

**House Agriculture Committee
Field Hearing to Review U.S. Agriculture Policy
in Advance of the Next Farm Bill
Fresno, California
May 3, 2010**

**Testimony of
Jamie Bledsoe, Dairy Producer
Riverdale, California
Board President, Western United Dairymen**



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Good morning Chairman Peterson, Ranking Member Lucas, my Congressman, Jim Costa, and Members of the Committee. I want to thank you for holding this hearing to examine federal agriculture policy in advance of the next Farm Bill. My name is Jamie Bledsoe. My family and I dairy near Riverdale, California. I currently serve as Board President of Western United Dairymen and am on the Board of Directors of my cooperative, California Dairies, Inc. I am testifying on behalf of both of those organizations today.

My wife Elizabeth (a third-generation dairy farmer) and I (a first-generation dairy farmer) raised four children while making a career in this industry. Our son, Joshua returned to the farm in June of 2009 after leaving California Polytechnic University at San Luis Obispo. Our three daughters are at various stages of completing degrees at the California State Universities at Fresno and Long Beach.

I have had many experiences in the industry; including managing dairy operations, the development of elite dairy cattle genetics, and marketing live cattle, semen, and embryos all over the world. But my first love is to develop a profitable dairy herd and that endeavor began in 2003.

We started our first herd seven years ago with 120 cows. Our first expansion was to 400 and in 2008 we tripled the size of our herd. Today we milk 1,200 Holstein cows on two facilities and feed over 2,500 replacement heifers and 500 bulls for breeding purposes. In addition, we continue to market dairy cattle and genetics locally and abroad. Our operations support my family as well as provide food and shelter for twenty employees and their families.

We are also involved in diversified farming. We recently purchased 640 acres of land in the Westlands water district where we can grow nearly 80% of the roughages for our cattle. We also grow 110 acres of wine grapes (Semillon and Muscat of Alexandria) and plan to expand into other varieties, and into growing pistachios or almonds.

Economic Impact of the California Dairy Industry

A recent analysis of the dairy industry by J/D/G/ Consulting, Inc., on behalf of the California Milk Advisory Board, offers a perspective on how vital the dairy industry is to California and its economy. The California dairy industry is responsible for more than 443,000 jobs in the state. A typical dairy farm in California generated \$33.1 million in economic activity and 232 jobs in the state. In total, the dairy industry contributed \$63 billion in economic impact to the state in 2008, which is more than the wine industry (\$59 billion in 2007) and the motion picture/television industry (\$35 billion in 2008). For those concerned about California being a “drag” on the nation’s economy, improving the economic health of the California dairy industry might not be a bad place to start.

Current Economic Situation

The economic situation facing the California dairy industry this past year was ruinous. While things have improved slightly, dairy families are still experiencing negative margins. In fact, May will mark at least the 18th consecutive month of low milk prices and high input costs.

I. An economic snapshot of the California dairy industry.

A. Ruinous negative operating margins.

- Farm milk prices and feed commodity prices tend to be cyclical in nature. However, producers have never witnessed such dramatically low milk prices combined with skyrocketing production costs as they did for all of 2009. Margins haven't just been low, they simply haven't existed. That is, we have been losing money on every pound of milk produced for over a year.
- The price paid producers for milk lingered at just over half what it cost to produce the milk for a large portion of 2009. A good rule of thumb is that dairy farmers lost \$100 per cow per month last year. Dairy families all over the state are losing what took them years and even generations to build.
- The industry has experienced periods of low prices before. However, production costs have been on a steady upward climb – up nearly 20% in California in just the last three years (2009 versus 2006).
- The following chart, compiled with data from the California Department of Food and Agriculture, compares net operating margins from 2001 through 2009 and year-to-date for 2010. While the last really bad year on the dairy farm, 2006, showed margins resulting in an average loss of \$3.30 per hundredweight, the

negative margins in 2009 were nearly two times larger. While milk prices have increased slightly and milk production costs have eased moderately, negative margins are still being experienced.

(per hundredweight)	CA Overbase Price	CA Statewide Cost of Production	Margin
2001	\$13.11	\$12.24	\$0.87
2002	\$10.24	\$12.61	-\$2.37
2003	\$10.70	\$12.44	-\$1.74
2004	\$13.89	\$12.75	\$1.14
2005	\$13.17	\$13.43	-\$0.26
2006	\$10.87	\$14.17	-\$3.30
2007	\$17.27	\$15.77	\$1.50
2008	\$16.03	\$18.54	-\$2.51
2009	\$10.81	\$16.86	-\$6.05
2010 YTD	\$12.88	\$15.63	-\$2.75

Source: CDFA

- These numbers are hardly unique to California. Previous low price cycles have taken their predictable toll on operations that failed to control costs relative to their competing farmers serving the same markets. This cycle, however, is different. These ruinously negative margins are hurting everybody, including the most efficient.
- Productivity gains on U.S. dairy farms over the past several decades are nothing short of astonishing. However, all U.S. producers will be higher-cost producers in the years to come as a result of the additional debt load taken on to survive these negative net operating margins.

B. Monthly milk price v. input costs 2008 – 2010 YTD and near-term projections.

(per hundredweight)	CA Overbase Price ¹	CA Statewide Cost of Production ²	Margin (OB less COP)	CA Mailbox (plus marketing costs)	Margin (Mailbox less COP)
Jan-08	\$17.44	\$17.31	\$0.13	\$18.50	\$1.19
Feb-08	\$16.72	\$17.31	-\$0.59	\$17.58	\$0.27
Mar-08	\$16.01	\$17.31	-\$1.30	\$16.57	-\$0.74
Apr-08	\$15.86	\$18.04	-\$2.18	\$16.43	-\$1.61
May-08	\$16.77	\$18.04	-\$1.27	\$17.34	-\$0.70
Jun-08	\$17.42	\$18.04	-\$0.62	\$17.90	-\$0.14
Jul-08	\$17.35	\$19.21	-\$1.86	\$17.75	-\$1.46
Aug-08	\$16.31	\$19.21	-\$2.90	\$16.81	-\$2.40
Sep-08	\$16.22	\$19.21	-\$2.99	\$16.85	-\$2.36
Oct-08	\$15.44	\$19.58	-\$4.14	\$16.30	-\$3.28
Nov-08	\$14.27	\$19.58	-\$5.31	\$15.22	-\$4.36
Dec-08	\$12.41	\$19.58	-\$7.17	\$13.35	-\$6.23
Jan-09	\$10.40	\$18.51	-\$8.11	\$11.09	-\$7.42
Feb-09	\$9.58	\$18.51	-\$8.93	\$10.32	-\$8.19
Mar-09	\$9.84	\$18.51	-\$8.67	\$10.44	-\$8.07
Apr-09	\$9.87	\$17.12	-\$7.25	\$10.40	-\$6.72
May-09	\$9.76	\$17.12	-\$7.36	\$10.22	-\$6.90
Jun-09	\$9.62	\$17.12	-\$7.50	\$10.15	-\$6.97
Jul-09	\$9.60	\$16.17	-\$6.57	\$10.12	-\$6.05
Aug-09	\$10.48	\$16.17	-\$5.69	\$11.03	-\$5.14
Sep-09	\$11.04	\$16.17	-\$5.13	\$11.72	-\$4.45
Oct-09	\$11.91	\$15.63	-\$3.72	\$12.82	-\$2.81
Nov-09	\$13.13	\$15.63	-\$2.50	\$14.30	-\$1.33
Dec-09	\$14.47	\$15.63	-\$1.16	\$15.85	\$0.22
Jan-10	\$13.48	\$15.63	-\$2.15	\$14.64	-\$0.99
Feb-10	\$13.11	\$15.63	-\$2.52		
Mar-10	\$12.41	\$15.63	-\$3.22		
Apr-10	\$12.64	\$15.63	-\$2.99		
May-10	\$12.79	\$15.63	-\$2.84		

1 Actual through Mar 2010 and estimates for Apr and May 2010 (based on prices through April 26, 2010)

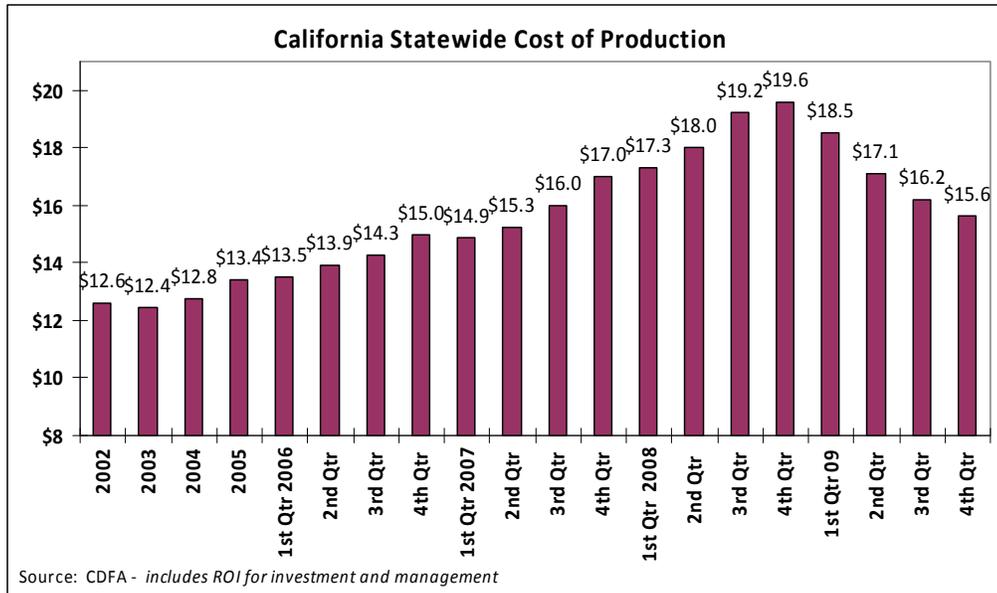
2 Actual through 4th quarter 2009

Source: CDFA

- The dramatic increase in feed prices propelled dairy production costs to record levels in late 2008 and into 2009. Though feed costs have come down a bit, we expect this general upward trend to continue as the cost of doing business in California continues to rise. Unfortunately, this will continue to erode

California's competitive advantage compared to other regions where dairy farmers grow the majority of their own feed and benefit from a friendly business climate.

- California producers typically do not grow all their feed and have to pay additional transportation costs to haul in feed for their cows. While dairy farmers unwaveringly support the drive for energy independence, those who purchase the bulk of their feed have seen their bottom line impacted by federal ethanol policy.
- At the same time, all other costs of doing business in California have increased. Additional environmental costs are mounting each year as producers work to meet new waste discharge requirements. These new water quality regulations are projected by the Water Board to cost an additional \$45,000 to \$65,000 per year per farm.
- Water for crop irrigation is a major concern in California, particularly right here in the Central Valley where I farm. Limited water supplies affect feed prices and availability. If water is not returned to this area, farm jobs related to feed production, jobs in feed processing and distribution, and jobs related to other important economic activity will be forced to relocate elsewhere.
- Feed costs have eased somewhat from the record levels posted in late 2008. However, the decrease in feed costs has not been large enough to restore positive margins. California dairy families felt a glimmer of hope in December 2009 as average milk prices rose above production costs for the first time in nearly two years. However, the milk price increase turned out to be a short-term phenomenon instead of a sustained recovery.



C. The crash came earlier to California.

- The California milk pricing system responds more quickly to current market conditions because it corresponds to the Chicago Mercantile Exchange. In contrast, price reporting procedures for the Federal Milk Marketing Orders usually result in a one- or two-month delay. Our Boards support the continuation of the California Order.

D. Outlook for the remainder of 2010.

- Some commodity prices are moving upward (butter and nonfat dry milk) but profitability remains a distant prospect for most dairy farmers. California, with a great deal of cheese production (39% of California’s pool utilization in March), will continue to suffer from depressed cheese prices until a drawdown in inventories is witnessed. The pressure current massive cheese inventories place on farm milk prices affect farmers everywhere in the country equally. Optimistic

projections for the remainder of 2010 weigh heavily on demand recovery that outpaces milk production.

- The downward adjustment in milk production, made necessary by the disappearance of export markets caused by the global financial crisis, has not kicked in nationwide to any great extent. California producers, who felt the impact of lower prices two months before the rest of the country along with the sting of extremely high feed costs, reduced production dramatically in 2009. In fact, California milk production has been down year-over-year for 20 out of the last 21 months. Year-over-year milk production trends completely reversed course in California during 2009 – annual production was down 4.1% from 2008 levels. This compares to a typical year-over-year *increase* of 4%. It is also worth noting, that the U.S. as a whole was down only 0.3% in 2009. Clearly something triggered a major difference in the supply response in California versus other areas of the country.
- Though prices are expected to increase as we move through the second half of 2010, a return to breakeven simply will not undo the damage done to dairy farmers over the past 18 months. Economic experts often say farmers lost \$100 per cow per month in 2009. Whether you're a 100-cow producer who lost \$10,000 per month or a 1,000-cow farmer who lost \$100,000 a month, everybody's equity took a major hit. Producers will continue to go out of business as it becomes clear that equity is gone and lenders are reevaluating operating loans with a new set of rules they must live by. Farmers must have access to adequate operating capital to continue to weather this storm.

- Those left standing will have a huge debt load to work through. It may take years of higher prices (and healthy margins) for the industry to recover.

Looking Ahead – The Next Farm Bill

A. Dairy Farmer Safety Net

- An effective and fair economic safety net is a must for farmers.
- Dairy farmers face new challenges from higher input costs. Several factors contribute to high grain, forage and energy costs. An economic safety net based on milk price alone will no longer be sufficient.
- Going forward, the new economic safety net must be herd size and region-neutral and must not send signals that more production is welcome when farm milk prices are low.

B. Production Management

- The Board of Directors has voted approval of the concept of supply management. Western United has organized and hosted meetings to gather input from the industry. Both Boards have offered suggestions for improvements and shared concerns about proposals as they have been developed.
- The Boards have shared specific concerns about the potential implications mandatory supply management could have for our international trade agreements and the import and export balance in the U.S. dairy market.
- The Board members of both CDI and Western United Dairymen continue to evaluate supply management proposals on an individual basis as they are made available.

C. Income Assurance

- Both organizations are in the process of evaluating proposals for risk management programs that recognize that more than milk price triggers alone are needed and that achieve the goals of being region and herd-size neutral.

D. Fluid Milk Standards

- There are more than four decades of successful history here in California, the nation's largest milkshed and the nation's largest milk market, with nonfat fortification standards for fluid milk. The reason is simple. The product tastes better and, per serving, provides more calcium and protein to consumers.
- I am encouraged that dairy farmers I talk to all around the country are interested in looking at this issue for the next Farm Bill. I encourage the Members of the House Agriculture Committee to add this issue to the list of things under consideration that could help both farmers and consumers.

Other Issues of Importance to California Dairymen

A. Immigration Reform

- Both CDI and Western United Dairymen are long-time supporters of the AgJOBS legislation (HR 2414) and thank the members of the California delegation who are supportive of the effort led by Senator Dianne Feinstein and Congressman Howard Berman.

B. Estate Tax Reform

- I thank the Members of the House Agriculture Committee for their support for reform of the estate tax to help provide stability for farm families and to assist

with the intergenerational transfer of their businesses. Both organizations I represent here today support the largest exemption possible, along with the lowest tax rate on amounts over the exemption and the return of the “stepped-up basis.”

- The House has passed legislation to exempt \$3.5 million for an individual and \$7 million for a couple. The top tax rate would be set at 45% with the stepped-up basis. The Senate is working on a bill that would exempt estates up to \$5 million per individual with a 35% tax rates on amounts over that and a return of the stepped-up basis.
- Without action by the Congress, on January 1, 2011 the exemption returns to \$1 million. Farm families like mine are stuck in a financial planning “no-man’s land” right now and I ask that the Members of the House Agriculture Committee continue to work to find a resolution to estate tax reform before the end of the year.

C. Environmental Regulation

- Maintaining and strengthening incentives in the Conservation Title of the next Farm Bill is critical to all of agriculture. The Environmental Quality Incentives Program has been especially useful to California dairymen. Funding increases in the current Farm Bill must be maintained and monies appropriated annually so that farmers can continue to be the primary stewards of one our nation’s most precious resources – our farmland. Our Boards especially thank Representatives Baca, Cardoza, Costa, Nunes and Senators Boxer and Feinstein for their exceptional support in shepherding increased EQIP funding through the last Farm Bill.

- Other states need only look to California for what may be in store for them from state regulators as farmers come under increasing pressure to comply with environmental legislation and regulation. Producers here have led the way in adopting renewable energy technology to help this country decrease its dependence on foreign sources of energy. But in some cases state and/or local regulators have imposed new restrictions that resulted in the forced idling of that technology. There are local dairymen right here, some of them are my neighbors, who have shut down their digesters for more than a year now because of air quality regulations that cannot be met. State and federal regulators must work together better in order to hasten the march to energy independence.

D. Climate Change Legislation and Regulation

- Farmers are significant energy users. Opportunities to increase farm income through carbon capture offer potential economic benefits to producers. Legislation and/or regulation that would push energy costs even higher, given the state of the dairy farm economy described earlier in this testimony, is a cause of great concern for producers.

E. Renewable Energy Legislation

- The production of renewable energy from agricultural byproducts and waste deserves at least equal federal incentives as those provided for ethanol. A good start would be The Biogas Production Incentives Act (HR 1158) that would provide a tax credit for the production of renewable biogas that is used to offset the use of a fossil fuel. This legislation would increase the production of renewable biogas on farms and provide an economically beneficial option to

farmers when electricity generation engines do not meet local air quality regulations.

- Tax incentives for electricity generation have been useful in the construction of methane digesters on several dairies in California. The production of renewable biogas is an option that deserves equal incentives. The Biogas Production Incentives Act (HR 1158) mentioned earlier would provide a tax credit for the production of biogas that is used to offset consumption of a fossil fuel.

F. Trade

- Western United supports ratification of Free Trade Agreements with Colombia, Panama and South Korea and relaxing restrictions on U.S. agriculture trade with Cuba.
- Assistance is needed from the House Agriculture Committee to continue working with the United States Trade Representatives' Office to ensure that dairy trade with New Zealand is excluded from negotiations for a Trans Pacific Partnership Agreement.

G. Nutrition Policy

- Dairy's position as part of reimbursable meals in federal feeding programs is a win-win for the public and for farmers. California dairy producers appreciate the Committee's support for those programs.
- With the importance of EQIP to environmental compliance by dairy farmers everywhere, the Senate proposal to cut funding for EQIP to provide the offset for a nutrition bill is of serious concern. I support the work of the leadership of the House Agriculture Committee to help find an alternative.

Conclusion

Thank you again, Mr. Chairman, for holding this hearing today and providing me with the opportunity to share the perspective of California dairy producers on the future direction of federal farm bill policy. I look forward to answering the questions the Members of the Committee may have.

WALTER JAMES BLEDSOE

Curricula Vitae

BORN: 1959

MARRIED: Wife – Elizabeth

CHILDREN: Carrie, Age 24
Joshua, Age 22
Annie, Age 20
Beth Ann, Age 18

**HIGHER
EDUCATION:** California Polytechnic State University
San Luis Obispo, California

QUALIFICATIONS: B.S. Animal Science

PRESENT JOB TITLE: President
Golden Genes, Inc.

EXPERIENCE:

2003 to Present: President and Partner of Golden Genes, Inc and Bledsoe Farms:
Golden Genes currently milks 1200 cows and owns 2500 replacement
Heifers. The farming operation consists of 3000 acres 1000 acres is
Used to grow roughages for the cattle and 2000 acres are leased out.

In 2003 we discontinued the Progeny test business.

1990 to 2003: General Manager of Golden Genes, Inc. Responsible for the
financial, technical development of four divisions as follows:

Progeny Testing – 25 bulls per year sampled in cooperation with
over 150 dairy farms in the Western United States as sample herds.
The program is structured as a joint venture sampling program
with major A.I. organizations.

Dairy Replacement Heifer Feedlot – Operation is located on a 160
acre farm where an inventory of 1100 head of Holstein dairy heifer
replacements and 1300 head of Holstein Breeding Bulls are
maintained.

Embryo Transfer Technology – The Embryo Transfer division is
responsible for the collection of over 6000 embryos per year for
domestic and international sales, and use in our affiliate herds.
Have recently added In-Vitro Fertilization technology and other
advanced reproduction techniques. (Discontinued July 98)

International Division – This division has exported in excess of
30,000 animals and 6300 embryos to over 40 different countries.

Has functioned as a technical advisor in Japan, Thailand, Holland, Brasil, and Mexico.

Vineyards – Starting in 1996, all open ground. Approximately 105 acres was planted to vineyards. 63 acres of Muscat and 42 acres of Semillion. Responsibilities include supervision and cooperation with consultants and vineyard manager.

1986 to 1990:

Assistant Manager of Golden Genes, Inc. Responsibilities included the development of the company's International marketing structure for the Embryo Transfer Division. Also directly responsible for the activities of the Dairy Heifer Replacement Ranch.

1982 to 1986:

Assistant Herd Manager and Young Stock Superintendent for Maddox Dairy, Ltd. Responsibilities included the management and supervision of replacement cattle and embryo transfer programs for this 3500 cow dairy. Also assisted in the procurement of commodities, feed stuffs, ration formulation, and personnel management for entire dairy.

1978 to 1982:

Completed education at California Polytechnic University, San Luis Obispo, California

INDUSTRY & COMMUNITY ACTIVITIES:

2010

President – Western United Dairymen

2009

Board Member – California Dairies, Inc.

2005 – 2008

1st Vice President – Western United Dairymen

2004 – 2009

Board Member – Western United Dairymen

2009 – 2010

President – California Holstein Association

2000 –2010

Board Member – California Holstein Association

1999:

Member – Riverdale Unified School District – School Site Council

1998 to present:

Fresno County 4-H Resource Leader – Dairy

1996 to 1998:

President – Riverdale Little League

1994 to 1999:

President – Fresno-Madera Holstein Club

1986 to 1992:

Board President, Clerk, Board Member Burrel Elementary School District

2007 –present:

President – Central Coast Alpha Gamma Rho Alumni Corporation

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2007.

Name: Walter James Bledsoe

Address: 3899 W Davis Ave, Riverdale, CA 93656

Telephone: (559) 867- 3545 x102

Organization you represent (if any): Western United Dairymen
California Dairies, Inc.

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2007, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: Please see Addendum Amount:

Source: Amount:

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2007, as well as the source and the amount of each grant or contract:

Source: Please see Addendum Amount:

Source: Amount:

Please check here if this form is NOT applicable to you:

Signature: [Handwritten Signature]

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

Addendum to Witness Disclosure Form for Walter James Bledsoe

1. Since October 1, 2007, my company, Golden Genes, Inc, has been a supplier of dairy cattle to the U.S. Penitentiary Dairy at 3901 Klein Boulevard, Lompoc, California. Following are the contract dates and amounts received for the cattle:

July 4, 2009	\$18,500.00
October 8, 2008	\$52,500.00
Total:	\$71,000.00

2. In July 2009, Western United Dairymen entered into three partnership agreements with the USDA Natural Resources Conservation Service (NRCS) in support of the Cooperative Conservation Partnership Initiative (CCPI) in the Central Valley as well as in Humboldt, Marin, and Sonoma counties. For the years 2009 and 2010, these partnership agreements brought federal funding to the California dairy industry through NRCS in the amount of \$1,560,000 each year, for a total of \$3,120,000, with no direct funding to Western United Dairymen. The 2010 funding is currently available to dairy producers through NRCS.

Similarly, in September 2009, Western United Dairymen entered into a partnership agreement with the USDA Natural Resources Conservation Service in support of the Agricultural Water Enhancement Program. This partnership agreement brought federal funding in the amount of \$5,800,000 to the dairy producers in California's Central Valley through NRCS in 2009, but no funding to Western United Dairymen. AWEF funding to the California dairy industry in 2010 is expected to be \$5,400,000. An additional \$5,750,000 has been requested for 2011, but has not yet been appropriated by Congress.

In September 2009, Western United Dairymen entered into a cooperative agreement with the USDA Natural Resources Conservation Service to provide support implementation services for the Agriculture Water Enhancement Program. The contract amount is \$74,000, with services scheduled to conclude September 30, 2010.

In addition, Western United Resource Development, Inc. (WURD) is a public benefit, nonprofit organization formed by Western United Dairymen to administer renewable energy and environmental improvement grants for the inclusive benefit of all dairy farmers in the California dairy industry.

In January 2007, WURD was awarded a \$400,000 grant from the United States Environmental Protection Agency to administer its Biomethane for Vehicle Fuel program through which two Class 8 milk trucks and a one-ton service truck were converted to operate on biomethane upgraded from dairy biogas. This project is scheduled to conclude April 30, 2010.