25
6/26/01

My name is Dennis Tonak. I am the Manager of Mid-West Dairymen's Company. The business address is 4313 West State Street, Rockford, Illinois. Mid-West is a relatively small cooperative with producer-members located in northern Illinois and southern Wisconsin. The majority of Mid-West member's milk is used to supply the fluid market.

I also work with Lakeshore Federated Dairy Cooperative whose members are Manitowoc Milk Producer Cooperative, Manitowoc, Wisconsin; Milwaukee Cooperative Milk Producers, Brookfield, Wisconsin; and Mid-West Dairymen's Company. Lakeshore represents over 4,000 producers located in Illinois, Iowa, and Wisconsin who are primarily pooled on the Upper Midwest Order, and to a lesser extent on the Central and Mid-East Orders.

This testimony is on behalf of the proponents of Proposal I

We are very concerned about "equity" among producers and "equity" among handlers. Equity can have different meanings. When I use "equity" during this proceeding I will mean, "fairness and freedom from bias or favoritism."

The Federal Order Program has a long history of promoting producer and handler equity. Classified pricing in Order 30 contributes to equity among handlers who make the same products. The pooling of the dollars generated from the classified pricing provides for equity among producers.

Over the last 25 years individual handler pools have been eliminated from the Federal Order Dairy Program. Smaller Federal Orders, such as the Central Illinois Order and the Paducah Order which operated almost as individual handler pools, have been eliminated through merger and consolidation. This helps create equity among producers over larger geographic areas.

Equity among producers has been a major concern in California also as seen in the California Department of Food and Agriculture (CDFA) publication "History of the California Milk Pooling Program."

It is evident that in both the Federal Order Program and the California Milk Pooling Plan, equity of the regulated pricing among producers in the same geographic area is very important. Marketwide pooling in both the Federal Order Program and the California State Program is a basic cornerstone of establishing equity in the minimum regulated producer prices.

In a marketwide pool the milk values from many plants are pooled or shared among all the producers supplying those plants. The information contained in "How Quota, Base, and Overbase Prices are Derived" and "Milk Pricing in California," publications from CDFA, Dairy Marketing Branch explains in relatively simple terminology the operation of a marketwide pool in California. The Federal Order Program also offers a good example of a marketwide pool.

The Federal Order program limits the "pooling" of a producer's milk to only one Federal Order at any given time - the same milk cannot be pooled on two different Federal Orders at the same time. If a producer's milk was allowed to share in two or more Federal Order pools, to "double-dip" the system and draw money from more than one pool, there would not be equity among producers. The money drawn from one Federal Order pool maintains equity and is justifiable, but drawing money from a second Federal Order pool on the same milk would **destroy** equity among producers. That is why dual pooling is prohibited in the Federal Order system.

Lets move on from philosophizing about equity for producers and look at some real numbers. Exhibit 25: For the 16 months beginning January 2000 through April 2001 the Federal Order 30 Statistical Uniform Price averaged $10.8850. The pool "draw" was 84.5 cents. During the same 16-month period the California overbase price averaged $11.10 – 21.5 cents higher than the Order 30 Uniform Price. The California quota price is $1.70 higher than the overbase price which makes the 16 month average quota price $12.80.

In effect a California dairyman receives from the California pool a higher regulated minimum price than does a Wisconsin producer from the Order 30 pool. On top of that the California milk pooled on the Upper Midwest Order draws an additional 84.5-cent pool payment via double dipping. That 84.5 cents is roughly half of the $1.70 added value for California quota milk.

I imagine that in California some plants and producers, if they are not pooling milk on Order 30, are asking themselves "How do we compete with the added dollars coming to California from the Federal Order pool draw?" And I am asking myself "How do I compete if those dollars do not go to California but stay in the Midwest?" How do I attract milk to the Muller-Pinehurst fluid plant in Rockford, Illinois? Do I have to go to California and market the milk of California producers to gain money to compete in the Upper Midwest marketplace?

If the Federal Order does not eliminate the double dipping there will not be equity in the regulated price among producers in the Midwest or in California.

Proposal 2 calls for the adoption of a "grandfather" clause. A true "grandfather" approach should be related to milk that has a long history of being associated with the market. As such a grandfather clause would allow very little California milk to be pooled on Federal Order 30 from my perspective. Let me explain. I am a grandfather. My grandson is 15 months old. Since much of the California milk has been associated with the Federal Order 30 pool for less than a year I think what proposal 2 really wants to do is not "grandfather," but "grandson," the California milk.

Proposal 3 requests that California non-quota milk be the only California milk allowed to pool on Order 30. According to California statistics 68% of the milk produced in 1999 was non-quota production, so Proposal 3 would allow two-thirds of California milk production to double dip the Federal Order pool. Since non-quota milk is already benefiting from the marketwide pooling in California the adoption of this proposal would allow a blatant abuse of the Federal Order milk pricing system to continue.

Proposal 4 does not directly address the inequity created by milk pooled on both a state order with a marketwide pool and a federal order. While it calls for a minimal level of marketplace performance, the proposal still does not address the problem of double dipping.

The matter to be addressed in Proposal 1 should be handled on an emergency or expedited basis omitting a Recommended Decision. The adoption of Proposal I would not change the movement or marketing of milk in any significant fashion. The same trucks would pick up the milk at the farm and take it to the same plants as is being done today. The **only** change would be the the elimination of the financial benefit from double pooling.

In conclusion we request that the Secretary take quick action to end the disparity that currently exists due to double pooling. The adoption of Proposal 1 on an expedited basis would accomplish this goal.

This concludes my prepared statement.

	FED. ORDER 30 CLASS III (CHEESE MILK)	FEDERAL ORDER 30 UNIFORM	POOL DRAW	CALIFORNIA ORDER 4B (CHEESE MILK)	CALIFORNIA OVERBASE (NON-QUOTA)	PRODUCER DRAW
JAN 2000	10.05	10.48	0.43	9.58	10.05	0.47
FEB	9.54	10.10	0.56	9.28	9.95	0.67
MAR	9.54	10.18	0.64	9.34	10.03	0.69
APR	9.41	10.15	0.74	9.27	10.36	1.09
MAY	9.37	10.27	0.90	9.17	10.54	1.37
JUN	9.46	10.43	0.97	9.98	11.08	1.10
JUL	10.66	11.36	0.70	10.64	11.30	0.66
AUG	10.13	10.97	0.84	10.57	11.32	0.75
SEP	10.76	11.46	0.70	11.32	11.61	0.29
OCT	10.02	10.88	0.86	9.01	10.59	1.58
NOV	8.57	10.00	1.43	8.71	10.99	2.28
DEC	9.37	10.60	1.23	9.39	11.28	1.89
JAN 2001	9.99	11.02	1.03	9.22	11.03	1.81
FEB	10.27	11.15	0.88	10.05	11.34	1.29
MAR	11.42	12.20	0.78	11.34	12.18	0.84
APR	12.06	12.89	0.83	12.12	12.95	0.83
AVERAGE	**10.04**	**10.885**	**0.845**	**9.94**	**11.10**	**1.10**
MAY	13.83	14.50	0.67	14.16	NA	NA

25 6/25/01

	FED. ORDER 30 CLASS III (CHEESE MILK)	FEDERAL ORDER 30 UNIFORM	POOL DRAW	CALIFORNIA ORDER 4B (CHEESE MILK)	CALIFORNIA OVERBASE (NON-QUOTA)	PRODUCER DRAW
JAN 2000	10.05	10.48	0.43	9.58	10.05	0.47
FEB	9.54	10.10	0.56	9.28	9.95	0.67
MAR	9.54	10.18	0.64	9.34	10.03	0.69
APR	9.41	10.15	0.74	9.27	10.36	1.09
MAY	9.37	10.27	0.90	9.17	10.54	1.37
JUN	9.46	10.43	0.97	9.98	11.08	1.10
JUL	10.66	11.36	0.70	10.64	11.30	0.66
AUG	10.13	10.97	0.84	10.57	11.32	0.75
SEP	10.76	11.46	0.70	11.32	11.61	0.29
OCT	10.02	10.88	0.86	9.01	10.59	1.58
NOV	8.57	10.00	1.43	8.71	10.99	2.28
DEC	9.37	10.60	1.23	9.39	11.28	1.89
JAN 2001	9.99	11.02	1.03	9.22	11.03	1.81
FEB	10.27	11.15	0.88	10.05	11.34	1.29
MAR	11.42	12.20	0.78	11.34	12.18	0.84
APR	12.06	12.89	0.83	12.12	12.95	0.83
AVERAGE	**10.04**	**10.885**	**0.845**	**9.94**	**11.10**	**1.10**
MAY	13.83	14.50	0.67	14.16	NA	NA