone, dairy contributes over $2 billion to the local economy. When we lose a dairy farm, we also lose the jobs and investment that the farm provides.

Congress worked hard to make bipartisan improvements to the dairy safety net in the last farm bill. Yesterday, I met with USDA Under Secretary Bill Northey who told me they are making progress on getting the new Dairy Margin Coverage program implemented. As soon as this week, USDA will announce an online decision tool that will let farmers estimate how Dairy Margin Coverage would work for them. Around the same time, USDA will send out letters to dairy farmers that participated in the Margin Protection Program to let them know what premium refund or credit they will be able to receive.

These updates are good news, but unfortunately the expected start of Dairy Margin Coverage sign-up is still June 17th. I appreciate the priority that USDA has put on implementing the dairy program, but I know time is of the essence for many dairy farmers who have endured years of low margins and can't hold on much longer.

One program does not fit all farms equally. That's why I strongly supported opening up more Risk Management Agency insurance products for dairy farmers and made sure that farms could participate in both Dairy Margin Coverage and Livestock Gross Margin insurance for dairy.

In addition to thorough farm bill implementation oversight, this Subcommittee will also focus on other issues impacting dairy farmers. U.S. dairy is fighting hard in global markets in the face of challenges but the new wins we are seeing are wins that should have been there all along. Mexico is the top destination for U.S. dairy and needs to be maintained. While the U.S.-Mexico-Canada Agreement still allows Canada to keep the bulk of their current domestic system, the recent International Trade Commission economic analysis of the proposal forecasts over $300 million of additional dairy exports under the terms of the new agreement.

A workable immigration solution for agriculture is long overdue and I have been calling for one for years. We in Congress need to find ways to address challenges with both current and future workforce needs including access to a year-round visa program. A legislative fix is being worked on and I took heart in Secretary Sonny Perdue's call for legislative reform to ensure access to a steady workforce. When a plan is finalized, I am hopeful the Secretary will continue to be a champion for this cause.

With so many challenges bearing down on dairy farms, I am committed to actively prioritizing policies that positively impact dairy farmers and their families, and I will continue to engage with USDA as we get closer to the beginning of the program sign up period on June 17. We need to do right by our dairy farmers and the rural communities they support, and I look forward to the conversation today.

The CHAIRMAN. Ranking Member Rouzer, I will defer to you for an opening statement.

OPENING STATEMENT OF HON. DAVID ROUZER, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Mr. ROUZER. Well, thank you, Chairman Costa, and the cows don't take a day off, do they?

The CHAIRMAN. No, they don't.

Mr. ROUZER. And neither should we. I want to thank our witnesses for being here today, and I really appreciate the Chairman for holding this hearing to focus on the state of the dairy industry.

All sectors of agriculture economy—this is no secret—are facing challenging times, and of course, the conditions for our dairy farmers are no exception. Dairymen across the country have faced a multi-year period of low milk prices and trade uncertainty, along with labor challenges that have remained unsolved, quite frankly, for decades. These problems are plaguing dairy producers of all sizes and in all regions of the country, which is why House Republicans prioritized making key improvements to the safety net and enhancing risk management options for both large and small dairy operations during the past several Congresses, leading up to passage of the new farm bill.

I want to commend Ranking Member Conaway, who is here with us this morning, as well for his work to remove the limitation on livestock insurance policies in the Bipartisan Budget Act of 2018. Many of you will remember that battle well. He also did an incredible job shepherding the 2018 Farm Bill through the House, and of course, eventually to the President for his signature so that it would become law. The focused effort he led to increase coverage options, reduce premiums significantly for catastrophic coverage in Tier 2, and eliminate the restriction between Livestock Gross Margin insurance and the new Dairy Margin Coverage Program are all improvements intended to help producers better manage the risk and uncertainty that they face.

Dairy farmers and their lenders are watching closely for news from USDA about the availability of coverage under the new program, and I want to thank Secretary Perdue and FPAC Under Secretary Northey for making the implementation of DMC a priority. And in fact, as the Chairman noted, as of this morning USDA announced the web-based decision aid tool for DMC is now available to producers to begin reviewing their options before signup begins. I think we all can be pleased with that.

While the improvements to the safety net are critical to helping producers survive the tough economic times, what our farmers really need is improved market conditions. This is why swift approval of USMCA is so critical for our farmers and ranchers. According to the long-awaited analysis by the International Trade Commission, as mentioned by the Chairman in his remarks as well, dairy is one of the sectors with the most to gain from the renegotiated agreement with Canada and Mexico. While implementation will need to be closely monitored, the additional access for U.S. dairy products and the elimination of Canadian Class VI and Class VII dairy pricing strategies are a major, major win for American dairy producers and processors. As we would say back home, a big-time win.

I touched on this at the outset, but I want to highlight again the shortage of adequate labor because of our broken immigration system. Dairy producers essentially have no reliable supply of workers. As we all know, the current agricultural guestworker program is designed for seasonal labor needs, not the year-round work required on dairies. This past Congress, I was proud to be an original cosponsor of H.R. 4092, the AG Act (Agricultural Guestworker Act), which attempted to address the needs of farmers, ranchers, and other agriculture businesses struggling to find labor. While immigration can be a very complicated and highly emotional issue, we should all be able to recognize the disservice Congressional dysfunction has done for all sectors of the agriculture industry in failing to pass meaningful reform of the guestworker program.

This has been a debate that has been ongoing for at least 2 decades, if not more. And going back to my years with Senator Helms, I remember working on this in the mid-1990s and the late 1990s, and then we thought we had something in the mid-2000s. And it has been on and on and on. The fact of the matter is, we've got to get the job on this done. As we speak, cows go un-milked, fruit gets left on trees, and crops rot in the field because farmers cannot find a reliable legal source of labor.

Meanwhile, we in Washington always wait for the results of the next election and the problems continue to grow. We cannot continue to ignore this problem, and I urge all of us in Congress to put aside all the politics related to it and for once on this issue, start beginning to craft a commonsense solution that the President can sign. American agriculture needs it desperately. I think we all can agree on that.

Again, I want to thank all the witnesses for appearing here today to share your perspectives on the state of the dairy industry, and I look forward to hearing from each of you.

I yield back.

The CHAIRMAN. I thank the Ranking Member, and we are pleased this morning to have both the Chairman of the House Agriculture Committee and the Ranking Member, and in tradition, we will be pleased to hear them with any opening comments they care to make.

Chairman Peterson?

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. Well thank you, Mr. Chairman, and thank you and the Ranking Member for holding this hearing.

It has been a tough number of years in the dairy industry. We have made significant improvements in the farm bill, and I hope people hang in there long enough to figure out what they are.

One of my frustrations has been the length of time that it has taken for them to roll this out, but that wasn't really caused by us. That was caused by the Senate, and some of the provisions that they put into the bill that have drug out this situation, especially the refund thing. But they, apparently, are going to get it done in June and it will be retroactive. I just hope people will hang in there until they get time to figure it out.

The other thing I am a little bit concerned about is that there might be confusion sowed by what the Department is talking about putting out there. I haven't seen it, but I am hearing that they are putting out this decision chart that is going to have people look through and figure out whether they should have $5 or $9 or whatever this stuff is, and you know, as if there is any question. And in my opinion, there is no question about what to do. It is very simple. Unless you are wealthy and have deep pockets, and if you want to stay in the dairy business, you should take $9.50. You should take it for 5 years, and lock it in. And if you don't, don't come and complain to me. And hopefully we won't have to use it. Hopefully, the market will be there and we will not have to dip into this. But, for a relatively small amount of money, you can lock in a gross income for 5 years, and it is probably not as much as people would like, but it is enough to get you through some of these tough times.

We have made improvements for the smaller producers, but we have also in what we did, it took care of all aspects of the industry. We have a new revenue insurance program that is going to be available for everybody. We went from 4 to 5 million pounds and we improved the Livestock Gross Margin Program. There is something in this dairy provision for everybody, and I look forward to working with the industry and the Members as we roll this out.

So far, we have not seen the industry splinter into regional disputes, although there is some noise out there in different parts of the country. Hopefully that will dissipate and not grow into any kind of effort.

We have worked hard and long, Jim Costa and I, and others to make sure that we have an industry that can work together and not get back into the old fights between the Northeast and the Midwest and California and so forth. We have been able to do that. We have enough other problems without us fighting amongst ourselves, so we have a program that is pretty good, and it will be laid out here today, so I thank you, Mr. Chairman, for holding the hearing, and I look forward to the testimony.

The CHAIRMAN. Well, thank you, Mr. Chairman. Thank you for the good work that you have done. Your observations you and I share, and clearly, you have given good advice in terms of how we implement this effort in a bipartisan way that reflects the needs of our dairy industry. And certainly, it is part of the responsibility of the House Agriculture Committee to try to keep the dairy industry working together, because it does no good when we get divided in between different regions of the country.

The Ranking Member, former Chairman Conaway, we are pleased that you are here, and we would love to hear any comments you might have to say.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Mr. CONAWAY. No comments, Mr. Chairman, other than to say that the Subcommittee is in good hands with you as Chairman and David Rouzer as Ranking Member, and David, I appreciate your compliments in your opening remarks. And let's hear from the witnesses. I think enough yapping has been done from this side of the stage, so I yield back.

The CHAIRMAN. All right. Well, we thank the Ranking Member always for the good work that you do, and have over the years working in a bipartisan effort.

The Chair will request that Members submit their opening statements for the record so the witnesses may begin their testimony, and so we will have ample time to get to the questions. And we would like to recognize our first witness—and by the way, we have recognized people as they have come in here based upon seniority, so I have a list, and that is what I will do. I will follow the list, alternating between Democrats and Republicans.

And we would like to begin with Chairman Peterson making an introduction of a constituent who will be our first witness. Chairman Peterson?

Mr. PETERSON. Thank you, Mr. Chairman, and we are pleased to have Sadie Frericks here from Melrose, Minnesota. They own and operate a 90 cow first generation farm in that area. Anybody that has been to Melrose knows that the dairy industry is ground zero there. Without them, Melrose would dry up. Sadie, we are very pleased that you are willing to come out and testify here today. I see that your son, Dan, is with you here. Oh, there he is back there. We have an up and coming dairy farmer there, huh? Do you work him hard? That is good. He is shaking his head.

Anyway, the Frericks name is a very well-known name in that part of the world, and we are pleased that you are choosing to get into the dairy business, and we wish you all the success. We are happy to have you here at the Committee, so thank you.

The CHAIRMAN. Thank you. Would you please begin, Ms. Frericks? We are pleased to have you here this morning, and your family.

STATEMENT OF SADIE FRERICKS, OWNER AND OPERATOR, BLUE DIAMOND DAIRY, MELROSE, MN

Ms. FRERICKS. Good morning, Chairman Costa, Congressman Rouzer, and Members of the Subcommittee. My name is Sadie Frericks. I am a dairy farmer from Minnesota. Thank you for inviting me to speak to you today about the state of the dairy economy.

I would like to start by telling you a little bit more about my farm. I own, manage, and operate a first-generation dairy farm together with my husband, Glen, and our three children, Dan, Monika, and Daphne. As Congressman Peterson said, my son, Dan, is here with me today. We milk 90 cows and manage 200 acres of pasture and cropland.

Fourteen years ago, we left secure jobs with full benefits to answer the call to farm. We enjoyed the life we had created in the suburbs, but something was missing in our lives. We spent all of our weekends at either my family's farm or Glen's family farm. It turns out the cows were calling us back.

We started our dairy career on my father's farm, but it quickly became clear that we didn't have a future there. The dairy industry was dying in that part of Minnesota and as farm numbers dwindled, so, too, did the businesses that dairy farms rely upon: milk processors, feed mills, equipment sales and repair, *et cetera*.

We moved our dairy cows to the part of Minnesota where Glen grew up, Melrose. We bought 20 acres with a house and a barn. We rented 200 acres of cropland, on which we were able to grow the corn silage and hay we needed to feed our cows.

A lot has changed since we bought our farm. We have doubled the number of cows we milk. We have more than doubled the size of our family. We discovered that we love more about dairy farming than just the cows. We love spending every day together and raising our kids on a farm. We love doing meaningful work and giving tours of our farm so others can learn more about dairy farming. We love utilizing our creativity and problem-solving skills to overcome challenges.

And believe me, there have been some challenges.

First came 2009 and milk prices lower than anyone thought possible. We got through that year with the help of our farm business management instructor and our Farm Service Agency lender. Then we ended up losing most of our cropland when a neighbor offered our landlord a rental rate we couldn't afford. We switched to buying most of our hay and corn silage and relied more on grazing our cows.

Now we are facing our biggest challenge yet. We got into dairy farming knowing that prices cycle, both for milk and for feed. Accordingly, we planned for those cycles. We saved money during the good years and spent carefully during the lean years.

Unfortunately, prices haven't cycled for the past several years. They are stuck at a level just below our cost of production. Our challenge currently is that all of the money we saved during the good years is gone. For the first time in our farming career, we asked our bank for a line of credit so that we could keep paying our vendors.

I cannot fully explain the level of mental and emotional stress that comes along with watching your savings evaporate and your short-term debt accumulate.

I can tell you that our farm business would not survive another year like 2018. We talked countless times about how to adjust our business plan so that we can keep doing what we love. Each time, that discussion ended with reducing the size of our herd and one of us getting a job in town.

We aren't having those discussions anymore. First, we set a price floor through the new Dairy Revenue Protection insurance that was approved by USDA last year. Second, by our calculations, the Federal Dairy Margin Coverage program will help us mitigate risk and secure a profit, going forward. We will continue working together, with our children, to care for our cows and our land.

While we would rather not have to rely on government programs, I hope DMC and other risk management tools will allow other family farms to continue doing what they love, as well. Rural America needs successful farms, both for our engagement in our community and for our economic contributions.

In a typical year, our farm spends $½ million, most of that locally. Almost every dollar invested in DMC will ultimately be invested in rural America.

I would like to finish by thanking Chairman Peterson for his long-standing support of dairy farmers and all of the Committee Members for these much-needed improvements to the farm bill.

Thank you for the opportunity to speak to you today.

[The prepared statement of Ms. Frericks follows:]

PREPARED STATEMENT OF SADIE FRERICKS, OWNER AND OPERATOR, BLUE DIAMOND DAIRY, MELROSE, MN

Good morning, Chairman Costa, Congressman Rouzer, and Members of the Subcommittee. My name is Sadie Frericks. I am a dairy farmer from Minnesota. Thank you for inviting me to speak to you about the state of the dairy economy.

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I'd like to finish by thanking Chairman Peterson for his long-standing support of dairy farmers and all of the Committee Members for these much-needed improvements to the farm bill.

Thank you for the opportunity to speak to you today.

The CHAIRMAN. Sadie, thank you for that heartfelt and well-stated testimony, and you are very correct. Congressman Peterson does an excellent job not only in representing his district, but America's dairy industry.

I am going to allow, as we progress with the witnesses here, Members an opportunity to introduce some of the witnesses that they have asked to testify here today, and we are going to maintain the regular order, but as many of you know here, we have multiple Committee hearings that are taking place on a usual legislative day, and therefore, Members come and go. And I want to make sure that they get a chance to introduce their witnesses that are here, even though they may have to leave during some of the testimony.

I will come back to you, Andrei, in a moment, but I want to ask Mr. Brindisi, one of our new stars from New York, to introduce a witness from his area, and then we will go through the order.

Mr. BRINDISI. Thank you, Mr. Chairman. It is my pleasure to introduce Mike McMahon, who owns and operates EZ Acre Farms in Homer, New York, and his wife, Edie, is joining him as well today.

Their operation has set the standard on animal care and environmental stewardship. He has also been a strong advocate for commonsense labor solutions so that dairy farmers can continue providing a safe and abundant food supply for our country.

Upstate New York dairy farmers like Mike McMahon are why I asked to serve on the Agriculture Committee, and I am happy that he is joining us here today, and look forward to his testimony. Thank you, Mike.

The CHAIRMAN. Thank you, Congressman Brindisi, and we are looking forward to hearing your testimony at the appropriate time.

I would also now like to recognize Congresswoman Hartzler for her good work that she does on this Committee, and she has a witness that she would like to introduce.

Mrs. HARTZLER. Thank you, Mr. Chairman. I am very proud to introduce my friend from the University of Missouri in Columbia, Dr. Scott Brown. I am so glad that he is here again. He has testified many times before Congress, and is viewed, I believe, as one of the premier experts in our nation on dairy policy. I am so proud of him. He is the Director of Strategic Partnerships at the College of Agriculture and Natural Resources, as well as a professor, and he has received many awards that I could cite, but most importantly, he has helped raise up my two ag staffers that I have had during my time here, including Carly Esser, who is here in the audience today.

I want to thank you for that. You are a wonderful teacher and a wonderful example for them, and certainly a wonderful resource for us here in Congress. Thank you for being here.

Thank you, Mr. Chairman.

The CHAIRMAN. We thank the Congresswoman, and we are looking forward, Dr. Brown, to hearing your testimony at the appropriate time.

Our last witness is a person that Congressman Thompson, who I enjoy working with always, would like to introduce from Pennsylvania.

Mr. THOMPSON. Mr. Chairman, thank you so much. It really is a privilege and honor to introduce this gentleman, a friend and leader on dairy in the Keystone State of Pennsylvania. It is my pleasure to introduce Dave Smith. He is a fourth-generation dairy farmer from Lebanon County, Pennsylvania. He is a graduate of Virginia Tech where he completed a BS in dairy science. Upon graduation, Dave returned home to the farm and co-manages the family farm with his son where they also grow crops and raise cows.

Dave also served as Executive Director of the Pennsylvania Dairymen's Association, an organization he has been involved with for more than 20 years. He is also very active with the annual Pennsylvania Farm Show, which actually a number of Members on this Committee have attended with me. The first weekend in January, mark your calendars. The largest indoor agriculture exposition in the country. Not too far from here, either, about 2½ hours from here.

To all of our witnesses, thank you for being here today.

The CHAIRMAN. Thank you, Congressman Thompson, for that kind introduction.

I will now introduce our second witness, a friend who I have known for many years, Andrei Mikhalevsky, who serves as the President and CEO of California Dairies, Inc., which is based in Visalia, California. It is owned by 360+ dairymen and -women who ship their milk to California Dairy, Inc. They sell nearly seven percent of the total milk in the United States, it is the second largest co-op.

Andrei is a seasoned expert in the dairy industry, which is why we have asked him to testify today. He also serves as the Trade Committee Chair for the International Dairy Foods Association, and serves on the Dairy Advisory Board for California Department of Food and Agriculture.

Mr. Mikhalevsky, we are glad to have you here, and we would like you to begin your testimony.

STATEMENT OF ANDREI MIKHALEVSKY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CALIFORNIA DAIRIES, INC., VISALIA, CA

Mr. MIKHALEVSKY. Thank you. Good morning, Chairman Costa, Ranking Member Rouzer, and distinguished Members of the Subcommittee. Thank you for the opportunity to provide my perspective on the current state of the U.S. dairy economy, with a focus on trade today.

My name is Andrei Mikhalevsky, and I am President/CEO of California Dairies, Inc., known as CDI.

CDI is the largest dairy farmer-owned cooperative in California, and the second largest in the United States. The cooperative was formed to sell, market, and add value to our members' milk. Our family-owned dairy farms represent seven percent of all the milk produced in the United States. Mr. Chairman, as you had noted and are fully aware, our home State of California remains the leading dairy state, producing 18 percent of the country's milk. Our cooperative is the largest producer of retail butter in the United States, and the largest producer and exporter of milk powder.

Today, I will focus my testimony in three areas. First, offer examples of industry current issues; second, I will describe our trade views; and finally, I will outline some suggestions to improve dairy's overall business health.

U.S. dairy is a dynamic industry made up of 39,000 dairy farms and slightly more than 1,300 processing plants that with associated businesses support three million U.S. jobs. Sixteen percent of all U.S. milk production is exported. Thousands of jobs are dependent on these U.S. dairy exports.

Today's dairy farmers face challenges on multiple fronts, but also great opportunities. The U.S. dairy industry has amazing potential and is ready to meet the growing domestic and international demand for milk. Yet, the U.S. dairy industry has been stressed, as noted, for several years due to low margins and low worldwide prices. This has led numerous dairy families to sell their businesses. These on-farm losses combined with reduced market values for dairy cows are stressing bank relationships. The end result is that more of our milk is produced by fewer, larger, more productive operations.

Another challenge is that every dairy farm in the United States has labor availability issues. An agricultural guestworker program that meets year-round dairy needs for the industry is critical.

The U.S. domestic price is highly influenced by global prices and the global supply-demand balance of milk. The U.S. is no longer isolated from world prices. U.S. milk price recovery was halted in 2018, due to EU intervention stocks and the retaliatory tariffs with Mexico and China. Our biggest competitors producing milk and dairy products for the export markets are the European Union and New Zealand. The most valuable export markets for our industry are Mexico, Canada, Japan, China, South America, and Southeast Asia, then followed by the Middle East and Africa. Free trade agreements that open markets and lower trade barriers are crucial to the dairy industry's long-term economic health.

The U.S. has not completed or passed a new trade deal in well over a decade. We need more comprehensive free trade agreements. The EU has trade agreements completed or in process with nine of the top ten dairy importing countries, while the U.S. simply has four. Likewise, New Zealand has trade agreements with most Asian countries where demand is growing at a rapid pace. For the dairy industry, any trade agreement must simply meet two criteria. First, and most importantly, a fair and level playing field is critical. Second, any trade agreement should include robust access for the whole bucket of milk, all dairy products across the board. Too often, trade agreements isolate dairy market access to a limited subset of dairy products.

Now just a quick comment on current negotiations. Mexico is the top market for all U.S. dairy exports, valued at $1.4 billion in 2018. Canada is second. The USMCA deal, as negotiated, meets the dairy industry's top priorities, and that is why we urge swift Congressional approval of this agreement.

China has been the third largest exporting customer for U.S. dairy. Opportunities in China are significant, but the U.S. has not been on a level playing field with our competitors. Due to recently imposed retaliatory tariffs, we are now seeing a precipitous decline in U.S. dairy exports to China.

Japan is the fifth largest country for U.S. dairy exports, and currently we face high barriers to trade in Japan. Dairy market access in any trade agreement must match or exceed that achieved under TPP and the new EU-Japan trade agreement.

In 2018, the EU exported nearly $1.7 billion in product to the United States, but U.S. companies exported just $145 million back to them. High tariffs and other non-tariff barriers, such as burdensome import licensing and certification requirements stand in the way. We cannot afford to set a precedent of negotiating with any trading partner that sidelines agriculture. All free trade agreements must include access for agriculture.

In my written testimony, I provided several short-term industry solutions, and I will just highlight one. A policy proposal that has great potential for improving sales for the state of the U.S. dairy economy is establishing a national enhanced standard for fluid milk products.

In summary, the dairy industry is a significant part of the U.S. economy. Price volatility has had a significant impact on dairy farms. Trade policy is a vital part of our future success. Our industry needs increased access to a greater number of markets and a level playing field. The U.S. dairy industry envisions a bright future, capitalizing on opportunities in the global marketplace.

Again, thank you for the opportunity to testify.

[The prepared statement of Mr. Mikhalevsky follows:]

PREPARED STATEMENT OF ANDREI MIKHALEVSKY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CALIFORNIA DAIRIES, INC., VISALIA, CA

Good morning, Chairman Costa, Ranking Member Rouzer, and distinguished Members of the Subcommittee. Thank you for the opportunity to provide my perspective on the current state of the U.S. dairy economy.

Today's dairy farmers face challenges on multiple fronts, but also great opportunities. U.S. dairy is a dynamic and innovative industry made up of approximately 39,000 dairy farms and slightly more than 1,300 processing plants that support nearly three million U.S. jobs, generate more than $161 billion in wages and has an overall economic impact of more than $628 billion. As the fifth largest commodity in the United States, dairy generated $36.7 billion in sales in 2017. Mr. Chairman, as you are fully aware, our home state of California remains the leading dairy state, producing 18 percent of the country's milk.

The U.S. dairy industry has amazing potential and is ready to meet the growing domestic and international demands. U.S. dairy farms are getting better and becoming more efficient at finding innovative ways to produce more with less. U.S. farm milk production has grown from 170 billion pounds of milk in 2003 to 218 billion pounds in 2018 and milk production per cow has increased by more than 35 percent since 1998. Today that means that the average cow is producing 23,150 pounds of milk per year. This growth in milk production means that we have more milk than is needed domestically, which presents an economic vulnerability. It also means that our industry is poised to meet a growing global demand for dairy products at a moment's notice, presenting great opportunities for our dairy industry.

Today I will focus my testimony in four areas. First, I will provide a short introduction of California Dairies, Inc. (CDI), and next I will offer examples of current issues facing our industry today. Third, I will describe our focus on the current trade landscape, and finally I will outline some solutions and suggestions to improve the overall business health of our dairy farmers.

California Dairies, Inc. (CDI)

Headquartered in Visalia, CA, CDI is the largest dairy farmer-owned cooperative in California and the second largest in the United States. The cooperative was formed in 1999 to sell, market and add value to our member's milk. Our 360 family-owned dairy farms produce almost 16 billion pounds of milk per year representing seven percent of all milk produced in the United States. Every day we pick up between 850 and 1,000 truckloads of milk from our farms. Half of these truckloads are delivered and sold to bottlers or the milk is used as an ingredient in other dairy products, primarily cheese. The other half of our milk goes into our own manufacturing facilities.

CDI member farmers have made a large financial investment in seven manufacturing facilities to process milk into transportable products, primarily milk powder and butter products. Not only do these farmer-owned manufacturing facilities ensure a home for the milk our members produce, but they also are the key to balancing the steady milk production on the farm with variable customer demand—a key function of CDI and other manufacturing cooperatives that often gets taken for granted.

Our cooperative is the largest producer of retail butter in the United States. We manufacture almost 400 million pounds of butter a year—more than 1 pound for each person living in the United States. We wholly own Challenge Dairy Products, Inc., the number one branded butter in the western United States. Nearly all of our butter is sold to U.S. consumers with exceptions when pricing conditions are favorable for export.

CDI is the largest producer of milk powder in the United States and the largest producer of skim milk powder in the world. We produce about 700 million pounds of milk powder per year. Our exports of milk powder have grown over the years and are now reaching sixty percent of our total production. Clearly, we are highly dependent on global trade and U.S. trade policy. CDI sells and markets our milk powder through DairyAmerica, which is a federated cooperative made up of three other farmer-owned U.S. dairy cooperatives located across the country.

Current Industry Issues

The U.S. dairy industry has been stressed for several years due to low margins and low worldwide prices. The dairy industry is unique within the agricultural sector. Almost all of the remaining U.S. dairy farms are family run businesses. Our dairy families work very hard and operate 24 hours a day, 7 days a week, and 365 days a year. The supply of milk is constant, but demand varies weekly.

These farms produce a highly perishable year round "crop" with some seasonal swings in supply—specifically in the spring. This supply requires adequate milk processing capacity. Some regions of the country lack this capacity. Additionally, processing assets must also have the capacity to process the short spring flush peaks in milk production, leading to inefficiencies during non-peak periods when such capacity is not needed.

The dairy industry continues to see consolidation, similar to other sectors of the economy. Between 2012 and 2017 the number of U.S. dairy farms contracted by 15 percent. Smaller farms with herds fewer than 100 cows declined by 29 percent contrasted with farms with over 2,500 cows growing by 24 percent. Over this period, the total U.S. dairy herd increased by three percent or over 280,000 head. Cows have also become more productive over this time period as dairy farmers have excelled in employing advancements in herd health, genetics and feeding practices to produce more milk with fewer resources. The end result is that more of the U.S. milk is produced by fewer, larger and more productive operations.

All dairy farms operate on a profit margin determined by operating costs on their farm and general market pricing. The U.S. domestic prices are highly influenced by global prices and the global supply-demand balance of milk. The U.S. is no longer isolated from world prices. Price volatility has doubled over the last 5 years making many of our farmers experts in utilizing financial risk management tools.

Global milk and dairy product prices have been depressed over the last 3 years resulting in low or negative margins and subsequently leading numerous farm families around the U.S. to sell their businesses. These on-farm losses combined with reduced market values for dairy cows are stressing bank relationships.

The operating cost side of the dairy margin equation is driven primarily by feed and labor costs. Almost every dairy farm in the U.S. has labor availability issues today. Milking cows is difficult, and the job requires significant training and skill. Immigration policies will have a substantial impact on our industry. An effective agricultural guestworker program that meets the year-round needs of the dairy industry is needed.

International trade is a critical component of the U.S. dairy economy. Sixteen percent of U.S. milk production is exported. About 1 day a week our farmers produce milk that is destined for export markets. Thousands of jobs are dependent on U.S. dairy exports.

Trade Policy

Due to the dependence on exports and world prices our dairy farm incomes are highly entwined with trade policy matters, meaning that expanding exports are vital to the health of our farms, and trade conflicts that limit our ability to sell products around the world are extremely damaging. It is a fact that a much-needed recovery in U.S. milk prices was halted in 2018 due to trade retaliation tariffs with Mexico and China.

Our biggest competitors producing milk and dairy products for the export markets are the European Union (EU) and New Zealand. Secondarily, Canada, Brazil, Argentina, Uruguay, Australia and India would round out the competitive set, although on an infrequent basis. The most valuable export markets for our industry are Japan, China, and Southeast Asia, followed by the Middle East and Africa.

In 2018, the United States exported $5.58 billion of dairy products, from cheese to whey to ice cream to skim milk powder and everything in between. Free trade agreements that open markets and lower trade barriers are crucial to continuing this trend of growing U.S. dairy exports.

Dairy farmers are acutely aware of trade policy developments because today, their livelihoods increasingly depend upon global markets opportunities. It is particularly damaging from a dairy perspective that the U.S. has fallen behind in negotiating trade agreements, especially compared to trade agreements negotiated by the EU and New Zealand, our primary competitors. Some examples of such agreements are the EU-Japan Economic Partnership, the EU-Vietnam Trade Agreement, and the New Zealand-China free trade agreement, which puts us at an increasing disadvantage with the world's largest market. The Trans-Pacific Partnership (TPP) going ahead without U.S. involvement has affected our competitive position in a key region.

The U.S. has not completed and passed a new trade deal in well over a decade. The EU has trade agreements completed or in process with nine of the top ten dairy importing countries while the U.S. has four. Likewise, New Zealand has trade agreements with most Asian countries where demand is growing at a rapid pace. The U.S. trade agreements that are in place today were negotiated before other agreements, and do not always place the U.S. on a level playing field with our competitors, putting the dairy industry at a comparative disadvantage

Trade Agreements

Dairy industry priorities in U.S. trade agreements are fairly straightforward. First and most importantly, a fair and level playing field is critical. The United States provides large export markets in many sectors to our trading partners, and we must insist upon securing more favorable export market access than what our competitors have been granted through prior treaties. Some concerns include tariffs in China and Vietnam, competitors benefitting from government interference (Canadian—Class [VI]/[VII]) and the EU intervention programs that distort and delay global dairy price recovery.

Second, any trade agreement should include robust access for the "whole bucket of milk"—all dairy products across the board. Too often, trade agreements isolate dairy market access to a limited subset of dairy products, typically cheese and whey. The U.S. dairy industry needs market access for products made from all components in milk.

Let me take a moment to comment on current negotiations.

United States-Mexico-Canada Agreement (USMCA)

Mexico is the top market for all U.S. dairy exports, valued at $1.4 billion in 2018. Canada is second with $697 million in export sales. The deal as negotiated meets the dairy industry's top priorities, eliminates Canada's trade-distorting Class [VII] pricing program, improves market access into Canada, and preserves our access into Mexico. The agreement contains strong provisions on sanitary and phytosanitary measures and has strong provisions on geographical indications that serve as an excellent precedent from which to build a more extensive list with additional trading partners. These are a number of reasons why we urge swift Congressional approval of this agreement. Furthermore, failure to pass the USMCA could hinder the Administration's ability to finalize other trade agreement, because it could be viewed as an inability of the U.S. to get trade agreements through Congress

Last July, Mexico imposed a 25 percent tariff on U.S. cheese to retaliate against Section 232 tariffs. This created significant turmoil for U.S. cheese manufacturers and the producer community having a direct impact in lowering milk prices. Mexico is the largest customer for U.S. cheese exports. Between July and December 2018, volume sales of U.S. cheese to Mexico fell one percent and the value of U.S. cheese exports declined eight percent due to these tariffs.

China

China has been the third largest export customer for U.S. dairy, with the business valued at $502 million in 2018, down $77 million from the prior year. While the opportunities in China are significant, the U.S. in the past has not been on a level playing field with its competitors from New Zealand or Australia. Equal access in a trade agreement with China would present a large opportunity for the U.S. dairy industry.

This past year, China issued retaliatory tariffs that included essentially all U.S. dairy products. This resulted in U.S. cheese and whey exports declining 40 percent year-over-year. Today, U.S. milk, cream, yogurt, whey, butter and cheese face a 25 percent retaliatory tariff, while lactose and infant formula face up to a ten percent retaliatory tariff. We are now seeing a precipitous decline in U.S. dairy exports to China, including business that took years to develop.

While the opportunities in China are significant, the U.S. in the past has not been on a level playing field with our competitors from New Zealand or Australia. Restoring our full access to the Chinese market is essential to the health and growth of producer companies and supplying farmers. Yet restoring access is just the first step. Provisions in the free trade agreements New Zealand and Australia enjoy with China give both countries a critical leg up in this large and fast-grown market.

Equal access for the U.S. in a trade agreement with China would present a large opportunity for the U.S. dairy industry.

Japan

Japan is the fifth-largest country for U.S. dairy exports, valued at $270 million in 2018. Currently, U.S. dairy exports face high tariffs, limited tariff-rate quotas (TRQs) and other barriers to trade in the Japanese market. Market access in any bilateral trade agreement must match or exceed that achieved under the TPP and the new EU-Japan agreement for the U.S. dairy industry to be at a minimum on a level playing field. Furthermore, the agreement must include an accelerated phase-in of tariff reductions to ensure the U.S. is not facing a disadvantage on tariff or TRQ quantity access compared to other countries. Non-tariff barriers, such as sanitary and phytosanitary measures, biotechnology, TRQ administration, and geographical indications, must also be addressed.

Agricultural products and dairy must be addressed in any free trade agreement with Japan.

European Union

In 2018, the EU exported nearly $1.7 billion in dairy products to the United States, but U.S. companies exported just $145 million in dairy products to the EU. The European Union has the potential to be a significant export market for the United States, but high tariffs and other non-tariff barriers such as burdensome import licensing and certification requirements stand in the way.

We cannot afford to set a precedent of negotiating FTAs with any trading partner that sidelines agriculture. A free trade agreement with the EU must be comprehensive in scope and provide meaningful market access for agriculture. Further, it must address all existing tariff and non-tariff barriers that block our exports, including the geographic indication threat to common cheese names that are currently in use. Without a thorough and robust agreement that uproots this full set of complex barriers to U.S. dairy exports, an FTA with the EU would quite likely deepen our significant dairy trade deficit with the EU rather than narrow it.

Short-Term Industry Solutions

As just discussed, a key to improving both the short- and long-term outlook for U.S. dairy farmers is expanding the number of trade agreements that include increased dairy market access. This includes Congressional approval of the USMCA, concluding Administrative negotiations with China and Japan, and expanding further opportunities in the EU and other South Pacific countries. The U.S. must pursue a robust trade agenda that expands opportunities as well as preserves market access.

Another policy proposal that has great potential for improving the state of the U.S. dairy industry is establishing a national enhanced standard for fluid milk products. This proposal, which has been discussed over the years and was recently analyzed by one of the witnesses here today—Dr. Scott Brown—looks at the potential benefits of adding additional nonfat milk solids to fluid milk products that have had some or all of the milkfat removed. This ensures that consumers drinking these reduced/low/non-fat milk products are getting a wholesome product with additional nonfat nutrients replacing the milkfat that has been removed. This would provide the consumer with a better tasting and healthier product, and secondarily, would increase demand for milk solids resulting in a higher price for U.S. dairy farmers.

The Federal Milk Marketing Order is also in need of modernization. Key areas of focus include more accurate and faster market signals back to farmers on global pricing and marketing conditions through the National Dairy Product Sales Report. Adjustments also could be made to encourage new processing capacity to adequately handle growing domestic milk production.

Summary

The dairy industry is a significant part of the U.S. economy. Dairy farmers have been stressed by low margins and the industry is undergoing rapid change. Trade policy is a vital part of the success for the dairy industry in the U.S. Our industry needs increased access to markets, a greater number of trade agreements and a level playing field. The U.S. dairy industry envisions a bright future capitalizing on opportunities in the global marketplace.

I would like to comment briefly on the farm bill and recent legislative activity with respect to dairy. The farm bill dairy provisions regarding Federal Milk Marketing Order Class I pricing and the new Dairy Margin Coverage program were well received by the industry and are a positive step forward. The Dairy Revenue Protection Program is also a great enhancement to farmer risk management options.

Again, thank you for the opportunity to testify before the Subcommittee. I look forward to answering your questions and engaging in meaningful discussion about how to maximize the potential of this great U.S. dairy industry.

The CHAIRMAN. Thank you, and we appreciate your comments and look forward to the question period where we will get a chance to dig a little deeper.

Our next witness has been introduced by my colleague here. He is the owner and operator of EZ Acres in Homer, New York, a wonderful part of the country. Mr. McMahon owns and operates his operation there on standard on animal care and environmental stewardship, and we are happy in the Subcommittee to have you here this morning, and look forward to your testimony.

STATEMENT OF MICHAEL P. MCMAHON, OWNER AND OPERATOR, EZ ACRES, HOMER, NY

Mr. MCMAHON. Thank you, Chairman Costa.

Chairman Costa, Ranking Member Rouzer, and honorable Members of the Subcommittee, thank you for the opportunity to give testimony concerning the current state of the dairy industry. I would like to address two major challenges to dairy in this country: labor, specifically immigrant labor, and environmental sustainability.

Labor is always an issue in dairy. In 1995, our farm moved out of four old barns and into a new state-of-the-art facility. One of our goals is to stop the endless turnover of labor that we had been experiencing in our previous situation. With comfortable working conditions, reasonable hours, and being able to pay a higher wage due to modern efficiencies, we felt this would be an easy accomplishment.

However, after 5 years, that wasn't happening. My wife, Edie, behind me, who is responsible for our payroll calculated that she had issued an average of 39 W–2s per year over those 5 years to maintain a crew of ten full time workers. In January 2000 we replaced half our crew with Hispanic workers and instantly saw a change. Over the next 5 years, the average number of W–2s issued was 18, which includes part time people for the cropping program. It was a remarkable benefit, given the cost in time and money to constantly train new people. Not only did turnover nearly stop, but we found in the migrant workers a work ethic, animal handling skills and a level of respect for coworkers and owners alike that seem to be lost in the local workforce.

While it is not this Committee's jurisdiction, immigrant labor is absolutely critical to my operation. Regardless of the unemployment rate in our county, local labor doesn't want to milk cows.

A 2017 Texas A&M study found that 79 percent of the U.S. milk supply is harvested by Hispanic workers. Agriculture needs a way to secure an immigrant workforce that is steady, willing, able and legal.

I realize that immigration is a difficult topic, but agriculture's need for immigrant labor is undeniable. America needs a safe, affordable, and abundant food supply produced within its borders. Food security is part of homeland security.

I would also like to touch on environmental sustainability. New York and the Northeast are blessed with luxuriant water. This, and a temperate climate make us well suited as a current and future dairy region. It differentiates us from other milk producing areas such as the Southwest. This abundant water also presents dairy with challenges. For us, environmental sustainability equates with water quality protection. My farm is situated in an environmentally sensitive area with 70 percent of my land in the Chesapeake Bay Watershed, and 30 percent in the Skaneateles Lake Watershed which provides unfiltered drinking water to 230,000 people of the City of Syracuse. It also lies over a sole-source aquifer which supplies water to 24,000 people in our town. Our opportunities to pollute are many, and we take our responsibility to protect water seriously.

Since 1997, we have been a case study farm for Cornell University, pioneering an approach to water protection referred to as nutrient mass balance. In a nutshell, it is a whole farms system approach to balancing the pounds of nutrients and imports which are imported onto the farm annually with the nutrients that leave the farm in the form of milk, meat, and manure.

Nitrogen and phosphorus are the main nutrients of concern, and we want to prevent excessive accumulations of these nutrients on the farmstead, since they may be lost to the environment and present a risk to surface and groundwater. The goal is to reduce the amount of nutrients brought onto the farm by tailoring feed and fertilizers to meet the exact needs of animals and crops, reuse the nutrients by proper storage of manure and timing of application to growing crops, and recycle them into abundant, homegrown forage and grains to feed our cows.

Since 2003, we have been able to reduce the amount of excess nitrogen remaining on our farm by ⅓, and phosphorus remaining on our farm by 135 percent. These are significant reductions. Herd health and milk production have improved, and purchase feed costs have dropped. This approach has enhanced both environmental and economic sustainability.

Every farm, regardless of size, can implement some or all of this approach. The data collection required to calculate the balance is not arduous. Nutrient mass balance analysis of farmsteads can raise awareness of the opportunities to reduce nutrient imports and their associated costs, and incentivize dairymen to adopt nutrient reducing management practices. Every pound of nitrogen and phosphorus that we don't import is a pound that we don't have worry about ending up in our water.

Thank you.

[The prepared statement of Mr. McMahon follows:]

PREPARED STATEMENT OF MICHAEL P. MCMAHON, OWNER AND OPERATOR, EZ ACRES, HOMER, NY

To Chairman Costa, Ranking Member Rouzer, and Honorable Members of the Livestock and Foreign Agriculture Subcommittee:

Thank you for the opportunity to give testimony concerning the current state of the dairy industry. I would like to address two major challenges to dairy in this country—labor, specifically immigrant labor, and environmental sustainability.

Labor is always an issue in dairy. In 1995 our farm moved out of four old barns and into a new state of the art facility. One of our goals was to stop the endless turnover of labor that we had been experiencing in our previous situation. With comfortable working conditions, reasonable hours and being able to pay a higher wage due to modern efficiencies we felt this would be an easy accomplishment. However after 5 years it was obvious that it wasn't happening. My wife Edie who is responsible for our payroll calculated that she had issued an average of 39 W–2s per year over those 5 years to maintain a crew of ten full time workers. In January 2000 we replaced half our crew with Latino workers and instantly saw a change. Over the next 5 years the average number of W–2s issued was 18 which included part time people for the cropping season. It was a remarkable change given the cost in time and money to constantly train new people. Not only did turnover nearly stop but we found in the migrant workers a work ethic, animal handling skills and a level of respect for coworkers and owners alike that seem to be lost in the local workforce.

While it is not in this Committee's jurisdiction, immigrant labor is absolutely critical to my operation. Regardless of the unemployment rate in our county—local labor doesn't want to milk cows. A 2017 Texas A&M study found that 79% of the U.S. milk supply is impacted by Hispanic workers. Agriculture needs a way to secure an immigrant workforce that is steady, willing, able and LEGAL. We need to bring the multitude of indispensable agricultural workers who are already here out of the shadows without major disruption to the workforce. Let's find out who they are and if there are felons among them then they cannot stay. These workers are already contributing greatly to our food system. They paid thousands of dollars to cross the border and thousands more for forged documents, enriching the drug cartels who provide these services. The United States might better have collected that money for processing and issuing work permits. I realize that immigration is a political minefield, but agriculture's need for immigrant labor is undeniable. America needs a safe and abundant food supply produced within its borders. Food security is part of homeland security.

I would also like to touch on sustainability. New York and the Northeast are blessed with luxuriant water. This, and a temperate climate make us well suited as a current and future dairy region. It differentiates us from other milk producing areas such as the Southwest. This abundant water also presents dairy with challenges—for us environmental sustainability equates with water quality protection. My farm is situated in an environmentally sensitive area with 70% of my land in the northern part of the Chesapeake Bay Watershed, and 30% in the Skaneateles Lake Watershed which provides unfiltered drinking water to 230,00 people of the city of Syracuse. It also lies over a sole-source aquifer which supplies water to about 24,000 people in our town. We also have two naturally stocked trout streams that run through our farm. Our opportunities to pollute are many, and we take our responsibility to protect water seriously.

Our approach is based on the simple concept of balancing the amount of "nutrients" we import onto the farmstead each year—mainly in the form of feed and fertilizer—with the amounts of nutrients exported in the form of milk, meat and manure. The main nutrients of concern with regard to water quality are Nitrogen (N) and Phosphorus (P). Typically more of these come onto the farm than are exported. Excessive accumulations of these nutrients are lost to the environment and present a risk to surface and ground water. So we **Reduce** the amount of nutrients brought onto the farm by tailoring feed and fertilizers to meet but not exceed animal and crop needs, **Reuse** the nutrients by proper storage of manure and timing of application to growing crops, and **Recycle** them into abundant homegrown forage and grains to feed our cows.

This concept is referred to as "Nutrient Mass Balance". It was pioneered by Dr. Danny Fox of the Department of Animal Science at the College of Agriculture and Life Sciences of Cornell University. It is carried on today under the program name "Nutrient Management Spear Program" by Dr. Quirine Ketterings and associates. Information about the NMSP can be found at *http://nmsp.cals.cornell.edu*.

From beginning balance measurements in the pilot program in 2003 we have been able to reduce the amount of N remaining on the farm by 33% and the P remaining on the farm by 135%. These are significant reductions. They also translate to reduced input costs, enhanced animal and soil health and contribute to economic sustainability. Wells sampled for Nitrates ppm along the valley we farm (including the Village Municipal well) although never at levels of concern have shown marked reductions in nitrate levels since 1997.

Every farm in water sensitive areas regardless of size can implement some or all of this approach. The data collection required to calculate the Nutrient Mass Balance is not arduous. Most information is reasonably available from well managed operations. NMB analysis of farmsteads can raise awareness of the opportunities to reduce nutrient imports and their associated costs and incentivize dairymen to adopt nutrient reducing management practices. Every pound of N and P we don't import is a pound we don't have to worry about winding up in our water.

There are few people who farm the land that don't agree that something is changing with our climate. Extreme weather events and excessive rainfall are occurring with increasing frequency. The annual average rainfall in New York has increased by 5″ from 1895–2016. Our locality has seen three "hundred year storms" in the past 10 years. This means we have to get better just to stay even.

What can government do to help? I suggest the following:

- Fund field staff at the USDA Natural Resources Conservation Service and the local Soil and Water District level to help develop and implement nutrient management plans on farms of all sizes.
- See that there is adequate funding for land-grant colleges to be responsive to applied needs such as the NMB program and conduct outreach.
- Encourage interagency cooperation between land-grant colleges, NRCS and Soil and Water Districts.
- Continue to fund EQIP grants so farmers can better address resource concerns like manure storage.

The CHAIRMAN. Thank you very much, Mr. McMahon. Your comments as it relates to both labor and well as the environmental stewardship that you have stated is an example of what, in fact, can be done and I always believe that farmers in general and dairymen and women are among the best stewards of the environment, because the whole notion of sustainability is crucial for them to maintain their business. And it just is common sense.

Our next witness was previously identified, the Director of Strategic Partnerships from the College of Agriculture, Food and Natural Resources, Associate Extension Professor in Agriculture and Applied Economics at the University of Missouri. Dr. Brown, good to have you here.

STATEMENT OF SCOTT BROWN, PH.D., DIRECTOR OF STRATEGIC PARTNERSHIPS, COLLEGE OF AGRICULTURE, FOOD, AND NATURAL RESOURCES, UNIVERSITY OF MISSOURI; ASSOCIATE EXTENSION PROFESSOR, AGRICULTURAL AND APPLIED ECONOMICS, UNIVERSITY OF MISSOURI, COLUMBIA, MO

Dr. BROWN. Thank you, and thanks for the kind introduction, Congresswoman Hartzler, and everything that you do for the folks in the 4th District of Missouri.

Chairman Costa, Ranking Member Rouzer, and Members of the Subcommittee, thank you for the opportunity to testify regarding the financial situation for U.S. dairy farmers and the expected results from the dairy policy changes made in the Agriculture Improvement Act of 2018. I am an agriculture extension economist at the University of Missouri, and I have spent much of my career examining dairy industry issues.

Since the record-setting milk prices received in 2014, prices have been at lower levels and shown less volatility. Over the 2010 to 2014 period, there was a range of $11.10 from the high to low monthly price. While over the 2015 to early 2019 period, the difference between the maximum and minimum has been only $4.40. While the low milk price during these two periods is very similar, the highest monthly price since 2015 is well below the maximum over the 2010 to 2014 period.

The factors that have led to this longer period of more stable but lower milk prices are a combination of many market factors. Despite an incredibly tough environment for dairy producers across the country, milk supplies have continued to expand. The most recent USDA milk production report showed for the first time since January of 2016 a $\frac{4}{10}$ decline in production relative to year earlier levels. The longer-term expansion in milk production occurred despite continued reductions in the number of dairy operations. The number of licensed dairy operations fell by over 2,700, or 6.8 percent in 2018, as financial stress pushed many of these operations out of business.

If the recent decline in milk supplies continue, that could provide even more milk price strength in the second half of 2019. However, the structural change in dairy operations and milk production that has unfolded over the past few years highlights the increased possibility of these longer periods of low profitability.

The stubborn continued growth in U.S. milk supplies over the last few years has contributed to the tough financial conditions that have plagued the industry. Dairy operation equity built during the record 2014 milk prices and the apparent economies-of-scale in the industry has left aggregate milk supplies very unresponsive in time periods that are financially strapped.

Despite slow supply response and low return periods, the industry can expand rapidly in periods of strong profitability. The cost of purchasing feed has fallen the last few years; however, the cost required to grow feed stuffs have remained high and created additional financial strain for those growing a significant portion of their feed.

Poor domestic demand for some dairy products has contributed to the weakness in milk prices. Per capita consumption of two percent and low-fat milk has declined by 33 pounds over the 2010 to 2018 period, and has not been offset by the recent increases in whole fat fluid milk consumption.

U.S. dairy exports are important to the outlook for U.S. dairy farmers. According to USDA, U.S. commercial dairy exports grew by 36 billion pounds on a milk equivalent skim solids basis over the 2000 to 2018 period, while domestic commercial disappearance grew by only 23 billion pounds.

The point remains that growth in U.S. dairy exports is vital. The implementation of new trade agreements, like the current efforts with China and the ratification of the new USMCA agreement remain critical.

The long-term outlooks provided by FAPRI and USDA estimate that the U.S. whole milk price will not exceed $18 per hundredweight on an annual basis until after 2022. These forecasts suggest a slow recovery that occurs over the next 3 to 4 years, barring some external unanticipated shock.

The new dairy provisions contained in the 2018 Farm Bill considerably strengthen the dairy safety net relative to the provisions in the 2014 Farm Bill. The level of coverage has increased and the cost of program participation has declined. It remains important to highlight the strengthened provisions contained in the 2018 Farm Bill. Those that would have picked $9.50 coverage will already have seen a payment in January of $1.51 per hundredweight, and $1.28 per hundredweight in February, making the 2019 decision easy.

The current Dairy Margin Coverage program is a milk price less feed cost triggered program, and is meant to protect against low milk prices and/or high feed costs. The DMC margin is calculated on a national basis by using the most commonly used national prices for milk, corn, alfalfa, and soybean meal. The margin will not perfectly represent any particular farmer's margin, but provides a national average margin. The DMC program is a voluntary program that allows a dairy farmer to pick a margin level to protect between $4 and $9.50 with higher premiums at higher margin levels. Producers can cover between 5 and 95 percent of their FSA calculated production history. The first 5 million pounds of production history covered occurs at lower premiums relative to the production history covered above 5 million pounds.

It appears the DMC program will provide a needed boost to the dairy safety net. The combination of lower premiums, added flexibility, and production history covered, and higher margin protection levels result in a more effective safety program than the dairy industry has had for some time. Dairy producers, regardless of size, must examine how the DMC program fits into their overall risk management plan.

Mr. Chairman, thank you for the opportunity to discuss the many issues facing the dairy industry today. I look forward to answering questions.

[The prepared statement of Dr. Brown follows:]

PREPARED STATEMENT OF SCOTT BROWN, PH.D., DIRECTOR OF STRATEGIC PARTNERSHIPS, COLLEGE OF AGRICULTURE, FOOD, AND NATURAL RESOURCES, UNIVERSITY OF MISSOURI; ASSOCIATE EXTENSION PROFESSOR, AGRICULTURAL AND APPLIED ECONOMICS, UNIVERSITY OF MISSOURI, COLUMBIA, MO

Chairman Costa, Ranking Member Rouzer, and Members of the Subcommittee, thank you for the opportunity to testify regarding the financial situation for U.S. dairy farmers and the expected results from the dairy policy changes made in the Agriculture Improvement Act of 2018. I am an agricultural extension economist at the University of Missouri and over the last 3 decades I have spent much of my time examining the economic outlook and Federal policies facing the dairy industry.

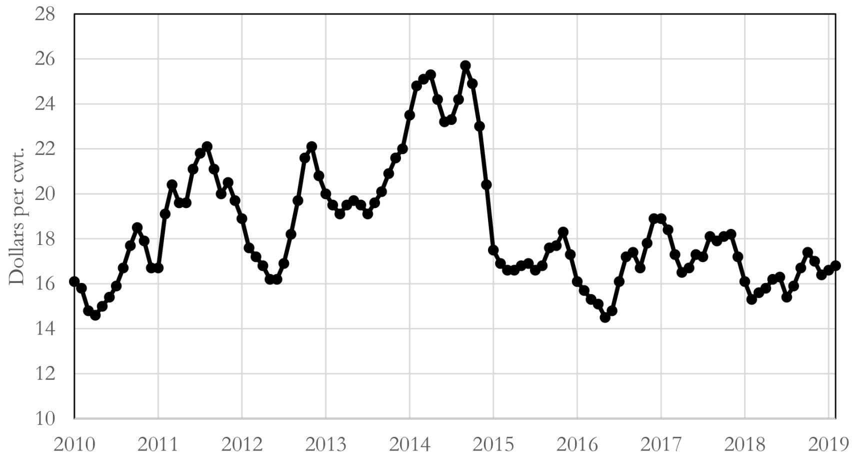
Since the record setting milk prices received by dairy producers in 2014, milk prices have been at lower levels and shown less variability. Over the 2010 to 2014 period there was a range of $11.10 per cwt from the high to low monthly milk price, while over the 2015 to early 2019 period the difference between the maximum and minimum has been only $4.40 per cwt. While the low milk price during these two periods is very similar, the highest monthly milk price since 2015 is well below the maximum from 2010 to 2014.

The factors that have led to this longer period of more stable but lower milk prices have been debated within the dairy industry. It remains difficult to attribute lower milk prices to any particular reason, but rather a combination of many market factors.

Despite an incredibly tough financial environment for dairy produces across the country, milk supplies have continued to expand. The most recent USDA Milk Production report with data for March 2019 showed that for the first time since January 2016 (excluding leap year effects), U.S. milk production fell by 0.4% relative to year earlier levels. The longer-term expansion in milk production occurred despite continued reductions in the number of dairy operations. The number of licensed

dairy operations fell by 2,731 or 6.8% in 2018 as financial stress pushed many of these operations out of business. If

Figure 1. Monthly U.S. All Milk Price



the recent decline in milk supplies continues for the rest of this year, that could provide even more milk price strength in the second half of 2019. However, the structural change in dairy operations and milk production that has unfolded over the past few years highlights the increased possibility of these longer periods of low profitability occurring in the future.

The stubborn continued growth in U.S. milk supplies over the last few years has contributed to the tough financial conditions that have plagued the industry. Dairy operation equity built during the record 2014 milk prices and the apparent economies of scale in the industry has left aggregate milk supplies very unresponsive in time periods that are financially stressed. Although the equity built during 2014 has dissipated, the increase in the average dairy operation size and economies of scale may result in additional future periods of slow reduction in aggregate milk supplies when the economic situation is stressed. Despite slow supply response in low return periods, the industry can expand rapidly in periods of strong profitability.

The cost of purchasing dairy feed has fallen the last few years as most feed ingredient prices declined from the peaks of a few years ago. However, the costs required to grow feedstuffs have remained high and created additional financial strain for those producers that grow a significant portion of their feed.

Poor domestic demand for some dairy products has contributed to the weakness in milk prices. Per capita consumption of 2% and low-fat fluid milk has declined by 33 pounds over the 2010 to 2018 period and has not been offset by recent increases in whole fat fluid milk consumption. It remains critical for future milk prices to find ways to expand domestic consumption of U.S. dairy products.

U.S. dairy exports are also important to the outlook for U.S. dairy farmers. According to USDA/ERS, U.S. commercial dairy exports grew by 36 billion pounds on a milk-equivalent skim-solids basis over the 2000 to 2018 period while domestic commercial disappearance grew by only 23 billion pounds. The story changes on a milk-equivalent milk-fat basis, with domestic commercial disappearance growing by 44 billion pounds and commercial exports growing by only 9 billion pounds. However, the point remains that growth in U.S. dairy exports is vital. The implementation of new trade agreements like the current efforts with China and ratification of the new USMCA agreement remain critical.

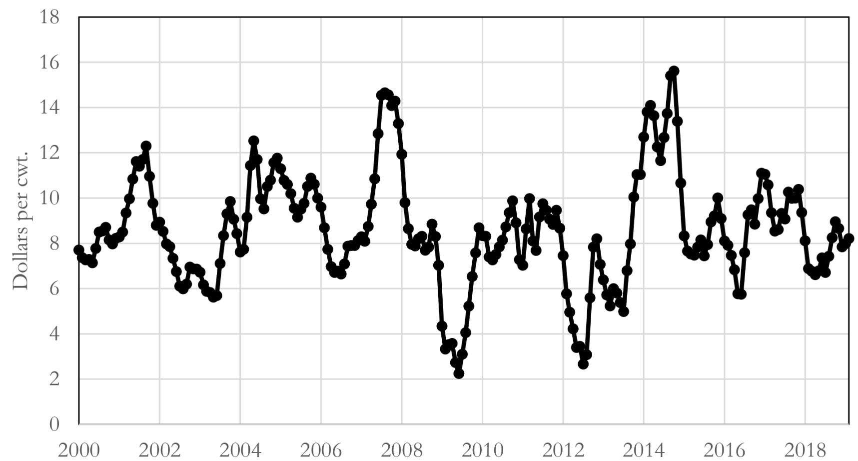
With the supply of milk and demand for milk and dairy products extremely price inelastic, small changes in either demand or supply can move milk prices dramatically higher or lower in just a few months and this potential volatility should not be ignored even though milk prices have been moving in a small range for the past few years.

The current long-term outlooks provided by the Food and Agricultural Policy Research Institute (FAPRI) and USDA estimate that the U.S. all milk price will not exceed $18 per cwt on an annual basis until after 2022. These forecasts suggest no quick relief from the current financial downturn, but rather a slow recovery that occurs over the next 3 to 4 years barring some external unanticipated shock that cuts milk supplies or creates new demand.

The new dairy policy provisions contained in the Agriculture Improvement Act of 2018 (2018 Farm Bill) considerably strengthen the dairy safety net relative to the Margin Protection Program (MPP) provisions in the Agricultural Act of 2014 (2014 Farm Bill). The level of coverage has increased, and the cost of program participation has declined. It remains important to highlight the strengthened provisions contained in the 2018 Farm Bill.

The current Dairy Margin Coverage (DMC) program is a milk price less feed cost triggered program. It is meant to protect against low milk prices and/or high feed costs which make up most of a producer's production cost. The DMC margin is calculated on a national basis using the most commonly used national prices for milk, corn, and alfalfa from USDA/NASS and soybean meal from

Figure 2. Monthly Dairy Margin Coverage (DMC) Margin



USDA/AMS. This margin will not perfectly represent any particular dairy farmer's milk price less feed cost margin but provides a national average margin. The key issue regarding how well the DMC margin works for an individual producer rests in the degree of correlation between the individual producer's milk less feed cost margin and the DMC margin. My experience has suggested that in many cases there will be a high correlation between an individual's margin and the DMC margin.

The DMC program is a voluntary annual program that allows a dairy farmer to pick a margin level to protect from between $4.00 and $9.50 per cwt with higher producer premiums as the margin level covered increases. Producers can cover between 5 and 95 percent of their FSA-calculated production history. The first 5 million pounds of production history (tier 1) covered occurs at lower premiums relative to production history covered above 5 million pounds. The premium costs at alternative DMC margin levels are listed in *table 1.*

Tier 1 premiums at the higher coverage levels are much lower than the original 2014 Farm Bill MPP premiums. For example, the original MPP premium cost at $8.00 coverage was $0.475 per cwt, lowered in 2018 to $0.142 per cwt under the Bipartisan Budget Act of 2018. The 2018 Farm Bill tier 1 premium is lowered further to $0.10 per cwt at the $8.00 level. Even the new $9.00 coverage option has a tier 1 premium that is less than the premium offered for $8.00 coverage under the BBA18. Producers can shave a further 25 percent off their premium costs if they sign up for the entire 5 year period during the initial signup.

Table 1. DMC Premium Costs

Coverage	Premiums for: Tier 1, <5 Mill. Lbs.	Premiums for: Tier 2, >5 Mill. Lbs.
$4.00	$0.0000	$0.0000
$4.50	$0.0025	$0.0025
$5.00	$0.0050	$0.0050

Table 1. DMC Premium Costs—Continued

Coverage	Premiums for: Tier 1, <5 Mill. Lbs.	Premiums for: Tier 2, >5 Mill. Lbs.
$5.50	$0.0300	$0.1000
$6.00	$0.0500	$0.3100
$6.50	$0.0700	$0.6500
$7.00	$0.0800	$1.1070
$7.50	$0.0900	$1.4130
$8.00	$0.1000	$1.8130
$8.50	$0.1050	N/A
$9.00	$0.1100	N/A
$9.50	$0.1500	N/A

A few points are important relative to the strengthened safety net provided by the DMC program. Over the 2000 to 2018 period, DMC coverage at $9.50 would have resulted in a triggered payment approximately 70 percent of the time while the $8.00 maximum MPP coverage level triggered a payment a little more than 40 percent of the time. DMC will trigger payments more often than MPP for those producers who choose the new higher coverage levels allowed under DMC.

Using the 2019 FAPRI baseline, I estimate that at the $9.50 DMC coverage level payments will trigger 56 percent of the time with an average payment of $1.68 per cwt over the 2019 to 2029 period.

The DMC program change that increases to 5 million pounds the amount of production history covered at lower premiums and the change to cover between 5 and 95 percent of a producer's production history allows for a larger proportion of U.S. milk supplies to be covered at the lower premium levels. Even most large dairy producers can cover their first 5 million pounds of production history.

Using recently released 2017 agricultural census data, roughly ⅓ of current milk production could choose to be covered under the tier 1 DMC program premiums. Given expected growth in U.S. milk production over time, the percentage of current milk production that could be covered will decline about 1 to 1.5 percent per year.

It remains important to think through the added support provided under the DMC program. An individual producer who chooses not to sign up for coverage under DMC while the majority of other producers do could find themselves at a serious financial disadvantage, as those that participate receive significant payment from the program to help offset low margin periods. Given the program is not triggered off of current production but rather a producer's production history lessens the likelihood that the DMC program is supply-inducing but it may stall a reduction in milk production during tough financial periods.

It appears the DMC program will provide a needed boost to the dairy safety net and builds on the new policy direction laid out in the MPP. The combination of lower premiums, added flexibility in production history covered and higher margin protection levels results in a much more effective safety program than the dairy industry has had for some time. Dairy producers, regardless of size, must examine how the DMC program fits into their overall risk management plan.

Mr. Chairman, thank you for the opportunity to discuss the many issues facing the dairy industry today. I look forward to answering questions you have.

The CHAIRMAN. We thank you, Dr. Brown, for those very important facts that explain the challenges that the industry has felt in the past, and where we are today. And we look forward to a good opportunity to go over any questions we have.

Our last witness is Mr. David Smith. He is the Executive Director of the Pennsylvania Dairymen's Association. He has been previously introduced by Congressman Thompson. He is an active dairy farmer near Palmyra, Pennsylvania. Thank you for joining us, Mr. Smith. Please proceed with your testimony.

STATEMENT OF DAVID R. SMITH, EXECUTIVE DIRECTOR, PENNSYLVANIA DAIRYMEN'S ASSOCIATION, PALMYRA, PA

Mr. SMITH. Thank you. Chairman Costa, Ranking Member Rouzer, and Members of the House Committee on Agriculture, we want to thank you for this opportunity, this awesome opportunity to provide testimony today and hosting this hearing.

Again, as you mentioned, I do have a farm operation and my son, Joel, is the fifth generation on that farm operation right now. In addition, I am the Executive Director of the Pennsylvania Dairymen's Association, which is a supporting organization of dairy and agriculture programs within Pennsylvania.

I would like to begin by discussing two key components of the 2018 Farm Bill, offer a brief overview of the state of Pennsylvania's dairy economy, and then provide five key points of recommendations for your consideration.

First of all, thanks to the Committee for the hard work that went into the 2018 Farm Bill. That legislation contains several key things that were supportive of the dairy industry. First of all, as mentioned earlier, the DMC coverage is a positive move for dairy farmers. Second, I wanted to add that the farm bill included a very innovative and new Farm to Food Bank Program, which is probably, as you hear very often, that it is a good and very logical program coming out of Congress that connects the dots between surplus ag products and the nation's food banks. A comment that you probably hear often, that it is good and logical.

I would go on to talk a little bit about the Pennsylvania dairy industry. According to the USDA Census of Agriculture, Pennsylvania lost 915 dairy farms between 2000 and 2017. I would add that last year, we continued to undergo significant consolidation and loss of farms and cows, and our herd numbers dropped 30,000 head last year alone, with a 6.9 percent decrease in milk production.

The financial stress of our dairy farmers is real, as you have heard before. I personally have seen dairy farm families, friends struggle with seismic change within their family business model, with some selling their farms, businesses, and others seeing the painful loss of their family farm.

To help address challenges currently faced by the dairy industry in Pennsylvania, across the country, in my written remarks I do have a number of things that have been mentioned prior to this. The trade is hugely important to dairy—and I won't go into details. It is in the written statement. I would also mention that the continual review of the Federal Milk Marketing Orders is needed to keep monitoring those things. In addition, as you heard before, also a workable guestworker program needed year-round is very necessary.

The two items that I want to address that I am very, very passionate about, our dairy farmers have worked hard over generations to build a wholesome, nutritious image that milk now has. Dairy cow milk is unrivaled as a beverage of nutrition, and in recent years, many upstart beverages have now used milk in their labeling. These alternative beverages are riding on the coattails of the affordable, wholesome nutrition of cow's milk. I do believe that in general, consumers are aware of the difference in nutrition, but

I believe and am concerned that many consumers still do not know the difference in nutrition of real milk and the nut juices. They are being misled by the virtue of the name milk in the label, and they are not getting a comparable product to milk. Dairy farmers across the country call for the U.S. Food and Drug Administration to vigorously enforce food standards regarding the labeling of dairy products and prohibit the mislabeling, misleading, deceptive labeling of nut and plant-based beverages as real milk.

Finally, our dairy farmers have been incredibly discouraged by the lack of choice of whole milk in school lunches. I believe that what started as an attempt to curb childhood obesity has done the opposite. In 2010, Congress passed the Healthy Hunger-Free Kids Act, which amended nutrition standards in the School Lunch Program and mandated that flavored milk must be fat free within the program. I believe that this has led to significant changes in beverage consumption habits of children and has resulted in a nine percent decline in milk consumption in schools. This nine percent decline tells me that an additional nine percent of our children in this country are not getting the calcium and the nine essential vitamins of milk. We have made progress in 2017, allowing the one percent into our schools, but it is now time to draw on recent and new science-based research on dietary fats. Without the option of having a full-bodied beverage to satisfy an appetite, our children are seeking sugar-based drinks.

I recently had a conversation with a mother of an elementary-age child. She mentioned her child likes milk at home, but does not like it at school, does not like the taste, and does not drink it there. I believe that we have lost a generation of milk drinkers.

I want to thank Congressmen Thompson and Peterson on their leadership of H.R. 832, the Whole Milk for Healthy Kids Act of 2019.

In conclusion, my wife, Sharon, and I became first-time grandparents last year, and while it is true what I have heard, that grandparenting is truly the best job that one could have, it is unfathomable to me that in a nation that prides itself in allowing choices and freedoms, my grandchild could enter a school and not even have the option of whole milk with her lunch.

The CHAIRMAN. I think that is a good note to end it on.

Mr. SMITH. I am humbled to be here. Thank you.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF DAVID R. SMITH, EXECUTIVE DIRECTOR, PENNSYLVANIA DAIRYMEN'S ASSOCIATION, PALMYRA, PA

Chairman Costa, Ranking Member Rouzer, and Members of the House Committee on Agriculture's Subcommittee on Livestock and Foreign Agriculture, thank you for the opportunity to provide testimony today, and for hosting this hearing to learn more about the state of the dairy economy.

My name is Dave Smith. My family and I operate a farm in central Pennsylvania where we grow crops and raise young dairy animals on a contract basis for a neighboring dairy farm. When I received a call last week to invite me to join this hearing, my first thought was that I needed to be on the farm to plant corn so that the livestock would have feed next year, but I quickly recognized the importance of providing testimony, and I am humbled to be here. My son, Joel is the fifth generation on our farm, and I have an amazingly active 84 year old farmer father who does not know the word retirement. In addition to my farm involvement, I am the Executive Director of the Pennsylvania Dairymen's Association. The Association is a non-profit organization run by a board of directors who are active dairy farmers. Our main focus is to promote and sell dairy products at events and use the proceeds to fund scholarships, youth, next generation dairy farmer programs, as well as consumer education about agriculture. Within the last 3 years, the Association has funded agriculture programs with over $1 million in financial support.

I will begin by discussing two key components of the 2018 Federal Farm Bill, offer a brief overview of the state of Pennsylvania's dairy economy, and provide five key policy recommendations for your consideration.

2018 Federal Farm Bill

I would first like to thank the Committee for its good work in helping to shape, and ultimately pass, the 2018 Farm Bill. The legislation contains several positive aspects for Pennsylvania's dairy industry. First, it strengthens support for dairy farmers by offering reduced premiums and new coverage levels for milk produced under the new Dairy Margin Coverage program. This new program remedies the issue with dairy farmers not having an adequate safety net to protect themselves from devastating low milk prices. Expediting the implementation of the Dairy Margin Coverage program is essential to providing dairy farmers the support that they desperately need as we continue to move through this low-price period.

Second, the farm bill included a new Farm to Food Bank program, which is a good and logical government program which connects the dots between surplus agriculture products and our nation's food banks. The program was, in part, modeled after Pennsylvania's successful Pennsylvania Agricultural Surplus System, which provides an efficient mechanism for the agricultural industry to donate safe, wholesome food products while being reimbursed for the costs involved in harvesting, processing, packaging, and transportation. This program has provided an additional outlet for Pennsylvania dairy farmers to be able to re-direct their surplus milk to families struggling with hunger.

Pennsylvania's Dairy Economy

Pennsylvania's dairy industry continues to undergo significant consolidation and loss of farms and cows. We continue to be the only major dairy state with significant declines in both milk production and cow numbers, with the state's dairy herd dropping 30,000 head from a year ago and total milk production down 6.9 percent. Milk production per cow is also down 25 pounds or 1.4 percent from a year ago. And according to USDA's Milk Production Report, milk production across the U.S. fell for the first time in 6 years, down 0.4 percent year-over-year to 19.1 billion pounds. This was the first year-over-year decline since March 2013. Milk production per cow was up 10 pounds or 0.5 percent to 2,044 pounds, while cow numbers fell 86,000 head year-over-year to 9.344 million head.

According to the USDA Census of Agriculture that was recently released, Pennsylvania lost 915 dairy farms and 4,718 cows between the 2012 and 2017 census. While the number of U.S. dairy cows and milk production continue to increase, the latest census data shows a drop of more than 10,000 farms with milk sales between 2012 and 2017. We have the second largest number of family farms in the nation. Agriculture is the number one industry of the Commonwealth with dairy as the leading sector. Pennsylvania dairy farms are the backbone of our communities and generate $14.7 billion in annual economic revenue.

The financial stress of our dairy farmers is real. I have personally seen dairy farmer friends struggle through seismic change in their family business model with some selling their business and others seeing the painful loss of their family farm. The source of this pain is multi-faceted, but one reason is supply and demand. Milk production has outpaced demand, which ironically is a good situation for our nation's consumers who reap the benefits of having an abundant and affordable supply of dairy products. Our consumers may share a different view if there were a shortage of milk, cheese, ice cream, or milkshakes.

Policy Recommendations

To help address the challenges currently faced by the dairy industry in Pennsylvania and across the country, I offer a few key policy priorities for consideration.

1. Ratifying the **United States-Mexico-Trade Agreement**, in particular the dairy provisions, has become very important. A report from the International Trade Commission shows that the United States dairy sector could become the benefactor of increased dairy trade of $227 million upon completion of the agreement. I would be negligent to not emphasis the importance of trade, as nearly 20% of our nations milk production is moved outside of our country. I urge Congress to move quickly to ratify USMCA.
2. Pennsylvania dairy farmers need longer term, **continual review of the Federal Milk Marketing Orders** and how milk is priced across the country.

The Northeast is within a half day's drive to 60 percent of the U.S. population. Having an adequate supply of milk is essential to provide both fresh fluid milk and processed dairy products to this population. The Northeast has a higher cost structure than other parts of the country, given land costs, environmental restraints and farm size. The Federal Order pricing system may need to be reviewed to protect the farms in this region as larger, lower cost farms continue to come online in other regions of the country. I am sure the Members can agree that there are great consumer benefits provided when access to locally produced milk is available.

3. The need for a **guestworker program for year-round dairy operations** is at an all-time critical high. A dependable workforce is essential to the health of our animals and the survival of our family businesses. Much of the dairy industry's essential workforce consists of immigrants. Not because it is cheap labor; in fact, dairies pay very competitive wages in an effort to attract and retain employees, but because as hard as we try, we cannot find local people who are willing and able to do the dirty, manual work, often in inclement weather on a dairy farm. Dairy farming is a 24/7, all-weather job. The immigrant labor that dairies often employ is not taking jobs away from U.S.-born citizens who want the jobs we have to offer. And with the unemployment rate at an all-time low, it is impossible to find people willing and able to do these essential jobs. These are not part time pickers; they are necessary year-round . . . yet there is no year-round visa for them.

   We see genuine desire in Congress to help dairies hire and retain foreign born workers year around. However, attempts to address this critical need seem to continually get caught up in the political debate of border walls and other volatile immigration reform, and die as a result. I would encourage you to take a leadership position in defining our dire worker shortage not as an immigration issue, bit instead for what it is; an agricultural workforce issue. It could be a great starting point for finding common ground for the benefit of struggling dairy farmers across the nation.

The last two items I would like to share are the ones which I am most personally passionate.

4. Our dairy farmers have worked hard over generations to build on the wholesome, nutritious image that milk now has. Dairy cow milk is unrivaled as a beverage of nutrition but in recent years, many upstart beverages have now used milk in their labeling. These alternative beverages are riding on the coattails of the affordable wholesome nutrition of cow's milk. I do believe that in general, consumers are aware of the difference in nutrition between real milk and the nut juices, but I am concerned that many consumers are being led to believe, by virtue of the name milk on the label, that they are getting a comparable product. Dairy farmers call for the U.S. Food and Drug Administration (FDA) to **vigorously enforce food standards regarding the labeling of dairy products** and prohibit the misleading and deceptive labeling of nut and plant-based beverages as "real milk". The [DAIRY PRIDE] Act would classify these disguised products as "misbranded" and be subject to enforcement. The bill requiring the FDA to finalize enforcement of mislabeling is long overdue.
5. Finally, our dairy farmers have been incredibly discouraged that the **choice of whole milk** has, with the stroke of pen, been eliminated from school lunches. I believe that what started as an attempt curb childhood obesity, has done the opposite. In 2010, Congress passed the Healthy, Hunger-Free Kids Act which amended nutrition standards in the School Lunch Program and mandated that flavored milk must be fat free within the program. I believe that this led to significant changes in beverage consumption habits of children, and it resulted in a 9% decline in milk consumption in schools between 2010 and 2012—not only impacting students, but dairy farmers. Progress has been made since then, when in May of 2017, the USDA announced a rule that allowed schools to receive waivers for low-fat flavored milk, rather than only fat-free. It is time to draw on science-based research on dietary fats. Without the option of having a full-bodied beverage to satisfy an appetite, our children are seeking sugar-based drinks. I recently had a conversation with the mother of an elementary age child. She mentioned that her son likes milk at home but doesn't like the taste of milk in school. I believe we have lost a generation of milk drinkers.

   We thank Congressman Thompson and Congressman Peterson for their leadership on H.R. 832, the Whole Milk for Healthy Kids Act of 2019, which would allow for unflavored and flavored whole milk to be offered within the School Lunch Program.

In conclusion, my wife and I became first time grandparents last year and while it is true what I had heard, that grandparenting truly is the best job one could have, it is unfathomable to me that in a nation which prides itself in allowing choices and freedoms, my grandchild could enter a school and not even have the option to choose whole milk with her lunch.

I am humbled and thankful to be here to address this esteemed audience, and available now to answer any questions you may have.

The CHAIRMAN. We thank you. I did not mention to not exceed the 5 minute rule, it is the reason that we have the lights that are before you there. The chair is in a good mood this morning and gave you the benefit of the doubt of exceeding more than 1 minute of your 5 minutes. We appreciate that, Mr. Thompson, you owe me 1 minute.

We are going to defer to our Chairman, Mr. Peterson, who is being called for another meeting, for an opportunity to ask a question that he wants to pursue before the Committee hearing ends. Chairman Peterson?

Mr. PETERSON. Thank you, Mr. Chairman. Just one question for Sadie.

You have, I assume, looked at the new Dairy Margin Coverage program, and have you made a decision on your farm about what you are going to do?

Ms. FRERICKS. Yes, we have, Chairman Peterson. We will enroll all 5 years at the $9.50 level, and we will opt to take the 75 percent credit on the premiums that we paid for the Margin Protection Program.

Mr. PETERSON. Good. Well, you are on the ball. See, we have been out educating our constituents and apparently they are listening, so that is good.

Ms. FRERICKS. Yes.

Mr. PETERSON. And Sadie and her family do a wonderful job in representing their area, as you can see. Thanks for being here today, and that is it. I will yield it back to you, Mr. Chairman.

The CHAIRMAN. All right, thank you, Chairman Peterson, for your leadership of our House Agriculture Committee, and we continue to look forward to working with you on this effort and a host of other issues we are dealing with.

I want to remind Members that we will be recognized for questioning in order of seniority for Members who were here at the start of the hearing, and after that, Members will be recognized in the order of their arrival. I have a list here, and if you care to check where you are on that list, come up and see me.

With that said, I will begin with my questioning.

Andrei, in your comments you talked about the importance of trade for America's dairy industry and in California. A 2018 study estimated that current retaliatory tariffs on the U.S. would decrease dairy exports possibly by as much as $415 million in 2019. What would you view as a successful resolution currently to the ongoing dispute with China?

Mr. MIKHALEVSKY. Sure. Thank you for the question.

The Chinese market is an interesting market for us, because prior to any of the current discussions around China and the activity that we had that began in 2018, the United States was not on a level playing field with our primary competitors in New Zealand and Australia. They had the ability to send product in at reduced tariffs for a significant amount of product in the beginning of each year. That is putting us at a competitive disadvantage. As time went on and the retaliatory tariffs came in place, 25 percent tariff came on most dairy products and ten percent on infant formula over and above the current tariffs, which put us way out of line.

In the U.S. cheese market, we were a primary supplier to pizzas in China. That business has virtually gone away. For California dairies, we ship just under $100 million——

The CHAIRMAN. Who has taken that business?

Mr. MIKHALEVSKY. The business primarily has been taken by New Zealand, Australia, the EU.

The CHAIRMAN. That is part of a problem with, and I regret that we pulled out of the TPP. I have asked Secretary Perdue, and Ambassador Lighthizer, whether or not he thinks at some point there may be a reconsideration of becoming a part of that effort. Do you think that would make a difference?

Mr. MIKHALEVSKY. Yes. To answer your initial question, what would be a successful outcome? It is not to go back where we were a year ago. It is getting a level playing field against all of our competitors in China, so a more robust agreement. But TPP, the Pacific Rim, is the most valuable part to the U.S. dairy industry. It has the ability to lift prices in the United States. TPP agreements, including countries like Japan, are critically important to us.

The CHAIRMAN. Thank you. Dr. Brown, you recently released a report that shows that implementing the higher standards of nonfat solids across the country can increase milk prices and offset some of the losses that the dairy industry has experienced. We have had these standards in place in California for many years. What are some of the other impacts that you think that adopting these standards might have for the broader U.S. dairy industry?

Dr. BROWN. When you look at powder prices as a result of adopting those higher fortification standards across the country, we certainly will talk about higher nonfat dry prices. Part of the longer term results of that is maybe some additional milk supplies occurring in the country as we get higher all milk prices. The results of that study would have shown about 70¢ higher U.S. all milk prices in the first year, but by the time we get 5 or 10 years down the road, more like 15¢ additional higher U.S. all milk prices as additional supplies drive down things like cheese prices and butter prices as well.

The CHAIRMAN. Yes, more nutrition, better tasting milk, it seems like a no-brainer.

Dr. BROWN. You certainly can talk about the demand effects of that. I have looked for a lot of studies that said higher solids milk creates new consumer demand, which is ultimately the win here, if we can find these products that create new demand.

The CHAIRMAN. It seems to me like we on this Subcommittee ought to be looking to figure out ways in which we can move that forward.

For all the witnesses that are here, those who have not commented, if you care to, we all know about the crisis that the industry has felt over the last 10 years, the loss of dairies and why we are where we are today. Would any of you care to opine in terms of what you would like to see the United States Department of Agriculture focus on in implementing these dairy provisions that we worked so hard on last year? Sadie?

Ms. FRERICKS. Thank you, Chairman Costa. I would just urge the USDA to move forward with the implementation as quickly as possible. I know that there was a June 17 rollout talked about with possible payments in July, there are farmers for——

The CHAIRMAN. No, we need it now. We are trying to push them.

Ms. FRERICKS. Right, for stressed farmers those 3 months will be a stretch.

The CHAIRMAN. And it is hard to convince your bank that relief is coming. Mr. McMahon?

Mr. MCMAHON. I completely agree with what Sadie said, that we really need to push this through, probably more for the sake of the medium and smaller sized farms. Personally, our industry can be impacted more by the trade things that Andrei was talking about.

The CHAIRMAN. I think the trade is very important.

Mr. MCMAHON. Yes.

The CHAIRMAN. And I think there is bipartisan concurrence here. Mr. Smith, you wish to add anything?

Mr. SMITH. No, I just concur with what they are saying about trade. It is of huge significance to dairy.

The CHAIRMAN. Thank you. I will defer at this point to the Ranking Member, Mr. Rouzer, for his 5 minutes of questioning.

Mr. ROUZER. Thank you, Chairman Costa.

I want to focus in on the trade aspect here real quick, particularly USMCA, and in my simple mind, the way I do an analysis of things is I take all the various moving parts and I set aside everything and just make it static and just focus on one particular item to try to determine the true impact.

Obviously, there are a lot of factors that drive price, a ton of different factors that drive price. But if you took everything today and you made it static and you just focused on USMCA, the impact of USMCA on price, any one of you have any real sense of the impact of that? Or conversely, let's say that nothing happens. The price impact of that scenario, assuming that you keep all other variables constant at the moment. Do you follow me, anybody? Andrei?

Mr. MIKHALEVSKY. Maybe I will take a stab at it.

If we don't have a USMCA and we lose the Mexican business, I believe the U.S. domestic price will drop substantially, as much as five to ten percent. Why is that? Mexico takes up about 25 percent of the total exported product. Right now, there is a 25 percent tariff, retaliatory tariff on cheese. It slowed the cheese business down. If this is signed and the retaliatory tariffs are lifted, I believe it could give as much as a three or five percent increase in milk prices.

The reason USMCA is important, for another reason, is because of the Canadian equation. We would have liked to have had more access, but there has been predatory pricing with their Class VII arrangement where they have gone on the world market and undercut prices on skim milk powder, which does have an effect on the U.S. Putting some controls around the Class VII pricing should also give a lift to our prices. I believe a signing of that is good for the industry. Not having it will be very bad for the industry.

Mr. ROUZER. Yes, of course, there are a number of us that push very, very hard—myself included—and push the Administration to really focus in on getting rid of the Class VI and Class VII, as it is very manipulative. Just how manipulative are those two programs the Canadians have?

Mr. MIKHALEVSKY. Do you want me to take a stab at it? You are asking kind of a follow up. How manipulative?

What happens is they had a shortage of milk fat in Canada. They found a way to expand the milk fat, but milk can be divided into pieces. And when you take the milk and the cream off, you have nonfat dry milk left. In the United States, we call it nonfat dry milk. In the world market, you standardize it to *Codex* standards, standardized protein levels in that, and you call it skim milk powder. They have taken skim milk powder and here they have one of the highest prices in the world on milk, and they are selling their skim milk powder at one of the lowest prices in the world, which doesn't make any sense at all. They are finding a way basically to dump the unneeded parts of the product up in Canada, which has disrupted the world marketplace.

Now, albeit small, I would call it more of an irritant than a crisis, but it is a problem that needs to be addressed.

Mr. ROUZER. I want to move on to the immigration issue real quick, since there is 1 minute 40 seconds left.

A number of you, I think every single one of you, mentioned access to labor as being a critical, critical issue for you. If you can talk about that and elaborate on that, particularly specific examples. Just how hard it is to find a legal, reliable labor source?

Mr. MCMAHON. Well, Ranking Member, my opening statement about the W–2s that my wife was putting out there averaging 39 a year for ten full-time positions, it is that difficult. My average worker on my farm is making $39,000 a year, plus a three-bedroom house, plus all utilities, and if they are a migrant worker, they get free transportation to wherever they need to go as well. It is not a matter of how much we are paying, a part of it is demographics. I am one of ten children, Irish Catholic birth control, and I personally have three children, and my brother and partner has two. Demographically, we don't have these big farm families anymore, and subsequently, as we move further and further away from production agriculture, which really only about one percent of the population is in that now, you don't have those families and those cousins and like that that can come and work on the farms. It is lost to them.

Mr. ROUZER. Mr. Chairman, I yield back.

The CHAIRMAN. Thank you very much.

Mr. ROUZER. My time has expired.

The CHAIRMAN. Your time has expired, but we thank you. Actually, you gave us a little time. Good for you. Good for us.

Our next Member is the gentleman from New York, Congressman Brindisi.

Mr. BRINDISI. Thank you, Mr. Chairman.

Mr. McMahon, I do want to pick up a little bit on that topic we were just discussing. Although immigration isn't the jurisdiction of this Committee, we here on the Agriculture Committee are talking to farmers on a daily basis and hearing about their workforce needs all the time. What would an ideal guestworker program look like? Talking to farmers, the H–2A Program is pretty cumbersome. It doesn't work for dairy because it is not year-round. What would an ideal program look like for dairy farmers?

Mr. McMAHON. Well quickly, Mr. Brindisi, I would start by allowing both producers and workers to come forward without fear of punishment. At that point, workers that are here already should be vetted, and anybody who doesn't make the grade or has a felony or whatever in their background shouldn't be here. Once they are vetted, a fine or fee, whatever you would like to call it, could be assessed for that worker, which employers would gladly pay. And then beyond that, it needs to be set up so that agriculture could be the only industry that could request new workers to come in. At that point, if they are vetted by the consulate in their country of origin, they should be issued a card of some kind. I know it has been called the blue card, whatever. And then, that would allow them legal work in this country for, say, 3 years, and then automatically roll over for 3 more.

I would think that after, say, 6 years, perhaps those workers could be allowed to move into a different industry, but within those first 6 years, they could move farm to farm, but not out of agriculture. And farmers would be glad, like myself, to have e-verify and a swipe machine, as long as we had these cards for these people. They should be allowed to travel back and forth to their country of origin. One of our worker's father died in February and there wasn't a thing he could do about it. He couldn't go home and bury his dad. That is sad.

Beyond that, I think that if someone in farming needed another worker, that they would have to show cause. They would have to do diligence locally to try to find labor locally and prove that they did before they could request a worker from another country, and at that point, someone could be vetted by the consulate and allowed to come in and take that spot.

I just think that it doesn't need to be as difficult as what we have heard over the years. I have been working on this since 2000, and I sure would like to see it come to fruition.

Mr. BRINDISI. I think we all would.

Just real quick, I want to ask a question on the Dairy Margin Coverage signup. I know we are approaching June 17, and USDA has traditionally included multiple forms of contact, like postcards, forums, and broad coordination with the dairy industry. Given the challenges that dairy producers have faced for years now, it is important that this outreach captures all producers, not just those who signed up for the old program.

This really is open to any witness. In your opinion, are dairy farmers across the country, are they aware of this new Dairy Margin Coverage program and how it could potentially help them? Are they signing up for it? Sadie?

Ms. FRERICKS. Mr. Brindisi, the awareness that the program exists is growing. Full understanding of how the program will factor into that farm's business plan is not quite where it should be on all farms yet.

Mr. BRINDISI. Okay. What could we do to get the word out there? What can USDA do? Do you think forums around the country, or what can we do to make sure that the word is getting out there so farmers are taking advantage of it?

Ms. FRERICKS. Once the Farm Service Agency understands how the signup process will work, the Farm Service Agency has done a good job in the past of providing education and consultation for farmers. Once the Farm Service Agency has the tools in their hand to continue the outreach process, that will help some of those farmers that are still making those decisions about their signup level.

Mr. BRINDISI. Okay. Any other suggestions?

Mr. MCMAHON. I agree with Sadie on that, Mr. Brindisi, because FSA is very good about getting things out in the newsletter just as soon as they have a handle on what it is they could do.

The CHAIRMAN. I think Andrei had a comment.

Mr. MIKHALEVSKY. I was just going to make a comment. Most of the big cooperatives in the United States have programs to try to make sure everyone is educated, because this is a wonderful opportunity. And I don't want to take anything away from the program, because we are highly enthusiastic of what happened in the farm bill and highly enthusiastic of what happened with the Revenue Protection Program. But the average cow sized dairy in California is 1,400 cows, and a 5 million pound cap, while it was great to move 4 to 5 million pounds, only covers a 200 cow dairy, which means most of the dairies in California only have coverage on about 1⁄7 of their total production.

I am highly enthusiastic. I don't want to say we are being critical, but it would really be nice maybe at some point to be able to open that up a little bit farther for the larger dairies. Right now, it is very good for the smaller and medium-sized dairies.

Mr. BRINDISI. Thank you.

The CHAIRMAN. I thank the gentleman from New York, and one of the areas that the Subcommittee is going to work on, I hope aggressively with the Department of Agriculture is to make sure that dairymen and -women across the country get all the options that are available under the new farm bill. And so that they are well-informed, we talked about what the Farm Service Agency, the FSA offices around the country, that they make sure that they have all the information at hand available to brief the dairymen in their area. And I would suggest to Members, one of the things that I am doing is holding a workshop here in the next 6 weeks, inviting all the dairies in my area to come and meet with the FSA and make sure that they understand what all their options are, not only with the 5 million pound cap, but the insurance program beyond and how that might help the larger dairies as well.

So, with that said, our next Member is the gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Mr. Chairman, thank you. Thank you to you and the Ranking Member for hosting this. We know that as we worked on the last farm bill and we looked at the state of the national economy, and specifically in rural America, farm income decline was significant over the past 6 years. A lot of that was due to two commodities: one that we are not talking about today, cotton, but the other one we are talking about today and I am very appreciative of that, is dairy. And I do think in the 2014 Farm Bill we had a safety net program. When it came out of the Committee, it was pretty good. It would have done the job. Unfortunately, it got meddled with by other parts of this body outside of the Agriculture Committee. And they changed that program to make it fit into their financial needs, and quite frankly, it failed. I am very appreciative of Ranking Member Conaway and his role as Chairman to defend the product of this body, this Committee, with the Dairy Margin Coverage program when it came out of this Committee this time around. I have a tremendous amount of confidence.

Mr. Smith, in your testimony you made reference to the improved Dairy Margin Coverage program in the farm bill. I want to follow up with you specifically on Pennsylvania. What is your sense of how familiar Pennsylvania producers are with the new program? Is there a problem with the bad experience they had from the 2014 version, and is there anything that may be discouraging them from signing up with this new and improved and what I think will be an effective tool? Is there anything you think we should be doing to help further inform producers?

Mr. SMITH. The answer to your question, yes, I do believe that the 2014 Farm Bill and that coverage put a damper on things, and it was not successful to our Pennsylvania farmers. And I don't think, going forward, it is more difficult to convince them that the next program is beneficial for them. It is an uphill battle to educate the dairy farmers there of a better product.

We had some suggestions earlier here about educating. It is going to be a continual process to try to pull more people into that understanding of a better product.

Mr. THOMPSON. I would like to spend about 35 percent of my time on the safety net issue, but I like to spend, when it comes to dairy, 65 percent of my time on the market. Because, until we get around to this, I want the safety net to be effective, but I just don't want us to need the safety net.

And so, one of the things that we were successful and was mentioned, not in this Committee, but unfortunately in the Education and Labor Committee back in 2010, there was a change of the school nutrition standards, and we basically demonized milk fat. And as Mr. Smith said, we did lose an entire generation of milk drinkers. Some of them are parents today. They didn't have a great milk experience then and I am very appreciative that Secretary Perdue has granted waivers for schools to offer one percent flavored varieties.

I was at an incredible vocational agriculture career day in one of my schools. They actually had nine other schools come in. It was pretty cool, actually, to see these kids learn about opportunities in agriculture, and I had lunch with them. And I was very pleased to sit down and have a great glass of one percent chocolate milk.

We are, as was said, proud to be working with Chairman Peterson with the Whole Milk for Healthy Kids Act to allow resumption of really the nutrition that kids need, but also, to have them have a good milk experience. I am seeing whole milk sales up. That is all anecdotal. Trying to work with USDA so we can track that a little closer, as a result of a new generation of milk drinkers.

I just wanted to weigh in and see what your thoughts were in terms of that, how important it is. And I know that won't be through this Committee. It is another committee, Education and Labor, of restoring whole milk options. Not mandating it, but options in our school meals. Sadie?

Ms. FRERICKS. Congressman Thompson, I applaud the efforts to return whole milk to schools, because we all know that whole milk tastes leagues better than its skim version.

However, to return whole milk to schools, we will also need to increase calorie limits in the school lunch so that school lunch program coordinators can include that option for students without being penalized in their calorie counts.

Mr. THOMPSON. Right. To restore, or the other thing is to exempt beverages. Nothing unreasonable about that as well.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. We pursue this as an effort of the Subcommittee, and I think we do it on the basis of nutrition. I think that is the key.

The next Member is the gentlewoman from Minnesota, Congresswoman Craig, the land of lakes and milk, right?

Mrs. CRAIG. That is exactly right.

Mr. Chairman, I would like to submit a statement for the record first on behalf of the National Farmers Union President, Roger Johnson, please.

The CHAIRMAN. Certainly, without objection, we will deem the statement adopted for the record.

[The document referred to is located on p. 53.]

Mrs. CRAIG. Thank you, sir, and thank you, Mr. Chairman.

I would like to make it very clear to my colleagues this morning that when it comes to the dairy farmers in my district, we are talking about families who have known no other life than dairy farming their entire lives.

In my district, in Wabasha and in Goodhue County, we have lost roughly 15 percent of our dairy farmers since 2012. Our family dairy farmers are part of the central fabric of greater Minnesota. These family farmers aren't asking for much. They just want a fair shot to make enough money to raise a family and pass that farm on to the next generation. They are resilient and hardworking people, but the last year has become too much for many of these families.

Last week during the in-district work period, I had the opportunity to host a rural mental health listening session in my district. I heard from dairy farmers like Deborah Mills from Lake City, Minnesota, about the mental stress of dairy farming. She shared that: "The economic reality of stagnant milk prices, rising costs, and disappearing profit margins have taken a toll on farmers' mental health."

The state of the dairy economy is truly heartbreaking right now. However, I am especially thankful for the promise that the 2018 Farm Bill gives many of our small dairy farmers.

I want to start my question with Ms. Frericks from Minnesota. As you may know, the median income of dairy farms surveyed in Minnesota dropped by ⅔ last year, from $43,000 to less than $15,000. You mentioned in your testimony that last year, you pursued a line of credit for the first time to continue paying your vendors. Can you describe the credit conditions in your area, particularly for small dairy farms, and who do you turn to for advice when it comes to credit and financing?

Ms. FRERICKS. Thank you, Congresswoman Craig.

I will answer the second part of your question first. We work very closely with our Farm Business Management instructor, which is a program in Minnesota that helps farmers become better business managers. This individual helps us analyze each enterprise on our farm for profitability and areas of improvement. We met with him first to establish our cash flow for the year, and determine where there might be some gaps and some need for credit. Then we proceed with those numbers to our lenders at either the Farm Service Agency or our local credit union.

Our relationship with our lender is still in a positive place. This is the first year that we have had to look for additional credit. I have heard that it is not as promising for farms that are rolling into their second, third, or fourth year of needing additional credit. I can't speak to what those farms are hearing for answers, but I just know that it is not as good as it could be.

Mrs. CRAIG. Thank you.

I just want to follow up to you, Ms. Frericks, as well. When we talk about the Dairy Revenue Protection, which is obviously a relatively new private insurance product approved by USDA, why did you decide to use this product, and how do you expect it to impact your farm specifically?

Ms. FRERICKS. Sure, thank you. We decided to use this product because it offers a risk management tool that sets a floor for our price. I certainly hope that we don't use it and we don't receive an indemnity, because that means that prices have improved or market access has allowed prices to improve. But it gives us a position of security in the event of a catastrophic market failure. You know, when we started farming, they told us that we would never see $9 milk again. They promised us that sitting at the table, that you could build your cash flow based on $12 milk. And 2 years later, we found $9 milk. If we had a price floor program like this in place at that time, we could have stemmed the loss considerably.

Mrs. CRAIG. Thank you.

And finally, I just want to talk about trade for 1 second. Mr. Mikhalevsky, an industry study found that retaliatory tariffs issued by China and Mexico on dairy products will decrease farm revenues by about $16.6 billion and endanger 8,200 U.S. jobs over the next 5 years unless they are ended.

What are the long-term impacts if these retaliatory tariffs don't end for our farmers?

Mr. MIKHALEVSKY. The first is we will see a drop in milk prices, and if you see a drop in milk prices, it just exacerbates the issue that we have on farm. You know, there were two things that affected milk prices last year. One was the EU interfering with the dairy industry with the intervention stocks. They built up way too much product and it took 2 or 3 years and expanded this period of time that we had very low prices. Once those things moved out, which was last year, at extraordinarily low prices, the retaliatory tariffs kicked in and it has just been a double effect on the dairy farms.

We absolutely, because of where we are today—well, if you think about it, if we didn't have the exports, 15 percent of the milk would come back into the United States and it would be devastating to our industry. We would lose a significant number of smaller farms, maybe not necessarily the larger ones. It would be disastrous. Trade is critically important. It is the single biggest issue right now for the dairy industry and dairy pricing.

Mrs. CRAIG. Thank you. I yield back, Mr. Chairman.

The CHAIRMAN. We thank the gentlewoman, and we thank Andrei for your response.

Our next Member is Congresswoman Hartzler from the great State of Missouri. The "Show Me State," right?

Mrs. HARTZLER. That is right. That is right. Thank you very much, Mr. Chairman, and our Committee is fortunate to have someone who has a family history in the dairy industry helping to lead this charge. I thank all the witnesses here today, and I want to start off on the tail of what my colleague just shared about the heartache of so many dairy farmers having to sell out. Even last year, our close family friend who we had grown up with, they had a three-generation dairy farm there in Cass County, and they sold out. And hopefully with the passage of the farm bill and the new program that we have put in place, that won't happen and we can reverse that trend and the farmers can get help.

I wanted to start with Dr. Brown. Thank you again for being here. Thanks for your expertise. Could you just say, what do you believe is the most important message to get out to dairy farmers about the changes in the dairy title in the 2018 Farm Bill?

Dr. BROWN. The most important thing is to remind them it is not the 2014 Farm Bill. It is not the Margin Protection Program, that this is a new program. The fact that we are going to talk about the ability to now sign up for $9.50, where under the 2014 Farm Bill we were capped at $8, that $1.50 over the last 18 years increases the probability of a payment by about 30 percent. About 40 percent of the time if you would have taken $8 MPP coverage, you would have gotten a payment. If you take $9.50 now over that same period, you would have gotten a payment about 70 percent of the time. We have to really make sure we send home the message that this program is different than MPP, and by the way, it is less expensive for you as well. Premium costs are much lower.

Mrs. HARTZLER. What is the University of Missouri extension doing to help get the word out about this? We have talked about the important role of the FSA. I wondered there at the University, as well as across the country, what are all of you doing to try to help get the word out?

Dr. BROWN. When you look at all the land-grants across the United States, we are all trying to work together with FSA and that education. Sometimes, FSA can talk to producers about the mechanics of how the program works. Maybe we can go one step further as land-grant institutions to say here are some of the potential outcomes that you get. We work in combination. We have already reached out in Missouri to our Missouri FSA office to make certain that we do meetings together with them as we try to educate on DMC.

Mrs. HARTZLER. Sure, and I really related to what you were sharing, Mr. Smith, about the school lunches. I am a former home economics teacher myself, and I am very involved in encouraging the new *Dietary Guidelines* that are being made at the USDA, that they do it based on science, based on fact, and I am hopeful that under the new process, we are going to have some *Guidelines* that will be very helpful to us.

I was wondering what your industry is doing in this process? Are you weighing in with USDA and keeping a close eye on the *Dietary Guidelines* as they are being developed?

Mr. SMITH. I think the opportunity for input to USDA on those *Dietary Guidelines* is there. It is ongoing communication, and everybody in the industry needs to have that communication with USDA, and that is very important.

But thank you for understanding that there is new information on dietary needs, and good fat *versus* bad fat.

Mrs. HARTZLER. Sure. Well, I just want to go on the record and let everybody know, my beverage of choice is milk and I love milk. And as a former teacher, it is important that our kids have the opportunity to drink milk and to grow up with it.

I know when I was teaching several years ago, the dairy industry was very involved in providing classrooms with posters of baseball players that had the milk thing there, and some classroom supplies for the elementary teachers. I think that is very important. Are you still involved in trying to work with teachers and educate students about the benefits of milk?

Mr. SMITH. Well, absolutely. The dairy industry in the United States has a mandatory check off program that our dairy farmers contribute money to promotion programs, and what you mentioned is part of that promotion throughout the country, educating young consumers, school-age children, about the benefits of milk. It is ongoing. It is a challenge of a limited number of dollars to reach a huge number of individuals.

Mrs. HARTZLER. Sure. My final quick question, back to Dr. Brown. What are the three key issues that you are watching to gauge where milk prices are headed for the remainder of this year?

Dr. BROWN. Number one is just what is going to happen to aggregate milk supplies. We are actually down for the first time in several months. That could really be positive for the second half of this year. And then the trade side is most important, the growth that we need there for higher prices. Those are really the two keys, for me, as we look through the remainder of 2019.

Mrs. HARTZLER. Thank you very much. I yield back.

The CHAIRMAN. All right. I thank the gentlewoman. Our next Member is the gentleman from California whose district and mine border one another, and one of our rising stars in California, represents a lot of milk country, Congressman Josh Harder.

Mr. HARDER. Thank you, Mr. Chairman, and thank you so much to all our witnesses for joining us to discuss some of the real challenges that I see facing our dairy industry.

As the Chairman said, I represent the California Central Valley, and if you have ever seen those happy cows come from California, that is us. All of them in my district, none of them in the Chairman's. And obviously, we have a real history of the dairy industry, stretching back generations. It is one of the most critical keys to agriculture and to jobs. In my district alone, we have about 7,000 people that are directly employed by the dairy industry, and it contributes about $6 billion every year to our economy. But obviously, the indirect effects are even bigger. And no matter what job you hold in the Central Valley, whether or not you are working at a supermarket, working at a hospital, how the dairy industry is doing affects everyone.

And I hear again and again how much tougher things are going. We have lost about 600 dairy operations just in the last 10 years alone in California. In my district, we have seen about 90 dairy operations close in Stanislaus County and San Joaquin, and when I talked to our dairy farmers, I hear a lot of different perspectives on this. I was talking to one of our prominent farmers, a guy by the name of Ray Souza from Stanislaus County the other day, and he told me that the sustained period of low prices and negative margins is something he has never seen. It is not only the depth of the dairy depression, but also the length of the period. And that is a sentiment that I hear underscored a lot. It is not just the fact that the price of milk has dropped by ⅓ in the last 5 years, it is how long this is going on.

Mr. Mikhalevsky, I would really love to hear from you. What do you see as the drivers behind a slow recovery in domestic prices?

Mr. MIKHALEVSKY. Sure, it is pretty simple, and I had mentioned it earlier. The EU intervention stocks played havoc on the world market, and then trade has created an issue and slowed it down.

But I would like to just build on a point, that Dr. Brown mentioned. He was talking about the worldwide supply of milk, and when the intervention stocks were going on in Europe, the Europeans continued to produce when market signals told them they shouldn't be producing. The United States, I don't believe, has had a couple of months with a negative supply growth over the last couple of years. Market signals are not going back to the farmers as they should so that we can get the supply demand in balance.

Now, the nice part of that is the intervention stocks are gone and the Europeans have actually seen a downturn. To Dr. Scott's point, in March it was the first time we have seen a contraction in U.S. milk supply by $4/10$ percent in quite some time.

The other thing, which is a big thing to the world market, is the New Zealanders, while they are in their off season because of Southern Hemisphere and Northern Hemisphere issues, are down about six percent year on year end growth. Which means the worldwide supply is drying up and the demand is not. If you look at powder prices, they have escalated three to five percent in the last week. Fat prices are really good. And if we could eliminate the tariffs on cheese, we would see a recovery in the markets.

But to specifically answer your question, it is milk supply, it is supply demand, and the intervention stocks and trade. That is kind of it in a nutshell.

Mr. HARDER. Yes.

Mr. MIKHALEVSKY. Thank you for the question.

Mr. HARDER. Thank you.

One of the other things that I hear a lot when I talk to our local dairymen is the challenges faced by the labor shortage. And California as a whole, I mean, everywhere in agriculture, ⅔ of our farmers have a labor shortage. But it feels especially acute with our dairy industry, given some of the needs of a year-round labor force and the challenges faced by not being included in the H–2A Program and others. And I hear again and again that it is impossible to maintain a reliable workforce. And I also hear that it is not about cost. It is actually about making sure that we actually have availability of the labor force. I know this is more on the Ways and Means Committee than the Agriculture Committee, but obviously, it is something that I work on very closely.

Mr. Mikhalevsky, I would love to go again for the California perspective. What are you hearing? Are you hearing the same thing, and what do you actually think we need to do to get our labor shortage addressed?

Mr. MIKHALEVSKY. Yes, let me just build on some of the earlier points rather than repeat what was said, in the interest of time. I agree with the earlier points. A question was asked about what we would like to see in immigration, and this has a direct effect on California. The one thing that wasn't mentioned was the Touch Back Program, which is occasionally mentioned. You know, milking cows has been pointed out as a 7 day a week, 24 hour day, 365. It is really hard to send people home for 2 weeks, 3 weeks, touch back, issues coming back in.

So, specific to California, where almost 100 percent of our labor on farm is immigration labor, Touch Back Programs are difficult. E-verify is okay if you have an agricultural guestworker program in advance. But this is a massive issue for California for our dairy farmers.

Mr. HARDER. Thank you. Thank you. Time to get to some solutions.

The CHAIRMAN. Okay. We thank the gentleman and the next Member is Congressman Hagedorn, again, from the land of lakes and milk. Mr. Hagedorn?

Mr. HAGEDORN. Don't forget hogs. We have a lot of hogs in our district, too.

It is nice to be here, Mr. Chairman. Thank you and Ranking Member Rouzer.

The CHAIRMAN. Thank you.

Mr. HAGEDORN. Witnesses, thanks very much, and a special thanks to Ms. Frericks for being here from Minnesota and doing what you can for generational farming.

I want to associate myself with Chairman Peterson's remarks at the beginning, that how important it is to keep our generational farmers in business when times are tough. Just last week, I was at a Farmers for Free Trade get together just south of New Ulm, Minnesota, a smaller dairy farm run by the Hoffman's. And Mr. Hoffman, Steve, in very emotional terms discussed how he and his son and his wife had to consider maybe leaving the business rather than expanding it. And you know, it is tough times and we get it. It has been 5 or 6 tough years, especially for dairy farmers. Times when the milk prices were low and somehow production went up, and it didn't seem to make sense, but I know the work of the Committee and others to try to right that program and to make things better, moving forward, is very important.

There are a number of ways that we in bipartisan fashion can work together in order to help all of our farmers, and one of the those would be to get together. This Committee, especially the way it works in bipartisan ways, should take the lead in this Congress to make sure that everyone knows that we support the new agreement with Mexico and Canada. Bringing certainty to the marketplace and expanding opportunities for our farmers would be very, very critical, and as a Committee, if we can get together and demonstrate that type of bipartisanship, that would go a long ways. And making sure that when the President submits that agreement to Congress, that it gets a fair vote within 90 days. We need that.

I also think that there are ways that we can look at good government. You know, they always say we don't want farmers going out of business for any reason, other than it is just what they want to do. We don't want it because of bad government. Because when our generational farmers sell out, they sell out to bigger operators. Bigger operators are not bad folks, but it means fewer people working and living on our land, fewer people living in our rural communities, purchasing things on Main Street, going to our schools. It puts enormous pressure on rural America.

Today, we should be honest. One of the reasons that things are going as well as they are—and I know times are tough—it is because some of those burdensome regulations like *Waters of the United States* has been sidestepped to this point. That would be devastating for dairy and others if we had onerous regulations. Obamacare has been very tough on farmers. I speak with farmers all the time that are paying $20,000 and $30,000 a year for premiums with deductibles so high, the underlying insurance is virtually worthless. And they talk about maybe leaving the farm, having somebody go into town for a job, almost 99 percent of the time it is because of health insurance that they are going to do that, because of those burdensome costs.

I agree with the Chairman, the Ranking Member, and others who said that we need a work program all year round for dairy. They haven't had the same deal as other parts of agriculture, but we need to be honest about it, that if we, in bipartisan fashion, don't support secure borders, what are the chances that we are going to get that through? And on top of that, any work program that we have will be circumvented. It will be undermined.

We have to get together in a number of ways in order to make sure that we stand firm for these commonsense proposals and we do it as Republicans and Democrats.

I would just like to say thank you for what you do. It is hard work. I grew up on a farm near Truman, Minnesota. My dad was a grain and livestock farmer. We had hogs. And I used to ask him, "Dad, why do we have hogs instead of cows like some of our neighbors?" And he said, "Jimmy, I like to take a vacation." He said if you are a dairy farmer, you are married to those cows and it is all day, every day. And so, I appreciate it. And what you do is so critically important for our country. We have an abundant, reliable, safe, affordable food supply. Every American wakes up every day and knows when they go to the grocery store, there are going to be those choices, diverse choices at an affordable cost. And because of that, we are the envy of the world.

So, with that, I thank you for your testimony, and Mr. Chairman, I yield back.

The CHAIRMAN. I thank the gentleman for his comments, and our next Member is a gentleman who I have known for many years, and his family. He represents one of the wonderful parts of California, the Central Coast, Congressman Jimmy Panetta.

Mr. PANETTA. Thank you, Mr. Chairman. I appreciate this hearing and appreciate this opportunity. I want to thank the witnesses for their time being here, as well as their preparation, which I am sure, especially based on your very professional testimony, all five of you. I know there was a lot of time spent in that preparation, so thank you for that.

I come from the Central Coast of California, otherwise known as the salad bowl of the world. A lot of fresh fruits and vegetables, and of course, that means that we don't rely on machines for our harvesting and our produce. We rely on people, and therefore, we have the same issues that you do as well. And I do not have much dairy. I admit that. I have one dairy farm, Skoke Dairy Farms out there in Salinas area. But like I said, we have the same issues. There is no doubt about it, especially when it comes to immigration, and especially when it comes to trade. Fortunately, I am on the Agriculture Committee; I am on the Ways and Means Committee, so I get to delve into both those topics.

But obviously, being from the Central Coast and being a grandson of immigrants, immigration is very important to us. And Mr. McMahon, I really appreciate the list of, I guess, areas that you went through in regards to what an ideal worker program would look like.

But I guess I have to also ask you about one other thing that I didn't hear from you. Now, I don't want any of you to answer this, but I am sure you know many dairy farmers that have many employees that probably are undocumented, okay. Yet, those same employees probably worked for those employers for a very, very long time. And as an original author of the Blue Card Bill, as it is known as, it provides basically a way for those employees who have worked in ag and who will continue to work in ag to get legal, permanent residence.

So, Mr. McMahon, I have to ask you about that aspect of the worker program. People who have been in agriculture who want to stay in agriculture. What about providing them with legal permanent residence as well?

Mr. MCMAHON. Thanks for the question, Congressman.

Two different occasions I went down to Mexico and stayed at the village where my crew is from, and was able to experience the changes in their lives down there as a result of their working for me. And I can tell you that over the years, because we started January 1, 2000, with our Mexican workers, that it is, I would dare say, 75 to 80 percent of them don't want to stay here. I have a PowerPoint presentation I have done all over the Northeast about my experiences going down there, seeing the homes they have built, seeing the money they have invested in their own businesses, seeing the investments they have made in their own schools to make their lives better down there.

When you hear about how they all want to stay here forever, I have a few that do, and that after so many years of being here, perhaps they should be allowed to move to a green card or something like that. I have no issue with that.

Mr. PANETTA. Okay. Basically you mentioned like 6 years or something was the number you threw out there.

Mr. MCMAHON. Right.

Mr. PANETTA. And that is a full-time employee working all those years. Wouldn't you be in agreement with maybe providing them with that sort of opportunity to have legal permanent residence, if you had some people who were staying here and continued to be here? As you know, those are the best kind of employees.

Mr. MCMAHON. Oh, absolutely. I have a couple of guys I would nail their feet to the ground if I could.

Mr. PANETTA. Exactly, exactly. And one of those nails would be an opportunity for legal permanent residency.

Mr. MCMAHON. Absolutely.

Mr. PANETTA. Great. Thank you very much.

In regards to the USMCA, obviously, that for agriculture it keeps it the same for the most part. I know it definitely benefits many aspects of dairy.

But let's say for some reason, you are seeing the challenges that we are facing right now in Congress with the USMCA. Let's say for some reason we don't get an agreement on that. There are some in the Administration that have mentioned basically withdrawing from NAFTA.

Mr. Mikhalevsky, would you choose to withdraw from NAFTA if we didn't get USMCA?

Mr. MIKHALEVSKY. Andrei is a lot easier for all of you. It is a tough last name.

Mr. PANETTA. Mikhalevsky?

Mr. MIKHALEVSKY. It is like make a left turn. Mikhalevsky if you run it all together.

Mr. PANETTA. Got it.

Mr. MIKHALEVSKY. To be perfectly honest, I mean, this is my opinion, maybe not of my own company. Withdrawing from NAFTA would be disastrous for dairy. Dairy was in a unique position. I understand there are a lot of other industries and a lot of other things involved with USMCA. But when it comes specific to dairy, without Mexico, we will have a precipitous drop in milk prices in the United States and our dairy farmers will have more dairy farms go out of business. It is not even a possibility; it is a reality, I believe, and most of the other members of the panel would agree with that.

Mr. PANETTA. Understood. Thank you, and thanks to all of you, and thank you, Mr. Chairman.

The CHAIRMAN. I want to thank Congressman Panetta, especially for bringing up that last question. It was one that I wanted to follow up, and Andrei, I think that it is important to underline that frankly, walking away from NAFTA or USMCA, whatever we want to call it, would be a disaster in so many different ways. It counts for 16 percent of America's trade between Mexico and Canada, which combined accounts for more trade than the next eight countries we trade with, besides being our neighbors and our friends.

With that said, we have the gentleman from Nebraska, Mr. Bacon.

Mr. BACON. Thank you. I appreciate the Chairman and I appreciate being on this Committee. Thank you for sharing your perspectives.

I was raised on a beef farm, so I appreciate learning your perspective, because dairy is such an important part of our nation, and it also is a very important part of Nebraska's economy as well.

I would say that one of the top issues for Nebraska is passing the USMCA, and every change that was made to USMCA was made to our nation's advantage to include dairy. We need to get that passed.

I appreciate Mr. Mikhalevsky for your strong support, but I want to see if the other panelists here agree. USMCA, should it be a top priority for this Congress to pass?

Ms. FRERICKS. Without a doubt, Congressman.

Mr. BACON. Without a doubt.

Mr. MCMAHON. Absolutely.

Ms. FRERICKS. The forecasts we have seen are that trade is down for the first 2 months of the year, or at least January as the reports have shown, that is not the kind of news we want to see. And trade volumes might be holding, but with the tariffs in place, we are not turning those trades into dollars that we can pass back to farmers.

Mr. BACON. Well, I appreciate your feedback. This should be the number one priority for Congress is passing USMCA. It is important for our economy. It is important for the entire Midwest, for beef, dairy, corn, soybeans, you name it. We have to get this done.

In fact, I was looking at some stats. About $50,000 for the average farmer in Nebraska comes from our trade with Canada and Mexico. That is a huge part of someone's income, so we have to get this done.

Change of topics on you. When you talk to small businesses, medical care is the top one of two issues that they face, the cost of buying policies on their own on the market. Is this the case also for dairy farmers, dairy producers? And whoever would like to answer.

Mr. MCMAHON. We are talking healthcare, Congressman?

Mr. BACON. Right, the cost of buying your premium on the market, or policy. Excuse me.

Mr. MCMAHON. Well, thank God I turned 65 2 years ago, because life got a lot better when that happened, thanks to Medicare. But yes, my wife is still youthful and just for her policy alone, it is like $1,200 a month. It is incredible. Healthcare is huge, and unfortunately, there are a lot of dairy farmers that would give that up to continue to keep their business going. And that is a sad issue as well.

Mr. BACON. And does that policy have a high deductible, too? I imagine it does.

Mr. MCMAHON. No, actually it is not that bad.

Mr. BACON. Okay, good.

Mr. MCMAHON. But it is expensive.

Mr. BACON. Anyone else?

Ms. FRERICKS. I will. We are individually employed and so we have been purchasing our health insurance on the individual marketplace, and the last years as the price climbed for our company dropped individuals from their offerings. Our health insurance had doubled in those last couple of years. It was a significant part of our family living expenditure, and you maybe don't want to hear this, but the exchange programs offered through the new healthcare program actually benefitted our family.

Mr. BACON. Okay, thank you. Yes, sir?

Mr. SMITH. I have the good fortune to have a wife that works at a business that provides us healthcare, but I do believe and hear from dairy farmers that the burden of healthcare costs are very incredibly burdensome on them. I think that is significant in the factor also.

Mr. BACON. And my understanding for small businesses, it is one of the top two issues. We got to find a way to lower costs for those on the market.

One last question. I worked hard in this Committee to pass a foot-and-mouth disease vaccine bank. We normally associate that with beef and pork, but is this also important to our dairy industry?

Mr. SMITH. My personal opinion is that it is important. Any disease, whether it is relevant to dairy or parallels dairy, there is importance to the food supply chain and also to the credibility of consumers also.

Mr. BACON. We want to work hard to sustain funding for the foot-and-mouth disease vaccine bank, because we don't want to cut off our trade, at least in the beef realm, for 5 years. I would assume it would have the same impact if it went into the dairy industry as well.

But with that, I will yield back the balance of my time. Thank you, Mr. Chairman.

The CHAIRMAN. We thank the gentleman from Nebraska, and our next Member is my colleague and good friend, again from the Central Coast. We have a lot of the Central Coast represented on this Committee, which is very good. Congressman Carbajal?

Mr. CARBAJAL. Thank you, Mr. Chairman, and I want to thank all the witnesses here today for taking time from your schedules to be here.

I just wanted to associate myself with Representative Panetta's comments and statements earlier. My father first came to this country as part of the Bracero Program, the guestworker program, and after it ended, he immigrated all our family. As a matter of fact, I was 5 years old when I came to this country. And so, I am very familiar with the labor side of agriculture. And I would say, Mr. McMahon, you are right about what a guestworker program would look like and the type of workforce perhaps that the dairy industry is experiencing. Perhaps many of those workers would want to return to their countries.

As part of the broader ag, many families are here already working in ag, and many families would not want to return back after so many years of living here. What I am hearing from the ag interest in my district is a guestworker program would be the icing on the cake, because first, we need to legalize and provide the existing workforce to be able to continue and be here, and a guestworker program would be an added program that would complete and sustain the type of labor that is needed by agriculture. But I would imagine the dairy industry is slightly different.

For Mr. Mikhalevsky, my question is as I met with farmers in my district, they emphasized the need to expand the Asian markets, in particular, Japan. U.S. competitors are gaining new access to the Japanese markets, leaving the U.S. behind. Similar to specialty crops experts in my district, Japan is a significant market that still maintains extraordinarily high tariffs and unreasonable sanitary and phytosanitary standards for dairy exports. Gaining positive access would no doubt be a big win for California agriculture industry, including dairies.

You mentioned in your testimony that in addition to an accelerated phase-in of tariff reductions, non-tariff barriers must also be addressed in a free trade agreement with Japan. Mr. Mikhalevsky, did I say that right?

Mr. MIKHALEVSKY. Perfect.

Mr. CARBAJAL. All right. Can you please describe what these barriers are, and what your overall goals are for the U.S. negotiations with Japan?

Mr. MIKHALEVSKY. Sure. I thank you for the question.

The Japanese market is an interesting market. It is probably the highest value market of any dairy importing country in the world. They charge basically the highest prices and sell to the consumers at their highest prices. It is done through a tender process when you go in, the tender process. It is a very, very difficult process to get in. Most counties, like Australia, New Zealand, have had either preferential treatment or a long history of being involved.

When we stepped away from TPP, we lost any of the gains that were made, albeit they were minimal, but there were gains with TRQs to go in. Since then, the EU has put together a joint program with Japan. We are getting beat out by the New Zealanders. We are getting beat out by the EU. At this point, a favorable agreement would have us on a level playing field. Our dairy farmers can compete with anyone in the world. Just give us a level playing field. And I would say, to some extent, sometimes there are barriers put up that you may not fully realize, and some of those are how you label products. We can label a product here called butter, and someone else can call it mid-fat cream cheese, and it gets into the market with a much lower tariff, what they call tariff busters. And so, we need not only a comprehensive look at the sanitary, phytosanitary standards, tariffs, TRQs, but also an adherence to what I consider proper discipline around products and importing.

Mr. CARBAJAL. Thank you very much. Mr. Chairman, I yield back.

The CHAIRMAN. I thank the gentleman from the Central Coast for your focus, and both the issue of Japan and the labor issue are things this Subcommittee is going to have to continue to work on.

Our, I believe, last Member who is here for questioning is the gentleman from Kansas, Congressman Marshall.

Mr. MARSHALL. Thank you so much, Mr. Chairman. The fastest-growing dairy herd in the country is in Kansas, so we are very proud of our dairies. Also I am very proud of the co-ops we have across Kansas. DFA, Land O'Lakes, CHS are several co-ops that my producers really brag on them and say they have made a big impact.

My first question for Ms. Frericks is how is the co-op you are part of, which would be Land O'Lakes, is that right? How has it helped you weather these last 3 or 4 years of the storm?

Ms. FRERICKS. First, thank you for the question, Congressman. I believe that the decisions our cooperative made several years go to more carefully manage our milk supply and our customers' contracts, so we commonly refer to it as our base program, has helped our co-op pay some of the highest prices, at least in the State of Minnesota, by the numbers I have seen. And so, if each co-op in the country perhaps would more carefully manage their incoming supply and their customer contracts, we could see price improvement all around.

But, that is the number one thing that our co-op has done for us is provided a higher pay price. But co-ops look at members as family members beyond just the economics, but supporting every other part of our lives, from our healthcare to our mental health to business management skills and risk management opportunities, to nutrition for our cattle and so on. There are a number of programs that our co-op, and I know other co-ops offer to members to improve both business and life.

Mr. MARSHALL. Great. Andrei, maybe to you the same question. What have you been doing to help the farmers, the producers weather this storm, and what do you think you see your co-op doing in the future to help us through this next year or so?

Mr. MIKHALEVSKY. There are a number of things we do. To build on the comments that were just made about Land O'Lakes, we have what we call a Capacity Allocation Program. You mentioned Dairy Farmers of America, they have a base program. Most of the large co-ops have a way to manage the supply of product coming in to the processing capacity, or the ability to sell milk. It is not quite a supply management program, but it does put on some constraints.

The second thing we do is we do a lot of advocacy for our farmers, both on a state level where we have water regulations, air regulations, and at the Federal level, similar to me being here today advocating for trade. We think that is helpful to our farmers.

We also have a member benefits program. Healthcare was mentioned earlier. We have put together a custom program for the dairy farmers in the State of California with Western Growers to put together a healthcare program to try and make——

Mr. MARSHALL. In addition to healthcare plan?

Mr. MIKHALEVSKY. Yes, it is a combined group where we have designed a special program for our dairy farmers. Most of the large co-ops you mentioned, Dairy Farmers of America as well as Land O'Lakes, have a member benefit. When you join the larger co-ops, you will have access to discount pricing for supplies, for feed, for on farm necessities and that. That is kind of just a broad spectrum of some of the things.

Mr. MARSHALL. Right. Let's go back to USMCA real quickly. I want to know specifically how USMCA would impact your producers, and we will start with Andrei. Why is it important to California dairies? Why is USMCA specifically important for you all?

Mr. MIKHALEVSKY. Well, first of all, 60 percent of all the milk powder we make goes outside the country, and Mexico is our largest market. If I don't have my largest market for my milk powder, I will have a whole bunch of warehouses full of milk powder and low prices.

Mr. MARSHALL. There you go. Mike, you are from New York, is that right? Why is USMCA important to New York dairy?

Mr. MCMAHON. USMCA is vitally important. The next county to the west of ours, 28 large producers got together and built a $100 million powder plant out of their own money, and they had this great market called Canada until they came up with their Class VII milk, and so, that being addressed is certainly going to help them out. I mean, USMCA has to be passed.

Mr. MARSHALL. And Dr. Brown, Missouri dairy, why is it important to Missouri dairy?

Dr. BROWN. Again, it gives us an opportunity for product to move outside the United States, and in a period where U.S. milk supplies are growing, it is important to make sure that we have those opportunities.

Mr. MARSHALL. And Mr. Smith, Pennsylvania dairy farmers, why is USMCA important?

Mr. SMITH. Absolutely important. We have gotten into the discussion about regional milk markets and things like that, but milk flows across the country, and what is good for the dairymen in California with trade is good for the dairymen in Pennsylvania with trade also.

Mr. MARSHALL. All right. Ms. Frericks, you get to clean it up. Why is it important to your personal dairy?

Ms. FRERICKS. I will echo Mr. Smith's comments, that what is good for one state in the nation is good for all of us. We no longer have regional dairy supplies. We have a national dairy supply. We are talking about a global dairy supply. And so, unfettered trade is what this business needs to succeed.

Mr. MARSHALL. Okay, thank you so much. I yield back, Mr. Chairman.

The CHAIRMAN. All right. Before we close, I want to thank all of the witnesses. You have done an excellent job this morning in terms of your testimony. More importantly, the questions that you answered showed a level of consensus in terms of the needs of America's dairy industry, and the fact that there was a large amount of consensus among the five of you that kind of regionally represent the breadth and width of America's dairy industry is important. And so, I want you to know that we look forward to continuing to work with you.

Before we adjourn, I want to defer to the gentleman from Pennsylvania, who is standing in, *in lieu of* the Ranking Member. Congressman Thompson, do you have any final comments you would like to make?

Mr. THOMPSON. Well, Mr. Chairman, first of all, thank you for this hearing and your leadership, and thank you to all the witnesses for being here. We talked a lot about the dairy industry, individual dairy farm families, which is extremely important, but it is also about the success of rural America. We have seen what the difficulties over the past 8, 9 years with the dairy industry, how that has negatively impacted the rural economy.

Mr. Chairman, I know we are all looking forward to working with you and your leadership so that we can do everything we can to make sure that at the end of the day, our dairy farm families wind up with more money in their pockets. And quite frankly, that will help us have a robust rural economy.

Thank you.

The CHAIRMAN. Well, thank you for the kind words, and I do look forward to continuing to work on a bipartisan basis. The overwhelming majority of issues that we will be dealing with on this Subcommittee, and really, the full Committee, as Chairman Peterson and Ranking Member Conaway have indicated, are bipartisan and there is no reason why we shouldn't be working together on behalf of the American people and American agriculture. And today's hearing really focused on the needs of America's dairy industry as it relates to implementing the new dairy title that we passed last year that we think is a much better approach to dealing with the cyclical nature of the pricing that we deal with. But the points that were made here as it relates to trade, the all-important efforts on trade, as well as labor, are efforts and issues that this Subcommittee will continue to work with.

And let me just say, this is just the first of what I believe will be at least one to two subcommittee hearings a month, and we hope to try to have an opportunity to take the Subcommittee out to various parts of the country, and also work with Members who want to hold local regional workshops in which the livestock industry can participate in, not only dairy, but poultry, beef, cattle and pork, as well as focusing on these trade issues, because that is part of the overview and responsibility of the Subcommittee.

With that said, again, I thank the five witnesses. You were all stars. You did a terrific job. And under the Rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material, supplementary written responses from the witnesses to any questions posed by a Member, and this hearing of the Subcommittee on Livestock and Foreign Agriculture at this time is now adjourned.

Thank you.

[Whereupon, at 12:08 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED STATEMENT BY HON. ANGIE CRAIG, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA; ON BEHALF OF ROGER JOHNSON, PRESIDENT, NATIONAL FARMERS UNION

Chairman Costa, Ranking Member Rouzer, and Members of the Subcommittee,

Thank you for holding a hearing to examine the current state of the dairy economy. National Farmers Union (NFU) represents roughly 200,000 family farmers, ranchers and rural members. NFU serves to protect and enhance the economic well-being and quality of life for family farmers and ranchers and rural communities across the country.

While the current slump in the farm economy has impacted much of American agriculture, no sector has been as hard hit as the dairy sector. Most dairy farmers have been paid below the cost of production for over 4 consecutive years. With mounting debt and no significant price rebound in sight, thousands have been left with no choice but to close their doors. Due to the severe and chronic challenge of oversupply, we urge the Committee to examine long term solutions that would ensure a profitable and sustainable environment for dairy farmers.

Trends in the Dairy Sector

According to the United States Department of Agriculture, the number of licensed dairy farms decreased by nearly 17,500 or about 34 percent from 2009 to 2018.[1] As dairy farmers exit the business at alarming rates, their production is being replaced by new, large-scale dairy operations. The U.S. dairy herd increased by nearly 200,000 cows from 2009 to 2018, while the average number of cows per operation increased by over 50%.[2]

As the industry consolidates and milk production increases, family dairy farms increasingly find themselves at a disadvantage. In 2017, the average national value of production was $.05 less than total operating costs.[3] Small farms suffered the greatest average net losses per hundredweight, while farms with over 2,000 cows averaged the greatest net profit.[4]

The 2017 Census of Agriculture further illustrates the trend of consolidation in the dairy sector. While the number of dairy farms decreased by over 10,000 since the 2012 Census of Agriculture, the number of farms with 2,500 or more cows increased by 149.[5] Furthermore, operations with more than 2,500 cows accounted for 35.3 percent of the total value of milk production in 2017, a 5.8 percent increase from the 2012 Census.[6]

Dairy Together Campaign

In response to the unprecedented challenges facing family dairy farmers, Wisconsin Farmers Union (WFU) launched the Dairy Together campaign in 2018. The goal of the campaign is to build grassroots support for a supply management plan that would ensure dairy farmers can receive a fair price from the markets.[7] At a series of meetings, WFU has presented an analysis of three supply management programs that were introduced prior to the 2014 Farm Bill.[8] WFU and other farm groups have also discussed the Canadian dairy supply management system, a two-tiered pricing model, and short-term emergency programs to offset market losses.

Overall, Wisconsin Farmers Union, along with other Farmers Union divisions and farm groups, have hosted 22 meetings in eight states, reaching over 1,000 participants.

National Farmers Union Policy

National Farmers Union recognizes the improvements made in the 2018 Farm Bill to better support our dairy farmers. The Dairy Margin Coverage (DMC) pro-

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[1] United States Department of Agriculture, National Agricultural Statistics Service. *Milk Production,* March 2019; United States Department of Agriculture, National Agricultural Statistics Service. *Milk Production,* February 2010.

[2] *Id.*

[3] United States Department of Agriculture, Economic Research Service. *Milk Cost of Production by Size of Operation.* October 2018.

[4] *Id.*

[5] United States Department of Agriculture, National Agricultural Statistics Service. (2019) *2017 Census of Agriculture;* United States Department of Agriculture, National Agricultural Statistics Service. (2014) *2012 Census of Agriculture.*

[6] *Id.*

[7] Wisconsin Farmers Union (2018). Dairy Together. Retrieved from: *https://www.dairytogether.com/.*

[8] Nicholson, C., & Stephenson, M. (2019). *Analyses of Selected Dairy Programs Proposed to Reduce Variability in Milk Prices and Farm Income.* Retrieved from: *https://dairymarkets.org/PubPod/Podcast/Misc/SupplyManagement/WFU_Report.pdf.*

gram is an improvement from its predecessor, the Margin Protection Program. The opportunity to cover the same production under both the DMC and the Livestock Gross Margin gives dairy producers another option to strengthen the support they receive. However, the farm bill does not address the ongoing challenge with oversupply.

National Farmers Union has long been a supporter of dairy supply management.[9] At NFU's 117th Annual Convention, our members passed a Special Order of Business reinforcing our support for a comprehensive dairy supply management plan.[10] The proposal adopted by the delegate body supports a plan that would establish fair prices, manage milk inventories, and manage imports and exports. (See *Appendix*)

Conclusion

Thank you for the opportunity to submit a statement for the record on the state of the dairy economy. We look forward to working with you to identify both short-term and long-term solutions to promote the economic viability of family dairies, including mechanisms to meaningfully address oversupply.

Sincerely,

ROGER JOHNSON,
President.

APPENDIX

Family Farming and Dairy 2019 Special Order Of Business

The number of dairy farmers in the United States has dropped by more than 30 percent over the last 10 years, and the rate of closures across the country continues to accelerate today.

The United States Department of Agriculture (USDA) projects the nationwide average price paid to dairy farmers will total $15.80 per hundredweight (cwt), while average cost of production is $22.70 per cwt. Dairy farmers nationwide are paid 30 percent below average production costs and have been paid prices well below production costs for more than 4 years leading to unprecedented financial challenges for dairy farm families.

The recently passed farm bill fails to address the challenges dairy farmers face today primarily because it lacks an inventory management component that is vital to establish fair milk prices. We urge Congress to pass a three-point plan:

- Establish fair prices.
- Manage milk inventories.
- Provide import/export dairy policy to restore and protect profitability to dairy farmers across the United States.

NFU calls on Congress to pass legislation that includes:

1. The establishment of an incentives-based inventory management program to manage milk inventories based on market demand and pricing stability.
2. Establish a farmer-led plan to establish fair milk prices that are based on the dairy farmers cost of production and retail prices for dairy products.
3. Effective dairy trade policy that manages both imports and exports to ensure that U.S. dairy farmers are paid a fair price from the market.
4. Each FMMO region of the country establishes a dairy board made up of dairy farmers that establish prices with processor involvement.
5. Prices are determined by farmers on a region-by-region basis based on cost of production and other cost indices.
6. Using processors forecast demand for milk for dairy products, each region will produce enough milk to meet processors needs.

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[9] National Farmers Union. (2019) *Policy of the National Farmers Union.* Retrieved from: *https://nfu.org/policy/*.

[10] National Farmers Union. (2019) *Family Farming and Dairy, 2019 Special Order of Business.* Retrieved from: *https://1yd7z7koz052nb8r33cfxyw5-wpengine.netdna-ssl.com/wp-content/uploads/2019/03/Dairy-SOB-030519.pdf*.

7. Milk requested for use in export by processors would be included in regional dairy supply demand. Imports are subject to USDA market review to assure that they do not undercut the dairy farmer-led inventory management plan.
8. Changes in forecast demand for dairy products will allow for increased production for those dairies that choose to grow based on market demand and allow for new dairy operations.
9. New growth production is issued equally, with a program for beginning farmers.
10. Dairies can buy and sell existing production based on the value set on the open market, but new production is only issued by regional boards based on demand increases.
11. This would be a farmer driven program with mandatory enrollment of all dairies including organic.
12. Organic market inventory would use similar system to set organic prices and manage inventory to meet processor and consumer demand.

SUBMITTED QUESTIONS

Questions Submitted by Hon. Jahana Hayes, a Representative in Congress from Connecticut

Response from Michael P. McMahon, Owner and Operator, EZ Acres, Homer, NY

Question. We frequently hear that unemployment is down. However, Mr. McMahon, in your testimony, you mentioned that it has become very difficult to hire locally. That's a problem. How do you recruit your employees and how long does it typically take you to fill an open position? What affect does that have on your revenue?

Answer. To the Honorable Jahana Hayes,

Thank you for your interest in my testimony before the House Subcommittee, below are my answers to your questions:

1. As to recruiting, in the past we have used our local newspaper and a statewide weekly farm publication with a very extensive distribution called *Country Folks.* Over the years we used to advertise in the surrounding metropolitan areas such as Syracuse, Binghamton and Ithaca, but never received a single applicant from the cities. We continue to advertise locally but with the advent of social media we now utilize that as well.
2. The last couple of times we have had an opening it has taken about a month to fill the position. In fact, right now our Youngstock manager (person responsible for raising our calves and heifers) is wanting to return to Mexico so we are actively seeking a local person to replace this position. I have been advertising (both by paper and social media) at Morrisville, Cobleskill and Alfred Agricultural colleges since the first of March as well as locally and regionally, and have only had one person apply and that person never showed up for a follow up interview. This position starts in the mid $30,000 range and includes a very nice three bedroom furnished house with all utilities paid for, health insurance, paid vacations, sick and personal days and gasoline for their personal vehicle. The entire package is worth in the mid $50,000–$60,000 per year. Four years ago we had to replace our "feeder" position and with a similar compensation package to the one above, and after five weeks we had two applicants, one of which had just been released from prison for manslaughter. Fortunately the other applicant worked out until he became addicted to opiods, and now my son, one of the managing partners, is doing that job.
3. As you can imagine, when management has to assume more labor due to a lack of people, other things get let go which management should be attending to. This along with training and constant searching demands a great deal of management's time and effort. It can be a little difficult to quantify the revenue impact but there clearly is one. Cows have to be milked and crops have to be planted and harvested and when you can't fill a position the owners have to step up to make sure these things get done. The answer for our industry of course has been to hire migrant workers and since there is no legal way for dairy to bring in these workers we are all left at risk.

Once again, Congressman Hayes thank you for your questions and please feel free to reach out to me if I can be of further assistance.

MIKE MCMAHON, EZ Acres LLC.

Response from Scott Brown, Ph.D., Director of Strategic Partnerships, College of Agriculture, Food, and Natural Resources, University of Missouri; Associate Extension Professor, Agricultural and Applied Economics, University of Missouri

Question 1. The government-sponsored risk management tools available to dairy farmers have changed significantly in the last year given the new farm bill and new RMA insurance options. Dr. Brown, given your work as an extension professor, how can we make sure farmers know about the options available to them? What groups should have a role in that process?

Answer. A broad group of dairy industry stakeholders must engage with dairy producers to inform and educate about the new risk management tools that are available today. That group ranges from land-grant universities to commodity organizations. The message must stay focused on the risk management components these programs offer and not just a discussion of maximizing program payments.

Land-grant universities through their extension programming must take the lead in the program education efforts. This has been a traditional role taken on by extension for decades. Extension faculty can provide an unbiased assessment of the risk management tools available to dairy producers. Land-grant universities continue to find less flexible budgets that sometimes result in fewer resources available to work on some of these policy education issues.

Government agencies implementing these new risk management tools must also educate dairy producers on the specifics of how the different tools work. The U.S. Department of Agriculture must provide educational opportunities for dairy producers. In Missouri, the University of Missouri and the Missouri Farm Services Agency (FSA) work as a team in providing education on these programs. Missouri FSA educates on the specifics of the programs and the University of Missouri educates on how producers can use the programs.

Commodity organizations such as the National Farmers Union and American Farm Bureau Federation can also provide educational opportunities for their memberships on these newer dairy programs. Dairy specific commodity organizations like the National Milk Producers Federation can also provide an additional outlet to educate their membership either directly or through their cooperative members.

Question 2. The dairy industry is extremely important to me. In my home State of Connecticut, the dairy industry provides nearly 3,000 jobs, and has an economic impact of over $900 million. Dr. Brown, you outlined concerns that continued growth in U.S. milk supplies over the last few years has contributed to the current trend of low prices. We've seen how politically difficult it has been to do anything to stabilize the market in Congress. What can industry do to strengthen the market and correct this trend?

Answer. Rapid and significant change in the dairy industry over the last few years has been largely responsible for the longer than usual period of low milk prices the dairy industry has faced. Aggregate milk supplies have remained stubbornly robust as technology adoption and apparent economies of scale have grown larger dairies, outweighing the loss of other dairies across the country. Markets will continue to adjust until milk prices rise to levels that can more adequately provide a return to dairy farmers and allow them in stay in business long term.

Milk price volatility has been a staple of the industry over much of the 1990s and 2000s. However, the last few years have been absent of any quick increase in milk prices, reminding the industry that there is not a necessarily repeating cycle to milk prices that result in high price periods. Producers have continued to produce, thinking that higher milk prices would occur, but in fact this milk supply growth has prevented higher milk prices.

Growing demand for milk and dairy products is the key to a more economically robust dairy industry. The development of new dairy products that meet the demand of today's U.S. dairy consumers remain important to long term dairy markets. The industry has seen the effects of weak demand for products like fluid milk. New dairy products that stimulate new demand are vital.

International markets for U.S. dairy products are also important to the industry and there must be a sharp focus on growing these markets, as they represent a larger consumer base with income growth profiles that will support increased consumption of dairy products.

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