Exhibit _____

United States Department of Agriculture
Before the Secretary of Agriculture

Public Hearing on Proposed Rulemaking - April 9 – 13, 2007
Docket No. AO-14 -A77 et al
Docket No. DA-07-02

Proposal (18) to Amend the Class III and IV Product Pricing Formulas Applicable to all Federal Milk Marketing Orders

TESTIMONY OF WALT WHITCOMB

My name is Walt Whitcomb. I am a third generation dairy farmer. My daughters, studying Dairy Science at Cornell, may be the fourth. My family's farm is located in the town of Waldo, Maine, which is near Belfast, a coastal town and about 45 miles east of Augusta. Our farming operation includes 175 Registered Jersey and Guernsey cows milking and an equal number of young stock. We farm 275 acres, graze another 100 acres and manage a woodlot of 175 acres.

I am also a Board Member of the Maine Dairy Industry Association, (MDIA), which represents all dairy farmers in the state of Maine, and I am testifying on behalf of the Association in support of our proposal

I am testifying with two purposes in mind. First, and primarily, I wish to convey my first-hand experience with the impact of the current Class III and IV pricing series on the financial condition of my dairy farm. Our family farm has been a steadfast small business in our rural community for nearly a century, but we can not rely on federal minimum prices as a basis to remain in operation. Although we as Jersey and Guernsey dairy farmers have benefited as much as anyone from component pricing, persistently inadequate prices coupled with unpredictable price swings are placing an ever increasing burden on my bottom line. It is only by resorting to a variety of alternative sources of income, including a substantial state subsidy and increased equity financing for operating expenses, that I am able to remain in business Without change to this pricing scenario, my farm faces the dire consequences of draining our equity to continue operating. As you

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We intend for our proposal to begin to correct this problem. Our proposal would ensure that the procurement price for milk used for manufacturing purposes, once again captures that measure of the value of the raw product we produce sufficient to ensure stability of supply. Given that our product is creating real value in the market, according to the proper function of the federal pricing series, we should gain at least that intrinsic measure of value. This will restore balance to the regulatory system and eliminate the need for us to continue to subsidize milk production in the marketplace.

Impact on My Farming Operation

For my testimony, I am drawing on the shared experience of three generations of a northeastern dairy farm family, dating back to 1916. A pivotal partner of that experience, obviously, has been the federal milk marketing laws, including their operation in concert with our long-standing, in-state regulatory program.

We in Maine have traditionally operated under a dual state and federal order system, and our actual pay prices have been determined by our state regulatory program. At the same time, we have always understood that the state pricing program and market conditions in Maine are defined in substantial part by operation of the New England/northeast federal order. This has been particularly true following the order reform and consolidation prompted by the 1996 Farm Bill, as most milk produced in Maine is now directly regulated under Federal Order One.

From our perspective, the historic purpose of federal milk marketing laws has been to provide a stable marketing environment for processors and producers operating in a common market. In our case, this is the Boston market. We understand the law as being intended to establish regulated minimum producer prices sufficient to assure an adequate, stable, long-term supply of milk for the common marketplace.

We have never understood federal minimum pricing as intended to displace the pricing operations of the marketplace. Rather, we have understood its primary function as intended to provide workable minimum blended producer prices that avoid disorderly competition between fluid and manufacturing customers serving the market

One additional regulatory point Our state law retains a vestige of federal law that has mostly receded from view, and that is parity pricing The Maine Milk Commission

Perhaps to better cover the odds of betting solely on farm income to service the long term real property debt, my grandparents as did my parents, earned some off-farm income to supplement their farm income. Still, the basis of my grandfather's family income was farming, and dairying was the essence of the farming operation, first selling butter, then cream and, with the advent of refrigeration, fluid milk

Technological change, accelerating in the 1950s, significantly altered this working equation on our farm and all around us. The bulk tank and other improvements in hygiene, greater reliance on soil inputs and equipment, among other demands of the modernizing farm, all required capital investment and increased the short and long-term debt-service demands of dairy farming.

With an increased demand for capital, often to meet the regulatory needs to improve milk quality, during this time of change into the 1960s, decision-making on the farm more and more became dependent on the price of milk. Farmers who chose to remain in production had to find a return from the milk price sufficient to cover their increased capital costs for the improvements in their dairying operation. This greater reliance on the milk price as a source of income for the farm also made dairying more of a specialization.

In our particular case, my father and mother enjoyed their registered cows and were able to respond to this greater need for specialization by developing our dairy farm to include cattle sales as well as a milking operation. This combination over the years allowed the farm to grow, pay our bills and provide some funding for five of us to go to college. Until the recent era of nutrient management, the basic capital debt for land and buildings was largely retired.

As we have transitioned generations, the farm's stability and profitability has continued to be largely the result of continuing to sell milk to our in-state fluid market and sales of heifers and cows This increased specialization has proved for us to be a workable response to the changes in the dairy marketplace over the life of our farm. And, until recently this business plan has allowed me to continue to operate the farm taking on only limited long-term debt, primarily to match NRCS funding for manure handling facilities

While I am proud of our ability to evolve with change and still stay connected to the roots of our farm, I am gravely, concerned for the farm's future. Simply put, even on my farm, and believe this calculation is a very good starting point for my testimony on cost of production.

I would like to factor in two adjustments that serve to bring the cost of production calculation down closer to the figure I use when considering business decisions on the farm. First, I would reduce the combined allocation for family and hired labor from about $8 per cwt to $5 per cwt. This better reflects the pay for my employees and for me and other family members. Second, though I greatly hesitate to do so given what is happening all around us right now, I would lower the "total feed costs" by $1 per hundredweight. On our farm, our extensive use of pasture slightly lowers the feed cost.

In sum, I reduce USDA's figure by $4, and work from a cost of production calculation of $19 per hundredweight for 2004, $20 for 2005 and around $24 for last year and leading into this year.

On the pay side, according to the figures in pages 4 – 6 of the Exhibit, USDA reported a 2004 mailbox price for the northeast order of $16.29 per hundredweight, $15.39 and for 2005, and $13.22 for 2006. As noted at the outset, the price for 2004 was our highest ever and the price soon thereafter dropped quite dramatically, to just over $12 00 by the summer of 2006, before recovering somewhat by year's end. While individual pay prices of course vary greatly, I find these are a good benchmark to use for assessing my farm income, and that of my neighbors

It may also be seen that even in the best of years, in 2004, the mailbox price was not enough to cover even my adjusted cost of production. Using my figure of $19 for the cost of production, for that year, the pay price was almost $3.00 short. In 2006 and leading into this year, the story was much worse. Using my cost of production figure of $24, the pay price was at least $10 per hundredweight short.

Here is the translation of these figures to actual dollars of overall farm income on a medium sized farm in Maine, having approximately 150 cows and shipping around 3 million pounds a year.

Year	Revenue	Cost	Net Income
2004	$500,000	$570,000	($70,000)
2005	$460,000	$600,000	($140,000)
2006	$400,000	$720,000	($320,000)

so long, that a well run operation can take before becoming a marginal operation. And it is bad life planning, to say nothing of bad business, to mortgage one's future livelihood for current operating expenses.

Nor can I rely for the long-term on continuation of the combination of market regulation and subsidy support from the state. Over-order price regulation can be sustainable for the long-term, if it is not being asked to make up too much of the short-fall between federal order minimums and my costs of production. Yet that is not our current circumstance. The federal order minimums are simply too short, currently, and a single state over-order program can not be relied upon to make up the difference without throwing the larger marketplace into disarray.

It is nothing less than remarkable that the state of Maine has been willing to provide a direct subsidy payment to keep the state's dairy farmers in operation. Yet while the political resolve now remains, for the long-term, it is simply too much to ask of Maine taxpayers that they continue to subsidize our operations because of regulatory shortcomings at the federal level and the market's inability to otherwise provide us with a fair return for our product.

In sum, if federal order minimum prices are not somehow adjusted to provide more sustainable prices, my own numbers put our farm in jeopardy. I seriously think I could be forced out of business

My experience, of course, is not unique in Maine, and for this reason MDIA sought to participate in this hearing and to offer our proposal. I will now turn to the larger perspective of MDIA.

MDIA and the Class III and IV Hearing Process

I will begin with a little background about dairying in Maine. Historically, Maine's dairy farmers have provided almost all of the state's fluid dairy needs. Built around providing for the in-state, high-valued fluid demands, ours has been a long-time, stable and self-supporting industry

Dairying is the largest sector of Maine's diverse agricultural economy The dairy industry generates $570 million annually to the state's economy Maine's dairy farmers, processors and agri-businesses combined contribute millions per year in state and local taxes – including a major portion of property tax revenues to support some rural across our 350 farm membership, meaning that the states' farms, collectively, would be in profound financial distress absent operation of the two state programs.

I would like to refer to a few additional figures in the Exhibit _______ to document this profile of the current, collective economic health of the state's dairy farmers. As you can see, beginning on page 7, the Maine Milk Commission publishes these figures. The three sets of figures reflect the long and short run net returns in 2005 for a 55 cow operation, a 163 cow operation and a 304 cow operation. These are representative of our operations in Maine.

I will explain a little about these figures before I present my analysis of them. If you look in the upper left hand corner of each of the three sheets, you will see "Annual Revenue" Under that heading, you will see "milk receipts". This figure includes all payments received by Maine farmers, including MILC payments, over-order prices under regulation by the Maine Milk Commission, and the direct subsidy payments from the state's Dairy Stabilization Program. For purposes of this testimony, I have substituted the Department's Mailbox Price computation for 2005 for the "milk receipts" figure and then recomputed the "Total Revenue" under the "Annual Revenue" heading Using the figures in each case for "Total Operating Expense", "Total Overhead Expense" and "Annual Depreciation and Interest Expense", all appearing on the right sides of the sheets, I then recalculated the long and short run returns shown under "Total Annual Cost", in the lower right hand corners of the pages.

With these adjustments, here is the net performance for each of the representative farms

	Revenue	Operating Expense	Overhead Expense	Short-run Return	Dep/Interest Expense	Long-run Return
55 Cows	$126,000	$123,000	$26,000	($23,000)	$ 72,000	($ 95,000)
163 Cows	$ 512,000	$464,000	$ 73,000	($25,000)	$183,000	($208,000)
304 Cows	$1,008,000	$838,000	$145,000	$25,000	$380,000	($355,000)

reconsider its basic rationale for the current pricing series, that the price must be sufficient because there is enough milk in the system. This assessment is only true in the shortest of terms. The impact of requiring farmers for too long to carry the burden of inadequate prices is now readily apparent in the south – the basic, local supply for that milkshed is fast diminishing. And the cost is now beginning to bear in the northeast milkshed, as we now begin to see the supply for our order begin to diminish these last few years.

MDIA's mission and my purpose at this hearing are to issue another warning to those who oversee the milk regulatory structure. As the farm population ages (I suddenly felt older learning news of my first grandchild while typing some of these comments); as dairy farmers abandon their debt-ridden farms, and as younger family members chose a more financially secure livelihood, called into question is the basic premise that "there will always be enough milk."

Perhaps there will be, but allowing the current economic climate to continue certainly guarantees that milk production will not be a function of small family businesses like mine, welcomed for a century as an integral member of our rural communities

Thank you for the Department's consideration of our proposal, and my testimony, and I am available for questions at this time.