Statement by
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Thank you, Chairman Scott, Ranking Member Thompson, and Members of the Committee, for the opportunity to appear before you and discuss the Farm Service Agency's (FSA's) administration of programs that benefit our nation's dairy farmers.

My name is Scott Marlow, and since January of this year, I have had the honor of serving as the FSA Deputy Administrator for Farm Programs at the U.S. Department of Agriculture (USDA). In this capacity, I oversee the management of FSA's disaster assistance, conservation, safety net, and price support programs, which play a critical role in our farm and ranch economy. I am grateful for the opportunity to share and discuss FSA's efforts to support the American dairy sector.

Thanks to the work of many in this room, the 2018 Farm Bill established a much stronger dairy safety net. Over the past two years, pandemic relief and appropriations laws provided additional support to address new challenges and stressors facing the dairy sector. Since the start of the Biden-Harris Administration, FSA has engaged with stakeholders and worked to implement provisions to support dairy farmers hard hit by the dual crises of the pandemic and devastating natural disasters.

Specifically, over the past year, FSA staff have worked tirelessly to find flexibilities in our existing dairy programs to be more responsive to the realities of dairy farming today. We have made key improvements to both our Dairy Margin Coverage (DMC) Program and our Dairy Indemnity Payment Program (DIPP) to meet the needs of our producers. We have also collaborated with our partners at the Risk Management Agency (RMA) and the Natural Resources Conservation Service (NRCS) to ensure we are working effectively across the Farm Production and Conservation (FPAC) mission area to best serve these producers. As we look ahead to the upcoming Farm Bill process, we look forward to providing technical assistance and working together to continue finding the best path forward to support American dairy producers. Additionally, just last week USDA Deputy Secretary Bronaugh signed a key Memorandum of Understanding (MOU) with the Innovation Center for U.S. Dairy, to continue our collaborative work on sustainability and reducing methane emissions with this important industry. The Innovation Center for U.S. Dairy was established in 2008 through the dairy checkoff program. The MOU, which extends and builds upon a 2009 agreement, will facilitate cooperation to encourage the adoption of technologies and practices that improve sustainability and assist in addressing environmental needs of U.S. dairy farmers. We feel this MOU will further position the domestic dairy industry as a leader in sustainability.

In the remainder of my testimony, I will provide additional details on FSA's key dairy programs.

Dairy Margin Coverage

The DMC Program is a voluntary risk management program established in the 2018 Farm Bill that replaced the Margin Protection Program for Dairy (MPP-Dairy). DMC offers reasonably priced protection to dairy producers when the difference between the all-milk price and the average cost of feed falls below a certain level selected by the program participants. By providing flexible coverage options, DMC was crafted to better target small- and mid-sized dairy producers.

The last couple years have proven to be incredibly volatile for dairy producers. The monthly all-milk price for 2021 ranged from $17.10 per hundredweight to $21.80 per hundredweight, and the dairy margins varied from $5.03 per hundredweight to $9.53 per hundredweight. So far in 2022, the monthly all-milk price has ranged from $24.20 per hundredweight to $27.10 per hundredweight, with dairy margins ranging from $10.98 per hundredweight to $12.29 per hundredweight[1]. This swing in dairy prices and margins caused the 2022 forecast for net cash farm income for dairy businesses to increase by 58% relative to the previous year to $382,100 per farm business. Still, we must interpret this data with an important caveat—that these incomes are not representative of the experience of all dairy farms, especially since "farm businesses" only include farms with annual gross cash farm income (GCFI) of at least $350,000 or operations with less than $350,000 in annual gross cash farm income but in which farming is reported as the operator's primary occupation.

Numbers for 2021
In 2021, DMC payments were triggered for 11 months for a total of $1.2 billion paid to producers who enrolled in DMC for the 2021 program year, with an average payment of $60,275 per operation. At 15 cents per hundredweight at the $9.50 level of coverage, DMC is a very cost-effective risk management tool for dairy producers.

Performance for 2022
Ahead of the 2022 DMC signup which opened in December 2021, FSA made key improvements to DMC. Specifically, the program was expanded to allow dairy producers to better protect their operations by enrolling supplemental production, as authorized by the Consolidated Appropriations Act of 2021. Supplemental DMC provides $580 million to better help our small- and mid-sized dairy operations that have increased production over the years but were not able to enroll that additional production. Specifically, eligible dairy operations with fewer than five million pounds of established production history can now enroll supplemental pounds based on a formula using 2019 actual milk marketings, which are resulting in additional payments. Supplemental DMC coverage is applicable to calendar years 2021, 2022, and 2023, which means that participating dairy operations with supplemental production history have been able to receive retroactive supplemental payments for 2021 in addition to payments based on their established production history.

In addition to rolling out Supplemental DMC, FSA updated the DMC and Supplemental DMC feed cost formula to better reflect the actual cost dairy farmers pay for high-quality alfalfa hay. FSA now calculates payments using 100 percent premium alfalfa hay rather than 50 percent of the premium alfalfa hay price and 50 percent of the conventional alfalfa hay price. This

[1] https://www.fsa.usda.gov/programs-and-services/dairy-margin-coverage-program/index#accordion-col-8

change is retroactive to January 2020 and provided additional payments of $42.8 million for 2020 and 2021.

After rolling out these updates, FSA heard from stakeholders about the need for additional outreach and time for producers to make an enrollment decision. In addition to hosting a widely attended webinar, FSA conducted specific outreach with FSA cooperators, Tribal governments, State Outreach Coordinators, State Beginning Farmer and Rancher Coordinators, and other USDA Outreach Coordinators. FSA also extended the original deadline to enroll in DMC and Supplemental DMC from February 8, 2022, to March 25, 2022. Continued interest in DMC is reflected in the increase in both 2021 and 2022 DMC enrollment numbers.

Dairy Indemnity Payment Program (DIPP)

In addition to DMC, FSA administers the Dairy Indemnity Payment Program (DIPP), which has historically provided indemnities to dairy producers for contaminated milk and milk products. In December 2021, FSA updated its DIPP regulation to better address the crisis of perfluoroalkyl and polyfluoroalkyl substances (PFAS) contamination. Specifically, dairy producers are now eligible to receive payments for the depopulation, or losses above normal mortality, of contaminated dairy cows. Applications are already available for cow indemnification under DIPP, and the program will now be able to provide much-needed compensation to dairy producers who must depopulate or lose their cows due to chemical contamination through no fault of their own. Here at FSA, we are also working closely with USDA's NRCS to target assistance through the Environmental Quality Incentives Program and other conservation programs to help producers safely dispose of and address resource concerns created by affected cows.

While I know that our updates to DIPP will provide critical assistance to impacted dairy operations in New Mexico and Maine, I also want to take a moment to recognize the reality that DIPP does not capture the scope of the problem when it comes to PFAS contamination on agricultural lands. Moreover, while New Mexico and Maine have been at the forefront of this crisis, the tragic reality of PFAS contamination extends far beyond these states. Unfortunately, the resources FSA has at the ready are not designed to comprehensively respond to these concerns. As we look ahead to the upcoming Farm Bill, USDA will continue to provide technical assistance in response to any requests from Congress, and the Administration looks forward to working this year with the Congress, partners, stakeholders, and the public to identify shared priorities for the 2023 Farm Bill.

Emergency Relief for Dairy Loss

I also want to touch on forthcoming disaster assistance for dairy producers. Over the past two years, dairy producers across the country have been hard-hit by more frequent and intense natural disasters. On September 30, 2021, President Biden signed into law the Extending Government Funding and Delivering Emergency Assistance Act (P.L. 117-43), which includes $10 billion for necessary expenses related to losses of crops, including milk, due to wildfires, droughts, hurricanes, winter storms, and other eligible disasters experienced during calendar years 2020 and 2021. In addition to disaster assistance provided by Farm Bill programs, Congress designated $750 million of this funding to assist livestock producers for losses in 2021 due to drought or wildfires. USDA is implementing this assistance using a two-phase process for both livestock and crop disaster assistance. The first phase of the Emergency Livestock Relief

Program, which provides payments related to forage losses, was announced on March 31, and $597 million in payments have been disbursed for the Emergency Livestock Relief Program as of June 2. I look forward to sharing additional details this summer regarding assistance to address milk loss.

Risk Management Agency (RMA)

Lastly, while it is outside the scope of my work at the FSA, I want to highlight the great work the Risk Management Agency (RMA) is doing to proactively help dairy farmers through the Dairy Revenue Protection (DRP) and the Pasture, Rangeland, and Forage (PRF) program.

Dairy Revenue Protection (DRP)

Dairy producers have seen significant expansion of federal crop insurance offering the last several years. Through the Dairy Revenue Protection (DRP), dairy producers can protect against unexpected declines in their quarterly revenue from milk sales relative to a guaranteed coverage level.

While this product has only been offered for a few years, it covers approximately a quarter of the milk production in the United States. Livestock Gross Margin for Dairy Cattle is also available and provides protection when feed costs rise, or milk prices drop and can be tailored to any size farm. Modifications were made last year to allow dairy producers to purchase coverage on a weekly basis.

Pasture, Rangeland, and Forage Program (PRF)

RMA also offers the Pasture, Rangeland, and Forage (PRF) program, which is designed to provide insurance coverage on pasture, rangeland, or forage acres grown for the intended use of livestock grazing or haying. The PRF program allows producers to insure specific two-month time periods, called index intervals, that are important to their operation. In doing so, the program is designed to help protect a producer's operation from the risks of forage loss due to a lack of precipitation.

Conclusion

In closing, I would like to emphasize FSA's commitment to keeping our nation's dairy producers in business for generations to come. I want to thank you for the opportunity to testify and for the support you have provided to USDA so that we can implement strong, inclusive programs. I look forward to continuing to work with this Committee to empower our producers to address new challenges, and I am happy to take any questions from the Committee.