Randy Mooney Written Testimony – May 24, 2016

About Randy Mooney

My wife, Jan, and I operate Mooney Dairy in Rogersville, Missouri. I serve as chairman of the National Milk Producers Federation (NMPF) and chairman of Dairy Farmers of America (DFA), the nation's largest dairy cooperative. In addition to my duties as chairman of NMPF and DFA, I serve on the boards of several dairy organizations, including Missouri State Milk Board, Dairy Management Inc., Hiland Dairy and the Innovation Center for U.S. Dairy.

About NMPF

National Milk Producers Federation develops and carries out policies that advance the well-being of dairy producers and the cooperatives they own. The members of NMPF's cooperatives produce the majority of the U.S. milk supply, making NMPF the voice of more than 30,000 dairy farmers on national issues.

Opening Statement

Chairman Rouzer, Ranking Member Costa and distinguished members, thank you for this opportunity to testify before the subcommittee.

I am here today as Chairman of the National Milk Producers Federation, the voice of America's dairy cooperatives and their 30,000 farmer-members. For 100 years, National Milk has advocated on behalf of our nation's dairy farmers. I also serve as Chairman of Dairy Farmers of America, the nation's largest dairy cooperative.

Dairy Market Situation

To be clear, times are tough on America's dairy farms for the second year in a row. USDA's projections indicate that farm revenue from milk sales will drop this year to $31.5 billion dollars—the second-lowest level in the last decade. That's more than a $20 billion plunge from 2014 highs. Unfortunately, the value of the fresh milk I produce today is worth 22 percent less than it was 10 years ago, and nearly 40 percent less than only a few years ago.

The difficult economic conditions and tighter operating margins over the last ten years have resulted in the loss of more than 18,000 dairy farms in the United States. I fear the present environment of depressed market prices could result in even more farm closures. USDA projects the 2016 U.S. all-milk price to average $14.85 per hundredweight. If realized, this price would represent a milk price decline of nearly 40 percent from 2014 and is second only to 2009 in terms of low milk prices over the last decade. For a small family farm milking 100 cows, this price decline equates to a farm revenue decline of approximately $200,000.

In my home state of Missouri, the situation is even worse. Over the last 10 years, I've seen more than 600 of my home-state dairy farmers quit the business. We always knew dairy was a boom and bust industry, but the recent swing of the pendulum back toward low prices is taking a lot of

farmers with it. Unlike other parts of the country where dairy cows are absorbed by other operations, in Missouri we are producing less milk year after year, and we are being paid less than the U.S. all-milk price for that milk. USDA's mailbox milk prices for Northern and Southern Missouri during 2015 indicated that the price Missouri dairy farmers actually received was 14¢ to 22¢ per hundredweight less than the U.S. average. The value of dairy to our state's economy has also been diminished. The value of milk produced on the farm, and paid to the farmer, has declined by more than $100 million dollars over the past 18 months. The upstream effect is that dairy farmers in Missouri have less money to reinvest in the local economy and less money to hire workers. But it doesn't end there; a weaker dairy economy results in fewer jobs supported by the industry in the processing and retail channels.

Milk Prices, Feed Costs, and MPP Margin

I'd like to provide some economic context to the dramatic situation in the dairy industry I just described. The USDA monthly all-milk price reached a monthly record high of $25.70 in September 2014, and averaged a record high of $24 for the year. Following this record, the monthly all-milk price declined in 13 of the next 18 consecutive months. In 2015, the average all-milk price was $17.10, down 30 percent from 2014.Through the first three months of 2016, the all-milk price has averaged $15.70 per hundredweight. USDA currently projects the annual average 2016 price to range from $14.60 to $15.10 per hundredweight.

The decline in milk prices can be traced directly back to sharp declines in the price of nonfat dry milk, dry whey, and cheese since late-2014. Nonfat dry milk prices reached a high of $2.09 per pound in March 2014, and for the year averaged $1.77 per pound. By 2015, the nonfat dry milk price average had dropped $0.90 per pound. As recently as April 2016, the nonfat dry milk price dropped to $0.73 per pound. This most recent price is the lowest nonfat dry milk price reported since Federal Order reform was instituted in 2000 and, importantly, is below the $0.80 per pound price previously supported under the dairy price support program. Similarly, in 2015 the average cheese price was down 51 percent to $1.65 per pound; and the dry whey price was down 27 percent to $0.38 per pound.

Butter prices have been the bright spot in terms of dairy commodity prices. The monthly USDA price reported for butter reached a record high in September 2014 of $2.85 per pound. For 2014, the average butter price was $2.14 per pound. During 2015 the annual average butter price declined only slightly to $2.07 per pound and was as high as $2.80 per pound in November 2015. This strength in the butter price resulted in the value of milkfat contributing as much as 52 percent to the value of Class III milk – up 13 percentage points from the 2000 to 2014 average. Without this support in butter prices, dairy farmer milk checks would have been substantially lower in 2015 and 2016.

Average feed costs during 2014, based on USDA's MPP dairy ration, were $10.67 per hundredweight. This price dropped in 2015 to an annual average of $8.77 per hundredweight. While these prices are well below the $13 per hundredweight average during 2012 and 2013, they continue to pressure income-over-feed-costs as milk prices move lower. During 2014 the MPP margin, defined as the all-milk price minus the MPP ration, averaged $13.29 per hundredweight and reached a record high of $15.62 in October 2014. Since this time, weaker milk prices and

stronger feed prices pushed the MPP margin to a low of $7.50 per hundredweight in April 2015 before increasing to $10.01 by November 2015. Since November 2015, MPP margins have deteriorated by $2.55 per hundredweight, approximately 25 percent, to $7.47 per hundredweight in March 2016. This March 2016 MPP margin is the lowest since the program was introduced in September 2014.

Supply of Milk and Dairy Products

Following the record high prices and margins of 2014, the industry expanded by approximately 58,000 milking cows to accommodate the growing export demand for dairy products. The total number of milking cows in the U.S. now stands at 9.3 million head as of March 2016. In addition to an increase in the population of the milking herd, average milk per cow also increased from the 2014 total of 22,258 pounds per year, to 22,383 pounds per year in 2015—up 125 pounds per cow. USDA data on milk per cow through March 2016 indicates this pattern will continue. As a result of the additional milking cows and improved productivity, milk production in the U.S. grew by 2.6 billion pounds between 2014 and 2015, reaching 208.6 billion pounds last year. Current USDA projections call for 212.4 billion pounds of milk to be produced this year. This total would represent an increase of 3.8 billion pounds of milk over last year's levels.

The additional milk that has come online flowed into additional cheese, butter, and milk powder production. During 2014, American-type cheese production totaled 4.59 billion pounds. Production increased by 107 million pounds in 2015 to 4.7 billion pounds, an increase of 2 percent. This expansion is in line with recent growth rates of 1 to 4 percent per year. For other cheese categories, total production in 2014 was 6.9 billion pounds, rising by nearly 220 million pounds in 2015, to 7.1 billion pounds – an increase of 3 percent. Additional milk produced in 2015 also made it into butter churns, up only slightly from prior year levels. During 2014, butter production totaled 1.855 billion pounds, increasing marginally by 2.7 million pounds in 2015 to 1.858 billion pounds. Finally, similar to cheeses and butter, additional milk powders were also produced in 2015. Nonfat dry milk and skim milk powder production were 1.82 billion pounds in 2015, a bump up of 58 million pounds, or 3 percent, from 2014 levels. Similarly, dry whey production in 2015 totaled 975 million pounds and was up 105 million pounds, or 12 percent, from 2014.

With milk production in 2016 also expected to rise compared to last year, production of cheese and butter are also expected to increase. Non-leap year adjusted U.S. production of all cheese is up 1.8 percent year-to-date through March, and butter production is up 5.9 percent through March.

Domestic Demand and Dairy Trade

Consumption of dairy products produced in the U.S. is broken down into the domestic market and the export market. Domestic consumption of cheese, butter, nonfat dry milk, and dry whey are all up in 2015 compared to 2014 levels. Domestic consumption of cheese was up 385 million pounds to 11.4 billion pounds during 2015. Domestic butter consumption in 2015 was up 54 million pounds to 1.8 billion pounds. Domestic consumption of nonfat dry milk in 2015 was up 65 million pounds to 1.1 billion pounds. Finally, domestic consumption of dry whey was up 216 million pounds to 579 million pounds.

With respect to dairy trade, all products except for nonfat dry milk have seen their export volumes erode from the record high levels of 2013 and 2014. Butter product exports reached a high of 178 million pounds in 2013, before falling to a seven-year low of 37 million pounds in 2015. Year-over-year, the decline in butter exports during 2015 was down 93 percent from 2014 levels. Total cheese exported reached a record high in 2014 at 812 million pounds. However, in 2015 total cheese exported from the U.S. declined 14 percent to 698 million pounds. Nonfat dry milk and skim milk powders were one of the few bright spots for dairy exports in 2015. Record low powder prices resulted in record high export volumes in 2015. In 2015, nonfat dry milk exports were up 3 percent over 2014 levels and totaled 1.2 billion pounds. Combined, the value of dairy product exports in 2014 was $7.1 billion. The decline in dairy product prices and the export volume resulted in the value of U.S. exports in 2015 totaling $5.2 billion– a decline of $1.9 billion.

As U.S. prices rose in 2014 to record highs, it created a pricing opportunity for dairy exporters around the world to access the U.S. market. Imports of dairy products, especially in the higher fat cheese and butter product categories, have contributed to weaker U.S. domestic prices. For example, in 2013 the U.S. imported approximately 36.5 million pounds of butter and butter products. By 2014 that total had surged 28 percent to 47 million pounds, and then again in 2015 it increased another 22 percent to 57 million pounds. The net effect: over a period of two years, butter product imports into the U.S. have increased 229 percent. For cheese a similar pattern was observed. Cheese imports into the U.S. totaled 288 million pounds in 2013, and since then have grown by more than 90 million pounds, 32 percent, to reach 379 million pounds in 2015. On a value basis, dairy product imports into the U.S. have never been higher – reaching $3.4 billion in both 2014 and 2015.

Stock Levels

The preceding set of numbers is manifesting itself in the real world as a logjam of dairy products, resulting from slower exports, increasing milk production, and imports displacing domestically produced products. These conditions create larger dairy product inventories. A variety of news sources including Bloomberg and the Wall Street Journal are now reporting on the record volumes of cheese in inventory. In addition to cheese, butter inventories are well above prior year levels.

Stocks of cheese at the end of 2014 were slightly higher than one billion pounds. By the end of 2015 this total had increased 13 percent to 1.15 billion pounds. Now, at the end of March 2016 total cheese in inventory reached 1.19 billion pounds. This is the highest level of cheese held in cold storage since the early 80's, and is the second highest total in March going back to 1917.

Stocks of butter at the end of 2014 were 105 million pounds – and were at the lowest levels for December since 2010. Tightness in the butter market provided support to domestic prices and also incentives to import butter or butter alternatives. As a result, by the end of 2015 butter in cold storage increased 48 percent to 155 million pounds. Now, at the end of March 2016, a point in time when butter inventories reach a seasonal peak, butter in cold storage has reached 243.6 million pounds. This is far from a record, but remains well above butter storage levels of recent years.

Perspective on the Margin Protection Program

Because of the volatility in both milk and feed prices, we must continue to reassess our risk management tools. And by we, I mean both farmers as well as the Congress. For most of the eight years I've been Chairman of National Milk, I've worked with our member cooperatives, and dairy producers across the country, to build a better safety net. The previous elements of dairy policy had failed to evolve with the industry. Our request to Congress after the economic disaster our industry suffered in 2009 was to create a risk management tool that would offer protection against prolonged and catastrophic income-over-feed-cost margin declines like we experienced in 2009. In the 2014 Farm Bill, Congress created the Margin Protection Program. Approximately 23,000 dairy producers are in the program, representing 80 percent of our milk supply.

MPP is a voluntary program to provide support when the difference between the milk price and feed costs falls below certain thresholds. Every fall, dairy farmers must decide on coverage options for the following year. In 2015, U.S. dairy producers paid $73 million dollars in premiums and fees to USDA, while USDA only paid out $700,000 under the program. This year, dairy farmers have paid in another $23 million dollars.

I firmly believe that MPP is the right program for our industry for the future. That said, our experience to date is that MPP is not completely fulfilling its intended objective as an effective safety net. We remain confident that improvements can be made by the Congress to this still-evolving program. Since the Farm Bill was signed into law, MPP margins have fallen 52 percent. The MPP margin is already at its lowest level since the program was enacted, with further declines expected. Specifically, USDA's MPP decision tool now projects the margin to drop below $6 per hundredweight by June. If realized, this would be the lowest margin since 2013, and already the MPP margin is at its lowest level since the program was introduced in 2014. In this environment, farmers naturally expect that the farm safety net would provide some minimum level of support.

So why is the program not operating as expected? While MPP is similar to the initial proposal put forward by National Milk, the plan was altered as Congress finalized the Farm Bill in 2014. One change reduced the feed cost component of the margin so the current formula no longer reflects the true cost of feeding a herd. Second, while the feed cost component was changed, farmer premiums did not (and some were even adjusted upward), when they should have been changed to accommodate the reduced feed component. MPP has been less effective as a result.

Let me describe this situation in greater detail. During the Farm Bill negotiations Congress reduced the MPP feed ration by 10 percent. While this may not seem material, it had significant financial implications for those farms participating in MPP. During 2015, the average MPP margin was $8.30 and ranged from a low of $7.50 in the spring to $8.65 by the end of the year. These margins triggered MPP at only the highest coverage level of $8 per hundredweight and only 264 farmers received payments. Had Congress not reduced the feed ration calculation, MPP margins would have been approximately $1 per hundredweight lower and more than 8,500 dairy farmers would have received a benefit from MPP. At a time when margins are depressed, missing out on these important safety net benefits due to budgetary concerns resulted in tens of million dollars of lost dairy farmer revenue.

It is clear that while the effectiveness of the program was reduced, the premiums remain at the original level, which at this time should have been changed to accommodate forecasted risk

environment. The 10 percent reduction to the feed ration hurt program performance and also farmers' perception of the program. Many farmers saw that the MPP didn't pay out much, even at the highest levels, in 2015. So, in 2016 they opted for the least expensive level of coverage required by law. Approximately 77 percent of the farmers and 88 percent of the milk enrolled in MPP during 2016 are at only this $4 coverage only. Had Congress not reduced the feed ration, more farmers would have seen benefits in 2015 and participated at higher levels this year. More participation means more protection in this current high risk environment. However, given the current feed ration, even with margins expected to reach the lowest levels in years, total program payments are not expected to exceed premiums for the second consecutive year.

In addition, U.S. dairy farmers simply could not have anticipated the impact a highly-subsidized European dairy industry would have on U.S. dairy prices following the April 2015 expiration of the EU milk quota system. Since April 2015, EU dairy farmers have increased milk output by more than 12 billion pounds over prior year levels. The additional milk being produced by EU farmers is equivalent to 30 percent of California's annual output, 42 percent of Wisconsin's annual output, and is 800 percent higher than production from dairy farmers in my home state of Missouri. This milk is not staying in the EU. Instead, it is being absorbed in the global market at extremely low prices. It is finding its way into EU public stockholding programs and delaying global price recovery. And, finally, this milk is displacing U.S.-produced dairy products domestically and abroad through additional imports and increased market share in competitive export regions. Actions in the EU are having a very real impact in rural America. The net effect is larger inventories here at home, and U.S. producers enduring a longer period of depressed dairy market prices. MPP is not designed to provide support against highly subsidized EU dairy producers oversupplying and undercutting us in the global market.

In my role as NMPF chairman I've toured the country talking to dairy farmers about MPP. The overwhelming concern has been the feed ration and the premium rates. Congress also adjusted the premiums rates higher (the wrong way) due to budgetary concerns. During 2014 and 2015 Congress did provide a 25 percent discount to the lower tier premiums under $8 per hundredweight. This made MPP more affordable to small family farms like my own, as we explored risk management for the very first time. However, this past year the premium discounts were removed and MPP premiums increased substantially. With balance sheets already thin due to the depressed price environment of 2015, and MPP underperforming relative to expectations, many farmers could not justify buy-up MPP coverage in 2016, even though it was sorely needed. The expected benefits of MPP did not outweigh the costs and is likely to result in two consecutive years of premium payments without a measurable return. At the end of the day, dairy farmers just want consistent access to affordable risk management tools.

We appreciate all of the recent improvements made by USDA, including monthly premium payments, decoupling $4 coverage from the buy-up provisions, and providing additional time to make coverage decisions. But the program remains a work in progress. For many farmers, the program is simply not enough to protect them in the current economic environment.

I have heard from many dairy farmers that their financial challenges will only increase if prices do not improve before 2017. Lower commodity prices and slow-adjusting input costs are impacting the ability of dairy farmers repay loans and forcing many farmers to finance operating

losses. These difficulties will have ramifications throughout the dairy economy, and unfortunately USDA economists and dairy industry experts all seem to be in agreement that dairy prices may be very slow to recover. That's why it is important, now more than ever, to ensure that problems with MPP are addressed head-on and the program is improved in such a way that makes it a valuable risk management tool to all dairy farmers in the U.S.

We continue to discuss ways to improve MPP with our dairy farmers, USDA and the Congress. Clearly, adjustments to the feed cost calculations and the supplemental coverage costs would improve its effectiveness as a safety net for all dairy producers. The feasibility and timing of adjustments to the program are an issue we want to explore with the Agriculture Committee.

Biotechnology

NMPF has long supported the right of consumers to know how their food is produced, and where it comes from. In fact, few industries have been more transparent than we in the dairy industry. We are proud of the standards that guide our farmers and the care they put into their cows and the milk and dairy products that they produce. That is why we supported legislation introduced by Congressman Mike Pompeo of Kansas, known as the Safe and Accurate Food Labeling Act (H. R. 1599). On that note, I want to thank this committee and those members who helped advance this legislation last year.

It is of critical importance that Congress act immediately to pass legislation to ensure that a single, federal standard is established on the labeling of genetically modified foods. I cannot emphasize enough how important it is that Congress resolve this matter, before July 1st when the Vermont law takes effect. Failure by Congress to address this issue threatens the viability of not only my farm, but also 30,000 farmers I represent. It also threatens our ability to feed the world's growing population. I thank this Committee for its previous work on this issue and urge immediate action to bring this matter to final resolution.

Trade Policy

Our nation has gone from exporting less than $1 billion in dairy products in 2000, to more than $5.2 billion of exports in 2015, an increase of 435 percent. (Sales in 2014 were even greater at over $7 billion, before retrenching during a global dairy recession last year, as noted previously). This enormous growth can be largely attributed to the market-opening free trade agreements negotiated by our government, including the Uruguay Round, which took steps to reduce export subsidies and implement the first SPS agreement. These agreements lowered and ultimately removed tariffs and in many cases they gave our products a preferential advantage over other supplying countries. They also helped remove technical and regulatory barriers to our trade. Over that period, our exports of dairy products to free trade agreement (FTA) partner nations grew by 489 percent as compared to 384 percent to non-FTA countries.

We must acknowledge that dairy exports last year dropped from the record $7.1 billion achieved in 2014. This was due in large part to a significant drop in global prices for milk powders and cheeses. In addition, the increased value of the dollar and the strong global milk supply have contributed to the decline in prices. But it is also worth noting that, while our exports to non-

FTA countries contracted by 32 percent, they fell by only 20 percent to our FTA partner countries.

Our FTAs have created important new market access opportunities for us and we have worked very hard through our market development efforts to ensure that we are taking full advantage of them. It is not a foregone conclusion, however, that all trade agreements will be beneficial. Their terms matter extensively, as does the level of follow-through to ensure we secure the full scope of the benefits for which the U.S. negotiated.

We support the Trans-Pacific Partnership agreement because it can help U.S. dairy exports continue to grow in key world markets. But, in order for farmers to realize any benefit, important implementation and enforcement issues must be addressed as Congress prepares to consider TPP.

Diligent implementation of U.S. free trade agreements is a vital component to ensuring their effectiveness. Past experience in the dairy industry has demonstrated to us the clear value in strong engagement with our trading partners to foster compliance with their obligations to the U.S. It has also demonstrated just how important the terms of an agreement are. Past negotiations with the EU have led to trading terms and regulatory conditions that drive the current $1.4B dairy trade deficit with the EU.

Any future agreement with the EU must first and foremost prioritize how to tackle this tremendous trade deficit and attack the nontariff barriers, such as the Geographical Indicators, as well as sanitary barriers that the EU uses to limit our access. Critically, fully addressing those barriers requires not just a focus on today's problems but a clear commitment through the trade agreement that new requirements will not be laid on top of any resolutions reached on the current range of issues. The EU has not demonstrated a good-faith commitment to open agricultural trade; the U.S. must proceed cautiously by securing specific and clear commitments from the EU to guard against the imposition of future trade barriers.

Immigration Reform

Our current immigration system is failing America's dairy farmers. When dairy farmers seek employees, they often find that Americans are unwilling to do the difficult job of dairying. However, unlike other industries which have codified access to foreign workers, dairy does not. This is due to the year round nature of our industry which makes us ineligible to participate even in the deeply flawed, though well-intentioned, H-2A program. As such, the current labor situation we are experiencing now threatens the livelihoods of dairy farmers in every region of this country.

According to a University of Texas A&M report released in August 2015 (and conducted in coordination with NMPF), 51% of all dairy farm workers are immigrants, and the farms that employ them account for 79% of the milk produced in the United States. Without access to a steady and reliable workforce, our industry will not be able to thrive, let alone survive, in the future. That is why NMPF has led the way to urge this Congress to pass immigration reform addressing the needs of American agriculture. While I recognize the delicate balance you must

strike politically regarding this issue, America's dairy farmers cannot wait any longer for real reform.

Environmental Sustainability

Dairy farmers are the original environmentalists, and care deeply about the land, air, and water that they manage on and around their farms. 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 from the Chesapeake Bay Watershed to Northern Wisconsin all the way to Central Washington.

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. 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. Importantly, since 1944, GHG emissions per pound of milk produced have decreased by 63 percent and total GHG emissions from dairy production have decreased by 41 percent.

Like other sectors of the economy, dairy farmers are impacted by the current climate of political, legal, and regulatory uncertainty. To help us stand on a stronger footing, we have begun to advocate for proactive policy solutions that will help us turn an environmental liability such as manure into a valuable asset. The dairy industry is working with bipartisan members of the tax-writing Ways and Means Committee to propose an Investment Tax Credit to cover the upfront capital costs of biogas systems and nutrient recovery technologies, which can play an important role in reducing the environmental impacts of dairy farming.

Closing Statement

Mr. Chairman, I want to thank you for holding this important hearing today. America's dairy farm families stand ready to help this committee as you review current policies and consider new legislation that impacts our industry.