National All-Jersey
Washington D.C. Meetings
March 1-2, 2017

Immigration Reform That Works for Dairy

Dairy farmers face a critical shortage of legally authorized and experienced workers, which negatively impacts our economic competitiveness, local economies and jobs. Every farm worker engaged in high-value labor intensive crop and livestock production sustains two to three off-farm but farm dependent jobs.

The U.S. dairy industry has three priorities for immigration reform legislation that works for farmers:

1) Earned legalization for the current experienced workforce

2) Access to year-round workers for jobs like those on dairy farms

3) Access to legal new workers when they are needed in the future

Dairy farmers have no visa program they can use to access foreign-born labor. The H-2A program requires that both the worker be temporary and the job be seasonal. Jobs on dairy farms are 7 days a week and 365 days a year.

The current dairy workforce is trained and experienced. Caring for livestock, in this case milking, feeding, breeding, calving, etc. is skilled work. The ability to retain our current, skilled and experienced workforce is a key component of any reform legislation that would be effective for agriculture.

A study by Texas A&M shows that a 50% loss of immigrant labor would cause milk prices to rise by 45%. Removal of all immigrant labor would cause milk prices to go up 90%.

The Texas A&M study estimates that 50% of all dairy workers are immigrants. That is up from 33% when the study was first conducted. Nearly 80% of the milk in the U.S. is produced with immigrant labor. That is up from 62% in 2009.

The confusion created by the rollout of new immigration enforcement initiatives coming out of Washington, D.C. has dairy farmers and many of their employees frightened.

There is no reason to believe that farms are targets for increased immigration enforcement by the Department of Homeland Security (DHS) at this time. However, there are reports that farmworkers have been detained as agents looked for specific individuals in other locations.

There are more than 3 million mixed status households in the U.S. Some opponents of immigration reform say that people who came to this country illegally should be scared. But should the citizen children of improperly documented parents live in fear that their family may not stay together? Should the millions of people whose jobs downstream from the farm depend on those farm workers live in fear that their job might disappear?

Oppose Mandatory E-Verify Without a Visa Program. We are opposed to legislation that would mandate the use of the E-Verify system without the implementation of an effective visa program for agricultural workers first. E-Verify without an effective visa program would be devastating to agriculture and to the rural economy.

Expanding H-2A to include dairy is not an effective solution. The program currently supplies less than 10% of the temporary and seasonal workers agriculture needs. Adding dairy farms to that program would only further complicate a program that cannot deliver the workers needed by the sectors that can use it now.

Legislation is necessary to address the farm labor crisis. With no program available to access workers for year-round jobs like those on dairy farms, regulatory changes to the H-2A Program are not enough.

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U.S. Dairy Farmers Depend on International Trade

The U.S. exports approximately 15% of farm milk production. Put another way, the equivalent of about one day's milk production a week is marketed offshore.

U.S. dairy exports grew from less than a billion dollars in value a year to over $5 billion a year in just two decades.

Due mainly to lower U.S. farm milk prices, U.S. dairy export sales totaled $4.7 billion in 2016.

U.S. dairy export sales volume was up 3% in 2016 compared to 2015. After a difficult first half of the year sales finished strong, up 15% in the second half and 19% in the fourth quarter.

The USDA estimates that each $1 billion of U.S. dairy exports generates more than 20,000 jobs and almost $3 billion in economic output at the farm level. At the processing level, each $1 billion of exports supports about 3,200 jobs.

Under the North American Free Trade Agreement (NAFTA), Mexico has developed as the #1 export market for U.S. dairy products. The U.S. exported $1.218 billion in dairy products to Mexico in 2016.

Despite a sharp devaluation of the peso, Mexico alone purchased nearly 50% of U.S. milk powder production in 2016.

Southeast Asia is the second largest export market for U.S. dairy products at $671 million last year.

Canada is our third-largest export buyer at $632 million in U.S. dairy product purchases last year. However, most of Canada's dairy purchases from us were ingredients for manufacturing products for reexport. Those products are not charged the duty on dairy imports that Canada employs to protect its domestic farm milk quota system. Many of the products Canada manufactures with U.S. ingredients then compete with U.S. products in world markets.

Talks to "modernize" NAFTA hold, for the most part, only potential to improve U.S. dairy market access in Canada. There is significant downside risk to U.S. dairy export sales in talks with Mexico to modernize NAFTA since Mexico bought nearly 25% of U.S. dairy exports, by value, last year.

With NAFTA including our #1 and #3 export markets, the U.S. dairy industry is following developments in our relations with Mexico very closely. As we saw with the debate over the U.S. Country of Origin Labeling (COOL) provisions, dairy products are often at or near the top of products for retaliation in disagreements with trading partners. Since it only affected unprocessed foods, COOL didn't even affect our industry. We import no unprocessed milk. But Mexico had our products on the retaliation list allowed under World Trade Organization (WTO) agreements if COOL was not resolved.

We are also urging our trade negotiators and elected officials to keep the pressure on Canada not to implement their domestic milk pricing plan that is intended to provide a financial incentive for manufacturers there to favor domestic ingredients over imported milk protein concentrate from the U.S. Dairy companies in Wisconsin and the northeast have developed the market over the past five years, but Canada has developed a domestic pricing scheme to try to undermine those sales. Mild weather is one factor that has farm milk supplies in the northeastern U.S. in an oversupply situation that has persisted for months.

A major item of the European farm policy agenda is reclaiming exclusive use of geographical indications (GIs) that have become common food names around the world.

A study by an international alliance of companies dedicated to preserving the use of common food names around the world determined that U.S. consumers would choose imported cheeses with familiar names over renamed domestic cheese. The study found that confusion resulting from the loss of the use of common food names could reduce U.S. cheese consumption by $2.3 billion in three years and $5.2 billion over 10 years. That could push farm balance sheets below breakeven in six of the next 10 years, forcing thousands of family farms out of business.

Russia maintains its ban on food imports from the west. That ban was imposed after western sanctions were implemented following Russia's annexation of the Crimea. The U.S. didn't sell much dairy to Russia but our international trading competitors did. This left significant competing product looking for a market.

The Russia food import ban came just as European quotas ended in April 2015. Milk production in Europe increased for several months in response to the expiration of farm quotas. That increase has leveled off and world milk prices have stabilized.

U.S. dairy farmers will be watching with great interest as negotiations with Pacific Rim countries that were part of the Trans Pacific Partnership (TPP) get underway for bilateral agreements. Of most interest will be talks with New Zealand, the country that dominates international dairy trade. Dairy exports are a significant part of the GDP of the entire country. Additional market access in Japan would also be a priority as would getting Asian countries to agree not to accede to EU demands on GIs or common food names.

China is, of course, a major potential market for U.S. dairy. The market there is in flux, however, as the country struggles to regain consumer confidence in the food supply after several scandals related to adulteration, contamination and counterfeiting. The regulatory environment for dairy imports into China is uncertain at this time.

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Tax Reform

Tax reform legislation is to be on the agenda for this year. It has been 31 years since the last major reform of the federal tax code. Both parties say this is a priority issue for 2017.

There are a number of provisions in the federal tax code that are important to family dairy farmers both on annual operating practices and on planning to pass the farm down to the next generation. Some of those that are being discussed as part of tax reform include:

- Cash accounting – helps to smooth out swings in income and expenses between good years and not-so-good years. Farmers face many more variables that are out of their control, like the weather, than most other business people. Cash accounting is being looked at in light of proposals for immediate expensing.

- "1031" or "Like-kind" exchanges – deferral of taxes on gains allows for more consistent investment in upgrading equipment and acquisition of capital assets. Reform discussions seem to be focusing on whether to keep 1031 exchanges for everyone or for small businesses only.

- Fewer brackets and lower income tax rates – these are important to farmers for simplicity in preparing returns and reduction of overall tax obligation.

- Capital gains tax rates – important for dairy farmers when selling animals and land. One proposal being discussed is to make the capital gains tax rate half the regular income tax rate owed by the taxpayer in a given year.

- Immediate expensing of business purchases – another tool to encourage farmers to keep upgrading equipment on a regular basis (everything currently depreciable would become immediately expensible)

- Elimination of deductions for business loan interest – this is being discussed as a trade-off for immediate expensing of business purchases. Leaving intact the deductibility of interest on loans to purchase equipment, for example, could be seen as encouraging people to go into debt.

The border adjustability proposal is a major source of revenue to make up for revenue declines from lower corporate tax rates, lower income rates and fewer brackets.

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2018 Farm Bill

The Senate and House Agriculture Committees have officially kicked off the debate for the next Farm Bill with hearings to examine the state of the farm economy under the current Farm Bill.

The current Farm Bill expires September 30, 2018. The MPP-Dairy program is an annual signup for the calendar year so it is in effect through September 30, 2018.

At the recent House Agriculture Committee hearing, Dr. Scott Brown from the University of Missouri Extension Service, discussed the following aspects of the MPP-Dairy program:

- Herd size will continue to pressure cattle prices. Recovery from years of drought in some key states for the beef breeding herd is leading to an increase in the size of the herd
- Feed costs are much lower than projected when the current Farm Bill was written.
- U.S. farm milk prices fell from 2014 through 2016 due to: 1) lower value of U.S. dairy exports; and, 2) 2016 was the 7th year in a row that U.S. milk production expanded.
- It has become increasingly difficult to reduce U.S. milk supplies due in part to larger fixed costs for the operations that remain.
- Estimated cost of annual dairy safety net costs: $79 million/year.
- In 2016, 140 billion lbs of milk in MPP-Dairy at $4. (about two-thirds of the milk in the country)
- 2017 enrollment expected to show even more milk at $4.
- California and Idaho have about 80% of milk signed up at $4. Wisconsin and Minnesota about 60%.
- Projections for 2014 farm bill assumed 70% of milk would be signed up at $6.50. In 2016: 2%.
- Largest two-month payout: May/June 2016 less than $12 million.
- Lower than expected corn prices keeping dairy margins higher than expected.
- Producers who grow their own feed (63% in WI vs 26% in CA) don’t benefit as much from lower market costs. (USDA Economic Research Service says corn production costs changed little from 2013 – 2016)

Potential changes to the MPP-Dairy program discussed during the House Agriculture Committee hearing included:

- Increasing the feed cost formula
- Regionalizing the feed cost component
- Differentiating between dairy farmers who grow the bulk of their feed from those who buy the bulk of their feed
- Lowering premiums
- Using single-month program periods

- Allowing participation in both MPP-Dairy and LGM-Dairy.

Conservation Title

The Environmental Quality Incentives Program (EQIP) is very important program for livestock producers, including dairy farmers.

It is important to maintain the 60/40 livestock split in EQIP. The Conservation Security Program (CSP) is dedicated almost exclusively to crop acreage so it is critical that EQIP cost-share assistance be weighted toward livestock operations.

EQIP is oversubscribed. The Congressional Research Service has found that in the majority of years, fewer than half of the applications submitted get funded. It is critical to keep the funding dedicated to EQIP so that more worthy projects are approved for a cost-share assistance contract and implemented.

Keep farm policy/safety net legislation and nutrition assistance programs together. It's how farm bills get done. More and more House districts are almost exclusively urban and keeping farm programs and nutrition assistance together creates the partnership that allows farm bills to pass.