



USDA/AMS/ Dairy Programs
STOP-0231-Room 2971
1400 Independence Ave., S.W.
Washington, DC 20250-0225
Deputy Administrator,

We did not participate in the Federal Order Hearings held in 2005 because we were in agreement with the proposals being put forward. We agree with the assessment of the National Milk Producer Federation (NMPF) that when the category of producer-handler was instituted in the early years of the Federal Orders, the size of some of today's large producers and producer-handlers were not imagined. Had the early framers of the Federal Orders imagined the possibility of such large dairy complexes, they would simply have agreed on a cap. A cap such as the 3 million pounds per month of Class 1 sales that has been imposed on the Pacific Northwest and Arizona Orders. They would not have thrown the baby out with the wash.

NMPF also mentions the threat to orderly marketing of the possibility of some large producers becoming producer-handlers. We also agree that this out-come, combined with large producer-handlers marketing through the large national discount grocery chains, would be very disruptive to the market. Throughout their written comments the NMPF make numerous reference to "large producer-handlers" when discussing market disruptions. The NMPF has made the case for eliminating the special status of large producer-handlers. As we mentioned we are in agreement with these assessments.

The NMPF goes on to make the point that small producer-handlers do not "cause disorderly marketing" because their small size contributes to "cost disadvantages". We have first hand knowledge of this cost disadvantage versus the combination of large producers linked with the economies of scale enjoyed by large regional bottlers. In our local market the lowest priced milk at retail is found at the box stores supplied by the large out of town bottlers. The local wholesale markets most competitive prices come from a distributor whose milk comes from the regional Safeway milk plant.

Our family began farming in 1940 with the dairy added in 1945. The milk bottling plant was built and began operation in 1965 along with the opening of the first 5 dairy stores. Today, with seven members of the fourth generation working in the family business, Lochmead Farms is a diversified farming operation, a 620 milking herd, the milk and ice cream plant and 42 Dari-Mart stores. We are the local dairy in our 40 mile radius of the upper Willamette Valley which encompasses the urban areas of Eugene, Springfield, Corvallis, and Albany, Oregon. But that's all we are, the local dairy, as our one million pounds per month of Class 1 sales has very little impact on this second largest market in Oregon. There is no one suggesting that we have been disruptive to this market. I have not found a store in our market where there is not milk priced lower than what our customers pay to buy Lochmead milk in a Dari Mart store. Our customers have been paying the price we need to maintain our small and "inefficient operation" because

we are what they want in a food vender; **local, green and sustainable**. For an agency of the Federal Government to change the rules that have allowed our family business and our customer's local dairy to survive would be a **reprehensible travesty**.

The NMPF statement that producer-handlers were given special status overlooks the historical structure of the early distribution of fluid milk. My father began his "special status" as a "producer- handler" as a teenager in Corvallis, Oregon when he delivered milk from the family cow to his neighbors as he and his father made their way to school; he to high school and his father to his teaching duties at Oregon Agriculture College. The folks at NMPF are forgetting that their "special status" as an agricultural Cooperative and the Federal Order System were created by statute by the New Deal legislation of the 1930's. The NMPF attempts to make the case for drawing the line for permitted producer-handlers at 500,000 pounds Class 1 sales per month. We think the USDA's Agriculture Marketing Service drew the line correctly in its December 4, 2005 recommended decision for the Arizona and Pacific Northwest Markets. We again agree with the NMPF that this line should be set at the same level in all markets.

Another miscalculation by the NMPF is their reference to a producer-handlers cost of milk. To simply say that a producer-handler "can pay, effectively, the uniform price for milk at the plant" ignores completely the cost a producer-handler incurs in balancing his own milk supply. A producer-handler is left on his own to market his balance of surplus production, usually at a price below production cost if he can find a market at all. What ever return is realized is most certainly below uniform price and usually incurs extra freight cost. Another cost factor in balancing for a producer-handler is marketing the cream that is surplus in today's fluid milk marketing.

If the status of a producer-handler were to be removed and Lochmead Dairy were to become a regulated handler, we believe that our family business would no longer be economically viable. Obviously our small bottling plant would not be cost competitive with the efficiencies of the larger bottlers even though their products are trucked into our market on 100 miles of freeway. Of equal concern to us is the viability of a 600 cow dairy in Western Oregon versus the new dairies of 10 to 20 times larger and located in the drier climate of Eastern Oregon or Idaho. This concern is magnified by the recent construction of an additional bunker silo to deal with the recent increase in feed cost and the signing of a 20 year contract to supply manure to a methane digester now under construction at the dairy.

We believe that a change in the rules of the game, as it has been played for our 43 years as a producer-handler, would be judged a taking if aired in a different forum. Four generations of our family have invested their life's work under the rules and the spirit of our "special status."

Therefore we propose that the U.S.D.A. set the limit for producer-handlers at 3 million pounds of Class 1 sales per month, as was done in the Arizona and Northwest Market Orders. We therefore ask and propose that the Pacific Northwest Market Order FO 124 be excluded from the hearings requested by NMPF and IDA. We feel that we have had our hearing and the findings are fair and balanced.

Respectfully,

Jock Gibson
President/Owner, Lochmead Dairy