

Testimony of Mr. Ken Nobis

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 Ken Nobis and I am a dairy farmer from St. Johns, Michigan where my brother Larry and I farm 3,000 acres and milk 1,000 cows. I also serve as President of Michigan Milk Producers Association, a milk marketing cooperative serving over 1,700 dairy farmers in Michigan, Indiana, Ohio and Wisconsin. The association employs approximately 320 people in four states and is the 10th largest dairy cooperative in the United States. Milk and dairy products are Michigan's largest agriculture commodity contributing over \$15 billion to Michigan's economy. In 2016, Michigan ranked as the nation's 5th largest dairy state and is growing in both milk production and processing capacity. Since the year 2000, milk production in Michigan has increased by 90 percent while cow numbers have increased about 40 percent.

Margin Protection Program

Over the last decade, the U.S. dairy industry has endured a tremendous amount of volatility in milk prices from the highest highs to the lowest lows. NMPF and other dairy leaders had spent years working with members of Congress to develop a program that was originally envisioned to ensure dairy farmers had a more stable safety net to protect them during extended downturns in the ever-volatile dairy market. Congress passed legislation in 2014 that established a new safety net under Title I, known as the Margin Protection Program (MPP). However, during the legislative process, Congress made changes to the proposed dairy program, fundamentally altering the version National Milk Producers Federation and other dairy leaders had spent years fighting for and perfecting. As a direct result of these changes, the MPP safety net has failed to deliver the appropriate protection for dairy farmers like me. I still believe the MPP is the right program for the future of our industry, but changes must be made to prevent more dairy farms from shutting down entirely.

Many dairy farmers, including MMPA members, originally supported the MPP because they felt it would finally give their farm a risk management tool to deal with the unpredictability dairy

farmers experience on a daily basis, not just with milk prices, but in feed costs as well. However, we have found the program simply has not done anything to help farms during the last two years of sub-par margins. That message has been made loud and clear during member information meetings MMPA began hosting over a year ago. MMPA initiated the meetings as a result of the current economic times our industry is experiencing. The meetings are a way for us to more fully discuss the many factors influencing the current state of the dairy industry. Understandably, our members, as well as many other producers are frustrated and have lost faith in the MPP and the idea that it could serve as a viable risk management tool as it is currently implemented. The changes Congress made to the MPP as the 2014 Farm Bill was finalized rendered it ineffective when dairy farmers needed it the most.

One of the most evident concerns is the MPP has actually made the government a profit of \$66 million in fiscal year 2015 and \$37 million in fiscal year 2016, according to the Congressional Budget Office. In calendar year 2015, dairy farmers paid more than \$70 million into the program and received payments totaling just \$730,000. In 2016, those figures were \$20 million and \$13 million. This occurred in two years that were particularly detrimental to our industry, and support was badly needed.

I want to stress that I am not asking for a program that guarantees a profit or incentivizes excess production. I would be just as critical if that were the case. I guarantee, if Congress alters the MPP so that it more accurately reflects the actual costs of production for businesses like mine, participation in the program will increase.

All we are asking for is a program that provides a meaningful safety net for dairy farmers when they need it most. If that is to happen, this committee needs to make improvements to the program.

Understanding the challenges that producers have endured with the current iteration of the MPP, NMPF began an exhaustive review of the program in early 2016, and included the voices of dairy farmers and their cooperatives, as well as industry experts, academia and others, to craft a set of proposed changes to the program.

One issue in particular continues to rise to the surface. In determining the margin under the MPP, USDA is required to calculate two factors: the "All Milk Price" and a trio of feed costs. While

the “All Milk Price” remains a fairly accurate input tool for this formula, the feed price determination is problematic. During the lead-up to the 2014 Farm Bill, NMPF worked closely with farmers, economists, veterinarians, and nutritionists to develop a model to determine the average feed costs for dairy cows. This exhaustive process was meant to ensure that participating producers were confident in the calculation, and ultimately reflect the cost of purchasing feed. However, when NMPF presented this proposal, the feed formula, though considered accurate, was cut by 10 percent to address other, broader budget concerns. I raise this point to remind you once again: the federal government has made money off of dairy farmers under the current MPP. Any concerns about budget that led to the 10-percent cut were misplaced.

There are other adjustments that should be considered. These include, but are not limited to, the feed formula calculations relating to the determination of corn, soybean, and alfalfa hay prices. We dairy farmers also want access to as many tools as possible. However, Congress arbitrarily limited dairy producers’ ability to use Risk Management Agency (RMA) products and Title I programs. Almost every other commodity can utilize both RMA and Title I programs without restrictions, yet dairy farmers cannot simultaneously participate in the Livestock Gross Margin for Dairy Cattle(LGM) program and the MPP. Due to congressionally mandated restrictions in the MPP, a producer had to decide at the beginning of the Farm Bill to cover their milk under either LGM or the MPP. This restriction leaves dairy farmers without the tools that other commodity producers have in their arsenal when it comes to federal support for their operations.

We appreciate Ranking Member Stabenow’s efforts to look at opportunities to expand insurance options for the dairy industry and urge USDA to utilize their authority to provide additional insurance opportunities for dairy farmers.

As you are aware, the Senate Appropriations Committee recently marked up a bill for fiscal year 2018 that included important changes to the MPP. We appreciate the leadership of Senators Cochran and Leahy, Chairman and Vice Chairman of the Appropriations committee to address some of the problems with the current safety net. We also greatly appreciate the efforts of Ranking Member Stabenow, for urging all farmers to be considered when making significant changes to Farm Bill programs and ensuring interim improvements are made to strengthen the dairy safety net.

The changes made through the appropriations bill are a step in the right direction and we are open to other ways the MPP program can be improved. Making the program more attractive for dairy farmers is vital to ensuring participation in the program, and the safety of America's dairy industry. More work is needed, and the only way to accomplish that is through a new farm bill.

In addition to the challenges we face with the MPP, we are greatly concerned over challenges to our export markets. Specifically, disputes with Canada have heightened concerns among dairy farmers in the United States. Not only is there concern over disruption in our trade relationship with Mexico, the current situation with Canada is also adding additional stress to our industry. Still, other issues including immigration, tax reform, child nutrition and sustainability continue to remain a focus for our industry, and we look forward to working with the committee to help us address them. Mr. Chairman, Ranking Member Stabenow, the U.S. dairy industry looks forward to working with you to improve federal policies that impact those that produce our country's food. I appreciate the opportunity to speak with you today and I thank you for your support of agriculture.

Dairy Market Situation

The last decade tells us that times have been tough for America's dairy farms. In 2009, following several years of expanding U.S. dairy exports, world dairy markets collapsed in the global 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 that year, well below the \$4 minimum margin coverage level—commonly referred to as “catastrophic” under the current program. The MPP margin formula averaged just \$3.87 per hundredweight during the first 10 months of the year. Three years later, in 2012, widespread drought drove feed prices to historic highs 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 those that did are still crawling back from the brink. The year 2014 was a record for milk prices and margins, but the world markets shifted again, collapsing in 2015 and most of 2016, delivering another blow to U.S. milk prices and dairy farm gross income. Revenue from

milk sales dropped from \$49.4 billion dollars in 2014 to \$35.7 billion in 2015. Recent USDA data reports that it was down again in 2016 to \$34.4 billion dollars.

This tells us that the value of the fresh milk America's dairy farmers produced in 2016 plunged nearly 20 percent from what it averaged over the five previous years. The difficult economic conditions and tighter operating margins over the last decade have resulted in the loss of more than 18,500 dairy farms in the United States. What's more, 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, milk production is showing signs of growing after a long period of flat 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 the real possibility of exceeding demand, which will weigh heavily on milk prices again. And if history is any indication, farmers' bottom lines will be affected.

Dairy farmers deserve better. We need Congress to act swiftly this year and make the necessary changes so that those in our industry can protect themselves from a bad year that could arrive at any time, even when experts predict higher margins. Dairy farmers have spent generations producing safe, nutritious milk for families all over the world. If the market goes sour or our costs soar because of external factors – weather-related or otherwise – we need a program to help protect our equity and investment. Please do not leave us behind.

Farm Labor

Ninety-eight percent of American dairy farms are family-owned, and a majority are large enough to require outside help. Whether it's a pair of extra hands to assist when a family member is unavailable, or expanding the employee roster to shepherd a 3,000-cow herd, the labor needs of America's dairy farms are a critical issue. These days, few seem eager to get a job on the farm, and what interest remains continues to decrease. But agricultural jobs pay well and come with

benefits. Farmers try in vain to attract American workers, but when those searches fail, dairy farmers and others in agriculture have had to look to foreign-born workers to meet labor needs.

According to a 2015 University of Texas A&M report 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. This data illustrates that a majority of American dairies depend on a reliable, year-round workforce to operate efficiently. We cannot simply turn the cows off when there are not enough employees to do the job, as they require 24-7-365 care. As the First Vice Chairman of the NMPF Board of Directors, I have been deeply involved in urging Congress to act immediately to reform our immigration system in a manner that addresses agriculture's needs for a legal and stable workforce. If we don't, I fear that the nutritious product that helps children grow, muscles recover and bones strengthen will soon have to come from countries far from our own.

Trade

U.S. dairy trade has boomed in the past several years. In 2000, we exported less than \$1 billion in dairy products. In 2014, that number shot up to record \$7.1 billion, an increase of 625 percent. While low prices reduced that number down to \$5 billion last year, we remain the world's largest exporter of skim milk powder and whey products, with cheese not far behind. 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 5 percent of our milk production. Today we're 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 from every dairy farm in the country, each week, ends up in foreign markets, making exports integral to the health of my farm and our dairy industry. This is why it is critical that Congress protects dairy industry interests as the North American Free Trade Agreement (NAFTA) undergoes the renegotiation process.

I also urge Congress to soundly reject the European Union's (EU) aggressive stance on confiscating common food names. Names like Parmesan and Feta belong to everyone in the dairy sector, not just a handful of producers in Italy and Greece. U.S. producers have spent years growing their own markets both here and overseas, and we need to protect the work they've

achieved in that space. I believe 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 the dairy sector, which has 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. After all, they spend their entire lives tending to land to ensure its health and longevity. I can tell you that I care deeply about the land, air and water where I have my herd and my family. In recognition of our sustainability efforts, Nobis Dairy Farms received the Outstanding Dairy Farm Sustainability award by the Innovation Center for U.S. Dairy in 2015.

In recent years, 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. The U.S. dairy industry has invested significant resources in response to this challenge, and continues to embrace the newest and best possible environmental practices. To prove it, in 2008, the dairy industry voluntarily set a goal of reducing greenhouse gas (GHG) emissions from fluid milk by 25 percent by 2020, and has since undertaken several projects intended to help meet that goal.

In a demonstration of continued leadership, the dairy industry is also proposing policy changes that will help turn an environmental liability like manure into a valuable asset. One such policy is the bipartisan Agriculture Environmental Stewardship Act introduced by the three leaders of this committee – Chairman Roberts, Ranking Member Stabenow and Senator Sherrod Brown to create an Investment Tax Credit to cover the upfront costs of nutrient recovery systems that farmers can use to help reduce the environmental impacts of their farms and improve water

quality. We look forward to working with you to address this important challenge for our industry.

Just like in other sectors of the economy, dairy farmers are impacted by political, legal and regulatory uncertainty. We are committed stewards of a healthy ecosystem, but we need certainty about which environmental policies and regulations apply to our operations. This is why we support the bipartisan Farm Regulatory Certainty Act, which will reaffirm Congress's intent that dairy farmers and other agricultural producers not be subject to solid waste laws passed more than 40 years ago. I am proud to say that dairy farmers always strive to comply diligently with any law we are subject to, but Congress can smooth this process by providing legal and regulatory clarity.

Child Nutrition

Child Nutrition programs in schools are part of the backbone of America's education policy and our nation's commitment to a healthy population. Any mother or grandmother will tell you that when children are well fed, they are more productive, responsive and active during of time of essential development. Dairy farmers know better than anyone the nutritional advantage milk provides for such development. This is proven by the fact that milk has been a key part of school meals for nearly a century.

The benefits of milk's nutrient-dense profile also played a role in assisting the residents of Flint, Mich. during a crisis in which they were susceptible to lead poisoning from contaminated water. After discovering calcium and iron found in dairy products can help mitigate health risks of lead consumption, MMPA went into action and partnered with The Kroger Company of Michigan to donate nearly 590,000 servings of milk to those in need. The donation of milk was well received and helped provide health benefits to the residents of Flint during a time of crisis. The donation project recently received an honorable mention award for Outstanding Achievement in Community Partnerships by the Innovation Center for U.S. Dairy.

I want to commend Congress and Secretary Perdue for the actions taken earlier this year to reintroduce 1% flavored milk back into schools. This product will help ensure that children have access not only to the nine essential nutrients and vitamins that milk provides, but will also offer

them a beverage that they enjoy. In recent years, when children's options were limited to only flavored skim milk and white milk, consumption in schools dropped. If our school meal programs are meant to provide nutrition, no one benefits when a healthy product ends up in the trash. While we work with USDA to implement these changes, it is imperative, Mr. Chairman, that this committee do all it can to ensure children across America have access to healthy and nutritious dairy products in our schools. As the overwhelming volume of scientific evidence continues to show the benefits of dairy fat in children's diets, we look forward to working with this committee to further expand options for school meal programs.

Mr. Chairman and members of the committee, I appreciate the opportunity to represent my industry, my Michigan-based cooperative, and NMPF by sharing my thoughts on the challenges facing U.S. dairy industry. I look forward to your questions.