

TESTIMONY OF PAUL ROVEY

My name is Paul Rovey. Our family has dairied in Arizona since the 1920's. We milk Jerseys, and also grow alfalfa and corn silage. We have been members of the United Dairymen of Arizona, the only dairy cooperative in the state, since the early 1960's. I have served on its Board of Directors since 1985 and was elected UDA President in 2008.

UDA has an in-depth understanding of the Producer-handler issues as a result of years of efforts to address the inequity of the pool exemption of large producer-handlers. When we finally won that battle in the Arizona Market Order, on both legislative and administrative levels, we and our allies knew that the outcome would be of interest to other Orders.

And so I thank you for the opportunity to share our experience with other Milk Marketing Orders and how that experience influences our support of three of the current proposals. A deep commitment to fairness and clear-sighted realism were the foundation of our efforts, which began in the mid-1960's, to address the producer-handler loophole. That foundation of fairness and realism underpins my comments today.

Members of our cooperative are suffering, just like dairy producers all over this country, from the devastatingly perfect storm of low milk prices, high input costs and lack of exports. If the Milk Equity Regulatory Bill had not passed in 2006, our producers would be even more devastated than they are right now. The passage of that bill, coupled with the Administrative decision issued in February 2006, resulted in a \$3 million infusion into the Arizona pool each year. I can assure you that without that boost to dairy mailbox prices, the ability of our Arizona dairy industry to weather this storm would be severely threatened.

The principle which guided our efforts throughout the Producer-Handler hearings and the legislative efforts was fairness: that a system designed to ensure a consistent milk supply should apply equally to all those who are producing milk. UDA, along with other processors and co-ops, successfully demonstrated that producer-handlers who don't pay into the pool ride on the backs of those who do. They gain from the loophole in the law, which exempted Producer-handlers on the grounds that most are "small mom-and-pop operations which do not affect the market." As we all know, producer-handlers who ship more than three million lbs. of milk a month do not qualify for that exemption's rationale. Such large producer-handlers gain, at the expense of family-owned dairy farms all across this country. We argued for a level playing field – and both the United States Congress and the Dept. of Agriculture supported that call for an equitable application of the marketing order regulations.

We support Proposal 1 in this proceeding, the elimination of the producer-handler provision, as a preventive measure. A claim made repeatedly by Producer-handlers during the hearings in 2003 and 2004 addressed the fact that the existing plants represented substantial investments. Those investments were based on anticipated

profits, calculated on exemption from pool contributions. Proposal 1 would eliminate any confusion, any miscalculation, any doubt in a processor's mind moving forward about costs: you build an operation that produces more than 3,000,000 lbs. per month, you'll be contributing to the pool.

During the hearings which led to a new provision in the Arizona Order, UDA testified that our members lost between 10 – 14 cents per cwt. over the period of January 2000 through July 2003, amounting to a total loss over those 42 months of over \$11.5 million. An earlier Market Administrator computation for the period of September 1997 through January 1999 showed an average blend price loss for the period of over 10 cents per cwt., and a total loss to UDA's members of approximately \$3 million per year.

Since 2006, when the Producer-Handler in our market began paying into the pool, the blend price has gained that 10 – 14 cents per cwt. and that \$3 million per year. Under Proposal 1, the individual, family owned farms – which constitute 98% of the dairies in this country, will finally have the regulatory protection they should have been experiencing since 1937. It seems appropriate that, during a time when state efforts to support dairy producers checkerboard the country, that this hearing offers the opportunity to bring a cohesive and equitable approach to protect dairy producers' income.

We at UDA support Proposal 2 because we are realists, and we are business people. Proposal 2 would expand the exempt plant size limit from 150,000 to 450,000 lbs. per month. Plants of this size are too small to have a market wide impact as independent marketers. The dairy industry has worked hard to have a marketplace where small, medium and large dairies can thrive. The same is true for the processing side of dairy economy. The exemption of small plants – which we suggest should be defined as producer-handlers manufacturing no more than 450,000 lbs per month – allows them to operate in the sort of niche markets that such small plants typically serve, without undue regulation.

We support Proposal 26 for similar reasons. Proposal 26 would grandfather the current existing producers between the 450,000 and 3,000,000 lb. limit. These are operations which have already made their investments, and each represents a small impact on the market. The producer-handler exemption has outlived its usefulness, but this grandfather exemption is an appropriate bit of "live and let live".

We are here today primarily to identify the proposals which we support, and to provide reasons, data and background for that support.

There is, however, one additional proposal which has drawn our attention because it merits our strong, unequivocal opposition: Proposal 25 would create individual handler pools. This, in our opinion, would be a disaster.

If this proposal were enacted, bottling plants would pay their producers a Class I price, and manufacturing plants would pay lower Class prices, depending on the product line. This will result in chaos in the marketplace, lead to the disintegration of many dairy

cooperatives, and destroy the Federal Order system. One of the primary functions of a dairy co-op is to ensure a marketplace for its members milk. The demand for fluid milk is much more vulnerable to the marketplace and consumer preferences. When demand drops – during school holidays, for instance - the cows which produce that milk are still productive. The other classes of dairy products help to ensure there is a home for all the milk that is produced. The protection of a stable dairy market is the purpose of the federal order system, and the blended milk price. This proposal would have the same impact on the American dairy industry as cavalier banking and investment practices have had on the US economy.

The members of the United Dairymen of Arizona have strategically opted to not bottle milk, as it would mean competing with our long-time valued customers, and glut the marketplace. However, only one third of our production goes to fluid milk; one third goes to a Class III facility, and the remainder to our manufacturing plant, the third largest in the country, and probably the most versatile in the U.S. It is UDA's strategy to be creative, agile, and diverse, so that when the day comes when there is no government safety net, we can say, "Fine. Not a problem." Proposal 25 would be a jugular wound to such a long term strategy – and not just in our market place. The unpredictability of prices would make the dairy industry – already vulnerable to volatile price fluctuations - even more of a roller coaster.

I'd like to conclude with a final take-home lesson from our experience with Sarah Farms, one of the largest former Producer-Handlers in our Order. Hein Hettinga, founder and owner of Sarah Farms, is a remarkable dairyman, a shrewd businessman, a capable competitor, who sells Class I milk to Sam's Costco and Walmart. We buy milk from, and sell milk to Sarah Farms. Our relationship is extremely cordial: we balance his excess milk, and have traded technical assistance with each other. We communicate regularly both formally and informally. The relationship between Sarah Farms, a former Producer-Handler, and UDA, the cooperative whose members are finally getting a fair blend price, could be the poster child for this national hearing on Producer-Handlers.

We believe the Department of Agriculture owes it to every dairy farmer in this country to do the right thing – and level the playing field with regard to large producer-handlers.

