Testimony of

Dairylea Cooperative Inc.

Presented by

Bill Beeman
First Vice President and Secretary

Presented at the

Federal Milk Marketing Order
Class III and IV Hearing
Indianapolis, IN
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In Support of

Proposal No. 20 Relative to a
Regulated Cost of Production Add-on

EXHIBIT
48
JEB 4-11-07

Good morning. My name is Bill Beeman. I am a dairy farmer from Kingsley, Pennsylvania in Susquehanna County. I am a member of Dairylea Cooperative Inc, and serve as its First Vice-President and Secretary. Dairylea is a dairy farmer owned cooperative with 2,400 members. It is the largest dairy cooperative in the Northeastern U.S. and the fifth largest in the U.S. This year, Dairylea turns 100 years old.

My wife and I operate an 80 cow dairy with a rolling herd average of 20,000 pounds. Like most dairy farmers, we work hard every single day to be more efficient in producing milk. We look at opportunities to use different methods and technologies to producer more milk per cow, milk more cows and take unnecessary costs out of our operation.

I think the operation of our farm is much the same as any business. That is, become more efficient, adopt technologies that fit our size and scope of operation and that make sense for our farm, and shed costs as we can without hurting our bottom line.

From time-to-time, our input prices escalate so quickly and so significantly that we are not able to mitigate these costs. This too is something that eventually impacts most if not all businesses. Over the last 48 months, our farm has been dealing with higher labor and insurance costs and energy related costs such as fuel, hauling, fertilizer, chemicals and electricity. Since September, we have been dealing with significant cost escalation in feed prices emanating from Federally subsidized incentives to increase corn-based ethanol production. The cost of production on my farm has increased $4.28 per hundredweight over the last four years. I would think that this is a similar increase on most farms of my size. All farms throughout the U.S. have experienced some form of cost of production increase of a significant nature for their particular operation.

Cost of production impacts due to higher feed costs is a popular topic these days. Purchased feed costs on my farm have increased 55 percent from $200 to $310 per ton, since last August. This alone has added $1.82 per hundredweight to our farm's cost of production. We have struggled with these higher input prices. It doesn't make sense for us to feed less to mitigate this cost because the higher feed costs still result in purchased feed costs being significantly less than the milk price. Thus, feeding less and reducing milk production would result in losing revenue to cover our overhead costs. In the current environment, all feed stuffs are more expensive and there is a very limited ability to change the feed ration in an attempt to mitigate a portion of the feed related cost of production increase. So, the cost of production increase due to higher feed prices cuts right to our bottom line and lowers our net income – which recently has meant that we lose even more money.

When dairy farmers have a cost of production increase, after attempts to mitigate our costs, our only other course of action is to get more money out of the marketplace. Ed Gallagher, Dairylea's Vice President of Economics and Risk Management, would tell me that if production cost increases occur long enough, they will eventually get bid up into the milk price as some farmers go out of business and others cut their production. He may be correct, but the problem is that if there is a price correction it takes a number of months for it to occur. So our only other alternative, after mitigating costs to the limited extent that we can, is to seek higher negotiated milk prices. In my case this means through Dairylea and its marketing arm, Dairy Marketing Services. This means that DMS has to go to its customers and pass our higher costs along to the marketplace.

An important point I want to leave you with is that dairy farmers do not have the option of having a Federal agency require our input suppliers to sell us inputs at a lower price because our costs have increased. The single largest input purchase on our farm is livestock feed. There is no regulatory structure that requires feed dealers to sell dairy farmers their livestock feed at a lower price because dairy farmers' cost of production has increased $4 per hundredweight. Instead, we have to go to the marketplace to get the extra money.

Ed has told me that he has attended a number of meetings with manufacturers, processors, USDA personnel and university economists and has been told that dairy farmers and their cooperatives need to be more efficient or get more money out of the marketplace on their own to resolve our cost issues. Dairylea believes it is time to level the playing field.

Under the current system, manufacturers can pass their higher production costs back down to dairy farmers via make allowance changes – this system no longer works. Dairy farmers have their own production costs to deal with; we should not be burdened by taking on the costs of manufacturing plants, too. It is time for manufacturing plants to be asked to pass their higher production costs to the marketplace instead of back down to farmers.

Dairylea Cooperative's Board of Directors unanimously passed a resolution on March 9, 2006 requiring management to create milk pricing systems and customs that result in dairy product manufacturing costs being passed to the marketplace instead of back down to dairy farmers (see Exhibit 1).

Dairylea would prefer that the marketplace determine the make allowance. The old Minnesota-Wisconsin price series resulted in the marketplace determining the make allowance. At this time, Dairylea does not have a proposal to offer that would allow the marketplace to determine the make allowance although Ed tells me he is exploring different options. Instead, Dairylea is here today to work within the confines of the existing system to make a "tweak" that will eliminate the need to have additional make allowance changes.

The tweak is the Dairylea proposal to incorporate a cost of production add-on to be used with products included in the NASS pricing survey, as a way to end the circularity embedded in the Federal Order pricing system. Ed Gallagher will testify about the specifics of our proposal and the problems with pricing circularity.

Ending the pricing circularity will allow all manufacturing plants to pass their production costs on to the marketplace without impacting the raw milk price. This change is necessary to create a Federal Order program that no longer will need to utilize make allowance changes.

Dairylea is a proud member of the National Milk Producers Federation. I am a delegate and Dairylea's President Clyde Rutherford serves on its Executive Committee. Notwithstanding prior testimony, Dairylea supports the National Milk proposal to modestly adjust make allowances for changes in energy costs. It opposes other proposals that seek to increase make allowances.

Dairylea urges Secretary Johanns to implement our proposal to help strengthen and modernize the Federal Order program.

Thank you for allowing me to testify today.

Exhibit 1

Dairylea Board Resolution

DAIRYLEA COOPERATIVE INC.
DFA NORTHEAST AREA COUNCIL
BOARD OF DIRECTORS
March 9, 2006

WHEREAS, dairy farmers' costs of producing milk continue to increase, and

WHEREAS, the milk price received by dairy farmers is the primary means of covering their milk production costs, and

WHEREAS, Federal Milk Pricing regulations provide a mechanism for manufacturers to push manufacturing costs back to farmers through changes to make allowances by lowering milk prices, and

WHEREAS, dairy farmers cannot afford to pay their milk production costs along with the production costs of manufacturers, and

WHEREAS, rising manufacturing costs should be passed along to consumers of dairy products,

NOW THEREFORE, BE IT

RESOLVED, that Dairylea and DFA's Northeast Area Council work to create a milk pricing system and customs that provide a mechanism for dairy product manufacturers to pass their production costs on to consumers and not down to producers, and

BE IT FURTHER RESOLVED, that the milk pricing system and customs allow all costs related to supplying milk to manufacturing and Class I plants to be passed along to the consumers of dairy products.