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Congress of the United States
House of Representatives
Washington, DC 20515-0307

June 10, 2005

The Honorable Michael O. Johanns
Secretary of Agriculture
United States Department of Agriculture
1400 Independence Avenue SW
Room 200-A
Washington, DC 20250

35-4283205
AMS

Re: <u>Agricultural Marketing Service, 7 CFR Parts 1124 and 1131 [Docket No. AO-368-A32, AO-271-A37; DA-03-04B]</u>

Dear Secretary Johanns:

I am writing in opposition to the proposed amendments to U.S. Department of Agriculture regulatory orders that would affect producer-handlers in the Pacific Northwest and Arizona-Las Vegas market areas. As a Representative from Arizona, I am particularly concerned about the impact the amendments would have on a family-owned dairy in my state, on its employees and distributors and on thousands of customers who currently depend on them for dairy products. In a larger sense, I believe the proposed amendments would reduce competition, harm consumers and set a bad precedent for national dairy policy.

I understand that the "pooling and pricing" regulations were established in the 1930s to protect small dairy farms from being exploited by large processors which could potentially buy their raw milk at below-cost prices. At the same time it was established by Congress that "producer-handlers" - those dairy operations that process and market milk from their own cows on their own farms - would be exempted from the pooling and pricing provisions. It didn't make sense for producer-handlers to pay into a pool subsidizing other producers when they do not buy milk from any other dairy farms. It still doesn't.

Some have expressed concerns that producer-handlers have a competitive advantage because they are not "fully regulated." In fact, producer-handlers bear the risks of producing, processing and marketing their products - risks that fully regulated producers and processors do not bear. In addition, the three million pound-per-month threshold is really quite low, affecting those who are not in any position to "distort the market." In Arizona, this arbitrary ceiling would penalize any producer-handler responsible for 1% of the market or more.

As a case study, I'd like to focus on Sarah Farms, based in Yuma, Arizona, within my district. This 10 year-old family-owned dairy processes and markets milk from two local Yuma plants. Currently, Sarah Farms employs 124 people, providing health care to its employees. Sarah Farms also gives to the community by donating to the Yuma Community Food Bank.

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Sarah Farms markets about six million pounds of milk a month, mostly Class 1 liquid milk products. Under the proposed amendments, it would have to essentially sell its milk into the pool at lower "blended" prices and buy it back at the higher Class 1 price. This paper transaction would cost the dairy more than $2 million a year, essentially wiping out its profits.
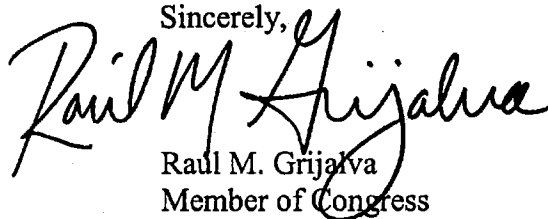
I believe this regulatory change does not make sense. It also sends a mixed message to our rural businesses: "We will help you," we are telling them, "but don't become too successful or we'll have to shut you down."

The regulatory change would be achieved at the expense of the last remaining independent family-owned dairies like Sarah Farms. In addition, by further consolidating the market, it will also drive up prices and eliminate choice for consumers. This is all-around bad public policy.

Please reject the proposed amendments - **Agricultural Marketing Service, 7 CFR Parts 1124 and 1131 [Docket No. AO-368-A32, AO-271-A37; DA-03-04B].**

Thank you for your consideration in this important matter.

Sincerely,

Raúl M. Grijalva
Member of Congress

RMG:ck

Cc: Hearing Clerk