

Statement of Bill Averbach

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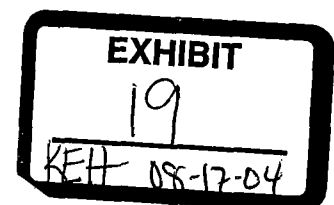
Minneapolis Minnesota

My name is Bill Averbach. My address is N8150 Townline Road, Fond du Lac, Wisconsin 54937. Fond du Lac is located in Southeast Wisconsin midway between Milwaukee and Green Bay.

I operate Century Farms with my wife Mona and two of my sons. We farm 500 acres and milk 220 cows. I am a member – owner of Dairy Farmers of America (DFA) and market all my milk thru the cooperative. I serve as a director for Dairy Farmers of America on both the Central Area Council and Corporate Board of Directors. Both Board have reviewed and approved Proposal 2. I currently serve as a district director for the Wisconsin Federation of Cooperatives and am actively involved in my community. My wife is a director of the Wisconsin Milk Marketing Board. The Averbach family earns its livelihood and participates off of the farm in the dairy industry. Our farm has an active risk management program as a part of our overall management practices.

Even though I have been actively involved in my cooperative for several years and have heard many reports on Federal Order activities I do not claim to be a Federal Order expert – however I feel I have a fair understanding of how they work and why they are important to farmers. I have been to other hearings and often discuss milk-pricing issues with my neighbors and other dairy farmers.

I'd like to briefly address the depooling and distant milk issue and also I'd like to discuss how these two issues affect my ability to use risk management tools on my farm



The dairy industry is always front-page news in Wisconsin. Issues commonly termed "distant milk" and "depooling" are well known there. Most every dairy farmer has seen the recent headline that the top milk production county in Order 30 is not located in Wisconsin. It would be more reasonable if it were in Illinois or Minnesota – but unbelievable that it is in Idaho.

Every dairy farmer understands that they produce a product, deliver it to the market and expect the remaining dollars to show a profit – they are businessmen. All of us understand that there is no way that milk can be delivered from as far away as Idaho to Order 30 regularly and return a profit to the dairy farmer who produced it. Even though I am not an expert in pooling rules I think the Secretary needs to review them to see if they make sense and are fair. The Order rules should reflect economic reality.

On the issue of depooling I also feel that the rules should be reviewed. All dairy farmers supply a market. That may be a Class I market or a Class III market – that is their choice. But no market is willing to have suppliers that deliver only when they want to. Buyers demand, as they should, steady performance from their suppliers. I expect that from any of my dairy farm suppliers. The fluid milk market has a steady regular demand. If any dairyman wants to share in the returns from that market demand you should be prepared to deliver every month and not bounce in and out. It is not unreasonable for all the producers who supply the same market and share in the market returns to get the same minimum price.

Even though the Class I utilization is lower in Order 30 than other markets it is still a component of my farm's returns. Dairy farming is not a high margin business. All parts of the revenue stream are important. My neighbors and I are concerned about these issues because we pay attention to every dollar that comes in our milk check.

Finally I'd like to express a concern related to risk management. Our farm regularly forward contracts our milk to try to assure our business of a profitable price. I'm not here to debate the pros and cons of contracting – I'll do that out in the hallway if anyone wants to do that. Our accountant, county agent, university professors, bankers and USDA representatives are always urging us to use all the management tools we can to make us better businessmen. Contracting is one of those tools. In general we look at the difference between our farms mailbox milk price and the Class III price to establish a relationship that we can expect in the future – we call that basis. Predicting the future about milk prices is much like predicting the weather – a lot of variables have to be accounted for. But this is still a tool we are learning to work with. However when negative PPD's occur at the rate of this past spring, all of the historical relationships we have observed in the past get way off and adversely affect our basis. The price relationship we had tried to achieve was destroyed by factors we could never have foreseen or predicted.

If we try to account for them at the rates we have experienced recently the variation would be so large that contracting likely would be useless.

I realize the Federal Order system is not in place to assist me in forward contracting my milk price – but the abnormality of depooling certainly damages its usefulness. Congress instructed USDA to take an active role in educating and encouraging dairy farmers to use risk management tools such as forward contracting. The situation we find our farm in now seems counter productive. I think the Secretary should take that into consideration in her decision.

Thanks for listening to my concerns and I will try to answer any questions that I can.