

Bareman Dairy

May 12, 2009
Cincinnati, Ohio

In re:

Milk in the Northeast, Appalachian, Florida, Southeast Upper Midwest, Central, Mideast, Pacific Northwest, Southwest, and Arizona Marketing Areas

Docket Nos.

AO-14-A78, AO-388-A23, AO-356-A44, AO-366-A52, AO-361-A44, A44, AO313-A53, AO166-A73, AO-368-A40, AO-231-A72 and AO-271-A44, DA-09-02, AMS-DA-09-0007

I am Jim Wernet. I am the General Sales Manager for Bareman Dairy located at 234 Charles Street in Holland, MI. We are a fluid milk processing business with in excess of \$100 million in annual sales. Like most of our dairy farm suppliers, Bareman Dairy is a family owned and run business, now in its 4th generation. Our distribution area includes Michigan, Northern Indiana & the Greater Chicago area. We currently employ 287 employees and have operated in Holland, Michigan since 1898.

My duties at Bareman's include oversight of our 11 person sales team, determining pricing for all products and customers, customer relations as well as purchasing all dairy products not produced by our plant.

I am responsible for bottom line profitability on all items that we sell. I have been employed by Bareman Dairy for the last 21 years; I have held my current position at Bareman's since 1994. In total, I have been employed in the dairy business in Michigan since 1971.

Bareman Dairy purchases raw milk from Dairy Farmers of America, Inc. and Michigan Milk Producers Association and is fully regulated by Federal Milk Marketing Order 33. We are a completely independent company and do not belong to any trade organizations.

Bareman Dairy competes in all channels of trade, grocery, institutional, vending, "C" stores, in 3 top 40 markets (Chicago, Detroit, & Grand Rapids). We compete against the largest fluid milk processing company in the country, Dean Foods, as well as several very large regional dairy companies, Prairie Farms and Kemp's. Additionally we compete against a producer-handler, Country Dairy that has added cows steadily over the past decade.

I am here to testify in support of proposals 1 and 2 as offered by the National Milk Producers Federation and the International Dairy Foods Association and oppose any grandfathering. Bareman's Dairy is supportive of Federal Orders and feel that the orders are a benefit to our dairy and its 287 employees. I am not an expert in the field of federal milk marketing regulations but I do have a general understanding of what is being discussed here.

I understand that a producer-handler does not pool the revenues from his farm with the Federal Order. I understand that most producer-handler milk volume is Class I milk and those volumes are sold for the highest price; so when the returns from that volume of milk is not a part of the Federal Order pool the resulting blend price will be lower. But more importantly for Bareman's Dairy a producer-handler is not accountable to the Federal Order for the minimum class I price – and that is a big concern to us.

In the business lines I discussed above we compete daily with many of the processors mentioned here at the hearing. The one fact that I can be assured of is that they pay the Federal Order minimum prices in the same way that I do. This is not true when I compete with a producer-handler. In my competitive area I do face competition from producer-handlers.

In our market this is an actual daily market place concern. We think this issue needs to be reviewed and are appreciative of the Hearing. Our view is that large producer-handlers can and do affect the marketplace and exploit a price difference in ways that are not intended. We urge the Secretary to change the Order rules as suggested in Proposal 1 & 2.

I understand that the Order system does not guarantee a profit for Bareman's Dairy - but it does claim to provide the same minimum prices to processors in the form of class prices. Once this balance gets upset the consequences may be hard to correct – we are dealing with that situation now in portions of my marketing area and I am concerned that if the Secretary does not act soon we could have similar issues in other areas.

Due to the continued growth of the largest retailers such as Wal-Mart, Kroger, Target and the like, with whom the largest dairy companies have an advantage and the inside track due to their larger distribution footprint, the smaller independent grocer and "C" Store operator has become more important to our survival. This is the very customer targeted by our large producer-handler competitor.

Our continued existence and the jobs that we now provide and have provided to the Holland Community for over 100 years are as valuable as the jobs that they provide. If their existence

depends on a regulatory wrinkle, as the producer-handlers would have you believe, than that is a very fragile existence indeed.

We object to the "head-start" producer-handlers have in pricing, at the expense of the other farmers in Michigan but feel that they also cause havoc in the marketplace when in the normal cycle of production, they have more milk than customers to purchase it. This normally happens in the spring when per cow production is up and per capita consumption is down. With no way to balance sales with milk production, they turn to "fire sales" both to their established customers and any others that might be receptive.

When below cost priced milk flows out into the market, we are left with two choices:

- Match the costs to retain the sales and the customer and lose money in the process, as we have no "surplus milk" at lower costs;
- Let them have the sale and hope the surplus cycle works its way out and that they don't add more cows.

Either way, the low retail prices spread across the marketplace as one retailer after another match up to prevent their own customers from switching stores. The reality is that one below market quote affects much more than the milk quoted, as incumbent vendors match up and the producer-handler rolls on to other prospects. Therefore a producer-handler affects more milk than he can produce and deliver. We have watched this cycle repeat itself annually as our producer-handler competitor has worked his way up from eighty cows to a thousand. Will a thousand be enough, or are 500 more cows, which would keep them under the 3, 000,000 pound level, to be added?

Will a new producer-handler begin this cycle all over again?

A recent example of competitive issues we face with producer-handlers, a "C-store chain of 32 stores, 28 of which we service, 4 serviced by our producer-handler competitor, was offered all gallons of milk at \$1.90 if they would retail at \$1.99. This same offer is currently being made to others in our marketing area. These costs are not possible to meet paying the current Federal

Order Cost plus the over order Class 1 premiums with the volumes and cost of delivery that the typical "C" store purchases.

We are told that many producer-handlers have built their businesses on quality not on the cost advantage that they have. From our viewpoint, that is simply not true in our market. Price has been the first weapon used by producer-handlers in our marketplace.

I am asking that fairness be restored and competition can live on.

If independent dairies like Bareman's are forced out of the marketplace, there will be no one to compete with the large dairies on school bids and government contracts as most producer-handlers do not process half pints. In addition to many Michigan schools, we also serve the Chicago Public Schools (3rd largest in the country). Competition is good and something that we do not fear but to require participation in the Federal Order by some companies but not others is not our idea of fair competition and simply not justifiable. How can one family business be favored over another simply because they have livestock?

If this issue is not corrected we may have to press our suppliers to eliminate the Order system as the only way to meet the lower prices offered to retailers from producer-handlers. Thank you for the opportunity to express my opinions. I will be glad to try to answer any questions you may have about my testimony.

