National Farmers Union

UNITED TO GROW FAMILY AGRICULTURE

March 22, 2017

The Honorable Michael Conaway
Chairman
House Committee on Agriculture
1301 Longworth House Office Building
Washington, DC 20515

The Honorable Collin Peterson
Ranking Member
House Committee on Agriculture
1305 Longworth House Office Building
Washington, DC 20515

Dear Chairman Conaway and Ranking Member Peterson:

Thank you for holding today's hearing entitled, "*The Next Farm Bill: Dairy Policy*." As you are well aware, the farm economy is continuing to struggle as a result of low commodity prices, record yields, and a strong U.S. dollar. Dairy, in particular, has suffered a great deal, not only as a result of high production and tepid demand, but an ineffective safety net. As past hearings have highlighted, the Dairy Margin Protection Program (DMPP) failed to provide meaningful relief for participants, even as farmers paid millions of dollars in premiums for the program.

Putting dairy farmer's contribution to the agricultural economy into perspective is especially important as congress weighs changes to the safety net. U.S. dairy farms are an important segment of our nation's economy. As one of the world's largest dairy producing nations, the industry provides roughly $140 billion in economic output, $29 billion in household earnings, and more than 900,000 jobs.

Low prices and volatility have dominated dairy economics over the last three years, forcing many producers to shutter dairy farms across the country. Milk prices reached $24 per hundredweight in 2014 but quickly eroded, falling to $16 per hundredweight in 2016. These prices are well below the cost of production. Meanwhile, cash receipts over the last three years demonstrate the volatility. In 2009, cash receipts were $24.3 billion, shooting up to $49.3 billion in 2014, and quickly falling to $34.2 billion in 2016. Despite the unfavorable economic conditions faced by dairy producers, U.S. milk production increased for the seventh consecutive year and the dairy herd continues to expand.

DMPP has provided very little relief to struggling dairy producers. In 2016, about two thirds of milk production, or 140 billion pounds of production history, enrolled in DMPP did not sign up for buy-up coverage. It is widely recognized that the program has failed dairy producers. There must be an acknowledgement, especially during the budget process, that producers paid millions of dollars into the program and did not receive assistance during troubling economic conditions.

As dairy farmers face such headwinds, congress must develop a comprehensive dairy program to allow dairy producers across the nation to receive a profitable return on their investment. In order to achieve this, the next safety net will certainly have to increase spending. DMPP must have a higher dollar value for catastrophic coverage of at least $5.00. The feed ration used to calculate payments must more accurately reflect cost of production.

NFU sees commonality with other industry proposals which call for a more equitable feed cost formula. Returning to the original feed cost formula in the Dairy Security Act is an important first step in improving DMPP. Better price data for corn, soybean meal, and alfalfa could help improve calculations related to actual feed costs incurred by dairy farmers. Harmonization of data between the National Agricultural Statistics Service and the Agricultural Marketing Service is also important.

Our members voiced support for additional flexibility within DMPP. Dairy farmers should have the ability to enter and exit the program, within reason, as this would prevent producers from leaving a significant amount of milk production uninsured for the entire year. Coverage calculations and payments should be made on a monthly basis to better reflect how producers operate. NFU recognizes that there would have to be a delay between signup and coverage start dates in order to prevent moral hazards.

Additional premium support, directed to family farms, by the federal government is very important from an equity standpoint. Our members, while very supportive of the assistance provided to other commodities, are frustrated that their sector does not receive similar support. Higher premium subsidies for a risk management program are very important to our members. There is a fundamental understanding that producers have to share in the risk, and our members are prepared to do that, but there must be additional sign up incentives.

NFU dairy members have also expressed interest in the livestock gross margin (LGM) program and whole farm revenue protection (WFRP) policy in conjunction with DMPP. We understand that the same milk cannot be signed up within different programs. We would ask the committee to consider allowing producers to use DMPP and LGM in a complementary fashion. In order for this to work, the current LGM cap would have to be removed for dairy. The removal of the cap would also provide dairy producers who are interested in using both DMPP and WFRP to adequately cover dairy production.

Lastly, NFU policy recognizes overproduction as one of the many reasons for low prices. We support exploring an incentives-based inventory management program. We also support and encourage voluntary producer assessments for an industry-managed program that will stabilize and increase producer prices. NFU wants to see a more robust effort to reign in overproduction, with wider adoption of practices already being employed by some of our largest dairy cooperatives.

Thank you again for holding this important hearing. NFU stands ready to assist this committee as it advances changes to the next farm bill for the benefit of American dairy producers.

Sincerely,

Roger Johnson
President, National Farmers Union