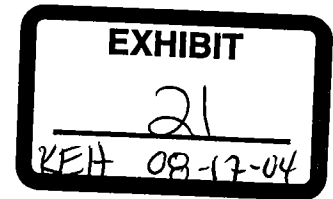# Statement of Steve Matthees

Docket No. AO-361-A39; DA-04-03

August 16, 2004

Minneapolis, Minnesota

My name is Steve Matthees. My address is 23216 County 9 Blvd, Goodhue, Minnesota 55027. Goodhue is located in southeast Minnesota about 70 miles from the Twin Cities area.

I operate a family dairy with my son, my daughter, and my brother. We farm 760 acres and milk 200 cows. My family and I are active participants in the dairy industry both off and on our farm; Amie, my daughter, is Chairperson of Goodhue County American Dairy Association (ADA).

I am a member-owner of Dairy Farmers of America (DFA) and market all our milk thru the cooperative. I serve as a corporate director for Dairy Farmers of America. Our farm is located in DFA's Central Area Council, which spans portions of Order 30 and 32. Our Council Board of Directors, of which I am Chairman, has reviewed Proposal 2 made by our cooperative in conjunction with several other Upper Midwest Cooperatives and supports its intent.

I am not a technical expert in the inner workings of Federal Orders and do not expect to answer many technical questions about them or the proposal. Because of my industry involvement, I do get many questions from other producers in my area-both DFA members and farmers from other cooperatives, asking me to explain negative PPDs and why they occur.

I do the best I can by trying to explain volatile pricing conditions, why they happens, and how that makes pricing of milk difficult. To some extent farmers understand volatility and can make some sense of it. We deal with it in grain markets, as well as the input costs of farming. When commodity prices like cheese and butter are low, our milk prices are low and when cheese and butter ᵌ high, milk prices go up. When milk production is up, milk prices go down; and when milk production decreases, milk price goes up. Sometimes that happens pretty fast and even unexpectedly. That much I can explain pretty well.

But I struggle to explain when production is tight and commodity prices are high — why some part of my milk's blend price is negative. When I try to explain to my neighbors that there are buyers of milk who whenever it is to their advantage financially, they can simply choose not to be in the pool — but they can get right back in when there is money to be shared. They always ask: "Is that very fair?" And I have to answer, "Probably not."

I understand that my Cooperative "depools" whenever we can so that we can try ˙ˋ have as competitive a pay price as possible in the county. But we are also here

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today trying to change the rules to a more reasonable position – and one that will affect DFA as well. Most of my neighbors and fellow DFA members agree that if you want to share in the fluid market returns you should be a regular supplier. The fluid market demand is every day and fairly constant. If you want to share in it, you should commit to the market every day and not just when it is convenient or profitable. If a dairy farmer chooses to supply milk only to a manufacturing market, that should be his decision, but it seems unreasonable to be able to pick and choose – no buyer would expect to have a supplier relationship like that.

I also support the proposal that has been made which attempts to better define how dairy farmers, who live a long way away from the market, also can share in the pool. It seems unreasonable that a farm located in Idaho can be a regular supplier. I do not think the price is high enough to justify making that delivery every day. I don't think any farmer would regularly supply a market if he lost several dollars per hundredweight on every load. It seems amazing that the largest county for milk supply in Order 30 is in Idaho now. Surely the Secretary can see that the rules need to be reviewed to see if this practice really makes sense and is fair. I understand that this milk rarely delivers to the market and would not be considered by any buyer as their regular supply.

Thanks for listening to my concerns and I will try to answer any questions that I can.