

Testimony Related to USDA National Public Hearing on Proposed Rulemaking on Producer Handlers and Exempt Plant Status

Thank you for the opportunity to offer testimony in support of the proposal put forth by the New England Producer Handler Association regarding the status of Producer-Handlers within the Federal Order System. Specifically, the Association proposes to retain the Producer-Handler exemption and to establish a 3 million pound per month exemption for all Class I milk distributed by a Producer-Handler in all Federal Orders.

Monument Farms, Inc. is a Producer-Handler located in Weybridge, Vermont in Addison County, one of the top two milk producing counties in Vermont. In our third generation of family ownership and management, we milk approximately 400 – 450 cows, producing nearly one million pounds of milk per month without the use of r-BST. We produce our own feeds on 1800 acres of land and raise our own replacements. Our herd is one of the best managed in our area and produces the extremely high quality raw product necessary to sell under our own name to customers from southern Addison County north to the Canadian border. As owner/managers, we generally work sixty to seventy hour weeks, especially on the farm side of our business, which is very much a seven day a week job. We employ 35 people, including farm, processing, distribution, sales and office staff. The majority of our employees have worked with us for more than ten years, proving that we provide a stable, enjoyable working environment. We have provided numerous family members to fill the ranks of local Select Boards, Chamber of Commerce Boards, School Boards, Church Boards, Farm Bureau Boards, local Planning Boards, Bank Boards, Lions Club, Rotary, Milk Promotion Boards, etc.

Vermont is a state that prides itself on independence, and as such, is a very strong proponent of the “Buy Local” theme. Consumers want to know where their foods come from and where their food dollars go. Our dairy, which has been operating since 1930, is a long established fixture in our area of the state and has acquired a reputation for strong stewardship of our lands and a very consistently high quality product. People in our area of Vermont take as much pride in the fact that they support us as we take in providing the products and care of the land and community. Monument Farms has been lauded with numerous conservation awards throughout our seventy-nine year history, recognizing our commitment to preserving our lands for the public benefit. We owe our existence to our customers who buy our products over our competitors’ products regardless of price because they know, like and trust us. They also know that our prices to the stores reflect our cost of production, from our farm all the way through distribution. They know that our prices remain consistent, changing only when our cost structures change. Yet, beyond these warm and fuzzy, very subjective points, the most important fact is that the consumer has a choice and makes a choice, voting with his or her food dollar. If our business did not exist, consumers in our area of the state of Vermont would have no option but to purchase products offered by a large, nationally-sized dairy processor who counts profits in the hundreds of millions of dollars while the producers of their raw product suffer the roller coaster ride which dairy pricing has become. Monument Farms believes in a fair return for providing a high quality product. This philosophy leads to very steady, consistent pricing, one based entirely on our cost structure.

A graph of our wholesale prices over the past nine or ten years would look positively boring when compared to that of our competitors. During those rare periods of extremely high Uniform prices, our cost of production allows us to be, at best, competitive price-wise with our pooled competitors. As USDA cost-of-production figures for the Northeast Region of the United States demonstrate, the total cost of production, not just operating costs, was never exceeded by the Class I price. This shows clearly that there is no price advantage enjoyed by a producer-handler in Federal Order 1. During periods of low milk prices such as we are experiencing at this time, the cost of raw supply for a producer-handler already exceeds his pooled competitors' cost. If the proposal put forth by NMPF and IDFA is adopted by the USDA, affected producer-handlers in the Northeast would find themselves with an untenable disadvantage. Far from removing the "price advantage", as stated by IDFA, this producer-handler would be faced with a cost of over twenty dollars per cwt., compared to his pooled competitor's cost of under fourteen dollars per cwt. for the current month of May.

For the use of this esteemed group, I would like to share cost-of-production figures for our fiscal year ending March 31, 2009. These numbers represent operating costs per gallon for the various sections of our business. We utilize cash-based accounting, thereby creating a need to look at numbers over an extended period of time to derive meaningful information.

Cost of Raw Supply.....	\$1.69	(\$19.65 per cwt)
Cost of Processing (w/container)...	\$0.65	
Cost of Delivery	\$0.48	
Cost of Sales & Office.....	<u>\$0.22</u>	
Total Cost per Gallon	\$3.04	

The above numbers represent the operating costs involved in getting a gallon of whole milk into a bottle and to a store. They include no interest expense, no depreciation and no return on investment.

Sixteen months ago, Monument Farms became a pooled plant for a two-month period due to exceeding the limit on distributions of non-farm Class I milk of 150,000 pounds per month. This was mostly due to a slight drop in milk production combined with strong demand. The cost to Monument Farms of this pooling for two months would translate into approximately \$360,000 over a year's time. We were forced to drop one large customer and a few smaller, as well. Aside from the direct monetary price tag, which had a substantial impact on our business, it is important to look at the bigger picture to see the difficulties producer-handlers of our size and smaller are faced with. As most dairy farmers will admit, there is nothing easy about farming and producing milk. Concurrently, I have yet to ever hear another milk processor say that processing, packaging and distributing milk is easy. The two sides of the business wrapped up all in one create a very capital-intensive business with far more complications than those of either one, individually. A processor who acquires a new customer simply needs to order more milk from the cooperative that supplies him with raw milk. Or, for example, if demand climbs or falls suddenly, as it can on occasion, a fluid bottler gets first choice on available milk and can order up a couple of extra loads of milk or cancel a load or two, as the case may require. A producer-handler, on the other hand, must constantly balance demand with available supply and pay a premium over Class I to purchase extra, or receive the lowest Class price available to ship excess. Besides these supply-demand complications, a producer-handler is faced with all of the issues faced by any farmer; weather

which is tending to be more and more extreme; high input costs for grains, fertilizers and pesticides; increasing health insurance and worker's compensation insurance premiums; fossil fuel price increases as we all experienced a year or two ago, and the list goes on and on. The raw supply cost structure for a producer-handler is at least as high as any individual producer and generally higher due to the fact that a producer-handler always needs to be aware of the volume of milk that he will be able to market. Any growth in sales has to be accompanied by a corresponding growth in milk production which, as any knowledgeable person knows cannot be accomplished quickly, but must be planned well in advance.

In summary, figures compiled by the USDA show without a doubt that the total cost of producing milk in the Northeast exceeded the Class I price in both 2006 and 2007. If one accepts USDA numbers, there can be no claim that producer-handlers enjoy a price advantage over pooled processors, and USDA numbers also show that producer-handlers' percentage of the national or even regional total milk production is less than one percent of that total. Therefore, the only real impact of a ruling in favor of the proposals submitted by NMPF and IDFA to limit Class I sales by producer-handlers to less than 450,000 pounds per month would be to drive those small producer-handlers affected out of business, thereby consolidating further the power of the large processors who are already found at the top of the list of largest processors in the U.S. In the case of our sales area in Vermont, this would dramatically affect consumer options, by removing fifty percent of available choices, leaving only one source for non-organic fluid milk. For these reasons, we believe that a three million pound exemption for producer-handlers would accomplish the protection that NMPF is seeking, while still allowing our customers to choose between supporting a local supplier with close ties to our communities or one whose headquarters are in another state entirely.