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March 1, 2010

Mr. Alfred W. Murray
Director, Division of Marketing & Development
New Jersey Department of Agriculture
Trenton, NJ 08625

Dear Mr. Murray:

As an interested and concerned party to the recent dairy hearings held by the NJ Department of Agriculture, I would like to submit this follow up to my testimony offered on January 28, 2010. My position was then and is now that the issue of low pricing to the dairy farmers in New Jersey is a direct result of the method used in the Federal Order system to calculate raw milk value.

The commodity markets for nonfat dry milk powder, butter, and cheese are the basis for establishing Federal Order pricing throughout the vast majority of the nation. Use of these commodities and the market forces that influence their values leads to the wide fluctuations in the pricing that the dairy farmer receives for their milk. As we have seen, these market forces have resulted in the low raw milk prices experienced during 2009 as well as the record high prices during 2007 and 2008. While the focus of the hearing was specifically on the low pricing issue, it is very important that we not lose sight of the fact that the same Federal Order system was responsible for the record high prices that benefited the NJ producers.

In my testimony, I offered an approach that would help to stabilize the dairy farmer pricing without jeopardizing the industry's ability to compete both nationally and internationally. That recommendation was to decouple the Class I price from the other three classes and to establish a stable Class I value for six to twelve consecutive months. This approach would stabilize some 40% of the dairy farmers income, help the consumer know what the value of milk is as opposed to the up and down cycle that exists today, and not impact the industry's ability to compete on the international market with respect to the other classes of products.

I made reference to the industry taking responsibility for making changes to the Federal Order that would help resolve our issues rather than relying on the State to come up with solutions. It is my firm belief that this is the proper approach and that the very troublesome trend of citizens and businesses believing that more government involvement and control is the answer to our problems is the wrong way to go. During my cross examination I mentioned the fact that we had formed an ad hoc committee made up of Northeast dairy cooperatives, processors and the Market Administrator with some of his staff. The objective of this committee was to explore possible solutions to the current issues facing the dairy farmer. The meetings of this committee were held during a time when the price of raw milk was high. This was the correct group that should be able to structure some changes to the Federal Order that would help improve the current system.

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It was at those meetings that I introduced the concept of decoupling Class I in order to help stabilize the farmers' income and generally help the overall industry. This concept was positively received by the group and subsequent conversations that I have had with other industry leaders also met with agreement. It is important to note that this group does represent the industry and that the dairy farmer groups must be included because they have the ultimate vote on any change to the Federal Order. Without including the cooperatives in these discussions any recommendations would likely fail.

At the February 22 hearing, I was very concerned over the testimony that was recommending some type of PMMB style program in New Jersey as a way to eliminate out of state competition and guarantee a profit margin for processors and dealers. Have we forgotten that the processors and dealers that exist in the state today are the ones that were able to grow by being more competitive than those that were unable to survive in such a competitive environment? Why is it now being suggested that the state should develop a board to control and eliminate out of state competition? Are we unable to be competitive today?

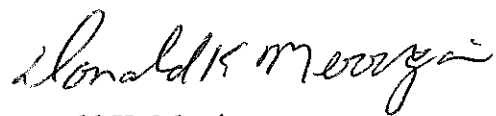
In my testimony I spoke to the industry taking the lead to solve our problems and that we should not rely on expanding the role of government as a substitute to our own creativity. This position is consistent with the free market system and I am strongly opposed to the elimination of out of state competition and guaranteed profits. I believe that all of the processors and many of the dealers in New Jersey have sales across state lines. How would they want those sales handled?

Finally, I spoke to the financial problems that the State of New Jersey is faced with at this time. We must not lose sight of the fact that it is ultimately the tax payer that must bear the burden of state programs and that these same taxpayers that are currently either unemployed, underemployed, or worried about how they are going to pay their bills. Increasing their burden would be irresponsible in my opinion.

The New Jersey dairy farmer is an important player in the agriculture industry in this state without question. We all want to see them survive and prosper for many years to come. Let's not undercut the industry but rather encourage them in their efforts to resolve the issues facing all of us. The dairy industry must operate within the free market system and not become dependent on the state for survival.

Thank you for taking my input into consideration. It is my hope that you will see the wisdom of allowing the dairy industry players to deal with the problems that we face together.

Sincerely,

A handwritten signature in cursive script, reading "Donald K. Merrigan".

Donald K. Merrigan
President