Date: 12-11-06

From: Max D. Smith
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RD#2 Box 32B
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To: USDA Pittsburgh Hearing Attendees

Re: Emergency Marketing Conditions on Class I and II Price Formulas

I am speaking today to represent our family farm as well as our many neighbors who could not be here today. We are a fifth generation family farm located in South-Central Pennsylvania. Our ancestors have milked cows since the early 1900's. Profitability has always been a standard procedure on our farm. Since the year 2000, it has become harder and harder to turn a profit. Except for a short time in 2003 and 2004, break even or a net loss has been more common place.

We milk more cows, produce more milk, and work longer hours to receive the same price we were paid in the late 70's. We have 400 cows and usually milk 350-360 on a daily basis considering dry cows. We ship approximately 8.5 million pounds on an annual basis. Our milk components average 3.8% butterfat and 3.15% protein most months. In 2005, our net farm price averaged $15.73/ cwt. In 2006, our average net farm price will be close to $13.40/ cwt. Both years prices include a $0.30/ cwt quality premium. Quick calculations tell us that our milk income is $2.33/ cwt less or $198,050 less for 2006.

Now, lets look at expenses in 2006 compared to 2005. Fuel is up 25%, labor is up 15%, insurance is up 8%, bedding costs (primarily sand and sawdust) are up 40%, and taxes are up 9% (both the county and the school district had negative budgets and raised real estate taxes). When we total these increases, they equal another $1.10/ cwt or

$93,500. So in 2006 we will have had, with the decrease in milk price and increase in expenses, $291,550 less to work with than in 2005. My question to USDA is where do we make up this difference? Would you call this our "make allowance?"

Now lets look at feed costs. In the last three months, corn has gone from $2.60/ bushel to over $4.00/ bushel. Soybean meal, as well as other protein sources, have increased also. Last week we worked with our accountant and did some number crunching and arrived at the fact that if grain prices stay where they are currently, the increase in feed cost to produce milk is $0.63/ cwt over August costs. This will have a major impact on producer costs in 2007.

The "Northeast Dairy Benchmark Summary" of 2005 lists the total expenses/cwt of the top 10% of producers in the Northeast at $17.47/cwt. Our 2006 average price of $13.40/ cwt is more than $4.00/cwt under this. How do we replace equipment and facilities with this scenario? We have dairy farmer neighbors who have no debt that are borrowing money to just pay bills. Dairy farmers in the Northeast are at a crossroads.

Shall we as dairy farmers plan for 2007 and beyond, or should we turn the Northeast into a massive housing development? What USDA decides in the next few weeks will tell us if Agriculture is going in the same direction as textiles and manufactured goods in this country.

In conclusion, I plead with you to preserve the family dairy farm and approve the $0.77/cwt increase in Class I and look at some type of emergency pricing to cover the increase in feed costs. We ask that you would provide us with a fair price for our product, and take the high road and rule in favor of the producer.

Thank you for your time

Sincerely,

Max D. Smith