



International Dairy Foods Association

Milk Industry Foundation

National Cheese Institute

International Ice Cream Association

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Good afternoon and welcome to our Washington Conference. It's good to see such a large group, and I thank all of you for taking the time to come to D.C.

Never have we had such an active agenda in Washington on issues that impact your business, and that means it is especially important for lawmakers to hear from you.

Before we jump into the issues briefing, I wanted to say a few words about a topic that has become increasingly troubling to me in the last few months – and that's the growing interest among some dairy groups to move toward a government-mandated milk supply management program.

I'm not going to mince words, and I hope you don't either when you are talking to offices on Capitol Hill. Supply management will destroy our dairy industry's opportunity for the future.

Supply management is intended to limit growth and increase prices. And both of these have dire consequences.

Increased prices will result in decreased demand for dairy products, both fresh dairy products and dairy ingredients. Higher costs for basic foods, at a time when millions are out of work, and higher-cost dairy ingredients, which

drive lower-cost substitutions in product after product, are hardly a formula for success.

Supply management will kill the growth of the U.S. dairy industry and prevent us from adding jobs and helping our nation's economic recovery.

Supply management will stop dairy exports at a time when emerging markets are crying out for more dairy products. We all know that the U.S. has a unique opportunity to grow and innovate to serve these markets.

And finally, milk supply management will cost our government hundreds of millions of dollars more to fund food and nutrition programs that are the priority of the Obama administration.

Dairy processors are sensitive to the market situation for farmers, and we are well aware that dairy producers are coming out of a period of devastating margins. Congress and the U.S. Department of Agriculture, with our support, provided over \$1 billion of assistance throughout 2009.

It is clear to everyone in the dairy industry that our current dairy policies do not work. But we need a solution that offers support AND opportunity.

IDFA has been working closely with the National Milk Producers Federation to find consensus on ditching the programs that are impediments to our markets working, to provide a better safety net for producers through a margin insurance program, and to make sure everyone in the milk market has better risk management tools to manage price volatility.

As an industry we are much more effective when we work together, so it is very unfortunate that National Milk has recently taken a position in support of supply management.

IDFA has successfully fought supply management in many previous farm policy debates – and, believe me, I don't relish the idea of digging this up again. But supply management is an idea that we need to fight and fight hard.

Congressman Jim Costa (D) of California introduced a supply management bill that would create a massive new bureaucracy at USDA for the purpose of deciding how much the milk supply should be increased or decreased

each year. Every dairy farmer would be given a quota and would pay extra taxes if they produced more than the government dictated.

I know it sounds crazy, but you'll find a surprising number of staff and members of Congress who don't understand the consequences of this kind of program, and they are thinking about supporting the Costa bill. They have been told it will stop volatility. They may think it will protect their state's dairy production or they may think it will help the small producers. But it will fundamentally take away market opportunity.

Milk prices are not notably more or less volatile than other agricultural commodity prices. In fact, other commodities have seen even greater price swings, but those industries use government-subsidized insurance and market-based risk management tools to smooth the bumps and valleys. We can and should do the same thing.

As for protecting their dairy industries, many states like Washington, Minnesota and Wisconsin have been growing much faster than average, and they will be forced to slow down. Supply management policies will pit producers against producers and states against states. This is NOT the direction to take.

And what about keeping our small farms? The Canadians adopted a quota system decades ago, but the rate of decline in the number of dairy farms in Canada since then is about the same as in the United States. By allowing the production allotments to be sold, the Costa bill could very well speed the demise of small farms as larger, more efficient, farms will want to buy the production rights of smaller operations.

Now some people are going to ask why not fix the many problems of the Costa bill or work with the NMPF plan for supply management. But you can't make a silk purse out of a sow's ear.

Every supply management proposal fundamentally achieves the same ends as the Costa proposal – impose a quota and tax producers when a trigger at USDA indicates that production needs to come down. There is no starting point with room for discussion on supply management – we oppose it in all of its forms and permutations.

Our dairy programs are already far too complex for most people to understand. Supply management will not only add to the complexity but lead to more, not less, price volatility. We need to simplify our policies and support a strong risk management safety net, so it is time to draw the line in the sand against supply management.

And it won't be just us – many dairy producers, dairy coops, the cattlemen and other national agriculture organizations share our opposition to supply management. Today, we invite them to join us again in defeating supply management for the U.S. dairy industry.

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