Testimony of Mr. Darrin Siemen

Saginaw Valley Research & Extension Center - Michigan State University

Field hearing in Frankenmuth, Michigan

On behalf of the

National Milk Producers Federation and Michigan Milk Producers Association

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Mr. Chairman, Ranking Member Stabenow, members of the Committee, my name is Darrin Siemen. My wife, Barbara, and I own and operate Prime Land Farm, located in Harbor Beach, Michigan.

Prime Land Farm is a centennial farm and I'm a proud fourth-generation dairy farmer. We milk 320 cows, with 5 LELY Robots. We also raise about 800 beef cattle and farm 1,500 acres of sugar beets, alfalfa, corn and wheat.

I attended Michigan State University and majored in food industry management and agribusiness. I met my wife at MSU, we returned to the family farm after graduation in 2001 and assumed ownership in January 2013. We have 3 children who have a passion for the cows and farming. In December 2014, we retrofitted our existing freestall barn, transitioned from our old parlor, and installed 4 LELY robots. One year later a fifth robot was added to meet our milking needs. Within the next couple of weeks our 6th robot will be installed, adding to the enhancements on our farm this year. We are proud of the advancements and use of technology on our farm and look forward to future improvements.

I am also proud to be a spokesperson for the dairy industry and modern agriculture. Throughout my career, I served as Huron County Farm Bureau president for nine years. Barbara and I are currently serving as the Michigan Milk Producers Association 2016 Outstanding Young Dairy Cooperators.

We are proud of the dairy industry in Michigan. At nearly 11 billion pounds, Michigan currently ranks 5th nationally in terms of annual milk production and ranks 2nd in production per cow – the only state East of the Mississippi in the top ten.

I am pleased to be delivering testimony on behalf of myself; my cooperative, Michigan Milk Producers Association, and National Milk Producers Federation.

Introduction and Margin Protection Program

In recent years, dairy farmers like me have ridden a rollercoaster. We have seen the lowest of the lows and the highest of the highs. In 2014, Congress passed legislation establishing a new safety net under Title I for dairy farmers known as the Margin Protection Program (MPP). This program was envisioned as a way to ensure that dairy farmers had a stable safety net to protect them during extended downturns in the ever-volatile dairy market. During the legislative process, changes were made to the original dairy program by Congress that fundamentally altered the safety net designed by NMPF and other dairy leaders around the country. Unfortunately as a direct result of these changes, the MPP safety net has failed to deliver the protection farmers need and expect.

Like many farmers, I was supportive of the MPP and thought it would finally give our farm a risk management tool to cope with the volatility dairy farmers experience on a daily basis. In the first year I signed up for the program and enrolled in the minimal $4 margin level and did not purchase supplemental coverage. Following that initial year, many other dairy farmers only enrolled at the minimal $4 margin level, which to be perfectly honest, has provided no benefit to my farm. While MPP remains the right model for the future of our industry, changes are needed if Congress wants to prevent dairy farmers like me from going out of business.

Understandably, many producers have lost faith in MPP after only two years. In calendar year 2015, dairy farmers paid more than $70 million into the MPP program and received payments totaling only $730,000; in 2016, those figures were $20 million and $13 million. This was particularly hard in a period in which program support was needed. Let me be clear, I am not asking for a program that guarantees a profit, nor do I want a program that will incentivize excess production. However, when Congress made changes to the program rendering it ineffective, dairy farmers like me lost faith in the idea that MPP could serve as a viable risk management tool under its current formulation. We know that if Congress makes changes to ensure that MPP more accurately reflects the actual costs of production for businesses like mine, participation in the program will increase.

I do want to be clear that I am not looking for a handout from the government. In fact, MPP has actually made the government a profit, equal to $66 million in fiscal year 2015 and $37 million in fiscal year 2016, according to the Congressional Budget Office. Mr. Chairman, I have enough challenges making ends meet with the costs associated with running my business and the regulations that we have to comply with. All we are seeking is a program that provides a meaningful safety net for dairy farmers when we need it most. If we are to provide dairy farmers with a real safety net, it will require this committee to make significant and necessary improvements to the program.

Understanding the challenges that producers have endured with MPP, the National Milk Producers Federation (NMPF) began an exhaustive review of the program in early 2016. This review was conducted by a committee that included dairy farmers, dairy cooperative leadership, as well as industry experts, academia and others to ensure proposed changes to MPP.

As you consider ways to improve MPP, one issue in particular continues to rise to the surface. In determining the margin under MPP, USDA is required to calculate two factors, the “All milk Price” and feed costs. While the “All Milk Price” remains an accurate input tool for this formula, the feed price determination remains in question. During the lead-up to the 2014 Farm Bill, NMPF worked closely with economists, veterinarians, nutritionists and farmers to develop a model for the average feed costs for dairy cows. This exhaustive process was meant to ensure that producers participating in the process had confidence in the validity of the calculation that would determine their risks. However, when NMPF presented our proposal, the feed cost formula, while respected as being accurate, was cut by 10 percent in order to address broader budget concerns. I think it is important to note this given that the government has made money off of dairy farmers under MPP. Concerns regarding the budget costs that resulted in this 10% arbitrary reduction were simply inaccurate and this 10% must be restored in order to ensure that the program functions as intended and that producers participate in the program. A safety net is not a safety net if no one participates.

There are also other adjustments that should be considered regarding MPP. These include, but are not limited to, the feed formula calculations as it relates to corn and alfalfa hay prices. Additionally, dairy farmers also want to have access to as many risk management tools as possible. Unlike other sectors in agriculture, Congress limited the ability of dairy producers to use Risk Management Agency (RMA) products as well as Title I programs. Although almost every other commodity can utilize both RMA and Title I programs without restrictions, dairy farmers cannot participate in the Livestock Gross Margin for Dairy Cattle (LGM) program as well as MPP. Due to Congressionally mandated restrictions in MPP, a producer must decide at the beginning of each Farm Bill whether to cover their milk under LGM or MPP. With this restriction in place, dairy farmers are left without the benefit of all possible tools that other farmers have at their disposal regarding risk management for their operations.

In addition to the challenges dairy farmers are facing in MPP, we also remain concerned about challenges to our export markets and other aspects of our industry. In particular, challenges with Canada's dairy trade policies have heightened concerns among dairy farmers in the U. S. Combined with uncertainty about a potential disruption in our trading relationship with Mexico, the current trade situation is only adding additional stress to producers and our industry as a whole. Other issues including immigration, tax reform, child nutrition and environmental sustainability continue to remain a focus for our industry and we look forward to working with the committee to help us address these challenges.

Dairy farmers are facing a variety challenges today and many will take long term solutions to address properly so that our industry will remain viable. I do want to publicly thank Senator Stabenow for her recent efforts to work with other members of Congress and the Administration to seek a short-term solution to help improve the safety net for dairy farmers. Her understanding and leadership on this issue is greatly appreciated. And a special thanks to both Senator Roberts and Senator Stabenow for their recent efforts to bring more milk options and flexibility to the School Lunch and School Breakfast programs. We appreciate your strong support of enhancing the milk options available to school kids.

Dairy Market Situation

For the past decade, times have been generally tough for America's dairy farms. In 2009, following several years of expanding U.S. dairy exports, world dairy markets collapsed in the worldwide recession, taking domestic milk prices with them. Farm income over feed costs, as measured by the MPP margin formula, fell to $2.25 per hundredweight of milk in June of that year, well below the $4.00 minimum margin coverage level, which is commonly referred to as "catastrophic" under the current program. The MPP margin formula averaged $3.87 per hundredweight during the first ten months of the year. Three years later, widespread drought drove feed prices to historic highs in 2012 and sent the MPP margin back into catastrophic territory.

The margin bottomed out at $2.67 per hundredweight that year and averaged $3.63 during the six months of March through August. Many dairy farms did not survive this one-two knockout punch, and the many that did are still struggling to recover. Although 2014 was a record year for milk prices and margins, world markets again collapsed in 2015 and most of 2016, which had a large effect on U.S. milk prices and gross dairy farm income. Revenue from milk sales dropped from $49.4 billion dollars in 2014 to $35.7 billion in 2015. U.S. Department of Agriculture (USDA) data indicates that it was down again in 2016 to $34.4 billion dollars.

The value of the fresh milk America's dairy farmers produced in 2016 was worth 19 percent less than it averaged over the five previous years. The difficult economic conditions and tighter operating margins over the last 10 years have resulted in the loss of more than 18,500 dairy farms in the United States. The present environment of depressed market prices could result in even more farm closures. While USDA is projecting that milk prices and margins will be better in 2017 than last year, milk production is showing signs of expansion following an extended period of almost static production. U.S. milk production grew by 1.3 percent from 2014 to 2015.

This annual growth rate expanded to 1.6 percent from 2015 to 2016, but averaged 2.4 percent during the fourth quarter. USDA is currently projecting that milk production will grow again this year at an annual rate of 2.3 percent. During 2015 and 2016, total commercial use of milk, in both the domestic and export markets, increased at an annual rate of 1.8 percent. The recent and projected expansion of milk production has a real possibility of outpacing demand, which will weigh heavily on milk prices again.

We need Congress to act swiftly this year and make the necessary changes in order for our industry to be able to protect ourselves from the bad year that could arrive at any time, even in years where experts are predicting higher margins. We dairy farmers are doing our job. We are producing safe, nutritious milk for the market. If that market goes sour or our costs soar because of drought or another type of weather event, we must have the ability to protect our equity and our investment.

Farm Labor

I am lucky that the majority of my farm's labor needs are met with robotic milkers. While a significant investment, these milkers have helped me and my family address issues related to farm labor. The issue of farm labor is important to all dairy farmers, regardless of farm size. Dairy farmers try in vain to find interest by American workers, but there has been decreasing interest in careers on a farm. Dairy farmers, like others in agriculture, have had to look to qualified foreign-born workers to meet our labor needs.

According to a University of Texas A&M report, released in August 2015 (and conducted in coordination with NMPF), 51 percent of all dairy farm workers are foreign born, and the farms that employ them account for 79 percent of the milk produced in the United States. Having a stable, reliable workforce is critical to the continued viability of the dairy industry. In dairy, we cannot turn the cows off when there are not enough employees to do the job, we have to milk them. This is the reason that NMPF and my cooperative, Michigan Milk Producers Association, have continually urged Congress to act immediately to reform our immigration system in a manner that addresses agriculture's needs for a legal and stable workforce.

In Michigan, milk production has grown by 90% over since 2000 and contributes nearly $16 billion to our state's economy. Since 2008, MMPA members have invested over $100 million to expand processing capacity within Michigan to accommodate the additional production. MMPA, along with other milk marketing organizations in our region, are in discussions to further expand processing capacity in our state. As future investments are made in processing facilities, we will need to maintain the growth in milk production. Addressing the labor issue will be a key component in this process.

Trade

The dairy industry has come a long way on trade in the past several years. Our nation has gone from exporting dairy products valued at less than $1 billion in 2000 to exporting a record $7.1 billion in 2014, an increase of 625 percent. Although low prices brought that number closer to 5 billion last year, we remain the largest exporter of skim milk powder, whey products and, depending of the month, the number one exporter of cheese in the world. That reflects not just a tremendous jump on a value basis, but also a dramatic increase in the proportion of U.S. milk production that's finding a home overseas.

Fifteen years ago we were exporting roughly five percent of our milk production, now we are at three times that level, even as overall U.S. milk production has continued to grow. That means the equivalent of one day's milk production each week from the entire U.S. dairy industry ultimately ends up overseas, making exports integral to the health of my farm and our dairy industry at large. It is critical that Congress protects the progress we have made as the Administration updates trade agreements like the North American Free Trade Agreement (NAFTA). Mexico is our largest buyer of dairy products, representing a quarter of our total exports and represented approximately 30,000 American jobs. We urge that NAFTA modernization discussion preserve what is working well and already agreed in the Free Trade Agreement such as trade with Mexico, while focusing energies on the unfinished work that remains such as with Canada where there is a need to secure Canada's compliance with its trade commitments and to reassert the importance of dependable two-way trade.

I also urge a strong rejection by Congress of the European Union's (EU) aggressive stance on confiscating common food names. Names like Parmesan and Feta belong to everyone, not just a handful of producers in Italy and Greece. Our industry has built markets here and overseas. We need to protect those markets. We can be competitive and increase sales in markets as diverse as Latin America, the Middle East and Asia. What we need are well-negotiated agreements and the necessary tools to achieve and implement them.

The Market Access Program (MAP) and Foreign Market Development (FMD) program are some of those tools. I urge the Committee to maintain those programs, but allow for USDA to review the distribution of monies so those like dairy, that have expanded exports significantly in the last

10 years and are matching with funds and efforts, are awarded by providing enough funds to continue the work.

Environmental Sustainability

Farmers are the original environmentalists. As a dairy farmer, I care deeply about the land, air and water that I raise my herd and my family on. In recent years, however, federal and state regulators have applied significant pressure on the dairy sector to reduce nutrient output to improve water quality in dairy-producing regions across the country. We, as an industry, have invested significant resources to proactively respond to this challenge, and we continue to work to embrace the best possible environmental practices. Dairy producers in Michigan have great awareness and responsibility to the environment in the practices that we follow. Common sense environmental regulations make sense.

Mr. Chairman, Ranking Member Stabenow, the dairy industry is committed to working with you to improve federal policies that impact farmers like me as well as consumers. I appreciate the opportunity to speak with you today and thank you for your advocacy on behalf of agriculture.