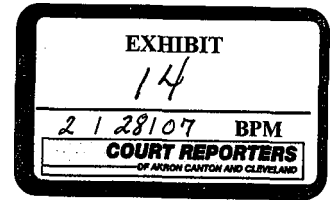


Exhibit _____

**Testimony of Al Squire
on Behalf of Dairy Producers of New Mexico
Before the United States Department of Agriculture
Strongsville, Ohio
February 28, 2007**



My name is Al Squire. I am a dairy producer from Hagerman, New Mexico. My wife Linda and I own and manage South Wind Dairy. South Wind Dairy milks approximately 3800 cows and has been operated continuously since 1994. We ship our milk through DFA and the Greater Southwest Agency. South Wind Dairy is a member of Dairy Producers of New Mexico and my testimony is given today on behalf of Dairy Producers of New Mexico.

Dairy Producers of New Mexico (DPNM) is a not-for-profit trade association of producers in New Mexico and West Texas. It advocates the interests of its producer members before legislative, judicial and agency proceedings. DPNM represents approximately 80 percent of the dairy producers in that region. We serve as a liaison for national, state and local issues; provide educational services for our New Mexico dairy farmers; and act as a source of information for our communities, regulators, and legislators. Dairies that join DPNM do so on a voluntary basis and pay membership dues. As a producer-only organization, we are one of the few groups that speak on behalf of only producers.

Dairy Producers of New Mexico has been very active in the debate of national dairy policy, especially on matters which impact the prices received by dairy farmers. For example, DPNM was very active in the rule making required by the 1996 FAIR Act, particularly in the establishment of pricing formulas for Class 111 and Class IV milk.

Dairy Producers of New Mexico is a chief proponent of several proposals before the Department. In addition, other parties have joined in their support of our proposals. They are Select Milk Producers, Inc., Lone Star Milk Producers, Inc., Zia Milk Producers, Inc., and Continental Dairy Products, Inc. While we are pleased to have the support of these cooperatives for our proposals, my statements here today have not been reviewed or endorsed by any of them.

Several Lone Star, Select, and Zia members are also members of DPNM. DPNM also has many DFA shippers as our members. While DFA has not formally joined in support of our proposals, we do gratefully acknowledge their support of some of our proposals. For example, DFA Proposal Five is the same as one portion of our Proposal Six addressing a mathematical error in the calculation of butterfat shrink. Similarly, we share common ground with one of DFA's proposals. In the case of the use or non-use of barrel cheese in the formula, if our proposal to replace NASS with CME is not accepted, we support DFA's proposal to eliminate barrels from the formulas.

History of DPNM's positions. DPNM believes that dairy regulation must result in pricing that is fair to all producers of all sizes in all geographic regions of the country. When end product pricing became the formula we expected a fair and full disclosure on formulas. We proposed the use of CME pricing in 2000 and we believe that the past few years have shown that the CME provides the best measure of commodity prices.

Nature of the dairy industry in New Mexico¹ and West Texas²

i

Milk production in the state of New Mexico has grown from 600 million of pounds in 1980 to 7.6 billion pounds in 2006. Our 360,000 milking cows are managed by 172 producers, ranking New Mexico seventh in the nation in milk production with 4% of national milk production. New Mexico ranks **first** in herd size per **farm** (more than 2,000 milking cows per farm). The dairy industry impacts the New Mexico economy in three ways: 1) it has a direct impact in the economy as processing plants (fluid, cheese, powder, ice cream, etc.) demand and buy milk or meat animals directly from the dairy farmers; 2) it has an indirect impact by purchasing labor, feed, energy, livestock, real state, etc. **from** linked local industries to produce a final product as milk or meat animals; and 3) it has an induced impact by the consumption effect of people employed in the dairy industry and people in other allied industries. According to a forthcoming analysis of the economic impact of the dairy industry in New Mexico, dairying results in \$1.03 billion in cash receipts for producers and accounts for 1600 direct jobs. The total economic impact reaches \$2.64 billion in total economic activity and directly or indirectly contributes to over 15,000 jobs in the state.

Accordingly, it is in the interest of New Mexico to see that its dairy industry is not negatively impacted by changes to the manufacturing price **formulas**. According to New Mexico State University, "milk cash receipts are the most important income in New Mexico dairy **farms**,

¹"**The** New Mexico Dairy Industry: An Economic Engine," Victor E. Cabrera, Robert Hagevoort, Extension Dairy Specialists, New Mexico State University (publication forthcoming).

²"**The** Dairy Industry in Texas: Accounting for its Economic Impacts," Victor E. Cabrera, Robert Hagevoort, Extension Dairy Specialists, New Mexico State University (publication forthcoming).

which may account for as much as about 95% of the gross income in dairy **farms**. Therefore, the price farmers receive for their milk has a substantial influence in the overall economic impact the dairy industry to the New Mexico economy."

Texas has a similar impact on its economy as a result of dairy **farming**. The state of Texas produced 6.44 billion pounds of milk (3.6% of the 177 billion pounds of milk produced in the United States) in 2005. Milk production in Texas has experienced an increase of 78% in the last 26 years (1980-2005). Today, six out of the top ten dairy counties in Texas are located in the Northern High Plains of West Texas, accounting for **31%** of Texas milk production. The total cash receipts of Texas dairies in 2005 was \$ 1.031 billion, of which 95% was due to the sale of milk.

Proposals at this hearing

The proposals by DPNM can be broadly described as (1) using the CME spot prices to replace NASS surveyed prices in the pricing **formula**; (2) correction of a mathematical error in the butterfat shrink portion of the **formula**; (3) adjust the yields in formulas to reflect current manufacturing efficiencies; and (4) adjust make allowances to conform with Cornell's reported survey results. Details and **data** in support of each of these proposals will be provided by other witnesses. I am not a technical witness, and will defer any questions about the specifics of the proposals to those witnesses.

Positions on other proposals

DPNM opposes proposal one. We oppose proposal one as it conflicts with our proposal three to set make allowances based upon the **Cornell Study**. Other witnesses will have the specifics on that proposal. DPNM opposes the use of California plant costs for setting make

allowances in the rest of the country. What it costs to produce cheese in California as a cost is irrelevant to the cost to produce elsewhere. It would be like setting salaries based upon the cost of living in New York City or San Francisco and applying those to places like Roswell, New Mexico or Strongsville, Ohio.

We oppose proposal two. This proposal is a **backdoor way** of significantly raising make allowances based on older, less efficient plants in a few milk marketing orders. The focus should be on the **efficient**. More importantly the complaint has been that the NASS survey price limits processors the ability to pass on costs. By adopting our proposal to use the CME, the need for such high make allowances is unnecessary.

We support proposal five through our proposal six. Proposal five by DFA is nearly identical to our proposal six.

We oppose proposal nine. As USDA has stated, there is no presentation of data to show the value of whey cream or how it is used. Other witnesses will address the technical aspects of our opposition.

We oppose proposal ten. For similar reasons in opposing **IDFA's** proposal ten, we oppose **AgriMark's** proposal ten.

We oppose proposal eleven and twelve. The need for a barrel adjustment is unnecessary with the use of the **CME** block price in place of the NASS survey. In the event that the Department does not accept our proposal to replace NASS survey with CME, we would support proposal thirteen by DFA and NDA.

We oppose proposal fourteen. The problems with NASS survey usage are several including a lag between the **CME** and incorporation into formulas and the issue of circularity in

the formulas. This proposal only addresses the lag and not the other. Replacement of NASS with CME solves both and makes a simpler program.

We have no position on sixteen. We have not had **sufficient** time to analyze and discuss sixteen to take a position at this time.

We oppose proposal seventeen. Energy costs are a key component in producing milk. We use it to power our milkers, cool our milk, irrigate **our** fields, harvest our crops, feed our cattle, handle our animal waste, and haul our milk. The only way we have to recoup higher energy costs is from the buyers of our milk. There is no other avenue. Proposal seventeen not only blocks that potential but automatically shifts the higher costs of energy at plants back onto producers. Producers should not be made to assume the risk of energy cost increases at the plant. They should get it from the market. If current formulas keep that from happening, then **fix** the formulas.

We do not have a position on proposal eighteen. During the FAIR Act reform, DPNM was a leader in the request for the use of a competitive price formula for setting values. It is the only formula that can capture farm economic factors. Unfortunately there is **an insufficient** supply of unregulated milk. We will look to see what the evidence is and may take a position later in the proceedings.

We do not have a position on proposal twenty. This proposal has come too late for us to analyze and discuss a position. Adoption of our proposal fifteen will make such proposal unnecessary.

Additional arguments regarding our positions on these proposals will be included in our post-hearing brief.