

**Testimony Presented by Prairie Farms Dairy, Inc.
Regarding Agricultural Marketing Service**

7 CFR Parts 1005, 1007 and 1094

[Docket No. AO-388-A15 and AO-366-A44; DA-03-11]

**Milk in the Appalacian and Southeast Marketing Areas;
Notice of Hearing on Proposed Amendments
To Tentative Marketing Agreements and Orders**

Agency: Agricultural Marketing Service, USDA

My name is Gary Lee. I am employed by Prairie Farms Dairy, Inc. as the Vice President of Procurement and Planning. I have been employed by Prairie Farms since 1973.

Prairie Farms Dairy, Inc. is a Capper-Volsted cooperative. Through ownership and joint ventures, Prairie Farms operates 31 plants that process and package fluid milk, soft cultured products (cottage cheese, sour cream, dips, yogurt), ice cream, ice cream mix, frozen novelties, butter and anhydrous milk fat. Twenty-four of these plants are regulated by a federal order. One plant on Order 30, 15 on Order 32, 3 on Order 33, 2 on Order 5 and 3 on Order 7.

Prairie Farms wishes to express its opposition to Proposals 1, 2, 3 and 4 and its support of Proposal 5. We feel that the fluid milk industry from farm to consumer would be better served by having more federal orders, not fewer.

Order reform left a dead zone in Illinois and in Missouri around St. Louis. We fear that approval of Proposal 1, 2, 3 or 4 will maintain or worsen problems in these areas. We support Proposal 5 because it represents our belief that we need more federal orders.

Also, we feel that Proposal 5 may result in a uniform price in those areas that would still be higher than that in Order 32, but not at the current level. In other words, Proposal 5 will not raise the price in St. Louis and downstate Illinois, but may reduce the tendency to lure milk from those areas.

The state of Illinois and the area in Missouri around St. Louis regulated by Order 32 are deficit milk production areas at least 50 weeks per year. Handlers there rely on supplemental supplies from other areas, primarily the upper Midwest.

Exhibit 58A shows per capita milk production in the United States. It shows Illinois to be a deficit production area even to cover fluid milk consumption. Per capita fluid milk consumption was estimated to be 188.6 pounds in 2002. Illinois had per capita milk production of 160 pounds in 2003. We are assuming that per capita consumption in 2003 was about the same as 2002. Information in Exhibit SFA was provided by the Order 32 Market Administrator's Office. The per capita consumption figure was taken from the 2004 edition of *Dairy Producer Highlights*.

In fact, Illinois has lower per capita milk production than several states in areas regulated by Order 5 and Order 7. Alleged deficit production areas.

We will concede that metropolitan Chicago with a population of 7 million people distorts the Illinois numbers. Also, metropolitan Chicago is located adjacent to Wisconsin and its milk production. But downstate Illinois and St. Louis are not located adjacent to Wisconsin. It takes money to get milk from the upper Midwest to the lower Midwest and that money is not provided by current returns on Order 30 versus Order 32.

At the same time, there appears to be enough money to attract milk from parts of the Order 32 area to the Order 5 and Order 7 areas.

Exhibit 58 B shows the statistical uniform prices for the base zones of Order 30 and Order 32 and Order 5 zoned to Evansville, Indiana and Order 7 zoned to Murray, Kentucky since January 2000. Evansville and Murray were chosen because plants located there are the Order 5 and Order 7 plants closest to Order 32.

Analysis will show that in most months, the Order 32 price difference by itself will not cover the cost of transportation from Wisconsin or Minnesota to St. Louis and downstate Illinois. These additional costs are generally covered by over order premiums, give up charges, loose pooling standards and other payments.

At the same time, much of Illinois and Missouri are located near or adjacent to Order 5 or Order 7. Dairy farmers located in those areas can ship to Order 5 or Order 7 plants and potentially receive a higher price with little or no additional hauling cost.

A case in point. On October 31, 2001 representatives of Dairy Farmers of America met with representatives of Prairie Farms. At that meeting DFA informed Prairie Farms that they could no longer provide us with supplemental milk beginning January 1, 2002 at our Order 32 plants.

DFA said that the returns did not cover the expense of bringing milk from outside the immediate Illinois and St. Louis areas. Also, they said they could ship milk from downstate Illinois and St. Louis areas to markets in Order 5 or Order 7 and get a better return.

Prairie Farms has been able to withstand this hardship up to now. However, we have done so largely at the expense of other buyers of milk in the area. If milk production in Illinois and Missouri continues to decline, we will all probably face greater hardships in the future.

If the purpose of Proposals 1, 2, 3 or 4 is to maintain or enhance returns to dairy farmers, that is fine and proper. However, order reform was forced on the industry on a nationwide scale. Since then we have addressed concerns on an order-by-order basis. Examples are simultaneous pooling on state and federal orders and the producer handler issue.

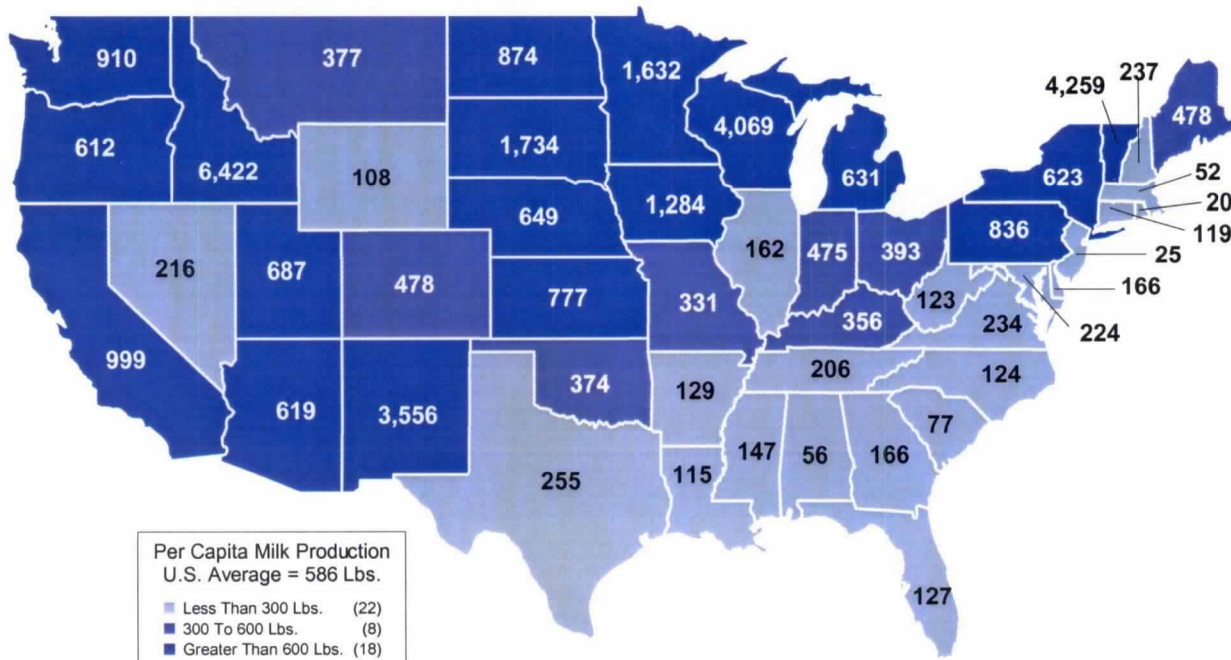
Although Prairie Farms would not benefit from Proposal 5, we support the concept. Proposal 5 was part of a larger proposal that we made with Dean Foods. The department has chosen not to consider that larger proposal. We feel that the realities of today's dairy environment show that the current order system needs to be reconfigured and inequities forced on some dairy farmers by the department need to be fixed system wide, simultaneously.

The department should not adopt Proposals 1, 2, 3 or 4 in isolation without looking at their impact on other marketing areas. Speaking only for Order 32, adoption of any of these proposals would worsen the already significant problem of obtaining milk in St. Louis. The department cannot reasonably respond to alleged disorderly marketing conditions in Georgia by exacerbating disorderly marketing conditions in St. Louis.

Finally, regardless of which proposal the department recommends, we support setting the producer handler exemption at 3 million pounds per month. As the dairy industry evolves, an increasing number of dairy farm operations have the critical mass and access to capital necessary to operate processing plants that can compete with regulated processors.

We support entrepreneurship and creativity in the dairy business, but feel that giving large producer handlers a regulatory pass will cause market disruption and jeopardize the future of the federal order system.

2003 Per Capita Milk Production



STATISTICAL UNIFORM PRICES

		ORDER 32	ORDER 30	Difference	ORDER 5	Difference	ORDER 7	Difference
2000	January	\$11.23	\$10.48	\$0.75	\$11.52	-\$0.29	\$12.12	-\$0.89
	February	\$11.00	\$10.10	\$0.90	\$11.33	-\$0.33	\$12.04	-\$1.04
	March	\$10.91	\$10.18	\$0.73	\$11.35	-\$0.44	\$12.13	-\$1.22
	April	\$10.84	\$10.15	\$0.69	\$11.43	-\$0.59	\$12.18	-\$1.34
	May	\$10.96	\$10.27	\$0.69	\$12.78	-\$1.82	\$12.70	-\$1.74
	June	\$11.16	\$10.43	\$0.73	\$13.11	-\$1.95	\$13.08	-\$1.92
	July	\$11.95	\$11.36	\$0.59	\$13.56	-\$1.61	\$13.53	-\$1.58
	August	\$11.61	\$10.97	\$0.64	\$13.50	-\$1.89	\$13.45	-\$1.84
	September	\$11.97	\$11.46	\$0.51	\$13.51	-\$1.54	\$13.46	-\$1.49
	October	\$11.40	\$10.88	\$0.52	\$13.37	-\$1.97	\$13.19	-\$1.79
	November	\$10.85	\$10.00	\$0.85	\$13.86	-\$3.01	\$13.44	-\$2.59
	December	\$11.38	\$10.60	\$0.78	\$13.93	-\$2.55	\$13.81	-\$2.43
AVERAGE		\$11.27	\$10.57	\$0.70	\$12.77	-\$1.50	\$12.93	-\$1.66

		ORDER 32	ORDER 30	Difference	ORDER 5	Difference	ORDER 7	Difference
2001	January	\$11.85	\$11.02	\$0.83	\$14.10	-\$2.25	\$14.03	-\$2.18
	February	\$11.82	\$11.15	\$0.67	\$13.58	-\$1.76	\$13.45	-\$1.63
	March	\$12.74	\$12.20	\$0.54	\$14.26	-\$1.52	\$14.22	-\$1.48
	April	\$13.42	\$12.89	\$0.53	\$14.94	-\$1.52	\$14.87	-\$1.45
	May	\$14.80	\$14.50	\$0.30	\$15.87	-\$1.07	\$15.84	-\$1.04
	June	\$15.79	\$15.52	\$0.27	\$16.43	-\$0.64	\$16.58	-\$0.79
	July	\$16.14	\$15.91	\$0.23	\$16.71	-\$0.57	\$16.84	-\$0.70
	August	\$16.29	\$16.06	\$0.23	\$17.11	-\$0.82	\$17.17	-\$0.88
	September	\$16.56	\$16.28	\$0.28	\$17.27	-\$0.71	\$17.39	-\$0.83
	October	\$14.92	\$14.75	\$0.17	\$15.83	-\$0.91	\$16.00	-\$1.08
	November	\$13.17	\$12.45	\$0.72	\$15.86	-\$2.69	\$15.50	-\$2.33
	December	\$12.46	\$12.19	\$0.27	\$13.26	-\$0.80	\$13.25	-\$0.79
AVERAGE		\$14.16	\$13.74	\$0.42	\$15.44	-\$1.27	\$15.43	-\$1.27

		ORDER 32	ORDER 30	Difference	ORDER 5	Difference	ORDER 7	Difference
2002	January	\$12.61	\$12.30	\$0.31	\$13.51	-\$0.90	\$13.43	-\$0.82
	February	\$12.32	\$12.04	\$0.28	\$13.14	-\$0.82	\$13.05	-\$0.73
	March	\$11.66	\$11.25	\$0.41	\$12.70	-\$1.04	\$13.64	-\$1.98
	April	\$11.68	\$11.35	\$0.33	\$12.53	-\$0.85	\$12.53	-\$0.85
	May	\$11.47	\$11.30	\$0.17	\$12.19	-\$0.72	\$12.29	-\$0.82
	June	\$11.00	\$10.72	\$0.28	\$11.93	-\$0.93	\$11.99	-\$0.99
	July	\$10.44	\$10.13	\$0.31	\$11.98	-\$1.54	\$11.85	-\$1.41
	August	\$10.58	\$10.20	\$0.38	\$11.97	-\$1.39	\$11.93	-\$1.35
	September	\$10.74	\$10.46	\$0.28	\$11.86	-\$1.12	\$11.86	-\$1.12
	October	\$11.18	\$11.03	\$0.15	\$12.01	-\$0.83	\$12.11	-\$0.93
	November	\$10.74	\$10.43	\$0.31	\$12.16	-\$1.42	\$12.14	-\$1.40
	December	\$10.67	\$10.33	\$0.34	\$12.06	-\$1.39	\$12.06	-\$1.39
AVERAGE		\$11.26	\$10.96	\$0.30	\$12.34	-\$1.08	\$12.41	-\$1.15

		ORDER 32	ORDER 30	Difference	ORDER 5	Difference	ORDER 7	Difference
2003	January	\$10.67	\$10.36	\$0.31	\$12.04	-\$1.37	\$12.18	-\$1.51
	February	\$10.41	\$10.13	\$0.28	\$11.62	-\$1.21	\$11.52	-\$1.11
	March	\$10.08	\$9.65	\$0.43	\$11.17	-\$1.09	\$11.21	-\$1.13
	April	\$10.22	\$9.87	\$0.35	\$11.14	-\$0.92	\$11.11	-\$0.89
	May	\$10.41	\$10.11	\$0.30	\$11.21	-\$0.80	\$11.29	-\$0.88
	June	\$10.44	\$10.13	\$0.31	\$11.14	-\$0.70	\$11.28	-\$0.84
	July	\$11.49	\$11.37	\$0.12	\$11.59	-\$0.10	\$11.77	-\$0.28
	August	\$12.52	\$12.22	\$0.30	\$12.62	-\$0.10	\$12.84	-\$0.32
	September	\$13.92	\$13.23	\$0.69	\$14.67	-\$0.75	\$14.95	-\$1.03
	October	\$14.23	\$13.51	\$0.72	\$15.19	-\$0.96	\$15.37	-\$1.14
	November	\$13.67	\$13.40	\$0.27	\$14.86	-\$1.19	\$15.02	-\$1.35
	December	\$12.91	\$12.41	\$0.50	\$14.58	-\$1.67	\$14.63	-\$1.72
AVERAGE		\$11.75	\$11.37	\$0.38	\$12.65	-\$0.91	\$12.76	-\$1.02

		ORDER 32	ORDER 30	Difference	ORDER 5	Difference	ORDER 7	Difference
2004	January	\$12.30	\$11.98	\$0.32	\$13.35	-\$1.05	\$13.32	-\$1.02

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