Testimony of Jim Mulhern
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Introduction

Chairman Conaway, Ranking Member Peterson, members of the Committee, my name is Jim Mulhern and I serve as President and Chief Executive Officer of the National Milk Producers Federation (NMPF), the voice of America's dairy cooperatives and their farmer-members for over 100 years. I appreciate the opportunity to testify before you today as the Committee begins work on the 2018 Farm Bill.

Economic Situation

Mr. Chairman, as you have noted in recent weeks, we are beginning work on this farm bill in the midst of a very challenging farm economy. This certainly includes America's dairy community. The past decade has generally been a roller coaster for our producers. World dairy markets collapsed in the worldwide recession of 2008-2009, taking U.S. farm milk prices with them. At the time, the milk price-feed cost margin for dairy farmers fell to a truly catastrophic level of $2.25 per hundredweight of milk. Three years later, in 2012, widespread drought sent feed prices skyrocketing to historic highs, once again dropping dairy margins to catastrophic levels.

Many dairy farmers were unable to survive this period, and many of those that did are still struggling to recover fully. While 2014 was a record year for milk prices, it generated no significant gains in milk production, as would typically follow periods of high prices. In fact, production at the national level grew by an average of just 0.8 percent annually between June 2015, when milk prices had just returned back down to average levels, and May 2016. This was almost a full percentage point below the 1.7 percent average production growth from 2010 through 2016. Dairy farmers have explained to us that even the record prices of 2014 did not fully restore their financial condition from the battering it suffered in 2009 and 2012. In particular, they still needed to make replacement purchases of vehicles and equipment that were delayed since 2009 and were therefore not able to invest in growing their operations and recover financially at the same time.

Then global markets collapsed once again in 2015 and 2016, negatively impacting U.S. milk prices and gross dairy farm income in the process. The global collapse was due to a combination

of China discontinuing the massive dairy purchases that caused the 2014 world price spike, together with the extremely large volumes of dairy products which the European Union (EU) added to world markets in the aftermath of that price spike. In the year following the removal of its milk production quotas in April 2015, the EU expanded milk production by 14 billion pounds, equal to nearly 7 percent of total U.S. milk production that year. Almost all of this additional milk production came into world markets as demand was contracting, on top of the large volumes of EU dairy exports that were earlier displaced from Russia following the import embargo it imposed in August 2014.

All told, the value of the fresh milk produced by America's dairy farmers in 2016 was down fully 32 percent from its 2014 high, and 19 percent less than what it averaged over the previous five years. In all, these difficult economic conditions facing our industry over the last decade have resulted in the loss of more than 20,250 family dairy farms across the United States, or nearly one-third of our total farms since 2006.

While the U.S. Department of Agriculture (USDA) projects small gains in milk prices for this year relative to last year, recently those small gains are being challenged by large and growing levels of dairy product inventories. USDA recently projected that milk production for all of 2017 will increase at an annual rate of 2.4 percent. By contrast, during 2015 and 2016, total commercial use of milk in domestic and export markets grew at an annual rate of only 1.8 percent. This expansion in production has the potential to outpace demand, which will weigh heavily on milk prices yet again. In just the past few weeks, the outlook for milk prices and margins has deteriorated at an unusually rapid pace. Domestic cheese prices, which play a critical role in establishing milk prices received by U.S. dairy farmers, have dropped in the daily cash market in recent weeks and are currently lower than they have been during all but three percent of the time since the beginning of 2010. World prices for skim milk powder have also shown significant weakness. These prices directly determine U.S. prices for nonfat dry milk, which also play a critical role in establishing farm milk prices. Nonfat dry milk prices in the domestic cash market are now lower than they have been during all but four percent of the time since the beginning of the year 2000. This deterioration has been reflected in the dairy futures market as well. Under the changes that NMPF is proposing to make the MPP a more effective safety net program, as I detail below, the program would now be projected to make payments to participating producers in the coming months. It is amidst this challenging economic climate that work is beginning on the upcoming farm bill.

Dairy Policy Overview

As we begin this process, Mr. Chairman, Ranking Member Mr. Peterson, I want to voice my strong support of your well-articulated position that getting the *policy* right must be the focus of the Farm Bill deliberations process, not starting with arbitrary, and often inaccurate, budget projections and trying to shoe-horn policy into those numbers. As you pointed out in your March 1, 2017 Budget Views & Estimates letter to the House Budget Committee, it is critical that this Committee take the approach of "first establishing what policies are required to effectively address the conditions in farm and ranch country and then by establishing what resources will be required to achieve them."

In fact, it is precisely because the opposite of this approach drove the deliberations on dairy in the 2014 farm bill that I am here today to tell you what we all know – the Dairy Margin Protection Program is not working. While MPP was, and is, the right approach for the future of federal dairy policy, the program today, in its current form, does not provide meaningful safety net support to the nation's dairy farmers. And it cannot become the effective safety net policy it was envisioned to be without action by this Congress to move it closer to the program it was originally proposed to be by this Committee's ranking member, Rep. Peterson, in 2011. The current program is not working because of changes that were made to Mr. Peterson's original proposal in response to cost projections of that proposal by the Congressional Budget Office – projections that have since proven to be incorrect.

As the Chairman and Ranking Member further noted in your letter to the House Budget Committee, the shortcomings in the dairy program (as well as cotton and others) "must be addressed if the Committee is to craft a farm bill that can be successfully enacted into law and effectively respond to current conditions. America's farmers and ranchers can hardly be expected to rally around a farm bill that will fail them in hard times, nor can this Committee in good conscience advance such legislation."

Members of the Committee, the nation's dairy farmers wholeheartedly agree with you. We appreciate this clear and unequivocal message, and we look forward to working with you to craft policy changes that will provide the effective dairy safety net that was originally envisioned in the previous farm bill debate.

Our organization has been working continuously since the MPP was first established in 2014 to monitor its implementation and seek changes to improve its operations. During 2015 and 2016 we urged the US Department of Agriculture to address a number of program provisions that needed attention – from providing dairy farmers more time to make decisions on annual sign-up to flexibility in premium payment schedules and clarifying the interaction between catastrophic and supplemental coverage levels. We were pleased that USDA worked closely with us and took appropriate and necessary administrative steps to address our concerns.

As helpful and important as the Department's actions were, MPP still is not providing effective safety net protection to dairy farmers because of the problems with the program's feed cost calculations and premium structure – problems that can only be addressed by Congress through legislation.

We have identified a series of steps that Congress can take that will address these problems and make the MPP the effective dairy safety that we – and many on the Committee – were seeking in the current farm bill. In order to better understand the need for the changes we propose, it is important to recall the context in which the Margin Protection Program was originally proposed, and to review its functioning to date.

Following the worldwide economic collapse of 2008-2009 that led to the disastrous milk prices that dairy farmers endured in 2009, NMPF proposed to Congress a new risk management tool that would offer protection against catastrophic income-over-feed-cost margin declines. In the 2014 Farm Bill, Congress authorized the Margin Protection Program for Dairy. MPP is a

voluntary program run by the Farm Service Agency (FSA) designed to provide support when the difference between farm milk prices and feed costs fall below certain levels. The program enables dairy farmers to annually decide the level of margin coverage they want for their operations, ranging from a so-called catastrophic floor coverage level of $4.00 per hundredweight of milk, up to a maximum level of $8.00/cwt. The $4.00/cwt. basic catastrophic level is available for a $100 administrative fee paid annually to USDA. Coverage above that level is available in $.50/cwt. increments (up to the $8.00/cwt. maximum), with escalating premiums for each higher level of coverage.

Approximately 23,000 dairy producers, slightly more than half the nation's dairy farmers, are currently participating in MPP. The participating producers represent 80 percent of the overall U.S. milk supply. During the program's first full year of operation in 2015 farmers paid roughly $70 million in premiums and fees to USDA for the basic and supplemental coverage. But during that same year, USDA paid out to participating dairy farmers *only* $730,000 under the program. Due to the program's meager supplemental coverage performance in 2015, many producers reduced their coverage for 2016, choosing to only purchase coverage at the catastrophic ($4.00/cwt.) coverage level, which in turn further reduced MPP payments to producers from USDA when margins shrunk last year. As a result, last year farmers paid in $20 million while USDA paid out only $13 million. In total, MPP has generated a significant profit to the federal government and provided no meaningful support to dairy farmers since its inception—greatly harming farmer support and trust in the program as an effective safety net.

The reason that MPP has not performed as an effective safety net for our nation's dairy farmers, as I noted earlier, is because of the arbitrary changes in the formula used to calculate dairy farm feed costs that were deemed necessary to meet the Congressional Budget Office (CBO) score. While we strongly believe the MPP is, as NMPF Chairman Randy Mooney told this Committee last year, the right program for the future, that will only be the case if Congress improves the program so that it offers the effective risk management for our dairy producers that it was originally envisioned to provide. We are not seeking, and do not want, a program designed to make the good times even better, nor one that would incentivize production. We simply want, and need, an effective federal safety that will protect dairy farmers from margin losses that could put them out of business. We advocate targeted and specific changes in MPP so that it better reflects the true feed costs that dairy producers face, and that will enable farmers to purchase the level of coverage needed for their individual operations. In other words, we believe that MPP must be improved so that it functions as it was originally intended during the tough times.

Proposed MPP Changes

Over the course of the last 18 months, NMPF has been working to examine potential improvements in the program. NMPF Chairman Randy Mooney appointed an Economic Policy Committee consisting of NMPF producer members from around the country to discuss a wide range of possible changes that could be made to improve MPP. The committee deliberated in multiple meetings since last fall, and unanimously developed a series of recommended improvements in MPP that were presented to our full Board of Directors earlier this month. In turn, our Board unanimously voted to support the Committee's recommendations. I am excited

to come before you today to discuss our proposal that has broad consensus support within the dairy cooperative and producer community nationwide.

Our review encompassed every aspect of the Margin Protection Program. After examining all the issues that were raised throughout our discussions, the Board adopted recommendations that encompass four areas. I'd like to briefly review each of these areas with the Committee.

The first area that must be addressed in order to make MPP a functioning risk management safety net relates to the feed cost calculation in the margin formula. It is this feed cost formula that is the central reason the program is currently failing. The current formula reflects harmful changes from the one we initially proposed, again changes that were made at the behest of an incorrect CBO score.

In developing MPP, NMPF worked closely with dairy economists, veterinarians, nutritionists, and farmers to develop a model for calculating the cost of feeding dairy cows. We worked to develop an approach that would calculate feed costs on a per hundredweight of milk basis, and reflect the nutritional needs of a lactating cow that produces the U.S. average quantity of milk per year. The index accounts for changes in the cost of key feed ingredients like corn, soybean meal, and alfalfa as well as changes in the cost of feeding an entire dairy herd, including all lactating cows, dry cows, and replacement heifers. This careful process took nearly a year and the end result closely aligned with monthly feed cost data reported by USDA since 2005.

However, during the Farm Bill deliberations process, Congress reduced the originally proposed MPP feed ration by 10 percent due to the aforementioned CBO scores. This one change had major, outsized and significant negative financial implications for the monthly Margin Protection Program calculations, and for all dairy farmers who participated in MPP. Specifically, the change had the effect of arbitrarily raising the reported MPP margins under the formula by approximately $1 per hundredweight. For one illustrative example, in May and June of last year, the MPP margin was calculated under the existing formula to be $5.76 per hundredweight. But under the more accurate, real-world formula from our original proposal, the true national average margin was really $4.77 per hundredweight. This nearly $1.00 difference in the calculation demonstrates why the current program is ineffective – using the true feed costs calculations would have provided coverage to a larger group of producers suffering through a difficult year.

The 10 percent reduction to the feed cost calculation has not only skewed the program arbitrarily, it also severely damaged farmers' perception of the program. Producers understood that MPP would not pay out when margins were relatively average, but they did expect the program would provide support at specific levels when margins were compressed. Unfortunately, because of the arbitrary change made to the feed formula in the 2014 farm bill process, the expected level of safety net support didn't happen in 2015 or 2016. As a result, most of the farms and the milk enrolled in the program today are only covered at the catastrophic $4 coverage level.

To remedy this problem, NMPF is seeking restoration of the original feed cost formula that we put forward several years ago. Mr. Peterson, your proposed legislation from 2011 got this calculation right the first time and we implore the Committee to restore that original formula to make MPP more effective and improve program integrity—these steps will improve producer

confidence in the program and, in turn, encourage greater participation in the program moving forward.

This fix is fundamentally necessary to repair the program. In addition, there are a few other changes to the particular data series that USDA has chosen to use for calculating the MPP feed cost formula, which will better reflect the true costs of feed for the nation's dairy farmers. Specifically, we support the use of the corn price series compiled by USDA's Agricultural Marketing Service (AMS), which calculates the prices paid by farmers to purchase corn, as opposed to the series compiled by USDA's National Agricultural Statistics Service (NASS) that is currently used in MPP, which uses the price received by farmers for corn they sell. AMS reports this price at a large number of specific locations throughout the United States, and NMPF will work with that agency to select a representative sample of those pricing points to develop an accurate U.S. average price for corn purchased by farmers throughout the country. We also support changing the source of the MPP soybean meal price from the current single Decatur-Central Illinois price point to the average of all pricing points also reported by AMS. The impact of this change would increase average soybean meal prices in the MPP feed cost calculation by about nine dollars per ton, and is more consistent with the national average calculations that are reflected in the MPP feed and milk price formulas. Finally, we request that Congress direct USDA to develop a more detailed U.S. average price for dairy quality alfalfa hay. The current U.S. average price for alfalfa hay reported by NASS is an average of all grades and qualities of hay. Our members have consistently indicated to us that the single NASS price is well below that of the price for minimum quality alfalfa hay required to productively feed dairy cows. Taken together, these formula changes will help MPP more realistically reflect the feed costs borne by dairy farmers.

The second aspect of MPP in need of revision relates to the producer rates for buy-up supplemental coverage While the feed cost reforms I have outlined are essential to having a program that reflects true producer costs, in order to make MPP an effective safety net program that farmers can afford to participate in, we believes that Congress must adjust the premium rates, especially the rates at the lower level of milk production. Today, commercial programs like the Livestock Gross Management (LGM) run by the Risk Management Agency (RMA) are more attractive than MPP, a Title 1 program. In order to provide an effective dairy safety net, it is important to incentivize participation in MPP. That will require affordable premium rates that offer adequate levels of needed coverage for producers without stimulating additional milk production. Higher levels of supplemental coverage are especially important for small and medium-sized producers, and can be provided with less risk of increasing production.

We look forward to working with the committee to determine appropriate supplemental coverage rates in a manner that balances producer needs and program costs. Given the disappointment and frustration that many dairy farmers have felt regarding the program's initial performance, there will be work to do in reintroducing dairy farmers to a reformed MPP. Adjusting premium rates in a balanced manner will be an important part of our effort to maintain a working program for dairy producers of all sizes and in all regions.

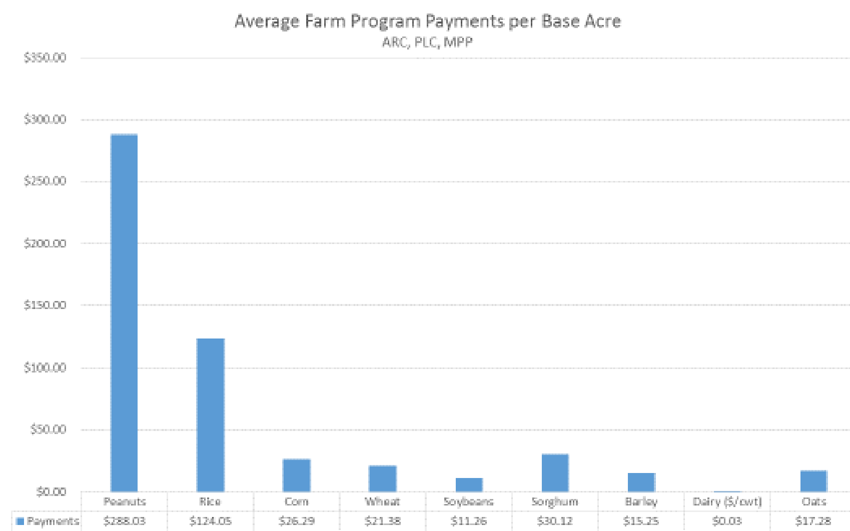
A third area for improvement in the operation of MPP relates to technical changes designed to make the program more responsive to producers on a functional level. First, the program can be

strengthened by calculating the MPP margin on a monthly basis, rather than using a bi-monthly average basis. Using a bi-monthly calculation dilutes the timeliness and level of safety net support of the program for dairy farmers, so moving to a monthly calculation would be more accurate for risk management support purposes. In addition, we urge Congress to maintain the level of flexibility shown by USDA for coverage sign up each year so that producers have adequate time and ability to make informed coverage decisions. Each year since enactment, USDA has moved the sign-up period to a date late in the year prior to the start of the next coverage period.

Finally, NMPF urges the Committee to enact policy changes that permit the Livestock Gross Margin-Dairy (LGM) insurance program, run by the Risk Management Agency (RMA), to work in a complementary manner with MPP. Almost every Title I commodity has the ability to participate in both base programs and Title XI insurance programs. Prohibiting dairy from having that ability not only discourages participation in the program, it further exposes milk, our nation's third largest commodity by cash receipts, to unwarranted levels of risk.

Specifically, the LGM cap for dairy should be expanded so that more producers can participate. LGM is a sophisticated tool that works very well for specific producers during specific times, in particular when futures prices are high enough to allow farmers to protect a high margin, well above MPP levels. Unlike MPP's fixed premiums, LGM's premiums change as futures markets change, and producers have the ability to make numerous decisions to help customize their risk management for their farm.

Even though the two programs offer fundamentally different kinds of protection, the 2014 Farm Bill required producers to make a one-time choice at the start of the farm bill between MPP and LGM. This put dairy farmers at a disadvantage within agriculture, as producers of other commodities are not required to choose between Title I farm programs run by FSA and crop insurance programs run by RMA. Moreover, an analysis of 2014 Farm Bill outlays under Title I demonstrates that dairy program costs are miniscule when compared to other major commodities.



The above chart demonstrates the importance of not only improving MPP, but also of ensuring that dairy producers have the ability to use a variety of different risk management tools to weather challenging financial times like the ones experienced during the last decade.

Collectively, NMPF has proposed four areas for reform in the upcoming Farm Bill that we believe will strengthen MPP for the future and give producers the flexibility enjoyed by farmers of other major commodities. We look forward to working with this Committee to enact these changes in the next Farm Bill.

Immigration Reform

While the need to improve the MPP economic safety net remains top of mind, we are heading into this Farm Bill process against a backdrop of other very significant challenges confronting the dairy community. Our current immigration system is failing America's dairy farmers.

The importance of immigrant workers to the United States dairy industry cannot be overstated. Independent estimates indicate that at least fifty percent of the U.S. dairy farm workforce is comprised of foreign-born workers. Simply put, the dairy industry today cannot operate without immigrant workers.

As our economy has become more services-oriented, our dairy farmers have found it harder to hire Americans to work on their farms. Even in times of high unemployment, our producers universally report an inability to find enough American workers to fill dairy jobs even if they pay more than other local jobs. Dairies all around this country consistently seek American workers from their local communities, at highly competitive wages, but sufficient numbers of local workers are simply not available or not interested in working on dairy farms.

According to a study NMPF commissioned with Texas A&M University that was released in August 2015, 51 percent of all dairy farm workers are immigrants, and the farms that employ them account for 79 percent of the milk produced in the U.S.

The dairy industry has some unique qualities that set it apart from other sectors of the agricultural industry. Dairy production is a seven-day-a-week, year-round endeavor. Our cows require constant, daily care and handling. Unlike most other agricultural production, there is no "season" in dairy production. Unfortunately, this nation's single agricultural visa program, the H-2A program, focuses on a seasonal or temporary need for workers, and generally excludes dairy farms from participation. Although the Department of Labor has made exceptions to this seasonal requirement for others in agriculture, such as sheepherders, the Department refuses to provide a similar accommodation for dairy.

Therefore, the dairy industry is facing the same shortage of domestic workers that is faced by the rest of agriculture, but with one glaring difference: we are unable to utilize the H-2A agricultural worker visa program to hire legal foreign workers. While we believe the current H-2A program is deeply flawed, our exclusion from the only option for hiring foreign workers under a visa program, brings heightened business and legal risks for our member farms. The fact that an

agency of the U.S. Government consciously treats one sector of agriculture differently is simply, fundamentally unfair.

As the President enacts his new executive orders, new enforcement mechanisms have come with a great deal of uncertainty and confusion about the scope of the enforcement actions, and how broad the impact will be. The uncertainty is creating a significant level of anxiety and distress in farm country.

Without access to a steady and reliable workforce, our industry will not be able to survive, let alone thrive, in the future. It is imperative for Congress to act soon to address the needs of American agriculture and, in particular, the dairy industry. It is critical that we maintain our current workforce, and create a sensible, workable means of filling farm jobs in the future.

We recognize the need for secure borders and enforcement efforts to remove criminal aliens, but such steps must be accompanied by the establishment of a system providing dairy and other agricultural enterprises with access to a stable, legal workforce. If Congress is going to enact a nationwide E-Verify requirement, then it also needs to provide agriculture with a workable guest worker program to meet our future needs and a means to allow those who are currently working in undocumented status to be eligible for such a guest worker program. Failure to do so risks severely damaging the economic vitality of the nation's entire agriculture sector.

We will be working closely with the Judiciary Committee and the leadership in the House and Senate as well as members of the House and Senate Agriculture committees to address the inability of the dairy industry to participate in the H-2A temporary agricultural worker program, and the need to address current workers with improper documentation.

Trade

The dairy industry also has made great strides on trade since the turn of the century. 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 the depressed world markets I spoke of earlier reduced that number closer to $5 billion last year, we remain the largest exporter of skim milk powder, whey products, and, depending on the month, the number one exporter of cheese in the world. This is a tremendous increase not simply on a value basis, but also in the percentage of U.S. milk production that finds a home overseas. Fifteen years ago, we exported roughly five percent of our production, while today we export three times that level even as overall U.S. milk production has continued to grow. Put simply, today, the equivalent of one day's domestic milk production each week ultimately ends up overseas.

It is not coincidental that the enormous growth in dairy exports I mentioned earlier occurred during a period when the U.S. began negotiating market-opening free trade agreements (FTAs) and the Uruguay Round Agreement reduced export subsidies and created the first Sanitary and Phytosanitary Agreement (SPS Agreement). The FTAs implemented since the early 1990's lowered and in the vast majority of cases ultimately remove tariffs on our exports and in many cases they gave our products a preferential advantage over other supplying countries. They also

helped remove technical and regulatory barriers to trade. Over this period, exports of dairy products to FTA partners grew by 685 percent as compared to 338 percent to non-FTA countries. But it is important to note that, while our exports to non-FTA countries contracted by 32 percent, they fell by only 20 percent to our FTA partner countries.

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. Two to three decades ago our industry feared trade agreements. Now, we embrace the benefits that trade agreements can offer as a vehicle for tearing down foreign barriers to our products and effectively enforcing the terms of U.S. agreements. Well-negotiated trade agreements are essential to ensuring that we do not lose out to competitors who are themselves cutting FTA deals around the world. Poorly negotiated agreements risk forsaking critical opportunities to level the playing field for U.S. exporters. It is evident that the United States has fallen behind in expanding trade agreements compared to our competitors who are negotiating trade agreements all over the globe. When it comes to trade, those who stand still lose market share.

We are encouraged by the President's call for greater enforcement of our existing trade agreements. Unfair import barriers remain in place and new ones are erected all the time. A good example is the relatively recent and extremely protectionist effort by the European Union (EU) to prevent the use of common cheese names around the world –by misusing Geographical Indications to give their producers a lock on international markets. If we aren't in the game actively negotiating on these issues, we are ceding ground to our competitors and those looking to make it tougher for us to do business in their markets. We thank this Committee and Congress for strongly rejecting the EU's blatant protectionist efforts to claw back common food names like parmesan and feta, which belong to everyone, not just a handful of producers in Italy and Greece.

Another major enforcement challenge is Canada – a country that has consistently erected barriers to U.S. dairy products. Canada has been actively pursuing every available opportunity to constrain dairy imports that begin to gain ground into its market, thereby repeatedly nullifying and impairing the value of dairy market access concessions. There has been case after case of Canada altering its regulations and policies to erect barriers to dairy trade.

A few examples have been actions by Canada to prevent imports of milk ingredients, ultra-filtered milk, pizza preparations and even simple products like mozzarella sticks. In addition to its use of regulatory and policy tools to impair dairy trade, in the course of its FTA negotiations with the EU, Canada completely disregarded its own intellectual property laws in order to bow to EU pressure to impose restrictions on several generic cheese names. This decision was not only counter to Canadian IP policies and principles, but also existing international obligations.

Finally, the most recent Canadian policy shift, which has already led to a drop in U.S. dairy exports, is another under-handed milk pricing policy maneuver. The first version of this policy was implemented in Ontario last spring, but as of last month is reportedly being implemented nationally. This new program has been developed to discourage the use of imported dairy ingredients and milk, while specifically encouraging use by Canadian processors of domestic dairy inputs. Collectively, these recent milk pricing programs aimed at displacing imports have

already led to tens of millions of dollars in U.S. dairy export losses, an impact that comes at a particularly bad time for U.S. dairy farmers given the current depressed dairy market situation.

Actions of this sort that unjustly attack the investments U.S. companies have made in servicing export markets cannot be tolerated and must be met with clear consequences. In the case of ultra-filtered milk in particular, U.S. companies –supplied by American dairy farmers –have made significant investments to seize the targeted opportunities in the Canadian market that were granted by the North American Free Trade Agreement (NAFTA) and the Uruguay Round.

For Canada to now put in place policies designed to directly undermine and impair those investments harms employment in rural U.S. communities, impacts the supplying dairy farms and risks undermining support for the value of trade agreements. This is a significant blow to many companies in the United States, but it is not the worst consequence that this program will impose on our members.

As part of this new policy, Canada will be disposing of significant quantities of milk protein in the form of skim milk powder into the world markets, lowering U.S. producer prices even more while at the same time maintaining its supply management system. The U.S. dairy industry has jointly urged this Administration, as well as the previous one, to clearly and publicly reject Canadian actions at both the provincial and federal levels as inconsistent with their trade obligations. NMPF is also asking U.S. Governors of border states that have been affected by Canadian actions to begin taking immediate action in response to Canada's new barriers to dairy trade.

We urge Congress to put Canada on notice for its continued violation of trade agreements and for offloading dairy products into the world market despite its supply management system. We urge the Administration to begin evaluating a potential WTO or NAFTA case with respect to not only the new special class 7, but also the EU-Canada FTA agreement on GIs, as both are blatant violations of Canada's commitments to the U.S. and to its other trading partners.

By contrast, the other NAFTA party, Mexico, has been a steadfast and reliable partner to the U.S. dairy industry. Where problems have arisen, both governments have, in general, been willing to work together to find ways to resolve them. As a result of this partnership, trade in dairy products to Mexico is now operating fairly smoothly. We consider Mexico not only to be our best foreign market but also a very good trading partner. Today we sell over $1.2 billion in a variety of dairy products to Mexico, making it our number one foreign market.

The U.S. dairy industry has communicated in a united voice, as recently as last week on a trip we took to speak before Mexican producers, processors and government officials, where we expressed our desire to remain a reliable partner and supplier of dairy products, ensuring that there are no disruptions to our trade relationship. National Milk cannot stress enough the importance of the Mexican market to rural economies. Trade with Mexico means good-paying manufacturing jobs for tens of thousands of Americans. To that end, it is critical that Congress protects the progress we have made as the Administration updates existing trade agreements with Mexico.

Finally, I would like to stress that when it comes to trade, our industry has built markets both close to home and overseas. We need to protect those markets and increase sales in regions as diverse as Asia, Latin America, and the Middle East. To make that possible, we need well-negotiated trade agreements and the necessary tools to implement them. As such, we urge the Administration to begin negotiations in the near term with Japan and Vietnam to ensure that we maintain our global competitiveness in years to come. What was achieved in TPP should be the starting point for negotiations with those partners, particularly with Japan in light of the reality that TPP all but excluded new access for two of the largest dairy commodities into Japan: milk powder and butterfat.

As the Administration evaluates potential FTA partners, we urge it to keep in mind which countries would prove to be good candidates for an investment of U.S. negotiating resources. Not all trading partners will meet this benchmark and we will look forward to consulting with Congress and the Administration on helping to select those partners best positioned to yield net positive dairy and agricultural results in an FTA.

In addition, we encourage increased funding for two tools under this Committee's jurisdiction that are designed to help encourage trade: the Market Access Program and the Foreign Market Development program. The value of the investment in these programs has eroded over time and must be significantly bolstered in light of our trading partners' aggressive investments in similar promotional programs. However, we strongly urge the Committee to ensure that USDA reviews the present distribution of new funds, so that those sectors such as dairy that have expanded exports significantly in the last decade, and are matching funds with their marketing efforts, are awarded with enough resources to continue this critical work.

Child Nutrition

Another major issue for our industry is nutrition. This issue should be of concern to all of us given its impact on dairy farmers and, more importantly, our nation's children. In recent years, fluid milk consumption has continued to decline in schools due in part to restrictions on the types of milk that can be provided. Since these restrictions were put in place, food waste and reduced consumption of milk has only worsened.

Let me remind you that milk is the primary source of nine essential nutrients in children's diets, and studies have shown that if children are not getting those nutrients at school, they may not be getting them at all. It is vital that Congress expand fluid milk options for school meal programs to ensure that our children are getting the nutrients they need. These changes are consistent with the 2015 Dietary Guidelines for Americans that determine school food options and have received bipartisan, bicameral support in Congress.

Environmental Sustainability

Farmers are the original environmentalists. Our dairy farmers care deeply about the land, air and water that helps sustain their cows and their farm operations. Our farms are our homes; it's where we raise our families. In recent years, federal and state regulators have applied significant pressure to improve water quality with a focus on reducing nutrient output 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 environmental practices.

In a demonstration of continued leadership, the dairy industry is seeking proactive policy solutions that will help turn what can sometimes be a potential environmental liability, such as manure, into a valuable asset. To that end, NMPF supports the bipartisan Agriculture Environmental Stewardship Act which was introduced in both houses of Congress last year. This legislation creates an Investment Tax Credit to aid farmers with the upfront capital costs of nutrient recovery and biogas systems. These systems can play an important role in reducing the environmental impacts of dairy farming, and the ITC will incentivize voluntary action to address this rather than add additional regulatory burdens and higher costs onto the backs of already financially-strapped farm operations. We look forward to working with many of you to enact this legislation in this Congress as part of a broader tax package.

DAIRY PRIDE Act

Another issue of great importance to dairy farmers as well as to consumers is the accurate and appropriate labeling of foods in accordance with established federal standards of identity. Unfortunately, the U.S. Food and Drug Administration has been negligent in its enforcement of dairy food standards that clearly stipulate, in the Code of Federal Regulations, that a product labeled as "milk" comes from a cow, and that other similar products, including cheese, ice cream and yogurt, are likewise made from the milk from animals – not from beans, seeds, nuts and grains.

Yet our grocery store shelves today are filled with all manner of copycat "milk" products that ignore government standards of identity – and mislead consumers about the nutritional equivalence, or lack thereof, to real milk. Milk has numerous vitamins, minerals and nutrients essential to human health, and it is the number one source of nine nutrients in children's diets. The 2015 Dietary Guidelines for Americans found that most Americans are not meeting the recommended intake for the dairy foods group.

Plant foods processors go to great lengths to take a handful of seeds or grains, grind them into a powder, add whiteners and emulsifiers, blend in some vitamins, and then package the resulting concoction to resemble milk. Perhaps this imitation is meant as a form of flattery, because calling these products "milk" is clearly a subtle effort to trade on the healthy halo of real milk. Yet these imitators are engaged in misleading marketing because their products don't have the same consistent nutritional offerings as real milk, certainly not across the many types of imitation beverages on the market. Most will fortify their offerings to an extent, but they still do not offer the same extensive nutrition package that real milk does. You would never know this from the marketing claims of dairy imitators, which can mislead people into thinking these products are comparable replacements for milk, when in fact most are nutritionally inferior and thus not suitable substitutes.

NMPF has repeatedly raised concerns with FDA that the agency is failing to enforce this long-standing, clearly-defined law when non-dairy products co-opt terms like "milk" and "cheese." We are greatly encouraged now that members of Congress are also becoming aware of this

problem, and have introduced legislation to prompt FDA into taking action. H.R. 778, the DAIRY PRIDE Act, was introduced in January by Reps. Peter Welch, Mike Simpson and Sean Duffy. A companion Senate measure, S. 130, has been introduced by Sen. Tammy Baldwin. This legislation doesn't create a new law, but rather lays out explicit conditions by which FDA must explain how and when it will enforce dairy food standards of identity. I encourage members of this committee to support this legislation.

Let me be clear: we do not oppose the sale of imitation dairy products, but we do oppose their use of dairy terms specified in the Code of Federal Regulations. Dairy farmers are not seeking to eliminate competition from these products, they just want the enforcement of regulations that exist to prevent the marketing of inferior copies of established food products. Most other countries take this same approach, which is why you will not find a product labeled as "almond milk" in Canada, the United Kingdom, or the 28-nation European Union, although almond-based beverages are still sold in those nations.

The promoters of dairy alternatives claim that the Dairy Pride Act, as well as an overall increase in the enforcement of existing dairy labeling standards, will interfere with the marketing of other common foods such as coconut milk, milk of magnesia, and peanut butter. But these are nothing more than absurd straw man arguments meant to deter any enforcement of the current regulations.

The difference is that these other products do not market themselves as replacements for real dairy foods. Peanut butter, and other nut butters, are not functional replacements for butter made with real cream. In fact, butter makers first dealt with this issue 80 years ago, when plant-based spreads began appearing. They were not then called, nor are they today labeled, "soy butter" or "vegetable butter." They're called margarine, precisely because government standards dictate that butter comes from milk, not plant sources.

In fact, peanut butter, like real milk, has a federal standard of identity, specifying its composition. The imitation milks do not have standards of identity – that's the major problem. This line of argument is just another attempt to blur the issue, which is that a growing number of plant-based products are positioning themselves as alternatives to milk, even though they are not suitable substitutes from a nutritional standpoint. It is past time for this deception to end.

Closing

Mr. Chairman, I want to once again thank you and the Ranking Member for holding this hearing today. NMPF is grateful for your emphasis and focus on policy in the upcoming Farm Bill process, and we look forward to working closely with you to see that MPP reforms become a reality.