

Class 1 & Class 2 Price Formulas Hearing

Docket No. AO-14-A76; DA-07-01

Testimony of Tim Hood

Pittsburgh, Pa.

Dec. 12, 2006

Exhibit	19
Witness	
Date	Rptr.
Powers Garrison & Hughes	

Comments concerning Class I and Class II Milk Pricing Formulas

My name is Tim Hood. My address is 41488 CR 358 Paw Paw, MI 49079. I am a fourth generation dairy farmer from southwest Michigan. My wife Debbie and I have four children. They range in age from 15-21 years of age and each has their own responsibilities on the farm. My father is still active at the age of 80 and still does most of the field work. I was raised on this farm, and live across the road from where I grew up. Our farm has grown over the years, to the 400 cows we milk today. The family aspect of our farm is as strong today as ever.

I serve as a director for the Michigan Milk Producers Association. I have also served in various other leadership roles, and on numerous committees. I do not claim to be an expert on Federal Milk Marketing Orders, or am I prepared to answer technical questions. What I am here to tell you is how the current system impacts our family dairy farm, and why I think the National Milk Producers Federation proposals to adjust the class I and II milk price formulas will help my family on into the future.

I have been a dairy farmer for 29 years. In that time, I have seen several up and down cycles in the price of milk. Each time the market turns down, we tighten our belts and struggle until better days. We have learned how to be more efficient, and cut costs, as we go through each one of these down cycles. The costs we have tried to absorb in the last year and a half have been the most difficult. The rising price of fuel has just exploded through all of our normal expenses, as businesses we deal with have passed on fuel surcharges, and rate increases to deal with their rising fuel costs. Our milk hauling rates have increased 20% in the last year. The purchased feed and commodities we buy

to feed our cows now carry fuel surcharges. These add \$150 - \$300 dollars to a load of cotton seed brought in. Veterinarians, equipment dealers, custom operators all have added fuel charges to their bills. Fertilizer and utility bills have also been impacted. These costs are not from a normal market cycle that goes up and down. They are here to stay. This has all come upon us during this last down turn in milk prices. It has been very difficult for us to absorb.

Our cooperative recently voted, to approve the tentative final decision that will increase the class III and IV make allowances. It is my understanding that the impact of this action will be to take income from dairy farmer milk checks. I do believe this is necessary in order to assure that balancing facilities will continue to exist in our local market. These facilities provide a valuable service to us as dairy farmers, and our creditors, by providing assurances that we will have a market for all the milk our farms produce. Their existence depends upon them being profitable. Our cooperative operates two balancing plants in the Michigan market, and as a board member, I have seen the impact of increased operating costs, and the declining profitability of these two plants.

Reluctantly I accept the impact on my returns for class III and IV milk. It is unfair and unrealistic though, to expect dairy farmers to accept less money from processors of class I and II milk. I understand the changes contained in the tentative decision. We will soon see a \$.25 per cwt reduction in the price of class I milk. Because in most months, changes in the class III price, determine the change in the class I price. Likewise, it is expected that the price of class II milk will be reduced by \$.17 per cwt. That's because the class II price is directly linked to the class IV price.

As a family dairy farmer from southwest Michigan, I presently don't have a way to pass on these added costs that keep getting dumped on me. In the future if my family is to remain in the dairy business, we will have to have a tool or way, to deal with these added costs. That is why I am here today, to tell you that I support the changes proposed by NMPPF. I believe that NMPPF is correct in its assessment that class I and II prices are a segment of the market where we as dairy farmers, have the opportunity to recoup some of our increased operating costs, just like the processing industry does.

There are additional costs associated with producing milk for the class I and II market. They include the cost of the financial investment required to comply with Grade A regulations, the cost of milk assembly and hauling to more distant markets, and balancing the volatile seasonal and daily needs of a large processor. These costs were taken into consideration when the current class I and II differentials were established by the USDA in 2000. All of these marketing costs have increased since 2000. My question for those who will decide the outcome of this hearing is this. If we can change the class III and IV make allowances because costs have increased, why can't the class 1 and 2 price formulas be changed to reflect these increased costs on dairy farmers?

The changes proposed by NMPPF are desperately needed, and require immediate and expedited action by the USDA. As I mentioned earlier in my statement, the change in the make allowances are expected to take effect in the very near future. That will place an unwarranted economic hardship upon me and other dairy farmers. Our increased costs of producing milk for the class I and II market must be recognized.

Thank you for this opportunity to appear here today, and for listening to my thoughts about a matter very dear to myself, my family and fellow dairy farmers.