Written Testimony of Lolly Lesher
House Agriculture Committee Hearing: A 2022 Review of the Farm Bill: Dairy Provisions
On behalf of the National Milk Producers Federation and Dairy Farmers of America
June 22, 2022

Chairman Scott, Ranking Member Thompson, members of the committee, thank you for the opportunity to testify before you today as the committee reviews current dairy policy in advance of the upcoming farm bill.

My name is Lolly Lesher. My husband William and I own and operate Way-Har Farms located in southeastern Pennsylvania. Our family has milked cows for seven generations and in the past 50 years added a retail farm market to sell our milk and ice cream directly to consumers. Way-Har Farms consists of 240 milking cows and 400 acres of corn, hay, triticale, and rye. Our farm market operation has a retail store and a wholesale business with distribution to over 70 different outlets. William and I are joined in the family business by three of our four children. We also volunteer in our local community by serving on our local food bank, county Holstein group, the dairy promotion committee, and the Pennsylvania Center for Dairy Excellence Foundation. I also serve on our local school board.

I am proud to be a member-owner of Dairy Farmers of America (DFA) and to serve on the Cooperative's Policy Resolutions Committee. DFA is the nation's leading diversified milk marketing cooperative, owned and governed by 11,500 dairy farmer members across the country. DFA's family farmers are invested in 83 processing facilities that produce a wide range of dairy products, including fluid milk, cheese, butter, ice cream, and dairy ingredients.

I am testifying before you today on behalf of the National Milk Producers Federation (NMPF), of which DFA is a member cooperative. NMPF develops and carries out policies that advance the well-being of dairy producers like me and the cooperatives we own. NMPF's member cooperatives market the majority of the U.S. milk supply, making NMPF the voice of tens of thousands of dairy producers on national issues.

I am pleased to offer comments on current dairy policy as you prepare to craft the next farm bill. First, a word about the current dairy economic landscape. Overall, robust growth in both domestic consumption and cheese exports have been bright spots for the dairy sector. During the first quarter of this year, milk production nationwide was one percent lower than during the same time period last year. In this context, milk prices reached their highest-ever monthly level earlier this year, as measured by the U.S. average all-milk price. However, record or near-record high input costs, including fertilizers, are pinching dairy farmer margins, with many dairy farmers now facing diesel fuel shortages partly on account of Russia's invasion of Ukraine.

When this committee last began its work heading into the 2018 Farm Bill, dairy policy looked much different than it does today. The previous Margin Protection Program (MPP), while well-intended, fell short of providing the protection required of an effective farm safety net. MPP allowed farmers to insure against low margins – the gap between milk prices and feed costs – but did not offer affordable or meaningful coverage that accounted for the challenges producers endured. As a result, dairy farmers largely opted out of the program or only obtained the free catastrophic coverage. Further, unlike our counterparts who grow crops, dairy farmers did not have access to the risk management options that can help farmers meet their customized needs.

Dairy farmers are grateful for the work this committee did to reform the dairy safety net in both the 2018 Farm Bill and the Bipartisan Budget Act of 2018. As a Pennsylvania producer, I am particularly grateful to you, Ranking Member Thompson, for your years of advocacy on behalf of dairy farmers in the Commonwealth and beyond. The Dairy Margin Coverage (DMC) program is a significant improvement over its predecessor and has been a strong safety net for dairy farmers during difficult times. It offers producers affordable coverage for margin levels that reflect the milk price and feed cost challenges they face. DMC worked as intended in 2021, paying out well over $1.1 billion to participating farmers nationwide, including nearly $89 million to Pennsylvania producers, as they continued to weather the COVID-19 pandemic. The program has provided important security to my family's farm, given the volatility that persists in dairy markets. We have consistently purchased the maximum available DMC coverage since 2019, at a margin of $9.50 per hundredweight, knowing that it may not pay out every year, but is intended to serve as a safety net when needed. I am glad that more than 71 percent of those dairy farmers who have DMC production history are enrolled in the program for 2022.

However, as valuable as the program has been, many farmers have not been able to fully benefit because DMC's underlying production history calculation is outdated. It is critical that farms like mine and my neighbors have an opportunity to update their production history to reflect current on-farm production. 2013 is far too long ago, and other farm safety net programs do not use such an outdated production reference. Many farms have grown to meet market demands or to allow their children to join the farm. To that end, we thank this committee for enacting Supplemental Dairy Margin Coverage payments to compensate farmers for incremental production increases since 2014, accounting for a nearly decade-old production history formula. It is critical that this production history adjustment be carried over into the 2023 farm bill so that DMC remains a viable safety net. We also appreciate USDA's actions to ensure that DMC more accurately reflects dairy farmer feed costs by fully incorporating dairy quality alfalfa into the DMC feed formula. We know this change would not have been possible without this committee's work to require the Department to report dairy-quality alfalfa prices in its monthly price surveys.

Finally, we are grateful that, on par with producers of other commodities, dairy farmers, large and small, now have access to both a Farm Service Agency-run safety net as well as Risk Management Agency tools, such as Dairy Revenue Protection (Dairy-RP) and Livestock Gross Margin-Dairy (LGM-Dairy), which give all farmers the ability to adapt their risk management to their needs. We are pleased that USDA recently approved several improvements to LGM-Dairy, including simplifying the purchase process to align it more closely with Dairy-RP and making the program available in all counties in every state. We also support further improvements, including permitting concurrent use of Dairy-RP and LGM-Dairy in the same month and allowing producers who already have revenue coverage through Dairy-RP to obtain LGM-Dairy coverage with premiums and indemnities solely driven by changes in feed input costs. We hope these adjustments can be made to further strengthen dairy farmer risk management options.

Just over a year after the current farm bill was signed, the COVID-19 pandemic took hold and, from the start, impacted our entire country in significant ways. While dairy farmers never stopped providing households with an abundant supply of nutritious milk and dairy products, we were not immune to the massive economic consequences of the pandemic. In particular, the combined effects of the change made to the Class I mover in the last farm bill and the government's heavy cheese purchases cost dairy farmers over $750 million in Class I skim milk revenue during the last six months of 2020. No one could have anticipated COVID-19 when the change was made to the mover, but the events of the last two years have shined a spotlight on the need for an overall update to the Federal Milk Marketing Order (FMMO) system.

To recap, prior to the 2018 Farm Bill, the Class I mover was based on the higher of the Class III or Class IV price each month, commonly called the "higher of" formula. In an effort to accommodate a request for improved price risk management for processors, while also maintaining revenue neutrality for farmers, a compromise was reached to restructure the mover as the monthly average of the Class III and Class IV prices, with a $0.74/cwt. adjustment factor added to that average. The historical record from January 2000 through August 2017 indicated that this new mover would be revenue neutral for dairy farmers by maintaining essentially the same Class I skim milk revenue as the old mover. The new mover was enacted into law on the basis that farm-level revenue would be maintained.

The new Class I mover took effect in May 2019, but the COVID-19 pandemic dramatically undercut the revenue neutrality that formed its foundation. The Farmers to Families Food Box Program heavily weighted its dairy product purchases toward cheese, priced under Class III. This imbalance caused a wide chasm between the monthly Class III and Class IV prices, making the average of the two significantly lower than the "higher of" the two, even with the $0.74/cwt. adjustment factor added. As a result, Class I skim milk prices averaged $3.56/cwt. lower during the second half of 2020 than they would have under the previous mover. This undermined the orderly marketing of milk and represented a net loss to dairy producers of more than $750 million during the latter half of 2020, including over $141 million in the Northeast order, which includes much of Pennsylvania. Dairy farmers are grateful to USDA for creating the Pandemic Market Volatility Assistance Program to partially reimburse farmers for these losses. We urge Congress to provide additional funding to close the gap for those producers who were adversely impacted by the program's five-million-pound per producer limitation. Farmers incurred these losses on all their milk volume, so we thank the members of this committee who are working to secure this equitable support.

However, work must also be done to avoid a repeat of this scenario in the future. Fundamentally, the current Class I mover saddles dairy farmers with asymmetric risk because it includes an upper limit on how much more Class I skim revenue it can generate for producers than the previous mover, but no lower limit on how much less can be generated than the previous mover. On this point, even two years later, the current mover has not made up for the 2020 losses because it is only moderately different from the previous mover and has not performed significantly better at any point. In other words, when the asymmetric risk inherent in the current mover causes non-trivial losses, as it did in 2020, those losses become effectively permanent.

Fortunately, the dairy industry through the National Milk Producers Federation is treating this matter with urgency and is seeking to find consensus on not only the Class I mover, but also a range of improvements to the FMMO system that we can take to USDA for consideration via a national order hearing. DFA is a member of NMPF and is actively participating in its process, which involves careful examination of key issues to the dairy sector nationwide. NMPF's producer-led Economic Policy Committee has been meeting to discuss several FMMO updates, and we are grateful to Congress and USDA for their support during this process. The dairy industry recognizes that to successfully enact policies that are better than those we have in place today, we must work together with the goal of achieving consensus. We look forward to working with the broader dairy industry and members of this committee as our efforts advance.

I would like to highlight several other areas of great significance to dairy. First, dairy producers are long-time environmental stewards who tend with great care to our land, water, and other natural resources. As a testament to dairy's endeavors, research shows that producing a gallon of milk in 2017 required 30% less water, 21% less land, had a 19% smaller carbon footprint, and produced 20% less manure than it did in 2007. However, we always believe that more can be done, and, as a result, have set industry-wide goals of becoming greenhouse gas neutral or better, improving water quality, and optimizing water use by 2050. Conservation programs like the Environmental Quality Incentives Program are key as we work to continue our ongoing sustainability efforts. Enhanced funding will help dairy farmers scale up innovative climate smart practices, such as new approaches to both feed and manure management, especially as these popular programs are currently oversubscribed.

Second, trade is critical to our success as farmers. Today, exports account for 17% of our production and are likely to comprise an even greater share as global dairy demand continues to grow. Trade promotion programs like the Market Access Program and the Foreign Market Development program promote American-made dairy and agriculture products that compete with heavily subsidized foreign products, returning well over $20 in export revenue for every one dollar invested in the programs. We support doubling funding for both essential programs to better promote U.S. dairy products worldwide. In addition, we hope to work with this committee to combat the European Union's efforts to restrict the use of common food names in markets around the world. These efforts are a trade barrier plain and simple, and they must be stopped.

Third, dairy farmers appreciate the enduring connection between agriculture and nutrition. Dairy is a nutrition powerhouse, serving as an excellent source of 13 essential nutrients, but continues to be under consumed according to the most recent Dietary Guidelines for Americans. I thank you, Ranking Member Thompson, for authoring the bipartisan Whole Milk for Healthy Kids Act to allow schools to offer students all varieties of milk, including whole milk, and I also thank you, Chairman Scott, and others on this committee for supporting this effort. In addition, nutrition programs like the Supplemental Nutrition Assistance Program are vital to linking the food we produce as farmers to families across the country facing difficult circumstances. Finally, we strongly encourage robust support for the Dairy Donation Program to provide nutritious dairy products to food insecure families and minimize food waste. We also look forward to working with this committee on any additional enhancements that will help the program meet its goals.

Fourth, in recent years, farmers have endured one difficult year after another. Stress in rural America continues to be a major problem that grips many of our communities. I am thankful to this committee for working in the previous farm bill to reauthorize the Farm and Ranch Stress Assistance Network, which aims to connect those working in agriculture to stress assistance and behavioral and mental health support programs. We thank the members of the Appropriations Committee for providing the needed funding and hope those efforts can be increased in the future.

I will close with two issues that are outside of this committee's jurisdiction, but critically important to dairy producers. First, dairy farmers across the country are facing acute shortages of workers even as they work to provide sustainable nutrition for all Americans at a time of rising food costs. However, unlike the rest of agriculture, the dairy industry is unable to use the H-2A seasonal agricultural worker visa program because of the year-round nature of dairy production. We strongly urge Congress to enact long-needed legislation to allow dairy to meaningfully access H-2A, and to provide current agricultural workers and their families with permanent legal status. The House passed the bipartisan Farm Workforce Modernization Act last spring to achieve these goals, and we continue to urge the Senate to produce an improved version of this bill that can earn 60 votes and be signed into law. Separately, while this committee does not oversee the Food and Drug Administration, it is critical that the agency finally enforce dairy standards of identity to combat the proliferation of imitation products attempting to use dairy's positive reputation in the marketplace when these products are not nutritionally equivalent to real dairy.

Thank you again for the opportunity to testify before you. I am happy to answer any questions you may have, and I invite any of you traveling through Pennsylvania to stop by Way-Har Farms or visit our market for homemade ice cream.