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TESTIMONY FOR THE RECONVENED HEARING TO CONSIDER PROPOSALS TO AMEND THE CLASS III AND CLASS IV PRODUCT PRICE FORMULAS APPLICABLE TO ALL FEDERAL MILK MARKETING ORDERS

My name is Rodney Carlson. I am Corporate Director of Milk Procurement for Lactalis American Group, Inc., (Lactalis). Our corporate headquarters are located at 2376 South Park Avenue, Buffalo, New York 14220. Lactalis currently operates six cheese plants in the United States three of which receive milk from handlers regulated under federal milk marketing orders.

I am testifying today in opposition to proposals 3, 6, 7, 8, 15, 16, 18, 19 and 20. I also want to express support for proposals 1, 9, and 12. Lactalis supports the testimony of Dr. Bob Yonkers from IDFA and opposes the same proposals or portions of proposals as he has identified in his statement.

I am not going to get into the technical points of any of the proposals. Rather I am going to give a little elderly statesman philosophy regarding the proposals. That philosophy is in support of the Lactalis position towards the proposals.

In general, Lactalis supports the concept expressed by a USDA employee at the Dairy Forum in January of this year that Federal Milk Marketing orders should regulate *minimum* prices but should not be establishing *market* prices for milk

Due to legal restrictions, and in many cases political activity, we are all well aware that the USDA simply cannot react quickly enough to changing market conditions to be effective or fair to all industry participants at all times. Participants in the industry have to take responsibility for maintaining the industry to the best of their ability in those periods of rapid market changes Participants will have more ability to do so if there is flexibility allowed in establishing market prices In today's "price formula" price discovery method, more flexibility means higher make allowances and lower regulated prices.

Today's industry participants are well equipped to deal with the flexibility I am describing Bargaining power of diary farmers is not what it was in the 1930's when the federal order system was established It is not even what it was in the 1950's or 60's. The reduced number of farms and increased farm size, the consolidation of cooperatives,

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the establishment of Marketing Agencies in Common, the almost-immediate availability of information, improved milk cooling and transportation capabilities all have transformed the dairy industry into one where producers have as much bargaining strength (if not more) then processors.

In addition, today's responsible industry participants understand the need to consider other parts of the industry in maintaining a healthy, successful industry. Processors understand that a supply of milk is necessary to meet their needs and that means producers have to be profitable to stay in business.

Responsible producers understand the need for processor profitability so there will be an ongoing market and demand for the milk produced on their farm. In many cases, the producer groups are also the processor. Obviously those producer organizations are well aware of the mutual dependency between producer and processor. The mutual need and mature understanding of each others situation will result in short-term decisions by producers and processors and can only work in an environment of less-intrusive regulation.

Lower ~~Higher~~ make allowances prohibit the flexibility needed by the industry to make short-term adjustments to meet ever-changing market conditions

We understand there is a concern by some dairy farmers that higher make allowances mean lower prices to them for their milk. Some dairy farmer representatives have been quite vocal in their statements about recent low milk prices and high input costs that have made many dairy farmers unprofitable.

It is quite obvious to any casual observer of the dairy industry that milk prices have increased significantly in the past few months. The period of low prices has passed just like other periods of low prices in the past 20 plus years. (See Exhibit [illegible]

We have been in a period of ever-increasing milk price volatility since the mid 1980's Prices have gone up and prices have gone down. It is the result of supply-demand conditions. Exhibit __ identifies the changes in milk prices (reflected by federal order class III milk prices) and compares the milk price with changes in milk production. It doesn't take long to identify that significant increases in milk production results in lower milk prices while decreases or even small increases in milk production result in higher milk prices.

Exhibit ___ is a bar graph that reflects the changes in milk production from the same month of the previous year since January 2002. It is interesting to note that February 2007 was the thirty-second straight month of milk production increases in a row! This information should make it very clear that increased make allowances are not nearly as dangerous to higher milk prices as increased numbers of dairy cows. (See Exhibit ___) Now that the increases have slowed down and international demand for milk proteins has increased, milk prices are increasing. In fact the class III milk price announced just last Friday was $15 09, an increase of $3.98 or 36 percent over the same month of the previous year. It's amazing what a little restraint on the production side has on prices Making processors the "strawman" for dairy farmers recent economic difficulties is detrimental in the long-term challenge to coordinate efforts of cooperation in attempts to enhance total dairy industry profitability. Continuing to do so is very disingenuous, creates hard feelings and animosity within the industry and serves no real useful purpose.

For those reasons we support those proposals that increase the Class III and Class IV make allowances and oppose proposals that would decrease the make allowance.

We do have some sympathy for those proposals that would hasten the adjustment in make allowance through the use of indices However, we support the testimony of Dr Yonkers and his concern about additional complexity of regulation and the increased difficulty in trying to use risk management tools.

We also agree with the concept of eliminating the circular nature of pricing addressed by proposal #20. However, we find the proposal to be quite complex and not that practical in the real world.