

United States House of Representatives
House Committee on Agriculture
Subcommittee on Livestock, Dairy, and Poultry
Witness Statement of W. Anthony Bostwick
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on behalf of Braum's and the American Independent Dairy Alliance
July 28, 2009

Chairman Scott and members of the Subcommittee, on behalf of Braum's Ice Cream and Dairy Stores (Braum's) and the American Independent Dairy Alliance ("AIDA") I would like to thank you for giving us this opportunity to testify today. Our comments and recommendations grow out of our experience as a producer-handler operating a strong regional milk and ice-cream business and our reasons for opposing the current NMPF and IDFA proposals pending before USDA to eliminate independents from the U.S. dairy marketplace by forcing them into the regulated pool. To us, this is an example of the need now to modernize U.S. national dairy policy. The current economic conditions provide an opportunity that we cannot afford to waste.

I. Braum's and AIDA – Who We Are

Braum's is a vertically-integrated, third-generation, 100% family-owned business based in Oklahoma. Braum's is unique in that we raise our own crops to feed our own cows, we milk our cows, we bottle our milk and make our own ice cream; and we sell our milk and ice cream products in our own stores. The only milk you can buy at a Braum's store is Braum's milk. Braum's operates stores in five states: Oklahoma, Texas, Arkansas, Kansas and Missouri. Our stores include a quick service restaurant with drive thru windows, an Ice Cream Parlor, and a Fresh market where fresh dairy, bakery, meat and produce items are sold.

Our marketing strategy is based on quality, traceability, time to market, freshness, and higher SNF (solids non-fat) in lower fat milks. Our lower fat milk products are unique – they contain a higher SNF percentage than other brands based on a process through which we remove water. As a result, it takes 3 gallons of milk to make every 2 gallons of Braum's fat-free milk. A variety of doctors in our marketing area recommend our low-fat milks to their patients who need extra calcium with less fat.

AIDA is a group of diverse independent producer-handlers and exempt plants formed several months ago in response to a petition by NMPF and IDFA to eliminate producer-handler

status as a matter of national policy.¹ We are each strongly interested in the rejection of that proposal on its merits in the ongoing proceeding at USDA, and equally interested in a seat at the national policy table to discuss effective modernization of U.S. dairy programs. To that end, my testimony is focused on the role of the Federal Milk Marketing Order system and our recommendations for change.

II. The Current Dairy Market Economic Situation

A number of witnesses have already testified about one of the fundamental problems for producers in today's market – federal minimum prices under the Federal Milk Marketing Order system are set by the government without regard to the cost of production to the producer. In times of high input prices for feed and fuel like the present, the economic loss associated with the inability to secure a cost of production plus a reasonable rate of return is devastating.

A second problem is that in a highly concentrated market such as the one we have, in which a few large cooperatives and processors exercise dominant market power, such losses fall with disproportionate weight on smaller producers in the regulated pool. The record in the producer-handler hearing demonstrates as much as a \$5/cwt cost of production disadvantage for such producers.

A third problem is that the federal milk marketing order pricing system is complex, poorly-understood, non-transparent and ill-equipped to facilitate innovation, growth and product diversification responsive to changing consumer demand. It has essentially become divorced from market reality. As originally designed in the 1930s, it was intended to ensure adequate supplies of Grade A milk for fluid consumption. That goal has been accomplished. Fluid milk is today a minority use of milk. Cheese is the undisputed primary use – and the rules of the FMMO today primarily serve that use, and are disruptive to the fluid milk market. We have a system in which a mother buying milk for her toddler is essentially subsidizing cheap cheese for pizza. This makes neither nutritional or economic sense.

A fourth problem is the lack of a consistent regulatory program throughout the country although there is clearly a national market for milk and the dairy products produced from it. We have a jumble of federally regulated areas, state regulated areas, federal and state regulated areas and areas outside of any order whatsoever. A single national order that encompasses the existing marketing areas would help but would still leave large areas of the country out of the “national” system. The State of Idaho, for example, now one of the top ten dairy states is not included in any federal or state order system. A coherent national dairy policy is essential.

III. Redefining National Dairy Policy

The elements of the foregoing situation demonstrate a need for re-evaluation of both national objectives and national policy. What is our national policy and what should it be?

¹ The founding members of AIDA include Snowville Creamery (Ohio), Kreider Farms (Pennsylvania), Heartland Creamery (Missouri), Aurora Organic Dairy (Colorado), GH Dairy (Texas) and Longmont Dairy (Colorado).

- Is it the preservation of small farms? The FMMO pooling and pricing system does not contribute to that goal, nor do the support programs because as currently structured they are insufficient to overcome the economic penalty of the small farm as a producer of commodity, pooled milk. If that is the goal, a different suite of tools and programs is required and should be developed to facilitate economically viable small farm operations. Farm preservation should not be the goal of a program intended to facilitate orderly flow of milk to consumers.
- Is it reformation of dairy policy to assure producers a return consistent with cost of production and a reasonable profit? The FMMO pooling and pricing system as currently structured contemplates no such requirement and unless USDA elects to revisit the methods by which prices are set, Congressional action to change the law may be required.
- Is it simplification and increased price transparency to facilitate a thriving and efficient market-driven dairy industry? Braum's and AIDA both believe that this should be the goal of a revised, future-oriented federal dairy policy. We support such simplification. For example, a single federal order with a single all milk price could help remove much of the market disruption caused by the current system. A program driven by continuously shrinking Class I receipts is just not rational dairy policy. As just one example of lost economic value in the current FMMO system, we estimate that the FMMO fees that would be due from Braum's to the USDA for telling us what we should pay ourselves for our own milk would equal an additional 10 farm jobs. We would hope we can all agree that folks in Oklahoma need these jobs more than the government needs money for such a purpose.
- Is it providing options for farmers to control their own destinies? As very clearly demonstrated by the producer-handler hearing, we are headed in the direction of fewer, less diverse opportunities in the milk business rather than more. This is wrong and is counter-productive national policy. Producer-handlers, small and large, are innovators in the dairy industry responding directly to consumer demand for differentiated milk products (organic, grass-fed, local, glass-bottled, home delivery, higher SNF content in low-fat milks, freshness, single-source farm traceability, etc). The business risk, capital investment and producer-handler management responsibilities of direct marketing are very substantial but, for those who choose this model it is a viable alternative for economic success and provides a valuable source of competition in the U.S. market.
- Is it maintaining every economically viable business we have in rural areas? Dairy farms in rural areas provide important economic engines for those areas. Every reasonable tool available to minimize consolidation is important to maintaining the economic base of those rural areas. Braum's and AIDA support national dairy policy that is consistent with maximizing jobs in rural

America. This presumes every reasonable tool available for competitive success remains available.

IV. Conclusion and Recommendations

We submit that we should stop fighting individual alligators and drain the swamp instead. We need a future-oriented dairy policy that addresses the market we have today and that we hope to have and grow in the future. The independent producer-handler option is an important component of any policy that fosters a healthy competitive marketplace with strong ties between producer, handler, retailer and consumer, of which I represent all four. To this end we recommend the following:

- modernize the FMMO system to simplify complex, arcane and antiquated pricing formulas and replace them with a national and transparent single price system;
- direct USDA to suspend the producer-handler elimination hearing pending such modernization; and
- affirm the ability and right of participation of independent dairies in the marketplace.

Thank you for the opportunity to testify today.