

**Department of Agriculture  
Agricultural Marketing Service**

7CFR Parts 1000, 1001, 1005, 1006, 1007, 1030, 1032, 1033, 1124, 1126 and 1131  
[Docket No. AO-14-A76, et al.; DA-07-01]

Testimony of Gary D. Lee, Vice President of Procurement Prairie Farms Dairy, Inc., presented at hearing held at the:

Sheraton Station Square Hotel  
300 West Station Square Drive  
Pittsburgh, PA 15219

Exhibit	<u>27</u>
Witness	_____
Date	_____ Rptr. _____
<b>Powers Garrison &amp; Hughes</b>	

My name is Gary D. Lee. I am employed by Prairie Farms Dairy, Inc. as the Vice President of Procurement. I have been employed by Prairie Farms for 33 years, 7 years in my current position. Prairie Farms is a Capper-Volsted dairy cooperative headquartered in Carlinville, Illinois. Prairie Farms has about 800 member-owners located in Illinois, Missouri, Iowa, Indiana, Michigan and Ohio.

Through direct ownership and joint ventures Prairie Farms operates 28 milk processing plants, 4 ice cream plants, 2 ice cream novelty plants, 1 butter plant and 3 food service warehouses.

Twenty-seven of the 28 milk processing plants are regulated under the federal order system. Prairie Farms wholly owned facilities located in Carlinville, Illinois; Peoria, Illinois; Quincy, Illinois (2); Olney, Illinois; Carbondale, Illinois; Granite City, Illinois and St. Louis, Missouri are regulated by Order 32.

Wholly owned facilities located in Battle Creek, Michigan; Ft. Wayne, Indiana and Anderson, Indiana are regulated by Order 33.

Wholly owned facilities located in Holland, Indiana and Somerset, Kentucky are regulated by Order 5.

Joint Venture facilities include:

1. Muller-Pinehurst Dairy located in Rockford, Illinois regulated by Order 30. Muller-Pinehurst is a joint venture with Midwest Dairymen's Co.
2. Roberts Dairy Co. operates facilities located in Iowa City, Iowa; Omaha, Nebraska and Kansas City, Missouri all regulated by Order 32. Roberts Dairy Co. is a joint venture with Dairy Farmers of America.
3. Hiland Dairy Foods, LLC operates facilities located in Wichita, Kansas; Chandler, Oklahoma and Norman, Oklahoma regulated by Order 32 and facilities located in Springfield, Missouri; Fayetteville, Arkansas and Ft. Smith, Arkansas regulated by Order 7. Hiland Dairy Co. is a joint venture with Dairy Farmers of America.
4. Turner Dairy operates facilities located in Fulton, Kentucky; Covington, Tennessee; Memphis, Tennessee and Little Rock, Arkansas all regulated by Order 7. Turner Dairy is a joint venture with Hiland Dairy Foods, LLC.

Prairie Farms belongs to both the International Dairy Foods Association and the National Milk Producers Federation. Today Prairie Farms wishes to express its opposition to Proposals 1, 2, 3, 4, and 5 as offered by National Milk Producers Federation.

In fact, we do not understand why NMPF has taken up this cause. We always understood that the role of NMPF was to represent the best interests of all members of dairy cooperatives in an equitable manner. Not to get involved in issues that pit region against region and help some dairy farmers much more than others.

We have always understood that the primary purposes of the Class 1 differential were to place a higher value on products with relatively inelastic demand and cover the cost of transportation from points of abundant milk production to points of deficit milk production for Class 1 uses. We also thought that the Class 1 price was to be based on a price that reasonably reflected current market values of manufactured dairy products and thus the value of milk.

We will not attempt to discuss the elasticity of demand of Class 1 products. We will contend that the Class 1 differential by itself ceased to be the only mechanism to move milk 30 years ago or more.

Transportation credits, pooling standards, assembly credits and over order premiums help to attract milk for Class 1 uses where it is needed. Transportation credits, assembly credits and over order premiums provide immediate compensation. Pooling standards can help to increase the uniform price. Thus, markets have created a system that works reasonably well without tampering with Class 1 differentials or their historic basis. Estimated changes to Class 1 prices contained in these proposals do nothing to address real world problems of attracting milk to Class 1 handlers.

In the analysis of USDA these proposals would raise Class 1 prices about \$ .73 per hundredweight. On orders with low Class 1 utilization the uniform price would probably increase only a few cents. On orders with high Class 1 utilization, the uniform price would undoubtedly increase, but the current system of transportation credits and over order premiums would still be necessary to attract an adequate supply of milk.

At the same time, if these changes cause dairy farmers in high Class 1 utilization orders to increase milk production over time, the net result would be more milk being utilized in manufactured milk products. This would result in lower Class 3 and Class 4 prices which would then result in lower prices for all dairy farmers. However, dairy farmers whose milk is pooled on orders with lower Class 1 utilization would likely be harmed most.

As stated earlier, through various arrangements, Prairie Farms currently operates facilities regulated on 5 Federal Orders. In recent years, we have had no long-term problems attracting an adequate supply of milk, especially at facilities regulated by Orders 5 and 7. We have experienced temporary shortages that were more operational in nature than something addressed by these proposals.

Prairie Farms receives milk from about 800 members. In addition, we purchase milk from Dairy Farmers of America, Land O'Lakes, Midwest Dairymen's Co., Foremost Farms USA, Associated Milk Producers, Inc., Michigan Milk Producers Association, Southeast Graded Milk Producers, Arkansas Dairy Cooperative, Continental, Select and Zia at various wholly owned and joint venture facilities.

None of these organizations have requested our support of these proposals. None of these organizations have suggested that without implementation of these proposals that they will no longer be able to supply us with milk.

This is not to say that we are entirely pleased with federal orders as they exist today. In the last 5 years, we have testified at 5 hearings about these concerns.

We have supported tightening of pooling and touch base provisions on Orders 32 and 33. Those proposals were largely implemented. We have supported provisions to implement assembly and transportation credits on Orders 32 and 33. Those proposals were denied.

We along with Dean Foods proposed reconfiguration of Orders 30 and 32. We were trying to show USDA that the metropolitan areas of Chicago and St Louis along with large areas of Illinois and Missouri were deficit milk production areas 50 weeks of the year. Yet those areas are regulated by Orders 30 and 32 while they more closely resemble conditions in Orders 5 and 7 in term of supply-demand imbalance. Those proposals were denied.

Approval of Proposals 1,2,3,4 and 5 will make it more difficult to procure milk for these areas. At the same time dairy farmers located in Illinois and eastern Missouri will have even greater incentive to take their milk to markets on Orders 5 and 7.

We simply do not feel that there is anything in these proposals that addresses real world federal order issues. We do not feel that these proposals will result in equitable returns for all dairy farmers in all regions of the country. One size fits all solutions usually have winners and losers. These proposals are no exception.

As I said at the beginning of this testimony, Class 1 markets have already created systems within and outside of orders that attempt to fairly and reasonably cover the costs of servicing those markets. Adoption of proposals presented here will only create confusion and inequity among orders.