

OBERWEIS DAIRY, INC. - ORDER 30 PRODUCER PRICE DIFFERENTIAL CALCULATION - 2004 MONTH BY MONTH COMPARISON

January 2004						February 2004					March 2004				
	Utiliz %	Product Pounds	Component Pounds	Rate	\$ Value	Utiliz %	Product Pounds	Component Pounds	Rate	\$ Value	Utiliz %	Product Pounds	Component Pounds	Rate	\$ Value
<b>Producer Price Differential Calculation</b>															
Class I Differential Value					\$ 6,802,531					\$ 6,149,260					\$ 6,860,970
Product	17.8%	392,448,187				18.2%	354,752,992				58.6%	395,834,012			
Skim Milk			386,449,996	\$ 7.4600	\$ 28,829,170			349,282,219	\$ 6.5500	\$ 22,877,985			389,563,884	\$ 5.9600	\$ 23,218,007
Butterfat			5,998,191	\$ 1.3283	\$ 7,967,397			5,470,773	\$ 1.5044	\$ 8,230,231			6,270,128	\$ 1.7675	\$ 11,082,451
Class II Product	5.5%	121,821,791				4.3%	84,191,135				11.2%	75,806,988			
Nonfat Solids			10,213,850	\$ 0.7378	\$ 7,535,779			6,904,459	\$ 0.7367	\$ 5,086,515			6,004,530	\$ 0.7400	\$ 4,443,352
Butterfat			10,163,889	\$ 1.5048	\$ 15,294,620			8,338,534	\$ 1.8588	\$ 15,499,667			9,633,968	\$ 2.3883	\$ 23,008,806
Class III Product	68.9%	1,521,440,926				74.4%	1,447,333,760				12.3%	83,026,166			
Protein			46,830,390	\$ 2.0875	\$ 97,758,439			44,273,821	\$ 1.7911	\$ 79,298,841			2,445,118	\$ 2.0133	\$ 4,922,756
Other Solids			86,890,704	\$ 0.0217	\$ 1,885,528			82,257,083	\$ 0.0090	\$ 740,314			4,650,469	\$ 0.0234	\$ 108,821
Butterfat			58,136,414	\$ 1.4978	\$ 87,076,721			54,942,084	\$ 1.8518	\$ 101,741,751			4,843,705	\$ 2.3813	\$ 11,534,315
Class IV Product	7.9%	173,496,230				3.0%	57,938,993				17.8%	120,384,457			
Nonfat Solids			14,909,314	\$ 0.6595	\$ 9,832,693			4,783,427	\$ 0.6597	\$ 3,155,627			10,462,802	\$ 0.6634	\$ 6,941,023
Butterfat			10,005,908	\$ 1.4978	\$ 14,986,849			5,318,948	\$ 1.8518	\$ 9,849,628			4,541,742	\$ 2.3813	\$ 10,815,250
Somatic Cell Adjust (I, III & IV)					\$ 758,975					\$ 565,215					\$ 138,968
Total Producer Milk		2,209,207,134			\$ 278,728,701		1,944,216,880			\$ 253,195,034		675,051,623			\$ 103,074,719
Add: Overage					\$ 43,640					\$ 57,993					\$ 120,208
Inventory Reclaim					\$ 40,824					\$ 99,728					\$ 205,769
Other Source Milk					\$ -					\$ -					\$ -
Other Source Milk					\$ -					\$ -					\$ -
Subtract: Transportation Credit					\$ (239,004)					\$ (195,251)					\$ (214,854)
Assembly Credit					\$ (312,218)					\$ (281,708)					\$ (315,154)
Credit for Reconst FMP					\$ -					\$ -					\$ -
Producer Milk Protein			68,017,551	\$ 2.087500	\$ (141,986,638)			59,465,863	\$ 1.791100	\$ (106,509,307)			20,398,957	\$ 2.013300	\$ (41,069,220)
Producer Milk Other Solids			126,175,689	\$ 0.021700	\$ (2,738,012)			110,548,499	\$ 0.009000	\$ (994,937)			38,522,050	\$ 0.023400	\$ (901,416)
Producer Milk Butterfat			84,304,402	\$ 1.497800	\$ (126,271,133)			74,070,339	\$ 1.851800	\$ (137,163,454)			25,289,543	\$ 2.381300	\$ (60,221,989)
Producer Milk SCC Adjust					\$ (940,150)					\$ (700,862)					\$ (289,149)
Total Milk & Value		2,209,207,134			\$ 6,326,010		1,944,216,880			\$ 7,507,235		675,051,623			\$ 388,913
Add: Location Adjustment					\$ 2,068,371					\$ 1,673,298					\$ 484,143
1/2 Unobligated Balance Producer Settlement Fund					\$ 699,220					\$ 808,066					\$ 816,992
Total Value					\$ 9,093,602					\$ 9,988,600					\$ 1,690,049
Subtract: Producer Settlement Fund Reserve					\$ (0.041623)					\$ (0.043760)					\$ (0.040358)
Producer Price Differential					\$ 8,174,066					\$ 9,137,819					\$ 1,417,608
Statistical Uniform Price					\$ 11.98					\$ 12.36					\$ 14.70
Total # of Producers in the Pool					16,725					16,395					6,095
Oberweis Pool Obligation					\$ 71,877					\$ 60,835					\$ 2,246
Oberweis Milk Purchases (lbs)					4,957,724					4,667,661					5,017,773
Oberweis Pool Oblig per HWT					\$ 1.45					\$ 1.30					\$ 0.04

**EXHIBIT**  
 30  
 KEH 08-18-04

**OBERWEIS DAIRY, INC. - ORDER 30 PRODUCER PRICE DIFFERENTIAL CALCULATION - 2004 MONTH BY MONTH COMPARISON**

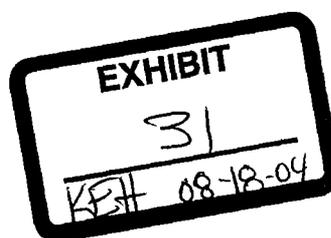
		April 2004					May 2004					June 2004				
		Utiliz %	Product Pounds	Component Pounds	Rate	\$ Value	Utiliz %	Product Pounds	Component Pounds	Rate	\$ Value	Utiliz %	Product Pounds	Component Pounds	Rate	\$ Value
<b>Producer Price Differential Calc:</b>																
<b>Class I</b>	Differential Value					\$ 6,618,017					\$ 6,114,032					\$ 5,827,314
	Product	62.8%	381,768,229				53.2%	352,403,169				15.9%	335,824,408			
	Skim Milk			375,806,269	\$ 5.9600	\$ 22,398,054			347,037,768	\$ 11.5000	\$ 39,909,343			330,482,179	\$ 12.9800	\$ 42,896,587
	Butterfat			5,961,960	\$ 2.2525	\$ 13,429,315			5,365,401	\$ 2.4437	\$ 13,111,430			5,342,229	\$ 2.4580	\$ 13,131,199
<b>Class II</b>	Product	15.8%	96,271,370				17.5%	115,771,796				6.3%	132,212,902			
	Nonfat Solids			7,851,658	\$ 0.7400	\$ 5,810,227			9,571,286	\$ 0.7489	\$ 7,167,936			10,860,410	\$ 0.7678	\$ 8,338,623
	Butterfat			9,681,461	\$ 2.5083	\$ 24,284,009			9,848,668	\$ 2.4352	\$ 23,983,476			11,402,171	\$ 2.1838	\$ 24,900,061
<b>Class III</b>	Product	1.8%	10,999,606				4.6%	30,554,736				69.8%	1,475,199,200			
	Protein			257,836	\$ 3.4465	\$ 888,632			853,540	\$ 3.7639	\$ 3,212,639			43,759,802	\$ 3.1086	\$ 136,031,720
	Other Solids			490,758	\$ 0.1042	\$ 51,137			1,634,309	\$ 0.1444	\$ 235,994			84,575,969	\$ 0.1339	\$ 11,324,722
	Butterfat			2,725,215	\$ 2.5013	\$ 6,816,580			2,981,584	\$ 2.4282	\$ 7,239,882			54,019,299	\$ 2.1768	\$ 117,589,210
<b>Class IV</b>	Product	19.6%	118,989,634				24.7%	163,905,414				8.1%	170,465,059			
	Nonfat Solids			10,353,682	\$ 0.6703	\$ 6,940,073			14,313,203	\$ 0.6913	\$ 9,894,717			14,785,470	\$ 0.7026	\$ 10,388,271
	Butterfat			4,174,883	\$ 2.5013	\$ 10,442,635			6,057,437	\$ 2.4282	\$ 14,708,669			6,103,838	\$ 2.1768	\$ 13,286,835
	Somatic Cell Adjust (II, III & IV)					\$ 178,336					\$ 250,171					\$ 681,933
	<b>Total Producer Milk</b>		<b>608,028,839</b>			<b>\$ 97,857,014</b>		<b>662,635,115</b>			<b>\$ 125,828,290</b>		<b>2,113,701,569</b>			<b>\$ 384,396,475</b>
<b>Add:</b>	Overage					\$ 57,492					\$ 67,362					\$ 42,944
	Inventory Reclass					\$ 111,934					\$ 32,701					\$ 4,306
	Other Source Milk					\$ 2					\$ -					\$ -
	Other Source Milk					\$ -					\$ -					\$ -
<b>Subtract:</b>	Transportation Credit					\$ (184,046)					\$ (133,995)					\$ (132,188)
	Assembly Credit					\$ (302,573)					\$ (279,981)					\$ (266,012)
	Credit for Reconst FMI					\$ -					\$ -					\$ -
	Producer Milk Protein			18,279,320	\$ 3.446500	\$ (62,999,676)			19,787,348	\$ 3.763900	\$ (74,477,599)			62,680,018	\$ 3.108600	\$ (194,847,104)
	Producer Milk Other S			34,722,455	\$ 0.104200	\$ (3,618,080)			37,912,483	\$ 0.144400	\$ (5,474,563)			121,018,598	\$ 0.133900	\$ (16,204,390)
	Producer Milk Butterfa			22,543,519	\$ 2.501300	\$ (56,388,104)			24,253,090	\$ 2.428200	\$ (58,891,353)			76,867,537	\$ 2.176800	\$ (167,325,255)
	Producer Milk SCC Ad					\$ (391,361)					\$ (476,798)					\$ (802,454)
	<b>Total Milk &amp; Value</b>		<b>608,028,839</b>			<b>\$ (25,857,397)</b>		<b>662,635,115</b>			<b>\$ (13,805,935)</b>		<b>2,113,701,569</b>			<b>\$ 4,866,322</b>
<b>Add:</b>	Location Adjustment					\$ 544,372					\$ 486,046					\$ 1,854,823
	1/2 Unobligated Balan					\$ 588,428					\$ 554,189					\$ 656,715
<b>Total Value</b>						\$ (4,066,353)					\$ (1,926,505)					\$ 7,377,860
<b>Subtract:</b>	Producer Settlement F					\$ (0,043,647)					\$ (0,043,495)					\$ (0,049,049)
<b>Producer Price Differential</b>						<b>\$ (4,110,000)</b>					<b>\$ (1,970,000)</b>					<b>\$ 6,341,105</b>
Statistical Uniform Price						\$ 15.55					\$ 18.61					\$ 17.98
Total # of Producers in the Pool						6,309					6,234					16,307
Oberweis Pool Obligation						\$ 24,095					\$ 94,885					\$ 167,559
Oberweis Milk Purchases (lbs)						5,003,939					5,011,402					4,572,076
Oberweis Pool Oblig per HWT						\$ 0.48					\$ 1.89					\$ 3.66

**OBERWEIS DAIRY, INC. - ORDER 30 PRODUCER PRICE DIFFERENTIAL CALCULATION - 2004 MONTH BY MONTH COMPARISON**

		July 2004			
	Utiliz %	Product Pounds	Component Pounds	Rate	\$ Value
<b>Producer Price Differential Calc:</b>					
<b>Class I</b>					\$ 6,154,477
Differential Value					
Product	16.1%	354,529,244			
Skim Milk			348,786,952	\$ 10.9500	\$ 38,192,171
Butterfat			5,742,292	\$ 2.1088	\$ 12,109,345
<b>Class II</b>					
Product	5.8%	128,626,975			
Nonfat Solids			10,571,389	\$ 0.7811	\$ 8,257,312
Butterfat			10,669,561	\$ 2.0613	\$ 21,993,166
<b>Class III</b>					
Product	70.8%	1,558,767,753			
Protein			45,955,962	\$ 2.3625	\$ 108,570,960
Other Solids			89,075,930	\$ 0.1048	\$ 9,335,157
Butterfat			56,714,949	\$ 2.0543	\$ 116,509,520
<b>Class IV</b>					
Product	7.3%	160,197,787			
Nonfat Solids			13,807,935	\$ 0.7042	\$ 9,723,548
Butterfat			6,271,197	\$ 2.0543	\$ 12,882,920
Somatic Cell Adjust (II, III & IV)					\$ 353,964
<b>Total Producer Milk</b>		<u>2,202,121,759</u>			<u>\$ 344,082,541</u>
<b>Add:</b>					
Overage					\$ 61,522
Inventory Reclass					\$ 31,184
Other Source Milk					\$ -
Other Source Milk					\$ -
<b>Subtract:</b>					
Transportation Credit					\$ (135,913)
Assembly Credit					\$ (281,805)
Credit for Reconst FMI					\$ -
Producer Milk Protein			64,917,750	\$ 2.362500	\$(153,368,184)
Producer Milk Other S			125,779,292	\$ 0.104800	\$( 13,181,670)
Producer Milk Butterfa			79,397,999	\$ 2.054300	\$(163,107,309)
Producer Milk SCC Adj					\$ (416,420)
<b>Total Milk &amp; Value</b>		<u>2,202,121,759</u>			<u>\$ 13,683,945</u>
<b>Add:</b>					
Location Adjustment					\$ 2,049,046
1/2 Unobligated Balan					\$ 1,152,779
<b>Total Value</b>				\$ 0.766795	\$ 16,885,770
<b>Subtract: Producer Settlement F</b>				\$ (0.046795)	\$ (1,030,493)
<b>Producer Price Differential</b>				<u>\$ 0.720000</u>	<u>\$ 15,855,277</u>
Statistical Uniform Price					\$ 15.57
Total # of Producers in the Pool					16,327
Oberweis Pool Obligation					\$ 153,765
Oberweis Milk Purchases (lbs)					4,563,236
Oberweis Pool Oblig per HWT					\$ 3.37

**Testimony of  
Dean Foods Company by Evan Kinser  
Milk Marketing Order Hearing  
Docket No. AO-361-A39; DA-04-01  
Bloomington, Minnesota  
August 18, 2004**

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**Testimony of  
Dean Foods Company  
Milk Marketing Order Hearing  
Docket No. AO-361-A39; DA-04-01  
Bloomington, Minnesota  
August 18, 2004**

***Introduction***

Hello, my name is Evan Kinser. I am employed by Dean Foods Company as Manager of Dairy Risk Management and Commodity Procurement. My business address is 2515 McKinney Avenue, Suite 1200, Dallas, TX 75206.

Dean Foods owns and operates distributing plants regulated by Federal Milk Marketing Order #30, as well as other milk plants located in the marketing area defined by Federal Milk Marketing Order #30.

In spite of Mr. English's comment about this being and I quote "a very, very lengthy testimony," I hope you find only one of those "very's" would have sufficed. However in his defense it has been shortened based on the evidence that has been submitted. Many of the comments that I was prepared to make are now redundant and no longer necessary for forming a complete record. Still there are some points that either need introduction or clarification. For that purpose, I am appearing today to support and explain the philosophy of Dean Foods in arriving at proposals #3, #4, #5, and #6. I will further explain our concerns about Proposal #1 and #2.

Experts will supplement my testimony with additional testimony. Mr. Paul Christ will explain the mechanics of the proposals. Ms. Mary Ledman will cover the adverse economic effects of depooling if the order is allowed to remain, as it currently exists.

### ***Purpose of the Federal Order System***

Understanding the correct purpose of the Federal order system is key to this hearing being successful. Distractions from the intent in the past have led to tweaks or small patches, when more concise and meaningful action was needed. The focus always needs to be on the original intent and what changes should be made today to ensure the original intent is carried out. Today, we can and should take different actions than the past. This action must address a now greater array of market conditions and resulting opportunistic behaviors.

The Agricultural Marketing Agreement Act (AMAA) of 1937 provides for a system that would “insure a sufficient quantity of pure and wholesome milk,” which has routinely been construed to mean packaged fluid milk only, through ensuring that “for the payment to all producers and associations of producers delivering milk to the same handler of uniform prices for all milk delivered by them” and “for the payment to all producers and associations of producers delivering milk to all handlers of uniform prices for all milk so delivered, irrespective of the uses made of such milk by the individual handler to whom it is delivered.” With this reminder of the regulation that is to guide us, I would submit the intent is as follows: The Federal order system is to compensate dairy producers serving, and standing ready to serve, distributing plants in order to insure a sufficient supply of quality milk is available to produce packaged milk. This should

be accomplished with uniform payments for milk, regardless of their milk's use and equal prices charged to handlers using milk for the same purpose.

### ***Upper Midwest Order Provisions***

The purpose of the Federal order has been confused and misapplied in developing regulation that governs the Federal orders. Some would lead the Secretary to believe the Federal order's purpose is to ensure all plants have a sufficient supply of milk. The AMAA simply does not support this; it is clear the concern of milk supply applies to distributing plants. The track record and structure of this order makes this clear. There are many key sections from the order language to substantiate the only milk supply of concern to the order is distributing plants. By absence and extension, the milk supply of other plants is a residual concern of the order only to the extent it is necessary to ensure that reserve producers – those standing ready to serve the fluid market – have outlets for their milk.

The first section highlighting the importance of distributing plants milk supply is Section 1030.7 (g). This provision gives the market administrator the authority to change shipping percentages of pool plants to distributing plants. There is no statement about the need for milk in a supply plant, or a supply plant system. The purpose of these plants being part of the order is to meet the needs of the distributing plants. In the event current requirements are ineffective, the market administrator can make a change.

The next section highlighting the importance of distributing plants milk supply is Section 1030.55 – Transportation credits and assembly credits. This also illustrates that the purpose of

the Order is to ensure distributing plants have a sufficient supply of milk. This particular section is meant to provide economic incentive for handlers to move milk to distributing plants. There is no provision to ensure that all pool plants have ample supply of milk. The transportation credit is only provided to pool supply plants for milk that ships to pool distributing plants. The assembly credit is given to any handler that delivers producer milk to a pool distributing plant. Both provide handlers economic incentives to “give up” milk by helping to offset the cost of assembling and transporting milk for shipments to distributing plants. No credit is provided for a nonpool plant shipping to a pool supply plant and no credit is provided for a pool supply plant shipping to a pool supply plant.

A dissection of Section 1030.7, the definition of a Pool Plant, clearly illustrates the only plants mandated to be regulated by the order are distributing plants. All other plants are allowed to participate based on defined service to a distributing plant. Rather than spend the time explain each subsection I would offer the following as a quick summary of Section 1030.7.

<u>Paragraph</u>	<u>Plant</u>	<u>Regulation</u>
A	Distributing	Mandated
B	UHT - Distributing	Mandated
C	Supply	Voluntary
E	Distributing System	Voluntary/Mandatory
F	Supply System	Voluntary
G	Call provision	Voluntary
H	Plant Exemptions	Special Circumstances
I	MA Exemption	Voluntary

These key sections of the order language clearly demonstrate the order’s main concern must be with distributing plants’ milk supply. However, the order also provides a pricing mechanism for all the order’s milk. The pricing system is built around pricing discrimination based on the milk’s use. This serves as an attraction for milk to be in the pool. One of the largest contributors

to the pool is the Class I price. This is clear from studying the pricing formulas found in Sec. 1000.50 that Class I is structured to be the highest price in the pool.

### ***Summary of Federal Order Logic***

The system is designed for classified pricing to maintain certain relationships between the prices. It was thought the supply plants and producers shipping to them would want access to the dollars generated by the distributing plants. Therefore this system regulates those plants (distributing plants) that are structured to contribute to the pool and relies on economic incentives to drive regulation for the balance (supply plants). This is based on the assumption that the revenues generated by distributing plants would always provide sufficient incentives to attract a milk supply. In the absence of forced regulation, the contributing plants would have left the order rather than contribute. Without their contribution to the pool the incentive would be lost to draw other milk. Having locked in the contributing plants to regulation, it was thought would-be unregulated handlers (supply plants) would voluntarily submit to regulation for the benefits.

### ***Change in Grade A Volume***

One possible cause for these glaring shortcomings could be the result of not adjusting to change in the underlying structure of the dairy industry. There are several significant changes that have occurred in the dairy industry since the implementation of the AMAA in 1937. I could spend hours discussing such changes as cow genetics, production methods, cooling and processing technology, transportation systems etc. One dynamic that seems to have been overlooked, which is a key principle in operation of the Federal Order, is the issue of availability of Grade A milk. The industry has changed from a manufacturing grade to all but exclusively Grade A milk

production. The regulations have not recognized that the incentives, needed to switch from manufacturing to Grade A, are no longer necessary.

I would like to submit some exhibits into the record to illustrate this change. EXHIBIT \_\_\_\_\_H, Measure of Growth in Federal Milk Order Market – Selected Years, 1947-2002, published in *Upper Midwest Dairy News*, May 2003. EXHIBIT \_\_\_\_\_I, Grade A Milk Production as a Percentage of Total Milk Production, published in *Upper Midwest Dairy News*, May 2003.

One could get the impression for how the orders currently behave that there continues to be a need for Grade A milk. If these exhibits were the only facts, likely the reverse conclusion would be drawn; there is more than ample supply of milk available to the Grade A market. There is an upward trend in the percentage of milk that is Grade A, nearing 100% and a declining percent of milk utilized in Class I.

According to EXHIBIT \_\_\_\_\_I, nationally only two percent of the milk produced is not Grade A. Of the states in the same exhibit, the lowest percentage is North Dakota with 74 percent Grade A. However, when one considers the population of North Dakota and the fact that it borders Minnesota, the 6<sup>th</sup> largest milk producing state where all but four percent of the milk is Grade A, there is little concern about North Dakota having access to a sufficient supply of Grade A milk.

EXHIBIT \_\_\_\_\_H shows the percentage of milk utilized in Class I. Again, the concern of the order is to assure a milk supply to distributing plants, which require Grade A. The percentage of milk utilized in Class I has declined fairly steadily. This exhibit only accounts for milk pooled within a Federal milk order. It does not account for milk outside of the Federal Order pool, regardless of the reason. There is a declining percent of milk utilized in Class I. The exception to the decline is 1998, when there was a financial incentive to depool. Again, Class I milk, produced at a distributing plant, does not have a choice about its participation in the pool; it must participate in the pool by regulation. Other classes of milk have the option of participating or not. For part of 1998, there was not economic incentive to be in the pool, in fact there was economic incentive to be out. Therefore, the producer pounds reported in this exhibit, relative to the amount of milk required by Class I, resulted in a year over year increased percentage of the milk pooled used in Class I. If this same analysis had been done comparing against total milk production, it is unlikely the same increase would have been seen.

### *Inequity*

The fact remains this system requires proper economic incentive and properly defined regulation. Missing these two key ingredients allows handlers to associate milk with the order and draw money out of the order, while not providing any service to distributing plants. However, the problem is not limited to these handlers merely being free riders, drawing from the pool for no service. It extends beyond that, when there are costs incurred by those servicing the market these cost are not shared, instead they are left with the handlers who have continued to do the right thing and serve the market. When the free riders leave, the costs do not go away, these costs are forced upon a smaller pool of handlers. More correctly said, they are forced upon a smaller

contingent of dairy farmers. It is like going out with a group of friends and sharing a great meal, eating as much as you can, but when the server comes with the check you simply get up from the table and leave the bill to be divided among those who didn't do the same.

### **Among Handlers**

Current regulations allow handlers who may or may not choose to be pooled to enjoy the benefits of the pool, so long as they meet the requirements of the order for that month. Furthermore, when there is a cost to serve the market, they are allowed to excuse themselves from the table, until the next meal is being served. This idea of excusing themselves has been termed depooling. A more technical definition of depooling would be when handlers do not report milk that would normally pool on their pool report; typically this is done for financial reasons.

The only milk that can depool is the milk that is voluntarily pooled by pool supply plants and 9(c) handlers, as opposed to milk that is mandatorily pooled by regulated distributing plants. I discussed this earlier in my testimony when I reviewed section 1030.7. The result of this structure is, when there is no economic incentive (reward) to stay pooled, and no economic disincentive (cost) for leaving the pool, this milk withdraws from the pool. Handlers operating Class III, hard cheese, operations are in prime position for exercising this option.

Nothing demonstrates this exact situation any more clearly than recent history. A quick glance back, a little over a year, clearly demonstrates that in today's marketplace this system is broken. Undeniably, there is insufficient economic incentive and poorly defined regulation resulting in failure of the order to achieve its intent. Furthermore it is producing a result it was intended to prevent, disorderly marketing. Ms Ledman will talk about this topic more extensively.

Who are the handlers that depooled milk? Looking at the request for proposals noticed for this hearing, specifically proposal number two, you will find a lengthy list of cooperatives who would seem to oppose depooling. Is this to say they do not depool, I would think not. However, it would indicate they have more to gain by discontinuing depooling than allowing the system to stay as it is. Admittedly, there are some cooperatives that did not sign onto that proposal, they likely oppose it, but what about the proprietary plants normally pooled on the order. The majority of the proprietary plants pooled on the Order are Class III operations and they likely depooled and would like to continue to have that option. Which operations return all the money to producer? Cooperatives do, either in the form of payment for milk, earnings, or some combination. This being the case, it would seem that the depooled proprietary plants have little incentive to overpay for milk relative to their pooled cooperative competition. If this assumption is correct they desire to return as little as possible to the dairy farmers.

### **Producer Prices**

Beyond the effects handlers' payment decisions, there are other very painful effects of depooling. Like my illustration of leaving before the bill is covered at dinner; there are costs currently not equitably shared among producers. Let's focus again on the cooperatives that are proponents of proposal number two noticed for this hearing. The proponents are as follows: Cass-Clay Creamery Inc., Dairy Farmers of America, Foremost Farms USA, Land O'Lakes, Mid-West Dairymen's Company, Milwaukee Cooperative Milk Producers, Manitowoc Milk Producers Cooperative, Swiss Valley Farms, and Woodstock Progressive Milk Producers. Each of them is a dairy cooperative. The only other proposal that would work to accomplish anything similar would be the proposals that Dean Foods has made. Why would these cooperatives have

cared, any more than other cooperatives? What about other proprietary plants? Is there a reason for a select group to ask for a change and others to accept status quo? Yes, it continues to be the same issue I've reiterated in this testimony. Distributing plants are the only plants that are forced into regulation under the Federal order, all other plants choose. To the degree you service a disturbing plant, by definition, lessens your ability to depool milk. The inability to depool milk lessens your competitiveness in the marketplace when others can. One might think that this statement runs counter to my earlier argument that proprietary plants represent the majority of the milk that depools and they would not pay more than they have to for milk. I stand by that statement. Suppose they pay five cents per hundredweight more for milk, which simply lowers their profit margin. I will illustrate for those forced to be in the pool paying that five cents additional per hundredweight could be moving them to deeper negative margin. Let's suppose there is a cooperative shipping 25% its milk to a distributing plant, we'll call this Coop A. 25% of Coop A's milk supply must be pooled by definition; there is no choice. The balance of the milk could be depooled. Now, let's contrast that with Cheese Factory C, a handler that is shipping the bare minimum, 10%. That is enough milk that if they wanted to fully pool they could pool all their milk receipts, but it does not force them to pool any more than the 10%. Now, focusing the worst-case scenarios we will look at April 2004. Here Coop A had to pool 25% of their milk with a negative \$4.11 PPD. This means that Coop A's blended PPD is negative \$1.0275 ( $\$4.11 * 25\%$ ). Suppose Cheese Factory C pooled 10% at the same PPD and has a blended PPD of a negative \$0.411 ( $\$4.11 * 10\%$ ). The Class III was announced at \$19.66/cwt; with the negative \$4.11 PPD would result in a blend of \$16.18. If we assume that the remaining milk of each went to cheese production, each handler can easily pay the blend, but they are not both able to pay the same price. Coop A would be able to pay \$18.6325 ( $\$19.66 -$

\$1.0275). Cheese Factory C would be able to pay \$19.25 (\$19.66 - \$0.41). Let's say that Cheese Factory C wants to be profit maximizing, yet competitive; they would pay at Coop A's price level allowing them to make \$0.6175/cwt. In reality Cheese Factory C might see a chance to expand their procurement, so they decide to pay \$18.90. If Coop A believes that Cheese Factory C is going to overpay the blend and pay more than Coop A, Coop A will have to lose money to match Cheese Factory C. If Coop A guessed that they needed to pay \$18.85 to be competitive, it would mean that Coop A paid \$0.2175 more than they had to pay. In this example, I make no provisions for the operational efficiencies or inefficiencies of Coop A verse Cheese Factory C, they are assumed to have the same cost structure. This is merely an illustration of how based on different shipping percentages to a distribution affect a handler's ability to pay for milk.

### **Hidden Costs**

A cost that often gets overlooked by the marketplace, but is not overlooked by the market administrator is the cost of operating the Order. Proposal seven is a request from the market administrator to increase the maximum administrative assessment rate for the Upper Midwest Order from five cents to eight cents per hundredweight. This request is a direct byproduct of the current system of allowing milk to come and go from the order. Mr. Kyburz must be staffed to handle a pool in excess of two billion pounds, however in the past 18 months, seven months he has had to attempt to cover that overhead with the income on only a fraction of the milk. I will not take the time to illustrate the detailed implications on Mr. Kyburz and his staff, as I'm sure he will do so in direct testimony. Yet, I feel it important to show that proposal number seven is a direct cost of this lax system and it is forcing the cost to be raised. To the degree the department fails to recognize the flaw in the current system, which allows for depooling and increase the

administrative assessment, it will only be a tax increase on those who are already picking up the tab.

### **Summary of Inequities**

I hope at this point it is clear to the Secretary that there are three fatal flaws in the system. First, it forces regulation on distributing plants, but allows all others voluntary participation. Secondly, these plants choose to participate when they can siphon funds out of the system for their betterment, but when the reverse is true, they bail with no implications to them. Third, the reality is there are implications when milk leaves the pool; the costs that exist must be born by a smaller few. This creates a heavier burden for those remaining in the pool that is not rewarded when the market improves, because the free riders will return.

### ***Exposure to Order Failure – Call Provision***

I would like to point that beyond economic effects of the flawed system, such provisions position the order to completely fail its purpose. Earlier referenced 1030.7 (g) for the purpose of illustrating that the Federal Order was to ensure a supply to distributing plants. This provision provides for the market administrator to increase or decrease for all or part of the marketing areas the shipping percentage to encourage needed shipments or to prevent uneconomic shipment to distributing plants. The current provisions only require ten percent of pooled milk to be shipped to a distributing plant; no more than 90 percent can be diverted to a nonpool plant. With the current provisions relying on economic incentive to keep milk in the pool and available for such provision, the change in shipping percentage would need to be significant.

I turn to July 2003 to illustrate how significant. If we would make an assumption that all the distributing plants pooled in the Upper Midwest Marketing Order were 100% Class I that would say that 50.3% of the milk was diverted. If conditions had warranted for the market administrator to adjust the shipping percentages the shipping percentages would have needed to be in excess of 49.7 percent. To explain how I arrived at this result look at Exhibit 10, Table 2f. Notice that the Class I percent was 49.7 percent. If more milk was needed than the approximately 328 million pounds of milk utilized in Class I and there was only about 660 million pounds of milk in the pool (Exhibit 10, Table 2e), it would have required something greater than the 49.7 percent. The milk that is pooled is all the market administrator can call on. So, to force milk to move from Class II, III or IV into Class I, or face being depooled the shipping percentage would needed to be higher than 49.7 percent. However if a call had been issued, it is possible that some of the Class III milk would not have met the requirement. This would have been to the handler's betterment to be disqualified and be forced out of the pool. This would have forced the requirement even higher on Class II and IV, since those handlers were the only ones who would have wanted to be in the pool. By these handlers wanting to be in the pool they would likely do whatever is necessary to remain pooled. The percentage would only be worsened if you assumed there are no stand-alone Class II facilities. Such a scenario would have required the shipping requirement be set greater than 65.6 percent (the sum of the Class I and II percentage). The reality of the marketplace needs was likely something between these the 49.7 percentage in the prior example and this 65.6 percent.

The response to this line of thinking could be milk will be readily available when this happens and can be easily purchased, but actually the opposite is the case, especially as it relates to the

most recent examples in the Upper Midwest. Cheese plants are most interested in keeping all their milk when the price is high, so they can make cheese and not short any customers. Now, put yourself in the place of a Class III handler, back to Cheese Factory C. During recent examples of negative PPD's, Cheese Factory C was looking at above average, and in the case of 2004 record high, cheese prices. If Cheese Factory C wanted to pool milk they would have to give up at least 10% of what they wanted to pool [defined by Sec 1030.7 (c)]. This would mean less milk to the vat and they would receive the negative PPD on that milk and any milk they pooled in addition to shipments. I've already explained the implications of that on their ability to pay for milk. Given that information and my testimony about voluntary participation, the other alternative provided by the current order regulation to Cheese Factory C, is to keep all their milk, make cheese, and pool nothing. This would be a win-win for Cheese Factory C. They are able to make as much cheese as possible for customers; they don't have a negative PPD. Thus, the market administrator has no authority to call on Cheese Factory C to ship additional milk if it is decided there are insufficient supplies available for the distributing plants. The handlers shipping milk to the distributing plants will have a negative PPD, but will have to compete with Cheese Factory C when they go to pay for the milk.

The point to this illustration is that current provisions allow milk to leave the pool. This renders the order virtually useless to its purpose of ensuring a milk supply to distributing plants. The power of the market administrator to make milk available to the distributing plants is severely hampered. To the degree these percentages would have been increased what milk remained in the pool could have opted to not pool (depool) and those handlers would not had to respond to the increased shipping percentages.

### ***System Failure***

Smooth function of this system requires two keys 1) proper economic incentive and 2) properly defined regulation. We believe that both are missing within the current regulation.

### ***Philosophy of our Solutions***

Something must be done to change the order to rectify the shortcomings. We appreciate the Secretary's recognition of this in requesting proposals and subsequently having this hearing. We further appreciate that the Secretary recognized four proposals submitted by Dean Foods. Our proposals were aimed at restoring the missing keys 1) proper economic incentive and 2) properly defined regulation.

To accomplish these two objectives there are several different approaches that could be used. In the end it is a matter of execution and preference, as opposed to objective. Being candid, Dean Foods has two objectives and we aren't too picky about the execution so long as the objective is achieved. I hope from the testimony that it will be clear these objectives are consistent with the intent of the order and correct shortfalls we have illustrated. First, there needs to be smaller orders and likely more of them. The objective of the order doesn't provide that every pound of milk have guaranteed access to the order draw, rather that the distributing plants have sufficient supplies of milk. Accordingly, this will help to create economic incentive. Second, regulation requiring that once milk attaches the milk stays. This regulation would create equity for all involved in the Order.

Dean Foods understands and accepts that the majority of the plants that we own and operate are in the group of plants that are regulated by requirement, as opposed to option/economic incentive regulation. We further understand that it is believed that the products that these plants produce are highly perishable and face a less elastic demand curve. These beliefs have led to the conclusions that those products and others similar to them should be the highest priced. Regardless of our belief and comfort level with this, we are not going to protest or express opinions about these conditions at this particular hearing. However, we do have and would like to express our concerns about how the dollars generated by these circumstances are handled, what economic incentives they are used to create, and most importantly how these dollars are uniformly distributed to producers.

In an ideal world, from Dean Foods' perspective the Federal Order would operate in such a way to allow a distributing plant or a distributing plant unit to have an individual handler pool. This system would put the pressure on the distributing plant to manage the pool in such a way as to resolve the purpose of the Federal Order. If this would be allowed it would force distributing plant handlers to think about how to insure their future supply of milk and keep economic incentives in place that would insure that even when it is temporarily undesirable to ship milk (as has been the case) the long run loss for not continuing to ensure a sufficient supply of quality milk would be too great to forgo the long-term reward, in order to gain a short-term pricing advantage.

I will introduce the proposals with modifications. I will not comment on their mechanics or function, Mr. Paul Christ will be providing this information and detail in his testimony.

### ***Proposal #3***

In proposal number 3 we propose establishing a *dairy farmer for other market* provision, much like the same titled provision included in Northeast Milk Marketing Order, Sec 1001.12 (b)(5) & (6). We would like to modify the language that was submitted for the hearing and published in the official hearing notice to ensure that it reflects our intent. Our proposal would read as follows:

Amend § 1030.12 by adding a new paragraph (b)(5) to read as follows:

#### **§ 1030.12     **Producer.****

(b) \* \* \*

(5) For any month, any dairy farmer whose milk is received at a pool plant or by a cooperative association handler described in § 1000.9(c) if ~~the~~any pool plant operator or ~~the~~any cooperative association caused milk from the same farm to be delivered to any plant as other than producer milk, as defined under the order in this part or any other Federal milk order, during the same month or any of the preceding 11 months, unless the equivalent of at least ten days' milk production has been physically received otherwise as producer milk at a pool distributing plant during the month.

A conforming change needs to be made by the Secretary under proposal eight to clarify potential implications created by proposal three. This change would occur in Sec. 1030.13 (d)(1), which contains the following:

...If a dairy farmer loses producer status under the order in this part (except as a result of a temporary loss of Grade A approval or as a result of the handler of the dairy farmer's milk failing to pool the milk under any order), the dairy farmer's milk shall not be eligible for diversion unless at least on day's production...

To make our proposal highly effective and consistent it should be changed to read as follows:

...If a dairy farmer loses producer status under the order in this part (except as a result of a loss of Grade A approval not to exceed 21 days in a calendar

year), the dairy farmer's milk shall not be eligible for diversion unless at least on day's production...

**Example from Northeast Order**

Similar language exists in the Northeast Order. A major difference is milk can get into the pool "free" in July. If milk leaves in the spring, it is out until July. This year, this provision played well into the hands of several handlers in the Northeast. They left the pool in April and May because of negative PPD. Then the provision worked. They could not "repool" on the Northeast Order in June. The system shortcoming was that the Mideast Milk Marketing Order does not contain the same or any similar language. Some savvy handlers moved milk to qualify for pooling on the Mideast Order for June. These handlers likely pooled their milk back on the Northeast Order in July. These numbers are not yet available.

To illustrate this point I will turn to Exhibits 13, submitted by Sharon Uther with the Mideast Order. I would also like to remind the Secretary of Ms. Uther's testimony with regard to how one might interpret the numbers, more importantly where this additional milk came from. It would seem almost obvious this isn't milk that suddenly appeared. It is milk that was most likely left homeless because of earlier month's pooling decision. I requested Exhibit 13 - Pounds of Milk by State, February 2003 and 2004, and Exhibit 13 Pounds of Milk by State, June 2003 and 2004 to help illustrate how Northeast handlers took advantage of the pooling provisions of the Mideast Order in June. I included February, because all milk would have desired to be in the pool that month. This helps to single out other things that changed in the Mideast Order from 2003 to 2004. I will not bore the Secretary, nor the hearing attendees, with every line of the two tables, instead I would like to focus the attention to two states, New York and Vermont. Why would milk in New York and Vermont pounds pooled on Mideast suddenly increase? The answer is the

product of this proposal at work in the Northeast Order. It could not. Having lost its home it needed another market and the next best option was the Mideast. Here we find what appears to be, in simple terms, an additional 67.422 million pounds of milk on the Mideast Order because it was unable to pool on Northeast order, because of pooling decisions made in the two prior months.

Think ahead for a moment and consider if this were implemented in all orders. Milk would either stay pooled or ship to a distributing plant to return to the pool. Now, let's return to the practical, this can't happen over night. Such implementation would require additional hearings. So, if this were to happen which Order would be the right place to start? The order with the most generous pooling provisions, the market of last resort, as stated by one counselor the dumping ground, or said differently, the Upper Midwest Order. This is the right order for the Secretary to make a statement and begin righting the wrongs.

#### ***Proposal #4***

Amend § 1030.12 by adding a new paragraph (b)(5) and (6) as follows:

##### **§ 1030.12 Producer.**

(b) \* \* \*

(5) For any month of ~~December-February~~ through June, any dairy farmer whose milk is received at a pool plant or by a cooperative association handler described in § 1000.9(c) if ~~the any pool plant operator or the any cooperative association~~ caused milk from the same farm to be delivered to any plant as other than producer milk, as defined under the order in this part or any other Federal milk order, during the same month, any of the 3 preceding months, or during any of the preceding months of July through ~~November~~January, unless the equivalent of least ten days' milk production has been physically received otherwise as producer milk at a pool distributing plant during the month; and

(6) For any month of July through ~~November~~ January, any dairy farmer whose milk is received at a pool plant or by a cooperative association handler described in § 1000.9(c) if the any pool plant operator or the any cooperative association caused milk from the same farm to be delivered to any plant as other than producer milk, as defined under the order in this part or any other Federal milk order, during the month or the preceding month, unless the equivalent of least ten days' milk production has been physically received otherwise as producer milk at a pool distributing plant during the month.

Like in proposal number three we would look for the same changes in Sec. 1030.13 (d)(1).

### ***Proposal #5***

Amend Section 1030.13 by adding a new paragraph (f) to read as follows:

#### **§ 1030.13. Producer Milk**

\* \* \*

(f) The quantity of milk reported by a handler pursuant to § 1030.30(a)(1) and/or § 1030.30(c)(1) ~~for July through November~~ may not exceed 115 percent of the producer milk receipts pooled by the handler during the prior month. Milk diverted to nonpool plants reported in excess of this limit shall be removed from the pool by the market administrator. Milk received at pool plants, other than pool distributing plants, shall be classified pursuant to § 1000.44(a)(3)(v) and § 1000.44(b)(3)(v). The handler must designate, by producer pick-up, which milk is to be removed from the pool. If the handler fails to provide this information, the market administrator will make the determination. The following provisions apply:

(1) Milk shipped to and physically received at pool distributing plants shall not be subject to the 115 percent limitation;

(2) Producer milk qualified pursuant to § \_\_\_\_\_.13 of any other Federal Order and continuously pooled in any Federal Order for the previous six months shall not be included in the computation of the 115 percent limitation;

(3) The market administrator may waive the 115 percent limitation utilizing;

(i) For a new handler on the order, subject to the provisions of § 1030.13(f)(3), or

(ii) For an existing handler with significantly changed milk supply conditions due to unusual circumstances;

(4) The market administrator may increase or decrease the applicable limitation for a month consistent with the procedures in § 1030.7(g); and

(5) A bloc of milk may be considered ineligible for pooling if the market administrator determines that handlers altered the reporting of such milk for the purpose of evading the provisions of this paragraph.

### ***Proposal #6***

Amend §1030.13 by adding new paragraphs (d)(1), through (4) and redesignating paragraph (d)(4) as paragraph (d)(5), to read as follows:

#### **§ 1030.13. Producer Milk**

(d) \* \* \* \*

(1) Milk of a dairy farmer shall not be eligible for diversion until milk of such dairy farmer has been physically received as producer milk at a pool plant and the dairy farmer has continuously retained producer status since that time. If a dairy farmer loses producer status under the order in this part (except as a result of a temporary loss of Grade A approval not to exceed 21 days in a calendar year), the dairy farmer's milk shall not be eligible for diversion until milk of the dairy farmer has been physically received as producer milk at a pool plant;

(2) The equivalent of at least two days' milk production is caused by the handler to be physically received at a pool plant in each of the months of July through November;

(3) The equivalent of at least two days' milk production is caused by the handler to be physically received at a pool plant in each of the months of December through June if the requirement of paragraph (d)(2) of this section (§ 1030.13) in each of the prior months of July through November are not met, except in the case of a dairy farmer who marketed no Grade A milk during each of the prior months of July through November.

(4) ~~Of the total quantity of producer milk received during the month (including diversions but excluding the quantity of producer milk received from a handler described in § 1000.9(c) of this chapter or which is diverted to another pool plant), the handler diverted to nonpool plants not more than 65 percent in each of the months July through November and 75 percent in each of the months of December through June.~~

We would like to couple this revised proposal number 6 with an alternative to Proposal one. Our suggested amendment to Proposal one would read as follows:

#### **§ 1030.7. Producer Milk**

(d) \* \* \* \*

(2) The operator of a supply plants may not include as qualifying shipments under this paragraph milk diverted directly from producer's farms pursuant to Sec. 1000.9(c) or Sec. 1030.13(c) to plants described in paragraphs (a), (b) and (e) of this section.

These two together we submit as our revised Proposal six.

### ***Proposal #1***

Dean Foods on principle must stand opposed to the limitation of transportation credits.

Accepting such is completely counter to all the arguments that we have submitted to the

Secretary in this hearing. I would refer to Exhibit 10, Table 9. This is the Market

Administrator's response to the following question: "Please provide the number of pounds that received a transportation pool payment that was hauled 400 or more miles since May 2002."

The answer as shown in Exhibit 10, Table 9, NONE. Proposals 1 and 2 attempt to prevent distant milk from receiving incentives for attaching for pooling purposes. The thought is correct, the solution is wrong. In place of proposal number one, the secretary should adopt proposal number six.

Why should the distance from the market make a difference? If the milk is needed it should be paid. The challenge is that there are so little other costs because of the loose pooling provisions, if milk could get assistance with the transportation tab it would connect. The compensation for moving milk should not be limited by distance. Instead, the amount of milk that can be pooled from serving a distribution plant should be reduced. This change will limit milk to serve the market to that which is needed and keep it closer. There will not be the reward available for milk moving long distances to move, unless it is needed. We urge the Secretary to disregard this request and implement proposal number six as presented instead.

## ***Proposal #2***

We oppose transportation credit that is consistent with proposal number one for the same reasons we oppose proposal number one. Like proposal one we offer proposal number six as an alternative. Being an equal opportunity opponent, we won't oppose purely based on the proponents. The language that is similar to proposal number five we oppose. Much of our opposition should be clear from our support for proposal number five.

There are a few areas we have serious concern for this proposal. First we feel that 125% is too loose. Again, it allows guessing to be less of a factor. Handlers are allowed a greater degree of slop for miscalculations in their estimates. The provision sets up allowing full pooling in August. This is almost a get out of jail free card for handlers. Why should handlers be offered such forgiveness for taking advantage of the system? I hate to continue to say the same thing in a different way, but the facts are what they are. The pool should be about ongoing equity, not about in when it is good and leave when it costs. We urge the Secretary to adopt proposal number five over this proposal. If the Secretary cannot find her way to do that, we would urge that the variations be removed to a constant percentage every month and possibly halfway between 125 and 115 as a compromise.

## ***Proposal #7***

We have worked with Mr. Kyburz and his staff a lot. We have leaned on them for help and counsel, excluding counsel on issues related to this hearing since the announcement of course. Mr. Kyburz has a top-notch staff that is extremely knowledgeable, helpful, and just great people

to work and deal with. Mr. Kyburz has clearly demonstrated his ability to efficiently manage the order in very difficult circumstances that were beyond his control. These difficult circumstances have created the need for this hearing. These difficult circumstances can be resolved by the Secretary. We believe something needs to be done to help with this difficult and historically unpredictable problem. If the Secretary will study closely the evidence of this hearing it will be clear that significant changes need to be made to stabilize the order.

We feel that we have offered proposals that the Secretary should adopt to stabilize this order relieving the market administrator this undue stress. When this action is taken I know from his track record that Mr. Kyburz will be able to execute those duties and manage a stable order effectively as he has done in the past.

If the Secretary needs to take action specifically on the administrative assessment, we would encourage language that would have the effect of charging for milk not in the pool the prior month a higher administrative assessment to recognize the costs incurred to keep the market administrator's office ready for the increase in milk. It is likely that tracking this every month is excessively burdensome, in which case possibly a three-month assessment for milk returning to the pool would cover the lost revenue in most cases.

## Measures of Growth in Federal Milk Order Markets Selected Years, 1947 - 2002 \*

Year	Number of Markets <sup>1</sup>	Population of Federal Milk Marketing Areas	Number of Handlers <sup>1</sup>	Number of Producers <sup>2</sup>	Receipts of Producer Milk <sup>3</sup>	Percentage of Producer Milk Used in Class I	Daily Deliveries of Milk per Producer
	<i>Number</i>	<i>1,000</i>	<i>Number</i>	<i>Number</i>	<i>Million Pounds</i>	<i>Percent</i>	<i>Pounds</i>
1947	29	----	991	135,830	14,980	65.5	302
1950	39	----	1,101	156,584	18,660	58.9	326
1955	63	46,963	1,483	188,611	28,948	62.3	420
1960	80	88,818	2,259	189,816	44,812	64.2	648
1965	73	102,351	1,891	158,077	54,444	63.5	944
1970	62	125,721	1,588	143,411	65,104	61.5	1,244
1975	56	150,666	1,315	123,855	69,249	57.9	1,532
1980	47	164,908	1,091	117,490	83,998	48.9	1,954
1985	44	176,440	884	116,765	97,762	43.2	2,294
1986	44	177,992	849	112,322	98,791	43.2	2,413
1987	43	180,374	797	105,882	98,182	43.7	2,542
1988	42	184,180	776	104,141	100,066	43.1	2,627
1989	41	185,919	748	100,291	95,871	45.2	2,614
1990	42	195,841	753	100,397	102,396	42.8	2,796
1991	40	198,409	722	100,267	103,252	43.6	2,821
1992	40	200,530	698	97,803	107,947	41.6	3,017
1993	38	199,604	675	92,934	103,979	43.1	3,073
1994	38	201,561	629	91,397	107,811	41.6	3,232
1995	33	207,548	571	88,717	108,548	41.5	3,350
1996	32	209,599	570	82,947	104,501	43.5	3,442
1997	31	208,379	570	78,422	105,224	42.7	3,676
1998	31	210,484	522	72,402	99,223	45.3	3,755
1999	31	212,118	487	69,008	104,479	43.3	4,148
2000	11	228,899	346	69,590	116,920	39.3	4,590
2001	11	231,487	350	66,423	120,223	38.2	4,959
2002	11	234,256	338	63,856	125,546	36.7	5,387

\* Source: *Dairy Market News*, Volume 70, Report 16, AMS, USDA.

<sup>1</sup> End of year. The number of markets peaked at 83 in 1962. The number of handlers peaked at 2,314 in 1961.

<sup>2</sup> Average for year. The number of producers peaked at 192,947 in 1961.

<sup>3</sup> Beginning in 1989, due to disadvantageous price situations in some markets, handlers elected not to pool milk that normally would have been associated with the order. This has reduced, sometimes substantially, the volume of producer milk receipts reported for some markets.

## Conversion to Grade A Milk Continues

In 2002, the general trend from Grade B to Grade A milk production continued, as shown in the table below. For the year, 98% of milk sold to plants and dealers in the United States was Grade A, up from 74% in 1970.

Grade A milk output in each of the seven states in the Upper Midwest Order, as a percentage of total milk production, also increased significantly during the 32-year period. Grade A milk accounted for 96% of total milk production in Min-

nesota and Wisconsin, up from 29% and 54%, respectively, in 1970. Minnesota and Wisconsin, however, continue to account for nearly half of the 3 billion pounds of Grade B milk produced in the United States in 2002.

### Grade A Milk Production as a Percentage of Total Milk Production

	<u>U.S.</u> %	<u>MI</u> %	<u>IL</u> %	<u>IA</u> %	<u>WI</u> %	<u>MN</u> %	<u>SD</u> %	<u>ND</u> %
1970	74	89	74	33	54	29	16	35
1975	80	95	79	47	64	45	20	36
1980	84	95	80	59	71	59	32	43
1985	87	97	83	67	75	67	43	48
1990	92	98	89	80	86	76	55	57
1995	95	98	94	88	92	89	58	57
1996	96	99	94	90	92	90	57	57
1997	97	99	95	94	93	92	60	59
1998	97	99	97	94	94	93	93	65
1999	98	99	98	96	94	94	93	69
2000	98	99	98	96	94	95	93	71
2001	98	99	98	97	95	95	93	73
2002	98	99	98	97	96	96	93	74

Source: "Milk Production, Disposition, and Income", NASS, USDA.

## Upper Midwest Pool Statistics - April 2003

Market Class I Differential Rate	Pool Plants	Received at Pool Plants	Diverted to Pool and Nonpool Plants	Total	Location Adjustment to Producers	Class I Differential to Handlers
<i>Cwt.</i>	<i>Number</i>	<i>Pounds</i>	<i>Pounds</i>	<i>Pounds</i>	<i>Value</i>	<i>Pounds</i>
\$1.80	4	61,533,550	75,400	61,608,950	\$ 0	53,478,120
\$1.75	38	192,066,585	389,635,289	581,701,874	290,851	140,070,958
\$1.70	37	192,053,793	849,083,051	1,041,136,844	1,041,137	122,390,037
\$1.65	5	27,842,555	4,661,814	32,504,369	48,756	22,121,183
Other	0	0	145,805,028	145,805,028	291,346	0
Total	84	473,496,483	1,389,260,582	1,862,757,065	\$1,672,090	338,060,298

\$ 962,606

2,451,242

2,080,631

364,999

0

0

\$5,859,478

**Testimony of  
Paul G. Christ  
On Behalf of  
The Dean Foods Company**

**Hearing to consider amendments to the Upper Midwest  
Federal Milk Marketing Order  
Docket No. AO-361-A39; DA-04-01  
August 16 et seq. 2004**

My name is Paul G. Christ. I reside at 245 Indian Trail, So., Afton, Minnesota 55001. I have a long background in working with Federal milk orders. From 1961 to early 1974 I worked for the Dairy Division of the Agricultural Marketing Service of U.S.D.A., both in the Washington office, and in market administrators' offices in the field. Between 1974 and 2000 I worked for Land O'Lakes, Inc., and was responsible for marketing Land O'Lakes member milk under several Federal milk orders, and when necessary, for proposing changes to those orders. Thus, I have experience both inside and outside the government in the operation and effects of individual milk orders and of the entire Federal milk order system.

**Proposal Number 3**

I appear here as an advocate for Dean Foods Company in support of proposal number 3. I will attempt to explain how proposal number three would work, and how it would improve the supply of milk available for fluid use, and the well-being of producers whose milk is continuously pooled.

As was stated by Evan Kinser in his earlier testimony, Dean Foods Company is interested in improving two aspects of the Upper Midwest order. The first is to increase the availability of milk for Class I use, and the second is to increase the flow of pool funds to those producers who represent a reliable supply of milk for fluid use.

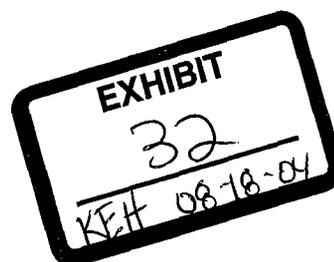
Proposal number 3 is designed to accomplish those goals.

First, I will attempt to explain how proposal number 3 would work. It would add a new subparagraph (b)(5) to the producer definition, section 1030.12. It reads as follows:

***"Section 1030.12 Producer***

\* \* \* \* \*

(b) \* \* \*



*(5) For any month, any dairy farmer whose milk is received at a pool plant or by a cooperative association handler described in Section 1000.9(c) if the pool plant operator or the cooperative association caused milk from the same farm to be delivered to any plant as other than as producer milk, as defined under the order in this part or any other Federal milk order, during the same month or any of the preceding 11 months, unless the equivalent of at least ten days' milk production has been physically received otherwise as producer milk at a pool **distributing** plant during the month."*

The highlighted word "distributing" plant in the last sentence of the proposal represents a modification of the published proposal. Mr. Evan Kinser offered this modification in his testimony, and my testimony will relate to the modified proposal.

The new subparagraph would exclude from the pool the milk of any dairy farmer whose milk was not continuously pooled under one or another Federal milk order during the last 12 months. The sole exception from this exclusion would be the case where the dairy farmer temporarily lost Grade A status, and whose production facility was reinstated as Grade A within 21 days. The idea behind this exclusion is to discourage milk that was depooled for economic reasons from easily becoming repooled when it is economically favorable to do so.

Dairy farmers for whom their milk is pooled when benefits exist, and is not pooled when costs exist, create a burden on producers whose milk is continuously pooled. When the producer price differential is positive there is an incentive to pool all milk used in Class III. This has the effect of averaging down the producer price differential, reducing returns to continuously pooled producers. On the other hand, when the producer price differential is negative, there is an incentive to depool all milk used in Class III. This also has the effect of averaging down the producer price differential, resulting, again, in reduced returns to continuously pooled producers. The losers in this process are the producers whose milk is kept in the pool and continues to be available to serve the needs of the fluid market.

Under proposal number 3, milk that was depooled within the last 12 months could again become repooled, if the responsible handler demonstrates that it is, in fact, available for fluid use. This is accomplished by delivering 10 days production from that dairy farmer's facility to a pool distributing plant. This demonstration would insure that pool participation would be open to any dairy farmer for whom it is technically and economically feasible to supply milk for fluid use. In effect, the proposal would not prevent depooling. However, it would make it more difficult to return such a dairy farmer's milk to the pool after it is once depooled.

This demonstration of competence to supply milk for fluid use would continue for 12 months before such formerly depooled milk could be pooled under the more flexible provisions of the order that apply to continuously pooled milk.

This proposed change would not be economically burdensome if the milk were favorably located relative to a distributing plant. However, it would make it expensive for a distant or unfavorably located dairy farmer to again become a producer and participant in the pool. It would also insure the milk for which it is not technically or economically feasible to serve the fluid market would not reenter the pool.

Dairy farmers whose milk is pooled continuously under the Upper Midwest Federal order would not be affected by this proposal. These dairy farmers shared in both the costs and the benefits of pool participation on a continuous basis.

Also, dairy farmers whose milk is pooled continuously under any other Federal milk order(s) during the preceding year would not be affected by this proposal. They could enter the Federal order 30 pool under the same flexible provisions as apply to Federal order 30 producers who were not depooled within the last year. In effect, these "other-order" producers were continuous participants in one or another Federal order pool, sharing both the costs and benefits of such participation on a continuous basis.

So, proposal number 3 would have three desirable effects:

1. Some Class III milk would stay in the pool when the producer price differential was negative, in order to avoid the extra cost of returning to the pool. This would increase the producer price differential (making it less negative) for all producers, especially those whose milk is delivered to distributing plants.
2. Some Class III milk that is depooled would never return to the pool because it is no longer technically or economically feasible to do so. This would have the effect of increasing the producer price differential whenever it is positive. Those producers whose milk is delivered to distributing plants would benefit.
3. Some Class III milk that is depooled would return to the pool, but only through regular, significant deliveries to distributing plants. This would increase the supply of milk ready and willing to serve the needs of the fluid market.

For the above reasons Dean Foods Company urges the Secretary to adopt proposal number 3.

### **Proposal Number 4**

Dean Foods Company also offers proposal number 4 for consideration by the Secretary. It is offered as a weaker, less desirable alternative to proposal number 3, in the event that proposal number 3 is rejected. Proposal number 4 reads as follows:

**“Section 1030.12 Producer**

\* \* \* \* \*

(b) \* \* \*

- (5) *For any month of **February** through **June**, any dairy farmer whose milk is received at a pool plant or by a cooperative association handler described in Section 1000.9(c) if the pool plant operator of the cooperative association caused milk from the same farm to be delivered to any plant as other than producer milk, as defined under the order in this part or any other Federal milk order, during the same month, any of the 3 preceding months, or during any of the preceding months of July through **January**, unless the equivalent of at least ten days' milk production has been physically received otherwise as producer milk at a pool **distributing** plant during the month; and*
- (6) *For any month of July through **January**, any dairy farmer whose milk is received at a pool plant or by a cooperative association handler described in Section 1000.9(c) if the pool plant operator or the cooperative association caused milk from the same farm to be delivered to any plant as other than producer milk, as defined under the order in this part or any other Federal milk order, during the same or the preceding month, unless the equivalent of at least ten days' milk production has been physically received otherwise as producer milk at a pool **distributing** plant during the month.”*

We recommend modification of proposal number 4 in the same fashion as the modification to proposal number 3. The modification would change the flush shipping season from December through June to **February through June**. It would also change the short shipping season from July through November to **July through January**. Dean Foods contends that this change will provide greater assurance that more milk will stay in the pool during all the months when fluid demand is greatest relative to supply.

Finally, the modification would add the word “**distributing**” plant to the last sentence of subparagraphs (5) and (6). This would insure that deliveries for requalifying a dairy farmer’s milk for pooling would be accomplished only by demonstrating that the milk is technically and economically available to the fluid market.

The difference between proposal number 3 and proposal number 4 is that, in the event that a dairy farmer’s milk is depooled, the number of months for which 10 days’ milk production would have to be delivered to a pool distributing plant would be fewer.

In the first case, under subparagraph (5), if milk is depooled during the period of February through June, only four months of such deliveries would be required, compared to 12 months under proposal number 3.

In the second case, also under subparagraph (5), if milk is depooled in any month of July through January, then such deliveries would be required in each month of February through June. Dean Foods is more interested in discouraging depooling in the short season than during the rest of the year.

In the third case, under subparagraph (6), if milk is depooled during the period of July through January, only two months of such deliveries would be required, compared to 12 months under proposal number 3.

Proposal number 4 would have the same general effects and benefits as proposal number 3, except that the benefits of depooling would be greater, and the costs of repooling would be smaller. Thus, the beneficial effects on continuously pooled producers would be smaller, and there would be a less abundant supply of milk available for fluid use.

Therefore, we again recommend the adoption of proposal number 3. But, if for whatever reason the Secretary chooses not to adopt proposal number 3, then we recommend the adoption of proposal number 4.

### **Proposal Number 5**

Proposal number 5 is offered by Dean Foods Company as a less desirable alternative to both proposals number 3 and 4. It offers a different type of mechanism for limiting the amount of depooled milk that can be repooled in any given month. It is similar to proposal number 2, but puts a tighter limit on how much milk can be pooled from month to month under the order.

Proposal number 5 reads as follows:

***“Section 1031.13 Producer Milk***

\* \* \* \* \*

*(f) The quantity of milk reported by a handler pursuant to Section 1030.30(a)(1) and/or Section 1030(c)(1) for July through November may not exceed 115 percent of the producer milk receipts pooled by the handler during the prior month. Milk diverted to nonpool plants reported in excess of this limit shall be removed from the pool by the market administrator. Milk received at pool plants, other than pool distributing plants, shall be classified pursuant to Section 1000.44(a)(3)(v) and Section 1000.44(b)(3)(v). The handler must designate, by producer pickup, which milk is to be removed from the pool. If the handler fails to provide this information, the market administrator will make the determination. The following provisions apply:*

*(1) Milk shipped to and physically received at pool distributing plants shall not be subject to the 115 percent limitation;*

- (2) *Producer milk qualified pursuant to Section \_\_\_\_\_ .13 of any other Federal Order and continuously pooled in any Federal Order for the previous six months shall not be included in the computation of the 115 percent limitation.*
- (3) *The market administrator may waive the 115 percent limitation utilizing:*
  - (i) *For a new handler on the order, subject to the provisions of Section 1030.13(f)(3), or*
  - (ii) *For an existing handler with significantly changed milk supply conditions due to unusual circumstances;*
- (4) *The market administrator may increase or decrease the applicable limitation for a month consistent with the procedures in Section 1030.7(g); and*
- (5) *A bloc of milk may be considered ineligible for pooling if the market administrator determines that handlers altered the reporting of such milk for the purpose of evading the provisions of this paragraph.”*

The mechanism for discouraging the depooling of milk under proposal number 5 is to restrict the amount of additional milk that can be pooled during July through November by a handler from one month to the next. That means that the volume of milk that is continuously pooled under Federal order 30 or any other Federal order can be pooled without hinderance or restriction. However, milk that has been depooled under this or any other order can only be gradually repooled during the short season. This means that most of the milk for which the cost of pooling is avoided during periods of negative producer price differentials cannot immediately enjoy the benefits of pooling when the producer price differential is positive.

This reduces the benefits of depooling and increases the costs of repooling during the short season (July through November). The effect is a modest discouragement of depooling.

If depooling is discouraged to any degree, producers whose milk stays in the pool will enjoy a higher (less negative) producer price differential during months when it is negative.

However, proposal number 5 provides for instant repooling of any milk that is delivered directly to a pool distributing plant. This has the desirable effect of increasing the supply of milk that is readily available to the fluid market, following a period of depooling.

It also does not restrict repooling during any month of December through June.

Proposal number 5 increases the costs of depooling with the greater percentage of a handler's milk that is depooled. The following table 1 illustrates the time it takes to repool all the milk of a handler if he depools between 10 and 90 percent of the milk under his control:

**Table 1. Effect of the percentage of milk depooled on the time it takes to repool all the milk of a handler at a rate of 115 percent per month, starting with July**

<u>Month</u>	<u>Percentage of milk pooled</u>								
	10	20	30	40	50	60	70	80	90
0									
1	11.5	23.0	34.5	46.0	57.5	69.0	80.5	92.0	100
2	13.2	26.4	39.7	52.9	66.1	79.4	92.6	100	
3	15.2	30.4	45.6	60.8	76.0	91.3	100		
4	17.5	35.0	52.5	70.0	87.5	100			
5	20.1	40.2	60.3	80.5	100				
6	100	100	100	100					

---

The point of table 1 is that the greater the proportion of milk depooled, the longer the time needed to requalify the depooled milk. This is a desirable feature of proposal number 5. Those handlers (and producers) who capture the greatest benefit from depooling, also incur the greatest loss of benefit from attempting to regain pool status.

### **Proposal Number 6**

Proposal number 6 is offered by Dean Foods to supplement proposal number 3. It is intended to insure that a greater amount of producer milk is more readily available for transfer to a pool distributing plant for fluid use. It reads as follows:

*"Section 1030.13 Producer Milk*

\* \* \* \* \*

(d) \* \* \*

- (1) *Milk of a dairy farmer shall not be eligible for diversion until milk of such dairy farmer has been physically received as producer milk at a pool plant and the dairy farmer has continuously retained producer status since that time. If a dairy farmer loses producer status under the order in this part (except as a result of a temporary loss of Grade A approval not to exceed 21 days in a calendar year), the dairy farmer's milk shall not be eligible for diversion until milk of the dairy farmer has been physically received as producer milk at a pool plant;*
- (2) *The equivalent of at least four days' milk production is caused by the handler to be physically received at a pool plant in each of the months of July through November;*
- (3) *The equivalent of at least four days' milk production is caused by the handler to be physically received at a pool plant in each of the months of December through June if the requirement of paragraph (d)(2) of this section (1030.13) in each of the prior months of July through November is not met, except in the case of a dairy farmer who marketed no Grade A milk during each of the prior months of July through November."*

We are also offering minor modifications to proposal number 6, as explained by Evan Kinser. The required delivery of a producer's milk to a pool plant was changed from two days' production to four days' production.

In addition, we are abandoning the proposed change to subparagraph 1030.13 (d) (4). We believe that if there is a tighter requirement for producer milk to be received in a pool plant, there is less need to restrict the amount of milk that can be diverted.

Proposal number 6 does nothing more than insure that more producer milk is actively engaged in the process of serving the fluid market. This process starts with the production of Grade A milk, and then continues the next step of being received in a Grade A pool plant facility. If producer milk is diverted to a nonpool plant, then it is out of the Grade A marketing stream and is no longer available to the fluid market. Increasing the "touch-base" requirement insures that more milk stays in that Grade A marketing stream one more step than otherwise would be the case. The effect is to make more milk physically available for the fluid market.

Proposal number 6 would also insure that pool plant operators keep their Grade A facilities operating at a higher level of output than would be the case if more milk were diverted. In effect, more Grade A milk would be available for fluid use at all times, and pool plant operators would routinely engage in Grade A operations, thereby maintaining greater standby capacity for supplying the fluid market.

## Proposal Number 7

Proposal number 7 is offered by the market administrator to insure that he can collect adequate funds through the administrative assessment to operate his office and effectively enforce the order. He does, indeed, need to do this. However, a large part of the funding problem arises from massive depooling of milk. When milk is depooled because of a negative producer price differential, no administrative assessment is paid on that milk, and the market administrator may find himself short of funds. In that event, he seeks to increase the administrative assessment on the (disadvantaged) milk that remains in the pool. This increases the financial burden on continuously pooled milk.

A better solution to the problem is to discourage or eliminate the practice of depooling. We believe that proposal number 3, in particular, would accomplish that objective, and should be adopted. Therefore, we recommend that proposal number 3 be adopted to increase the amount and the predictability of administrative revenues for the enforcement of the order by the market administrator.

We nonetheless sympathize with the market administrator who is unable to anticipate the financial risk to his operations, when some of those who receive the services and benefits he provides do not pay for them. For example, calculations made by the market administrator provide the foundation for the decision to depool milk, and depooled milk does not pay an administrative assessment. This is a bizarre state of affairs.

If an increase in the administrative assessment is to be considered, the market administrator should insure that such an increase falls on nearly all market participants. This can be done by suspending or revising downward the assessment rate during months when milk is depooled. It can then be increased when the depooled milk returns to the pool.

Of course, if proposal 3 is adopted, this risk should be reduced substantially, and maybe eliminated.

## Proposal Number 8

We offer the following proposal as a conforming change to reinforce proposal number 6:

*"Section 1030.7 Pool Plant*

*\* \* \* \* \**

*(d) \* \* \**

*(2) The operator of a supply plant(s) may not include as qualifying shipments under this paragraph milk diverted directly from producer's farms pursuant to Section 1000.9(c) to plants described in paragraphs (a), (b) and (e) of this section."*

This proposed change would have two desirable effects. The first would be to discourage the practice of diverting nearby milk to distributing plant in order to qualify distant milk for pooling. The distant milk may not be practically available for fluid use, but nevertheless gets pooled because the nearby diversions to a distributing plant. We prefer to insure that all milk in the pool participate to a greater degree in the Grade A marketing stream. By prohibiting the use of diversions to make qualifying shipments, some of the milk that otherwise would be qualified for pooling with virtually no performance, will now have to be qualified by physical shipments from a pool supply plant.

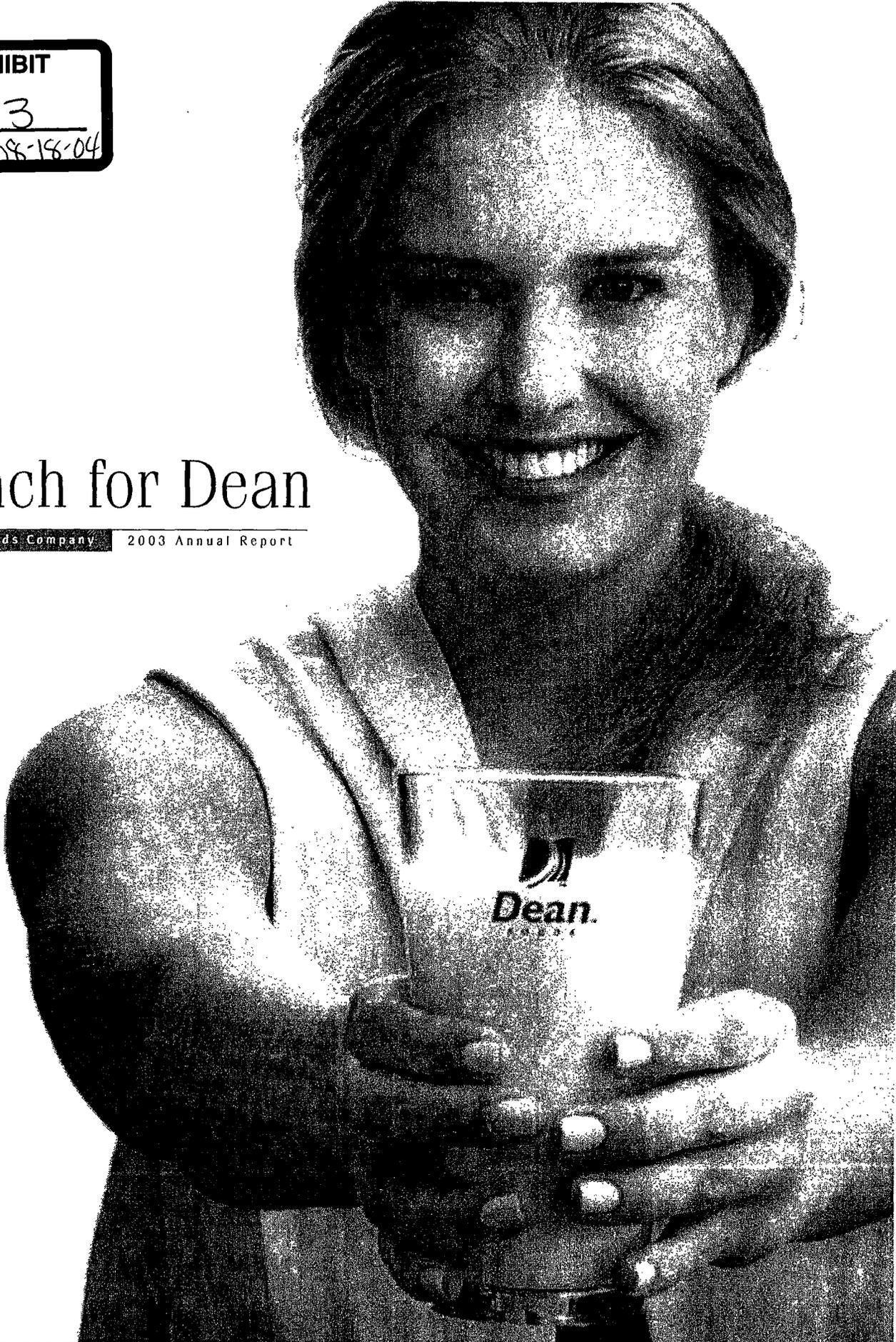
This improvement would also insure that more activity will take place in the Grade A facilities of pool supply plants, thereby increasing the competence of operators of such plants to serve the fluid market.

This concludes my testimony.

EXHIBIT  
33  
KEH 18-18-04

# Reach for Dean

Dean Foods Company 2003 Annual Report



## Management's Discussion and Analysis of Financial Condition and Results of Operations

the increase in assets from \$124.8 million as of December 31, 2002 to \$151.6 million as of December 31, 2003. Based on current projections, 2004 funding requirements will be approximately \$37.8 million as compared to \$31.1 million for 2003. Additionally, based on current projections, 2004 funding requirements for our other postretirement benefit obligations will be approximately \$2.8 million as compared to \$2.4 million in 2003.

As a result of lower discount rates at December 31, 2003, we were required to recognize an additional minimum liability as prescribed by SFAS No. 87 and SFAS No. 132, "Employers' Disclosures about Pensions and Postretirement Benefits." The accumulated other comprehensive income component of the additional minimum liability, which totaled \$37.9 million (\$23.6 million after-tax), was recorded as a reduction to shareholder's equity through a charge to Other Comprehensive Income, and did not affect net income for 2003. The charge to Other Comprehensive Income will be reversed in future periods to the extent the fair value of plan assets exceeds the accumulated benefit obligation. See Notes 13 and 14 to our Consolidated Financial Statements for information regarding retirement plans and other postretirement benefits.

### OTHER COMMITMENTS AND CONTINGENCIES

On December 21, 2001, in connection with our acquisition of Legacy Dean, we issued a contingent, subordinated promissory note to Dairy Farmers of America ("DFA") in the original principal amount of \$40 million. DFA is our primary supplier of raw milk, and the promissory note is designed to ensure that DFA has the opportunity to continue to supply raw milk to certain of our plants until 2021, or be paid for the loss of that business. The promissory note has a 20-year term and bears interest based on the consumer price index. Interest will not be paid in cash, but will be added to the principal amount of the note annually, up to a maximum principal amount of \$96 million. We may prepay the note in whole or in part at any time, without penalty. The note will only become payable if we ever materially breach or terminate one of our milk supply agreements with DFA without renewal or replacement. Otherwise, the note will expire at the end of 20 years, without any obligation to pay any portion of the principal or interest. Payments we make under this note, if any, will be expensed as incurred.

We also have the following commitments and contingent liabilities, in addition to contingent liabilities related to ordinary course litigation and audits:

- the obligation to pay performance bonuses to White Wave's management team in the event that established performance hurdles are met by the end of March 2004, which we currently expect to be approximately \$39 million; and
- certain indemnification obligations related to businesses that we have divested; and
- potential liability related to a Wells Notice we received from the staff of the Securities and Exchange Commission related to our relationship with one of our customers.

See Note 18 to our Consolidated Financial Statements for more information about our commitments and contingent obligations.

### FUTURE CAPITAL REQUIREMENTS

During 2004, we intend to invest a total of approximately \$350 million in capital expenditures primarily for our existing manufacturing facilities and distribution capabilities. We intend to fund these expenditures using cash flow from operations. We intend to spend this amount as follows:

Operating Division (Dollars in millions)	Amount
Dairy Group	\$275
Branded Products Group	25
Specialty Foods Group	20
Other	30
Total	<u>\$350</u>

## Notes to Consolidated Financial Statements

\$1.7 billion, including \$756.8 million of cash paid to Legacy Dean stockholders and common stock valued at \$739.4 million. The value of the approximately 46.5 million common shares issued was determined based on the average market price of our common stock during the period from April 2 through April 10, 2001 (the merger was announced on April 5, 2001). In addition, each of the options to purchase Legacy Dean's common stock outstanding on December 21, 2001 was converted into an option to purchase 2.256 shares of our stock. As discussed below, the holders of these options had the right, during the ninety day period following the acquisition, to surrender their stock options to us, in lieu of exercise, in exchange for a cash payment.

We decided to acquire Legacy Dean for the above-described consideration after considering a number of factors, including:

- The acquisition would result in us becoming the first truly national dairy and specialty foods company with the geographic reach, management depth and product mix necessary to meet the needs of large customers, who can especially benefit from the added services, convenience and value that a national dairy company can provide;
- Combining our businesses would enable us to reduce our costs by pursuing economies of scale in purchasing, product development and manufacturing, and by eliminating duplicative costs; and
- Increasing our scale would provide us with greater resources to invest in marketing and innovation.

Also on December 21, 2001, in connection with our acquisition of Legacy Dean, we purchased Dairy Farmers of America's ("DFA") 33.8% stake in our Dairy Group for consideration consisting of: (1) approximately \$145.4 million in cash, and (2) the operations of eleven plants (including seven of our plants and four of Legacy Dean's plants) located in nine states where we and Legacy Dean had overlapping operations. Also in connection with the transaction, we delivered a contingent promissory note in the original principal amount of \$40 million to secure our obligation to renew certain of our milk supply agreements with DFA until 2021. See Note 18 for a further discussion of this obligation. As a result of this transaction, we now own 100% of our Dairy Group.

In connection with the merger, we entered into a new credit facility and expanded our receivables-backed loan facilities. We used the proceeds from the credit facility and receivables-backed loan facilities to fund the cash portion of the merger consideration and the acquisition of DFA's minority interest, to refinance certain indebtedness and to pay certain transaction costs.

Legacy Dean's operations and the acquisition of DFA's minority interest are reflected in our Consolidated Financial Statements after December 21, 2001.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition of Legacy Dean, and includes the effects of divesting four Legacy Dean plants.

<u>(In thousands)</u>	<u>At December 21, 2001</u>
Current assets	\$ 694,453
Property, plant, and equipment	725,258
Intangible assets	236,978
Goodwill	1,515,267
Other assets	79,945
Total assets acquired	<u>3,251,901</u>
Current liabilities	540,458
Other liabilities	285,209
Long-term debt	685,645
Total liabilities assumed	<u>1,511,312</u>
Net assets acquired	<u>\$1,740,589</u>

Of the approximately \$237 million of acquired intangible assets, approximately \$206.5 million was assigned to trademarks and trade names that are not subject to amortization and approximately \$30.5 million was assigned to customer contracts that have a weighted average useful life of approximately 17 years.

## Notes to Consolidated Financial Statements

The approximately \$1.52 billion of goodwill was assigned to Legacy Dean's Dairy Group, NRP and Specialty segments in the amounts of \$1.01 billion, \$215 million and \$290 million, respectively. None of the goodwill is expected to be deductible for tax purposes.

The final allocation of the purchase price to the fair values of assets and liabilities of Legacy Dean and the related business integration plans was completed in the fourth quarter of 2002. This final allocation process increased goodwill by approximately \$55.4 million, primarily as a result of the final determination of the fair values of depreciable tangible assets and business integration plans.

The purchase price allocation of Legacy Dean included a liability for payment obligations to Legacy Dean employees related to Legacy Dean stock options as a result of the change in control of Legacy Dean. Under Legacy Dean's stock option agreements, upon a change in control, employees had the right to surrender their stock options to us, in lieu of exercise, in exchange for a cash payment during the ninety day period following the change in control. The required cash payment varied depending on the type of stock option and the grant date with certain stock options requiring a cash payment equal to the difference between the exercise price and the highest closing price of our stock during the sixty day period beginning thirty days before and ending 30 days after the completion of the change in control transaction, and certain of the stock option agreements required a tax gross-up payment upon surrender. Cash payments of approximately \$44.2 million were made. At the conclusion of the surrender period, the remaining liability of approximately \$30.5 million was transferred to stockholders' equity as the underlying stock options remained outstanding.

We also incurred a change in control obligation of approximately \$4.9 million for payments to 18 officers under Legacy Dean's long-term incentive plan and transition bonuses to 5 officers of Legacy Dean, both of which became earned and payable upon consummation of the merger; and severance obligations of approximately \$17.5 million related to the termination of certain employees and officers of Legacy Dean as a result of the decision to eliminate certain Legacy Dean administrative functions.

The unaudited results of operations on a pro forma basis for the year ended December 31, 2001 as if the acquisition of Legacy Dean, and the purchase of DFA's minority interest (including the divestiture of the 11 plants transferred in partial consideration of that interest) had occurred as of the beginning of 2001 are as follows:

(In thousands, except per share data)	Year Ended December 31, 2001
Net sales	\$10,058,288
Income from continuing operations before taxes	289,058
Net income from continuing operations	178,411
Earnings per share from continuing operations:	
Basic	\$ 1.38
Diluted	\$ 1.28

**Minority Interest in Spanish Operations** – In August of 2001, we purchased the 25% minority interest in Leche Celta, our Spanish dairy processor that we did not already own, for approximately \$12.6 million. We funded this purchase with cash flow from operations.

### DIVESTITURES

In order to more closely align both our assets and our management resources with our strategic direction, part of our strategy in 2003 and 2002 was to divest certain assets. On July 31, 2003, we completed the sale of the frozen pre-whipped topping and frozen coffee creamer operations of Morningstar Foods. We recorded a pre-tax gain on the sale of approximately \$66.2 million. Also in July 2003, we sold certain Dairy Group delivery trucks and customer relationships in New York. The proceeds from the sale of businesses during 2003 was approximately \$90 million. During 2002, we completed the sale of the following non-core businesses acquired as part of Legacy Dean's Specialty Foods division: on January 4, 2002, we completed the sale of the stock of DFC Transportation Company, a contract hauler; on February 7, 2002, we completed the sale of the assets related to a boiled peanut business; and on October 11, 2002, we completed the sale of EBI Foods Limited, a U.K.-based manufacturer of powdered food coatings. Net proceeds from the sale of these three businesses totaled approximately \$28.9 million. No gain or loss was recorded on the divestiture of Legacy Dean's businesses during 2002 because the sales prices equaled the carrying values.

## Notes to Consolidated Financial Statements

### 17. Supplemental Cash Flow Information

(In thousands)	Year Ended December 31		
	2003	2002	2001
Cash paid for interest and financing charges, net of capitalized interest	\$182,825	\$224,561	\$139,984
Cash paid for taxes	19,788	44,738	24,983
Noncash transactions:			
Exchange of trust issued preferred securities	582,986		
Issuance of common stock in connection with business acquisitions			739,366
Operations of 11 plants in connection with acquisition of minority interest			287,989

### 18. Commitments and Contingencies

**Leases** – We lease certain property, plant and equipment used in our operations under both capital and operating lease agreements. Such leases, which are primarily for machinery, equipment and vehicles, have lease terms ranging from 1 to 20 years. Certain of the operating lease agreements require the payment of additional rentals for maintenance, along with additional rentals based on miles driven or units produced. Certain leases require us to guarantee a minimum value of the leased asset at the end of the lease. Our maximum exposure under those guarantees is not a material amount. Rent expense, including additional rent, was \$121.2 million, \$124.5 million and \$86.9 million for the years ended December 31, 2003, 2002 and 2001, respectively.

The composition of capital leases which are reflected as property, plant and equipment in our consolidated balance sheets are as follows:

(In thousands)	December 31	
	2003	2002
Buildings and improvements	\$ 707	\$ 588
Machinery and equipment	1,940	9,200
Less accumulated amortization	(779)	(5,347)
	<u>\$1,868</u>	<u>\$ 4,441</u>

Future minimum payments at December 31, 2003, under non-cancelable capital and operating leases with terms in excess of one year are summarized below:

(In thousands)	Capital Leases	Operating Leases
2004	\$375	\$ 90,662
2005	158	76,356
2006	99	61,556
2007	116	51,483
Thereafter		<u>172,215</u>
Total minimum lease payments	<u>\$748</u>	<u>\$452,272</u>
Less amount representing interest	<u>(75)</u>	
Present value of capital lease obligations	<u>\$673</u>	

**Contingent Obligations Related to Milk Supply Arrangements** – On December 21, 2001, in connection with our acquisition of Legacy Dean, we purchased DFA's 33.8% stake in our Dairy Group. In connection with that transaction, we issued a contingent, subordinated promissory note to DFA in the original principal amount of \$40 million. DFA is our primary supplier of raw milk, and the promissory note is designed to ensure that DFA has the opportunity to continue to supply raw milk to certain of our plants until 2021, or be paid for the loss of that business. The promissory note has a 20-year term and bears interest based on the consumer price index. Interest will not be paid in cash, but will be added to the principal amount of the note annually, up to a maximum principal amount of \$96 million. We may prepay the note in whole or in part at any time, without penalty. The note will only become payable if we ever materially breach or terminate one of our milk supply agreements with DFA without renewal or replacement. Otherwise, the note

## Notes to Consolidated Financial Statements

**Acquired Facility Closing Costs** – As part of our purchase price allocations, we accrued costs from time to time pursuant to plans to exit certain activities and operations of acquired businesses in order to rationalize production and reduce costs and inefficiencies. During 2003, we accrued costs related to the closing of an ice cream plant acquired in July 2003 by our Dairy Group. One plant was closed in connection with our acquisition of Marie's in May 2002 and several plants were closed in connection with our acquisition of Legacy Dean.

The principal components of the plans include the following:

- Workforce reductions as a result of plant closings, plant rationalizations and consolidation of administrative functions;
- Shutdown costs, including those costs that are necessary to clean and prepare the plant facilities for closure and costs incurred after shutdown such as lease obligations or termination costs, utilities and property taxes after shutdown.

Activity with respect to these acquisition liabilities for 2003 is summarized below:

(In thousands)	Accrued Charges at December 31, 2002	Accruals	Payments	Accrued Charges at December 31, 2003
Workforce reduction costs	\$ 9,002	\$100	\$ (6,231)	\$2,871
Shutdown costs	11,637	500	(5,820)	6,317
<b>Total</b>	<b>\$20,639</b>	<b>\$600</b>	<b>\$(12,051)</b>	<b>\$9,188</b>

Activity with respect to these acquisition liabilities for 2002 is summarized below:

(In thousands)	Accrued Charges at December 31, 2001	Accruals	Payments	Accrued Charges at December 31, 2002
Workforce reduction costs	\$20,029	\$11,205	\$(22,232)	\$ 9,002
Shutdown costs	12,621	7,880	(8,864)	11,637
<b>Total</b>	<b>\$32,650</b>	<b>\$19,085</b>	<b>\$(31,096)</b>	<b>\$20,639</b>

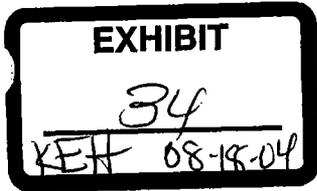
### 16. Other Operating (Income) Expense

In the third quarter of 2003, we recognized a gain on the sale of our frozen pre-whipped topping and frozen creamer operations of \$66.2 million.

During the fourth quarter of 2003, we recognized \$2.5 million of other operating income as a result of certain contingencies related to the divestiture of 11 plants in 2001 being favorably resolved.

During the fourth quarter of 2001, we recognized a net of \$17.3 million of other operating income which includes the following:

- A gain of \$47.5 million on the divestiture of the 11 plants divested in connection with the acquisition of Legacy Dean. The gain represented the difference between fair value and the carrying value of the plants;
- An expense of \$28.5 million resulting from a payment to DFA as consideration for certain modifications to our existing milk supply arrangements; and
- An expense of \$1.7 million resulting from the impairment in value of a water plant.



**Testimony of**  
**Mary Keough Ledman**  
**On Behalf of**  
**The Dean Foods Company**

**Hearing to consider amendments to the Upper Midwest**

**Federal Milk Marketing Order**

**Docket No. AO-361-A39; DA-04-01**

**August 16 et seq, 2004**

My name is Mary Keough Ledman. I reside at 1642 Old Barn Circle, Libertyville, Illinois 60048. I am an agricultural economist that provides consultation to the dairy industry. My previous public service includes employment with USDA's Federal Order 30, Glen Ellyn, Illinois, and the Foreign Agricultural Service and the National Agricultural Statistic Service in Washington, D.C.. My private sector experience includes: Manager of Dairy Economics for Kraft Foods and Director of Materials Planning for Stella Foods. For the past ten years, I have been employed by Keough Ledman Associates, Inc. a dairy economic consulting firm that provides:

- Monthly dairy product and milk price forecasting
- Economic, financial and policy analysis
- Dairy product and milk sourcing strategies
- Domestic and international market information
- Expert Witness Testimony

I appear here on behalf of Dean Foods in support of proposal number 3 and closing the depooling loophole.

My interest in the economic impacts of liberal pool regulations is not new. In September 2002, *Hoard's Dairyman*, (Ex \_\_\_\_ ) published an article that I wrote that outlined how liberal depooling contributed to the unpredictability of the Producer Price Differential.

Prior to 2002, the more egregious depooling was done by the end users of Class II and Class IV milk. The concerns of liberal depooling regulations became more in vogue in 2003 and 2004 when Class III end users and by far the largest volume of milk normally associated with the pool jumped ship. It is my opinion that liberal pooling, regardless of class, undermines orderly marketing and the ability of all dairy producers to share equally in the pool, two of the early premises of the Federal Milk Marketing Orders.

When asked to describe disorderly marketing, many joke, "I can't describe it but I'll know it when I see it." Well folks I think that we have all seen disorderly marketing, of different magnitudes, since the implementation of Federal Order Reform in 2000. That is not to say that these situations did not also occur prior to 2000. However, several factors included in Federal Order Reform have led to increased disorderly marketing. Those factors include:

- The "higher of" setting the Class I mover.
- The use of NASS dairy product prices in tandem with advance pricing.
- The easy entry and exit to Federal Order pools (liberal pooling regulations).

Since we are only skinning one of these cats today, I'll stick to the liberal pooling regulations.

Historically, the concept of pooling within the Federal Orders was designed for all producers to share equally in the pool while the system of classified pricing ensured that all Grade A milk was utilized in the highest valued class. Unfortunately neither is true today.

The system worked well when there was just two or three classes of milk and when Class I utilization dominated the market. However, increased U.S. milk production in tandem with lower per capita milk consumption has resulted in greater manufacturing utilization and has increased the incentive for manufacturers to jump in and out of the pool. Furthermore, the ability to depool milk provides a disincentive to move milk into its highest valued use. An excellent example of this occurred in November 2000.

In November 2000, the Federal Order announced Class III and IV milk prices were \$8.57 and \$13.00, respectively. The blend price for Federal Order 30 was \$10.00 per cwt (Ex 5. Table 3). If the classified pricing system truly moved milk to its highest valued use, Class III manufacturers would sell their milk to butter-powder plants. Even if the cheese manufacturer received just the blend price of \$10.00 for its milk, it would seem that the plant would be receiving \$1.43 per cwt more for the milk vs. using it in cheese production.

In the real world the cheese manufacturer is indifferent to selling its milk to the butter-powder plant because it will draw the difference between the Blend Price and the Class III price to pay its producers. On the other hand, selling the milk to the Class IV manufacturer that depools the milk will place the cheese manufacturer at a competitive disadvantage in the country procuring milk from dairy producers. Since the Class IV manufacturer depools its milk, it could pay its patrons \$12.00 per cwt. The patrons would be "better off" by \$2.00 cwt vs. the Blend Price and the manufacturer could pocket the remaining \$1.00 cwt for other uses.

Still, the other producers and manufacturers in the marketing area lose as do consumers. Producers receive a lower Blend Price due to the depooling of the higher priced classes of milk. Cheese manufacturers within the marketing area face greater competition procuring milk and have no incentive to sell milk to a Class IV manufacturer that does not pool the milk. The disincentive to sell milk to the Class IV manufacturer results in less butter production, more volatile butter prices and higher butterfat costs to consumers. The CME grade AA butter price averaged \$1.15 per pound in October 2000, followed by \$1.65 per pound in November and \$1.37 per pound in December according to USDA's Dairy Market News Monthly Products Price Summary 2000.

As illustrated by the above example, the ability to depool does not promote orderly marketing or equitable sharing of pool revenue among dairy producers, two of the early goals of the Federal Orders. How much money is left on the table due to depooling? In November 2000, it is estimated that the Uniform Blend Price and the PPD in the Upper Midwest Order would have been a dime higher if all the Class II and IV milk would have been pooled. That would have added an additional \$2.3 million to producers in that market area.

The November 2000 example could be considered by some a minor irritant compared to the virtual all out evacuation of Class III milk from the pool during 2004. The variation in the volume of Class II and IV milk pooled on the order swings by millions of pounds not billion of pounds. According to Table 2e Producer Milk by Class January 2000 to June 2004, as prepared by the Market Administrator's Office, the volume of Class III milk on the pool varied from 1.5 billion pounds and 68.9% of the pool in January 2004 to just 11.0 million pounds and 1.8% of the pool in April 2004. It is estimated that Uniform Blend Price and the PPD in the Upper Midwest Order would have been \$2.97 per cwt higher, albeit still negative at \$1.12 per cwt, if all Class III milk had been pooled in April 2004 (Ex. 10 Table 3 PPD).

It is my opinion that the large shifts in the monthly volume of milk pooled on the Federal Orders results in disorderly marketing and prevents dairy producers sharing equally in the value of classified pricing. Using data from Table 2e, Producer Milk by Class January 2000 to June 2004, as prepared by the Market Administrator's Office (Ex. 10 Table 2e), I analyzed the monthly variation in pooled milk by class (see Table 1). Since Class I milk is the only class of milk that must be pooled, it comes as no surprise that the least amount of variation in the volume of milk pooled occurs in Class I.

**Table 1. Percent Variation in Monthly Pool Volumes by Class, 2000 – June 2004.**

Percent Variation in Monthly Pool Volumes					
	Class I	Class II	Class III	Class IV	Total
2000	15%	39%	38%	81%	33%
2001	16%	49%	21%	77%	19%
2002	18%	26%	26%	76%	22%
2003	19%	64%	98%	83%	70%
YTD 2004	12%	45%	99%	64%	72%

Source: USDA Table 2e, Producer Milk by Class January 2000 to June 2004  
 Compiled by Keough Ledman Associates, Inc.

When asked to describe pooling, I compare it to a poker game. First, if you are representing a Class II, III, or IV manufacturer you analyze your cards, in this case the classified prices, and estimate a blend price. If it appears that your company has more to win than lose, you ante up, join the pool, and share in the revenue pot. If it appears that your company has more to lose than win. That is, it will pay more into the pool than it draws out. The company just folds and waits for the next hand. The only exception is for the Class I handler. It has to ante-up for every hand, good or bad. And, the Federal Order system deals a new hand each and every month to play.

### **Over Order Prices**

Consumer voices are often silent in these proceedings. As a consumer who purchases from five to six gallons of milk per week, I notice milk prices. It's also been my experience this summer that many of my neighbors who are aware of my occupation have asked me, "When are milk prices coming down?" or "Why are our milk prices higher than Michigan or even Florida?"

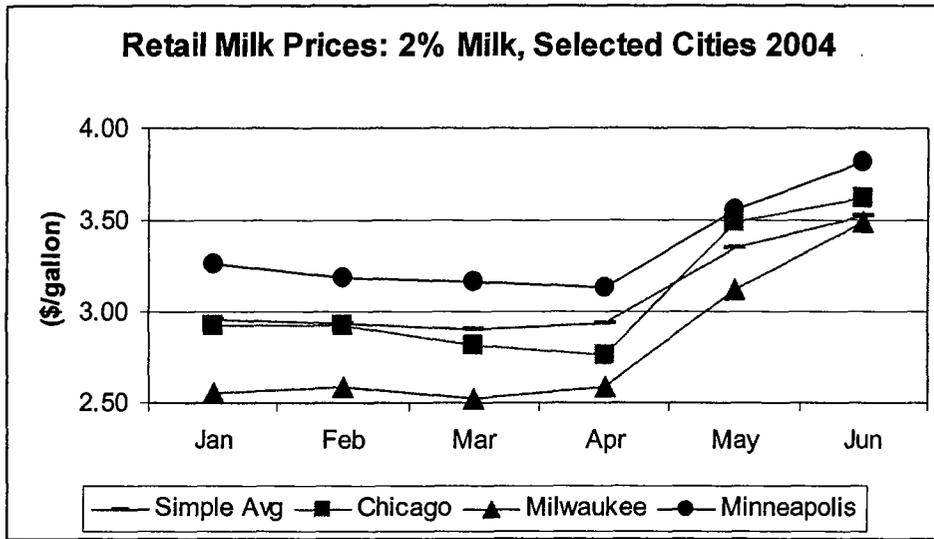
I recently reviewed USDA retail price data, as collected by AMS, to provide comments on a retail milk pricing story. It was then that I discovered that the retail milk prices for whole milk and 2 percent milk in both the Milwaukee and Chicago markets increased more than the farm level increase. That is, the class I mover price increase from April through May 2004 adjusted for milk composition. For example the Class I mover, when adjusted for 2 percent milk composition, increased \$0.71 per gallon while the whole milk price increased almost \$0.78 per gallon. The average 2 percent retail milk price in Milwaukee increased \$0.97 per gallon while the Chicago price increased \$0.80 per gallon. The retail whole milk price also posted similar gains (Ex. \_\_\_ Retail Milk Price Survey by USDA).

Before jumping to the conclusion, that some company was enhancing retail milk prices, I reviewed the Announced Cooperative Class I Prices in Selected Cities, as published in *Dairy Market News*. These data illustrate that the Cooperative Over-Order Premium in the Chicago and Milwaukee markets increased from \$1.80 per cwt in March 2004 to \$2.25 in April, to \$3.72 in May. That equates to a 16.5¢ per gallon raw material price increase due to the higher Cooperative Over-Order Premium (Ex. \_\_\_ Announced Class I Prices in Selected Cities)

In fact, the three major cities within Order 30 posted by far the highest Cooperative Over-Order premiums averaging more than \$3.00 per cwt from April through August 2004. The next highest Cooperative Over-Order Premium was for the Miami market at \$2.10 per cwt.

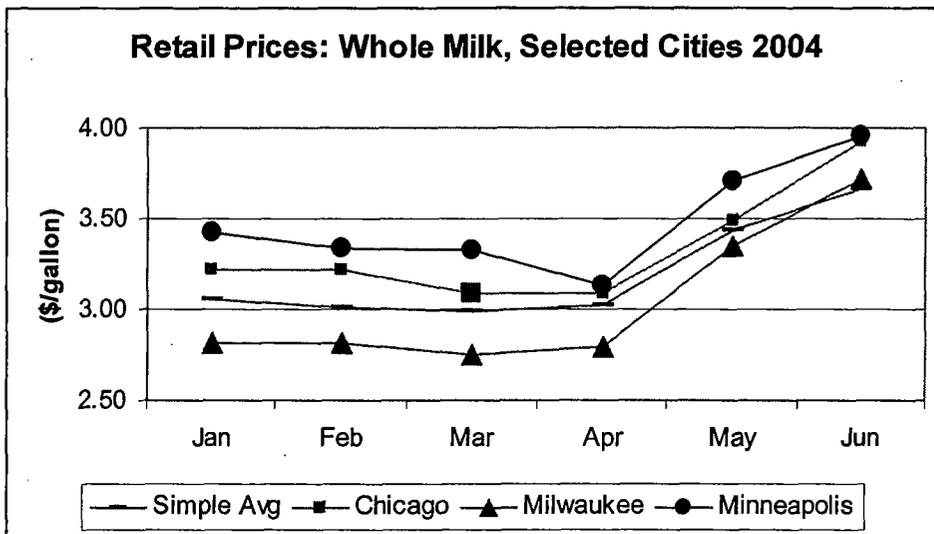
As a result of the highest Over-Order Premiums, the retail 2 percent milk prices in Milwaukee and Chicago increased 36% and 23% more than the average retail milk price increase of \$0.62 per gallon from April through May 2004. Figures 1 and 2 illustrate the dramatic increase in the retail milk prices from January through June 2004.

**Figure 1. Comparison of Retail 2% Milk Prices, Selected Cities, 2004**



Source: USDA, Compiled by Keough Ledman Associates, Inc.

**Figure 2. Comparison of Retail Whole Milk Prices, Selected Cities, 2004**



Source: USDA, Compiled by Keough Ledman Associates, Inc.

What caused the Cooperative Over-Order Premium to rise to the highest level in the Upper Midwest during Q2 2004? The simple answer is competition for milk. Record high Chicago Mercantile Exchange cheese prices, an extremely favorable milk price to cheese price relation and the ability to depool kept all the milk in the cheese vats particularly in April.

The cheese to milk price relationship, sometimes referred to as the spread, is the difference in the Class III milk price compared to the average CME block cheese price times ten, assuming a

cheese yield of ten pounds of cheese from a hundredweight of milk. A typical spread is near \$0.08 per pound of cheese. Table 2 illustrates that the spread was exceptional in April but was actually negative in May. According to USDA, the Mailbox milk price for May in Wisconsin was \$20.39 per hundredweight, within three cents of the theoretical value of milk used to manufacture cheese, but \$0.22 per hundredweight less than the announced Class III milk price.

Table 2. Cheese Milk Price Relationship

	April	May
Class III Price	\$19.66	\$20.58
CME Block Price	\$2.22	\$2.04
Block * 10	\$22.20	\$20.36
Spread per Cwt Milk	\$2.54	(\$0.22)
Spread per/lb. Cheese	\$0.254	(\$0.02)

Source: USDA Dairy Market News, Keough Ledman Associates, Inc.

The Class III price sets the competitive stage in Order 30. In April 2004, when the class III price exceeded the blend price by \$4.11 per cwt, Class I users anted up \$2.25 more for milk followed by a bump to \$3.72 per cwt the next month. Despite the positive \$0.30 per cwt draw from the pool in June, and a \$3.45 higher Class I mover vs. the Class III price, the Cooperative Over Order Premium really hasn't budged and neither have my retail milk prices.

Table 3. Various Milk Prices, January through Current 2004.

	Jan	Feb	Mar	Apr	May	June	July
Mailbox Price	\$ 13.34	\$ 13.80	\$ 16.13	\$ 19.89	\$ 20.39		
Blend Price	\$ 11.98	\$ 12.36	\$ 14.70	\$ 15.55	\$ 18.61	\$ 17.98	
Class III Price	\$ 11.61	\$ 11.89	\$ 14.49	\$ 19.66	\$ 20.58	\$ 17.68	\$ 14.85
Mailbox vs. Blend	\$ 1.36	\$ 1.44	\$ 1.43	\$ 4.34	\$ 1.78		
Mailbox vs. Class III	\$ 1.73	\$ 1.91	\$ 1.64	\$ 0.23	\$ (0.19)		
Blend vs. Class III	\$ 0.37	\$ 0.47	\$ 0.21	\$ (4.11)	\$ (1.97)	\$ 0.30	
Class I Mover	\$ 11.85	\$ 11.59	\$ 11.94	\$ 13.64	\$ 19.65	\$ 21.13	\$ 17.95
Class I Mover vs. III	\$ 0.24	\$ (0.30)	\$ (2.55)	\$ (6.02)	\$ (0.93)	\$ 3.45	\$ 3.10
Class I Over Order							
Chicago	\$ 1.71	\$ 1.95	\$ 1.80	\$ 2.25	\$ 3.72	\$ 3.63	\$ 3.72
Milwaukee	\$ 1.86	\$ 1.95	\$ 1.80	\$ 2.25	\$ 3.72	\$ 3.63	\$ 3.72

Source: USDA

### More Negative PPD's to Come

As part of my consulting business, I forecast the Class I, II, III and IV prices for the next 12 months. It is my opinion that Order 30 is likely to face another negative PPD situation in September 2004. The key driver of this situation is the rising CME cheese prices. The Advanced Class I milk price announced this Friday, August 21<sup>st</sup> is likely to be near \$13.99 per cwt. Assuming that the CME block cheese price is \$1.60 per lb. for the remainder of August and September, the Class III price is estimated at \$14.89 per cwt. Further, the Class II and Class IV prices are forecast at \$13.01 and \$12.35, respectively. Table 4 illustrates, that based upon my estimates, that the estimated blend price including Class III milk would be near \$14.85 per cwt.

Given that the Class III price is estimated at \$14.89, plus the additional Market Administrator's fee of nickel, it is very likely that Class III milk will be depooled from the market.

**Table 4. Estimated PPD including Class III milk in the Pool, September 2004.**

	Estimated Class Price	Estimated Utilization	Estimated Blend Impact
Class I Mover	\$13.99		
Class I Differential	\$1.80		
Class I Milk Price	\$15.79	20%	\$3.16
Class II Milk Price	\$13.01	5%	\$0.65
Class III Milk Price	\$14.89	70%	\$10.42
Class IV Milk Price	\$12.35	5%	\$0.62
			\$14.85

Source: Keough Ledman Associates, Inc.

Table 5 illustrates that if Class III milk is depooled in September 2004, the estimated blend price falls by \$0.40 per cwt to \$14.45. The revenue to dairy producers serving the market is lower. However, the competitive landscape in the Upper Midwest will likely force Class I, II and IV handlers to cough-up an additional \$0.40 per cwt to match milk prices set by cheese manufacturers that have jumped the pool.

**Table 5. Estimated PPD with Class III Depooled, in September 2004.**

	Estimated Class Price	Estimated Utilization	Estimated Blend Impact
Class I Mover	\$13.99		
Class I Differential	\$1.80		
Class I Milk Price	\$15.79	50%	\$7.90
Class II Milk Price	\$13.01	18%	\$2.34
Class III Milk Price	\$14.89	10%	\$1.49
Class IV Milk Price	\$12.35	22%	\$2.72
			\$14.45

Source: Keough Ledman Associates, Inc.

In conclusion, it is my opinion that the Federal Order pricing and pooling practices fail to ensure that milk flows to the highest value use. The liberal pooling regulations promote disorderly marketing and provide free-riders the opportunity to play the system. Meanwhile, consumers of fluid milk, who live in what is referred to as a surplus milk area, pay some of the highest retail prices for milk in the United States.

## Appendix A

**Mary Keough Ledman**  
**1642 Old Barn Circle**  
**Libertyville, IL 60048**  
**mkledman@email.msn.com**  
**(847) 680-9693**

### **Professional Experience**

#### **Keough Ledman Associates (KLA) - Principal - Jan. 1995 - present**

Keough Ledman Associates provides consulting services to clients desiring timely and accurate information covering the dairy industry. Associates services include but are not limited to:

- Monthly dairy product and milk price forecasting
- Economic, financial and policy analysis
- Dairy product and milk sourcing strategies
- Domestic and international market information and development
- Expert Witness
- Editor, Chicago Mercantile Exchange's *Daily Dairy Report*

#### **Stella Foods, Inc. - Director of Materials Planning - Mar. 1994 - Dec. 1994**

Responsible for purchasing 4 billion pounds of milk and 20 million pounds of nonfat dry milk powder used in Stella's 10 manufacturing facilities across the United States. Negotiated co-op milk contracts in California and Michigan. Provided product price forecasts and was a member of the supply chain management team. Served on the industry's Federal Orders legislative committee.

#### **Kraft Jacobs Suchard - Germany - Manager of Strategic Planning - Jun. 1993 - Dec. 1993**

Introduced and directed parent company (Philip Morris) mandated annual and quarterly strategic planning and reporting requirements. Provided weekly and monthly business performance reports and forecasts to the International Headquarters in Zurich and New York.

#### **Kraft USA - Manager, Dairy Economics - Jan. 1992 - May 1993**

Responsible for the economic analysis and forecasting of economic trends in the domestic and international dairy industry. Provided leadership relating to price forecasting, facilities planning, strategic supplier alliances and KGF's positions on government policy. Acted as liaison to President of Kraft USA serving on the National 4-H Board of Trustees. Coordinated the Dairy Economics' Plan Analysis including regional milk production trends, fluid milk consumption trends and domestic and international policy issues. Assisted Kraft USA Operations Strategy with the Strategic Plan, facilities planning regarding California milk costs and Northeast versus Midwest costs analysis. Prepared and presented Dairy Situation and Outlook to KGF strategic partners. Testified on behalf of KGF at the Southern Michigan Milk Marketing Order Hearing regarding component pricing and quality payments.

#### **U.S.D.A. - National Agricultural Statistics Service - Nov. 1990 - Jan. 1992**

Compiled, analyzed and published monthly and annual state and national prices for 20 commodities including the Minnesota-Wisconsin milk price, grains, dairy and livestock. Established and maintained technical assistance to each state office. Assisted field offices with primary and secondary data collection during annual survey. Participated on a cross-agency task force evaluating alternative milk pricing policies.

### **Professional Speaking Engagements**

American Dairy Products Institute Annual Meeting speaker 2004  
Wisconsin Cheesemakers Annual Meeting speaker 2004  
Pennsylvania Dairy Stakeholders Annual Meeting speaker 2003  
National Dairy Leaders Conference speaker, 1999, 2001, 2002  
The U.K. Annual Dairy Conference speaker, Birmingham, England May 2002  
Milling and Baking Annual Purchasing Seminar, Kansas City, MO June 2000, 2001, 2002, 2003  
International Dairy Foods Association, Dairy Forum, Miami, FL January 2001  
Global Livestock Conference, Braunschweig, Germany September 2000  
National Dairy Leaders Conference, Monterey, CA October 1999.  
Wisconsin Dairy Products Association Annual Meeting, August 1999.  
California Dairy Institute, Annual Spring Meeting, So. Laguna, CA, May 1997  
International Dairy Foods Association, Dairy Show, Chicago, IL, October 1997  
International Dairy Foods Association, Dairy Show, Dallas, TX, September 1996.  
California Dairy Institute, Annual Spring Meeting, Napa, CA, May 1996.  
Chicago Federal Reserve Bank, Assessing the Midwest Economy - Dairy Impact - March 1996.  
International Dairy Foods Association, Dairy Forum, Phoenix, AZ, January 1996.  
International Dairy Foods Association, Dairy Forum, Palm Springs, CA, January 1995.  
The German Dairy Export Council, "GATT - A U.S. Dairy Perspective," presented in German, Bremen, October 1995.  
Federal Reserve Bank Committee on Agriculture & Rural Development, Chicago, IL, July 1992.  
International Livestock Congress, Houston, TX, February 1992.  
International Dairy Foods Association, Dairy Forum (Invited), Orlando, FL, January 1992.  
National Milk Producers Annual Meeting, Orlando, FL, December 1991.  
International Dairy Foods Conference, San Antonio, TX, October 1991.

### **Education**

Master of Science (Thesis Option) - Agricultural Economics - Texas A&M University 1990  
Thesis: "A Comparison of Product Price Formulas as an Alternative to the Minnesota-Wisconsin Price."

Fulbright-Hayes Scholarship - Georg-August University, Goettingen, Germany  
Research Topic: Comparison of U.S. and European Dairy Policies

### **Membership**

American Agricultural Economics Association - Member  
Farm Foundation - Member  
Wisconsin FFA Foundation - Sponsors Board Member

## **Appendix A:**

Keough Ledman Associates provides consulting services to clients desiring timely and accurate information covering the dairy industry. Keough Ledman Associates services include but are not limited to the following:

- Monthly dairy product and milk price forecasting
- Economic, financial and policy analysis
- Dairy product and milk sourcing strategies
- Domestic and international market information and development

The proprietor of Keough Ledman Associates is Mary Keough Ledman. Mary has over twenty years of experience in the dairy industry that includes production, processing and policy.

Mary was introduced to the dairy industry at a young age. She and her four brothers and sister grew-up on a 160-acre, 50-cow dairy farm in southern Wisconsin. Mary was active in the Future Farmers of America. She served as a State FFA Officer and received the American Farmer Degree. In addition, Mary participated in the FFA international exchange programs. She has production agriculture experience from dairy farms in Germany, Japan and New Zealand.

After graduation from Texas A& M University, Mary joined the United States Department of Agriculture's Foreign Agricultural Service. She assisted in establishing the first Dairy Export Incentive Program (DEIP) product allotments and was a member of the technical support team of the U.S. Canadian Free Trade Agreement.

In 1987, Mary took a leave of absence from USDA when she received a Fulbright Fellowship to study the European Community's dairy policy at the University of Goettingen, Germany. After a year in Germany, Mary returned to Texas A&M to complete a Master of Science degree in Agricultural Economics.

Mary's Master degree thesis on alternatives to the Minnesota-Wisconsin price series, led her to a position with the National Agricultural Statistics Service. There she was responsible for calculating and publishing 28 price series, including the Minnesota-Wisconsin Price Series.

Mary's private sector experience began as the Manager of Dairy Economics for Kraft Foods USA. She was responsible for the economic analysis and forecasting of economic trends in the domestic and international dairy industry and facilities optimization studies. Later Mary transferred to Kraft International and worked for Kraft Jacobs Suchard in Bremen as manager of Strategic Planning and Financial reporting. After returning to the U.S, she obtained the position of Director of Materials Planning for Stella Foods, Lincolnshire, Illinois.

In January 1995, Mary founded Keough Ledman Associates, a dairy economic consulting firm, that provides monthly dairy product and milk price forecasting, economic and financial analysis, dairy product and milk sourcing strategies and domestic and international dairy market information. Since 2000, Mary has also been the co-editor of the Chicago Mercantile Exchange's Daily Dairy Report.

Exhibit \_\_\_\_



**In Support of Testimony of Mary Keough Ledman**

**On Behalf of**

**The Dean Foods Company**

**Hearing to consider amendments to the Upper Midwest**

**Federal Milk Marketing Order**

**Docket No. AO-361-A39; DA-04-01**

**August 16 et seq, 2004**

**Hoard's Dairyman**  
**Published September 10, 2002**  
**By**  
**Mary Keough Ledman**

At a recent industry meeting I was asked by a dairy producer, "how can I calculate my PPD – Producer Price Differential?" This is the type of question that warms a dairy economist's heart because it indicates a producer's interest in milk pricing.

For years, the dairy industry, producers and processors alike, have heard of the complexities in milk pricing, which seemed to build a mental block hindering the understanding of the system. Is milk pricing complicated? The simple answer is yes, but not any more complicated than signing up for FSA programs.

This article aims to provide the reader an introduction to the Federal Milk Marketing Orders (FMMOs) classified milk pricing system, and the impact of pooling and depooling milk on setting the PPD.

Most dairy producers outside of California market their milk within the FMMOs. The FMMOs were established in 1937 to provide orderly marketing conditions for interstate commerce, income parity for farmers and to increase bargaining power of farmers.

Today, the primary function of the FMMOs is to set "class" prices, "pool" farmers receipts so that farmers receive the weighted average price "blend price" for milk marketed in their FMMO and audit processors to assure that producers are paid the regulated market-average price.

Milk marketed in the FMMOs is used in one of four classes of milk: Class I milk you drink; Class II milk is spooned (yogurt and ice cream); Class III milk is cheese milk; and Class IV milk is used in butter and powder production.

The onset of the futures market and forward contracts has made many producers aware of how the Class III and IV prices are calculated. On a daily basis producers can check out the Class III and IV futures prices for the next 12 to 18 months on several websites. Since January 2000, the Class II price is set by adding a \$0.70 differential to the Class IV price. The Class I price is a little trickier because it is established by adding the Class I differential (by county) to either the higher of the Class III or Class IV price.

Next the FMMO establishes the regulated minimum milk price officially referred to as Uniform Blend Price. The Blend Price is the average of the class prices weighted by the amount of milk used in each class. The difference between the Blend Price and the Class III price is the PPD.

Table 1 illustrates a simplistic calculation of the Blend Price and Producer Price Differential for the Upper Midwest Order in July 2002.

**Simplified Calculation of the Upper Midwest July 2002 Blend Price**

	Price	Utilization	Blend Contribution
Class I	\$12.42	21%	\$2.61
Class II	\$11.14	3%	\$0.33
Class III	\$9.33	75%	\$7.00
Class IV	\$10.45	1%	\$0.10
Simply Blend Price Calculation			\$10.04
<b>Add or Subtract FMMO Adjustments</b>			\$0.09
Announced Uniform Blend Price			\$10.13
Minus Class III Price			(\$9.33)
Equals Producer Price Differential			\$0.80

In this case, the Simple Blend Price calculation yields a price of \$10.04 per cwt. However, adjusted by inventory from the previous month, transportation and assembly credits the Announced Uniform Blend Price was \$10.13, or \$0.80 per cwt above the Class III price.

The Blend Price serves several important roles. First, the announced Blend Price is the lowest price a proprietary plant can by law pay its producers and cooperatives. Cooperatives are not obligated to pay their members the Blend Price. Second, the difference between the Blend Price and the Class III price is the PPD. And finally, the Blend Price plays a role in determining whether a plant pools or “depoos” its milk.

By “depooling” its milk, a plant is no longer responsible to pay into the market order pool the minimum class price. This happens when manufacturing prices are higher than the Blend Price making it advantageous for the plant to “depool” the milk rather than pay into the market pool.

It is mandatory that all milk used in Class I is pooled. However, milk used in Class II, III and IV is not required to be pooled. In the above example, Class I handlers using all their milk in Class I paid \$2.29 per cwt into the pool. That reflects the difference in the Class I price of \$12.42 and the Blend Price of \$10.13 per cwt.

Very little Class II and IV milk was pooled during July 2002 because those class prices exceeded the \$10.13 per cwt Blend Price. That is not to say that only 4% of the milk in the Upper Midwest was converted into Class II and IV products during the month. On the contrary several million lbs. of milk was converted into Class II and IV products during the month but was “depoos” because the Class II and IV prices handlers would have had to pay \$1.01 and \$0.32 per cwt., respectively into

the marketing pool. As a result of depooling, the revenue from that milk was not shared amongst all producers in the pool.

It was an advantage for all Class III milk to be pooled during the month. Manufacturers of Class III products withdrew \$0.80 per cwt from the pool. That reflects the difference between the \$10.13 Blend Price and the \$9.33 per cwt. Class III price.

Historically, the concept of pooling within the Federal Orders was designed for all producers to share equally in the pool while the system of classified pricing ensured that milk was utilized in the highest valued class. Unfortunately neither is true today.

The system worked well when there was just two or three classes of milk and when Class I utilization dominated the market. However, increased U.S. milk production in tandem with lower per capita milk consumption has resulted in greater manufacturing utilization and has increased the incentive for manufacturers to jump in and out of the pool. Further the ability to depool milk provides a disincentive to move milk into its highest valued use. An excellent example of this occurred in November 2000.

In November 2000, the FMMO announced Class III and IV milk prices were \$8.57 and \$13.00, respectively. The average FMMO Blend Price for all orders was \$12.11 per cwt. If the classified pricing system truly moves milk to its highest valued use, Class III manufacturers would sell their milk to butter-powder plants. Even if the cheese manufacturer received just the blend price of \$12.11 for its milk, it would seem as if it were better off by \$3.54 per cwt.

In the real world the cheese manufacturer is indifferent to selling its milk to the butter-powder plant because it will draw the difference between the Blend Price and the Class III price to pay its producers. On the other hand, selling the milk to the Class IV manufacturer that depools the milk will place the cheese manufacturer at a competitive disadvantage in procuring milk from dairy producers. The Class IV manufacturer depools its milk and could pay *its patrons* \$12.50 per cwt. The patrons would be "better off" by \$0.39 cwt vs. the Blend Price and the manufacturer could pocket the remaining \$0.50 cwt for other uses.

Still, the other producers and manufacturers in the marketing area loose. Producers receive a lower Blend Price due to the depooling of the higher valued milk. Cheese manufacturers in the marketing area face greater competition procuring milk in the market area, and have no incentive to sell milk to the Class IV manufacturer that does not pool the milk.

Depooling does not promote orderly marketing or income parity for dairy producers, two of the early goals of the FMMOs. How much money is left on the table due to depooling? In November 2000, it is estimated that the Uniform Blend

Price and the PPD in the Upper Midwest Order would have been a dime higher if all the Class II and IV milk would have been pool. That would have added an additional \$2.3 million to producers in that market area.

If the FMMOs are to keep four classes of milk, perhaps the Federal Orders would be wise to take a page from the California Pooling and Pricing Plan. A few years ago, the California system was faced with producers, not manufacturers, opting out of the pool. As a result, the California Pooling and Pricing Plan now requires producers to state by January 1 of each year whether they will participate in the pool. Once they are in - they are in. Closing the depooling loophole within the FMMOs would promote orderly marketing, greater equity amongst producers in a marketing area and a more predictable PPD.

Exhibit \_\_\_\_\_



**In Support of Testimony of Mary Keough Ledman**

**On Behalf of**

**The Dean Foods Company**

**Hearing to consider amendments to the Upper Midwest**

**Federal Milk Marketing Order**

**Docket No. AO-361-A39; DA-04-01**

**August 16 et seq, 2004**

Table 2--Retail prices for whole milk, average of three outlets, selected cities, by months, 2004 1/

City and State	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg. 2/
	Dollars Per Gallon												
Atlanta, GA	3.12	3.06	2.99	3.06	3.42	3.59							
Baltimore, MD	3.16	3.16	3.19	3.09	3.39	3.54							
Boston, MA 3/	3.13	3.03	3.03	3.03	3.57	3.64							
Carbondale, IL	2.42	2.49	2.49	2.59	3.09	3.19							
Chicago, IL	3.22	3.22	3.09	3.09	3.49	3.92							
Cincinnati, OH	2.79	2.79	2.79	2.74	2.81	3.03							
Cleveland, OH	2.69	2.69	2.69	2.90	3.53	3.62							
Dallas, TX	2.62	2.62	2.62	2.66	3.56	3.36							
Denver, CO	3.66	3.59	3.66	3.66	3.69	3.99							
Detroit, MI	2.75	2.80	2.82	2.88	3.00	3.25							
Fort Lee, NJ 4/	3.02	3.06	3.06	3.12	3.56	3.56							
Hartford, CT 3/	3.18	3.08	3.08	3.08	3.62	3.74							
Houston, TX	2.99	2.86	2.86	2.92	3.59	3.72							
Indianapolis, IN	2.86	2.86	2.82	2.71	2.83								
Kansas City, MO	3.06	3.02	2.98	2.95	3.58	3.84							
Louisville, KY	2.59	2.52	2.52	2.68	3.12	3.38							
Miami, FL	3.12	3.09	3.02	3.18	3.49	3.74							
Milwaukee, WI	2.82	2.82	2.75	2.79	3.35	3.72							
Minneapolis, MN	3.42	3.34	3.33	3.13	3.71	3.96							
New Orleans, LA	3.72	3.59	3.26	3.38	3.51	4.11							
Oklahoma City, OK	2.55	2.52	2.55	2.67	3.20	3.37							
Omaha, NE	2.87	2.76	2.82	2.86	3.32	3.64							
Philadelphia, PA	3.21	3.13	3.04	3.18	3.68	3.82							
Phoenix, AZ	3.06	3.06	3.09	3.09	3.59	3.86							
Pittsburgh, PA	2.82	2.82	2.79	2.95	3.51	3.58							
Portland, OR	3.75	3.68	3.65	3.28	3.62	3.93							
Seattle, WA	3.69	3.69	3.69	3.76	3.92	4.29							
St Louis, MO	3.23	3.16	3.13	3.20	3.46	3.38							
Syracuse, NY	2.48	2.46	2.47	2.57	3.21	3.47							
Washington, DC	3.42	3.42	3.34	3.37	3.82	3.82							
Simple Average 3/	3.05	3.01	2.99	3.02	3.44	3.66							

1/ As collected by Federal milk order market administrators based on a survey conducted one day between the 1st and 10th of each month (excluding Fridays and weekends) in selected cities or metropolitan areas. One outlet of the largest and second largest food store chains and the largest convenience store chain are surveyed. The price represents the most common brand in nonreturnable plastic containers.

2/ Simple average of the monthly prices.

3/ Figure for May has been revised.

4/ City located in metropolitan area of New York City.

Table 3--Retail prices for reduced fat (2%) milk, average of three outlets, selected cities, by months, 2004 1/

City and State	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg. 2/
	Dollars Per Gallon												
Atlanta, GA	3.12	3.06	2.99	3.02	3.36	3.59							
Baltimore, MD	3.08	3.08	3.02	2.99	3.36	3.54							
Boston, MA 3/	3.13	3.03	3.03	3.03	3.57	3.64							
Carbondale, IL	2.39	2.46	2.46	2.59	2.96	2.99							
Chicago, IL	2.92	2.92	2.82	2.76	3.49	3.62							
Cincinnati, OH	2.79	2.79	2.79	2.74	2.81	3.03							
Cleveland, OH	2.69	2.69	2.69	2.76	3.39	3.32							
Dallas, TX	2.62	2.62	2.62	2.66	3.56	3.36							
Denver, CO	3.62	3.56	3.62	3.66	3.58	3.89							
Detroit, MI	2.57	2.69	2.70	2.72	2.75	3.04							
Fort Lee, NJ 4/	2.92	2.96	2.96	3.02	3.52	3.39							
Hartford, CT 3/	3.18	3.08	3.08	3.08	3.62	3.74							
Houston, TX	2.99	2.86	2.86	2.92	3.59	3.58							
Indianapolis, IN	2.82	2.82	2.79	2.62	2.76								
Kansas City, MO	2.92	2.86	2.83	2.79	3.38	3.61							
Louisville, KY	2.55	2.49	2.49	2.68	3.09	3.24							
Miami, FL	3.12	3.09	3.02	3.14	3.46	3.68							
Milwaukee, WI	2.55	2.59	2.52	2.59	3.12	3.49							
Minneapolis, MN	3.26	3.18	3.16	3.13	3.55	3.82							
New Orleans, LA	3.72	3.59	3.26	3.38	3.51	4.11							
Oklahoma City, OK	2.55	2.55	2.52	2.61	3.17	3.31							
Omaha, NE	2.81	2.70	2.73	2.79	3.23	3.46							
Philadelphia, PA	3.13	3.04	2.87	2.98	3.42	3.58							
Phoenix, AZ	3.06	3.06	3.09	3.09	3.56	3.76							
Pittsburgh, PA	2.70	2.69	2.63	2.74	3.27	3.34							
Portland, OR	3.39	3.36	3.32	3.04	3.36	3.63							
Seattle, WA	3.42	3.32	3.32	3.39	3.62	3.99							
St Louis, MO	3.20	3.13	3.06	3.13	3.40	3.28							
Syracuse, NY	2.41	2.40	2.40	2.50	3.15	3.30							
Washington, DC	3.29	3.29	3.20	3.31	3.76	3.77							
Simple Average 3/	2.96	2.93	2.90	2.93	3.35	3.52							

1/ As collected by Federal milk order market administrators based on a survey conducted one day between the 1st and 10th of each month (excluding Fridays and weekends) in selected cities or metropolitan areas. One outlet of the largest and second largest food store chains and the largest convenience store chain are surveyed. The price represents the most common brand in nonreturnable plastic containers.

2/ Simple average of the monthly prices.

3/ Figure for May has been revised.

4/ City located in metropolitan area of New York City.

ANNOUNCED COOPERATIVE CLASS I PRICES IN SELECTED CITIES, FEBRUARY 2004, WITH COMPARISONS <sup>1/</sup>												
CITY	February 2002			February 2003			January 2004			February 2004		
	Announced Coop.	Federal Order	Differ- ence									
Dollars Per Hundredweight, 3.5% Butterfat												
Atlanta, GA	16.25	15.05	1.20	15.59	13.33	2.26	16.63	14.95	1.68	16.63	14.69	1.94
Baltimore, MD	16.70	14.95	1.75	14.83	13.23	1.60	16.70	14.85	1.85	16.44	14.59	1.85
Boise, ID	13.55	13.55	0.00	12.13	11.83	0.30	13.75	13.45	0.30	13.49	13.19	0.30
Boston, MA	16.80	15.20	1.60	14.88	13.48	1.40	16.80	15.10	1.70	16.54	14.84	1.70
Charlotte, NC	16.25	15.05	1.20	15.59	13.33	2.26	16.63	14.95	1.68	16.63	14.69	1.94
Chicago, IL *	15.55	13.75	1.80	14.04	12.03	2.01	15.36	13.65	1.71	15.19	13.39	1.80
Cincinnati, OH	15.75	14.15	1.60	14.33	12.43	1.90	15.72	14.05	1.67	15.46	13.79	1.67
Cleveland, OH	15.55	13.95	1.60	14.13	12.23	1.90	15.52	13.85	1.67	15.26	13.59	1.67
Dallas, TX	15.82	14.95	0.87	14.63	13.23	1.40	16.00	14.85	1.15	16.00	14.59	1.41
Denver, CO	15.35	14.50	0.85	13.63	12.78	0.85	15.25	14.40	0.85	14.99	14.14	0.85
Des Moines, IA	14.90	13.75	1.15	13.42	12.03	1.39	15.03	13.65	1.38	14.78	13.39	1.39
Detroit, MI	15.03	13.75	1.28	13.52	12.03	1.49	15.32	13.65	1.67	15.06	13.39	1.67
Hartford, CT	16.70	15.10	1.60	14.78	13.38	1.40	16.70	15.00	1.70	16.44	14.74	1.70
Houston, TX	16.42	15.55	0.87	15.23	13.83	1.40	16.60	15.45	1.15	16.60	15.19	1.41
Indianapolis, IN	15.55	13.95	1.60	14.13	12.23	1.90	15.52	13.85	1.67	15.26	13.59	1.67
Kansas City, MO	15.10	13.95	1.15	14.01	12.23	1.78	15.17	13.85	1.32	15.08	13.59	1.49
Louisville, KY	15.15	14.15	1.00	13.86	12.43	1.43	15.57	14.05	1.52	15.31	13.79	1.52
Memphis, TN	15.75	14.75	1.00	15.09	13.03	2.06	16.13	14.65	1.48	16.13	14.39	1.74
Miami, FL	18.76	16.25	2.51	17.67	14.53	3.14	18.90	16.15	2.75	18.90	15.89	3.01
Milwaukee, WI *	15.65	13.70	1.95	14.14	11.98	2.16	15.46	13.60	1.86	15.29	13.34	1.95
Minneapolis, MN	15.16	13.65	1.51	13.49	11.93	1.56	15.11	13.55	1.56	14.99	13.29	1.70
New Orleans, LA	16.40	15.55	0.85	15.74	13.83	1.91	16.78	15.45	1.33	16.78	15.19	1.59
Oklahoma City, OK	15.60	14.55	1.05	14.48	12.83	1.65	15.65	14.45	1.20	15.65	14.19	1.46
Omaha, NE	14.95	13.80	1.15	13.47	12.08	1.39	15.08	13.70	1.38	14.83	13.44	1.39
Philadelphia, PA	16.87	15.00	1.87	14.88	13.28	1.60	16.75	14.90	1.85	16.49	14.64	1.85
Phoenix, AZ	14.45	14.30	0.15	12.73	12.58	0.15	14.35	14.20	0.15	14.09	13.94	0.15
Pittsburgh, PA	16.05	14.05	2.00	14.04	12.33	1.71	15.95	13.95	2.00	15.69	13.69	2.00
St. Louis, MO	15.20	13.95	1.25	13.48	12.23	1.25	15.10	13.85	1.25	14.84	13.59	1.25
Salt Lake City, UT	14.15	13.85	0.30	12.43	12.13	0.30	14.05	13.75	0.30	13.79	13.49	0.30
Seattle, WA	15.42	13.85	1.57	12.55	12.13	0.42	14.17	13.75	0.42	13.91	13.49	0.42
Springfield, MO	14.95	14.15	0.80	14.08	12.43	1.65	15.25	14.05	1.20	15.25	13.79	1.46
Washington, DC	16.70	14.95	1.75	14.83	13.23	1.60	16.70	14.85	1.85	16.44	14.59	1.85
Simple Average *	15.70	14.43	1.27	14.24	12.71	1.53	15.74	14.33	1.41	15.57	14.07	1.50

\* Announced cooperative price for January 2004 has been revised.

<sup>1/</sup> This table contains information obtained from the Class I price announcements sent by the major cooperative in each city market to all handlers who buy milk from them. These over-order prices include charges for various services performed by the cooperative. In some instances, these over-order prices may not include all credits that may be allowed. These prices have not been verified as having been actually paid by handlers.

ANNOUNCED COOPERATIVE CLASS I PRICES IN SELECTED CITIES, MARCH 2004, WITH COMPARISONS 1/												
CITY	March 2002			March 2003			February 2004			March 2004		
	Announced Coop.	Federal Order	Difference									
Dollars Per Hundredweight, 3.5% Butterfat												
Atlanta, GA	16.25	14.72	1.53	15.17	12.91	2.26	16.63	14.69	1.94	16.63	15.04	1.59
Baltimore, MD	16.37	14.62	1.75	14.41	12.81	1.60	16.44	14.59	1.85	16.79	14.94	1.85
Boise, ID	13.52	13.22	0.30	11.71	11.41	0.30	13.49	13.19	0.30	13.84	13.54	0.30
Boston, MA	16.47	14.87	1.60	14.46	13.06	1.40	16.54	14.84	1.70	16.89	15.19	1.70
Charlotte, NC	16.25	14.72	1.53	15.17	12.91	2.26	16.63	14.69	1.94	16.63	15.04	1.59
Chicago, IL *	15.25	13.42	1.83	13.62	11.61	2.01	15.34	13.39	1.95	15.54	13.74	1.80
Cincinnati, OH	15.42	13.82	1.60	13.91	12.01	1.90	15.46	13.79	1.67	15.81	14.14	1.67
Cleveland, OH	15.22	13.62	1.60	13.71	11.81	1.90	15.26	13.59	1.67	15.61	13.94	1.67
Dallas, TX	15.90	14.62	1.28	14.21	12.81	1.40	16.00	14.59	1.41	16.00	14.94	1.06
Denver, CO	15.02	14.17	0.85	13.21	12.36	0.85	14.99	14.14	0.85	15.34	14.49	0.85
Des Moines, IA	14.57	13.42	1.15	13.00	11.61	1.39	14.78	13.39	1.39	15.13	13.74	1.39
Detroit, MI*	14.67	13.42	1.25	13.10	11.61	1.49	15.16	13.39	1.77	15.51	13.74	1.77
Hartford, CT	16.37	14.77	1.60	14.36	12.96	1.40	16.44	14.74	1.70	16.79	15.09	1.70
Houston, TX	16.50	15.22	1.28	14.81	13.41	1.40	16.60	15.19	1.41	16.60	15.54	1.06
Indianapolis, IN	15.22	13.62	1.60	13.71	11.81	1.90	15.26	13.59	1.67	15.61	13.94	1.67
Kansas City, MO	15.00	13.62	1.38	13.59	11.81	1.78	15.08	13.59	1.49	15.08	13.94	1.14
Louisville, KY	14.82	13.82	1.00	13.44	12.01	1.43	15.31	13.79	1.52	15.72	14.14	1.58
Memphis, TN	15.75	14.42	1.33	14.67	12.61	2.06	16.13	14.39	1.74	16.13	14.74	1.39
Miami, FL	18.76	15.92	2.84	17.23	14.11	3.22	18.90	15.89	3.01	18.90	16.24	2.66
Milwaukee, WI	15.35	13.37	1.98	13.72	11.56	2.16	15.29	13.34	1.95	15.49	13.69	1.80
Minneapolis, MN	14.86	13.32	1.54	13.07	11.51	1.56	14.99	13.29	1.70	15.19	13.64	1.55
New Orleans, LA	16.40	15.22	1.18	15.32	13.41	1.91	16.78	15.19	1.59	16.78	15.54	1.24
Oklahoma City, OK	15.50	14.22	1.28	14.06	12.41	1.65	15.65	14.19	1.46	15.65	14.54	1.11
Omaha, NE	14.62	13.47	1.15	13.05	11.66	1.39	14.83	13.44	1.39	15.18	13.79	1.39
Philadelphia, PA	16.54	14.67	1.87	14.46	12.86	1.60	16.49	14.64	1.85	16.84	14.99	1.85
Phoenix, AZ	14.12	13.97	0.15	12.31	12.16	0.15	14.09	13.94	0.15	14.44	14.29	0.15
Pittsburgh, PA	15.72	13.72	2.00	13.66	11.91	1.75	15.69	13.69	2.00	16.04	14.04	2.00
St. Louis, MO	14.87	13.62	1.25	13.06	11.81	1.25	14.84	13.59	1.25	15.19	13.94	1.25
Salt Lake City, UT	13.82	13.52	0.30	12.01	11.71	0.30	13.79	13.49	0.30	14.14	13.84	0.30
Seattle, WA	13.94	13.52	0.42	12.13	11.71	0.42	13.91	13.49	0.42	14.26	13.84	0.42
Springfield, MO	15.10	13.82	1.28	13.66	12.01	1.65	15.25	13.79	1.46	15.25	14.14	1.11
Washington, DC	16.37	14.62	1.75	14.41	12.81	1.60	16.44	14.59	1.85	16.79	14.94	1.85
Simple Average *	15.45	14.10	1.35	13.83	12.29	1.54	15.58	14.07	1.51	15.81	14.42	1.39

\* Announced cooperative price for February 2004 has been revised. For Detroit, the announced cooperative price for Jan. 2004 has been revised to \$15.42.

1/ This table contains information obtained from the Class I price announcements sent by the major cooperative in each city market to all handlers who buy milk from them. These over-order prices include charges for various services performed by the cooperative. In some instances, these over-order prices may not include all credits that may be allowed. These prices have not been verified as having been actually paid by handlers.

ANNOUNCED COOPERATIVE CLASS I PRICES IN SELECTED CITIES, APRIL 2004, WITH COMPARISONS 1/												
CITY	April 2002			April 2003			March 2004			April 2004		
	Announced Coop.	Federal Order	Differ- ence									
Dollars Per Hundredweight, 3.5% Butterfat												
Atlanta, GA	16.25	14.57	1.68	15.00	12.74	2.26	16.63	15.04	1.59	18.27	16.74	1.53
Baltimore, MD	16.22	14.47	1.75	14.39	12.64	1.75	16.79	14.94	1.85	18.49	16.64	1.85
Boise, ID 2/	13.37	13.07	0.30	11.54	11.24	0.30	13.84	13.54	0.30	---	---	---
Boston, MA	16.32	14.72	1.60	14.29	12.89	1.40	16.89	15.19	1.70	18.59	16.89	1.70
Charlotte, NC	16.25	14.57	1.68	15.00	12.74	2.26	16.63	15.04	1.59	18.27	16.74	1.53
Chicago, IL	15.22	13.27	1.95	13.55	11.44	2.11	15.54	13.74	1.80	17.69	15.44	2.25
Cincinnati, OH	15.27	13.67	1.60	13.79	11.84	1.95	15.81	14.14	1.67	17.51	15.84	1.67
Cleveland, OH	15.07	13.47	1.60	13.59	11.64	1.95	15.61	13.94	1.67	17.31	15.64	1.67
Dallas, TX	15.90	14.47	1.43	14.04	12.64	1.40	16.00	14.94	1.06	17.64	16.64	1.00
Denver, CO	14.87	14.02	0.85	13.04	12.19	0.85	15.34	14.49	0.85	17.04	16.19	0.85
Des Moines, IA	14.42	13.27	1.15	12.84	11.44	1.40	15.13	13.74	1.39	17.13	15.44	1.69
Detroit, MI	14.52	13.27	1.25	12.98	11.44	1.54	15.51	13.74	1.77	17.21	15.44	1.77
Hartford, CT	16.22	14.62	1.60	14.19	12.79	1.40	16.79	15.09	1.70	18.49	16.79	1.70
Houston, TX	16.50	15.07	1.43	14.64	13.24	1.40	16.60	15.54	1.06	18.24	17.24	1.00
Indianapolis, IN	15.07	13.47	1.60	13.59	11.64	1.95	15.61	13.94	1.67	17.31	15.64	1.67
Kansas City, MO	15.00	13.47	1.53	13.43	11.64	1.79	15.08	13.94	1.14	16.82	15.64	1.18
Louisville, KY	14.67	13.67	1.00	13.64	11.84	1.80	15.72	14.14	1.58	17.42	15.84	1.58
Memphis, TN	15.75	14.27	1.48	14.50	12.44	2.06	16.13	14.74	1.39	17.77	16.44	1.33
Miami, FL	18.76	15.77	2.99	17.16	13.94	3.22	18.90	16.24	2.66	20.54	17.94	2.60
Milwaukee, WI	15.32	13.22	2.10	13.65	11.39	2.26	15.49	13.69	1.80	17.64	15.39	2.25
Minneapolis, MN	14.83	13.17	1.66	13.00	11.34	1.66	15.19	13.64	1.55	17.34	15.34	2.00
New Orleans, LA	16.40	15.07	1.33	15.15	13.24	1.91	16.78	15.54	1.24	18.57	17.24	1.33
Oklahoma City, OK	15.50	14.07	1.43	13.89	12.24	1.65	15.65	14.54	1.11	17.29	16.24	1.05
Omaha, NE	14.47	13.32	1.15	12.89	11.49	1.40	15.18	13.79	1.39	16.88	15.49	1.39
Philadelphia, PA	16.39	14.52	1.87	14.44	12.69	1.75	16.84	14.99	1.85	18.54	16.69	1.85
Phoenix, AZ	13.97	13.82	0.15	12.14	11.99	0.15	14.44	14.29	0.15	16.14	15.99	0.15
Pittsburgh, PA	15.57	13.57	2.00	13.64	11.74	1.90	16.04	14.04	2.00	17.74	15.74	2.00
St. Louis, MO	14.72	13.47	1.25	12.89	11.64	1.25	15.19	13.94	1.25	17.19	15.64	1.55
Salt Lake City, UT 2/	13.67	13.37	0.30	11.84	11.54	0.30	14.14	13.84	0.30	---	---	---
Seattle, WA	13.79	13.37	0.42	11.96	11.54	0.42	14.26	13.84	0.42	15.96	15.54	0.42
Springfield, MO	15.10	13.67	1.43	13.49	11.84	1.65	15.25	14.14	1.11	16.89	15.84	1.05
Washington, DC	16.22	14.47	1.75	14.39	12.64	1.75	16.79	14.94	1.85	18.49	16.64	1.85
Simple Average	15.36	13.95	1.41	13.71	12.12	1.59	15.81	14.42	1.39	17.68	16.17	1.51

1/ This table contains information obtained from the Class I price announcements sent by the major cooperative in each city market to all handlers who buy milk from them. These over-order prices include charges for various services performed by the cooperative. In some instances, these over-order prices may not include all credits that may be allowed. These prices have not been verified as having been actually paid by handlers.

2/ The data series for these cities is being discontinued, as the Federal milk order in which these cities are located will be terminated on April 1, 2004

ANNOUNCED COOPERATIVE CLASS I PRICES IN SELECTED CITIES, MAY 2004, WITH COMPARISONS 1/												
CITY	May 2002			May 2003			April 2004			May 2004		
	Announced Coop.	Federal Order	Difference									
Dollars Per Hundredweight, 3.5% Butterfat												
Atlanta, GA	16.29	14.36	1.93	15.07	12.81	2.26	18.27	16.74	1.53	23.78	22.75	1.03
Baltimore, MD	16.01	14.26	1.75	14.48	12.71	1.77	18.49	16.64	1.85	24.50	22.65	1.85
Boise, ID 2/	13.16	12.86	0.30	11.61	11.31	0.30	---	---	---	---	---	---
Boston, MA	16.11	14.51	1.60	14.36	12.96	1.40	18.59	16.89	1.70	24.60	22.90	1.70
Charlotte, NC	16.29	14.36	1.93	15.07	12.81	2.26	18.27	16.74	1.53	23.78	22.75	1.03
Chicago, IL	14.95	13.06	1.89	13.57	11.51	2.06	17.69	15.44	2.25	25.17	21.45	3.72
Cincinnati, OH	15.07	13.46	1.61	13.86	11.91	1.95	17.51	15.84	1.67	23.53	21.85	1.68
Cleveland, OH	14.87	13.26	1.61	13.66	11.71	1.95	17.31	15.64	1.67	23.33	21.65	1.68
Dallas, TX	15.86	14.26	1.60	14.11	12.71	1.40	17.64	16.64	1.00	23.15	22.65	0.50
Denver, CO	14.66	13.81	0.85	13.11	12.26	0.85	17.04	16.19	0.85	23.05	22.20	0.85
Des Moines, IA	14.42	13.06	1.36	12.90	11.51	1.39	17.13	15.44	1.69	23.15	21.45	1.70
Detroit, MI 3/	14.31	13.06	1.25	13.05	11.51	1.54	17.06	15.44	1.62	23.07	21.45	1.62
Hartford, CT	16.01	14.41	1.60	14.26	12.86	1.40	18.49	16.79	1.70	24.50	22.80	1.70
Houston, TX	16.46	14.86	1.60	14.71	13.31	1.40	18.24	17.24	1.00	23.75	23.25	0.50
Indianapolis, IN	14.87	13.26	1.61	13.66	11.71	1.95	17.31	15.64	1.67	23.33	21.65	1.68
Kansas City, MO	15.00	13.26	1.74	13.49	11.71	1.78	16.82	15.64	1.18	22.84	21.65	1.19
Louisville, KY	14.56	13.46	1.10	13.71	11.91	1.80	17.42	15.84	1.58	23.43	21.85	1.58
Memphis, TN	15.79	14.06	1.73	14.57	12.51	2.06	17.77	16.44	1.33	23.28	22.45	0.83
Miami, FL	18.80	15.56	3.24	17.23	14.01	3.22	20.54	17.94	2.60	26.05	23.95	2.10
Milwaukee, WI	15.05	13.01	2.04	13.67	11.46	2.21	17.64	15.39	2.25	25.12	21.40	3.72
Minneapolis, MN	14.56	12.96	1.60	13.02	11.41	1.61	17.34	15.34	2.00	24.82	21.35	3.47
New Orleans, LA	16.44	14.86	1.58	15.22	13.31	1.91	18.57	17.24	1.33	24.08	23.25	0.83
Oklahoma City, OK	15.50	13.86	1.64	13.96	12.31	1.65	17.29	16.24	1.05	22.80	22.25	0.55
Omaha, NE	14.47	13.11	1.36	12.95	11.56	1.39	16.88	15.49	1.39	22.90	21.50	1.40
Philadelphia, PA	16.18	14.31	1.87	14.53	12.76	1.77	18.54	16.69	1.85	24.55	22.70	1.85
Phoenix, AZ	13.76	13.61	0.15	12.21	12.06	0.15	16.14	15.99	0.15	22.15	22.00	0.15
Pittsburgh, PA	15.36	13.36	2.00	13.71	11.81	1.90	17.74	15.74	2.00	23.75	21.75	2.00
St. Louis, MO	14.51	13.26	1.25	12.96	11.71	1.25	17.19	15.64	1.55	23.20	21.65	1.55
Salt Lake City, UT 2/	13.46	13.16	0.30	11.91	11.61	0.30	---	---	---	---	---	---
Seattle, WA	13.58	13.16	0.42	12.03	11.61	0.42	15.96	15.54	0.42	21.97	21.55	0.42
Springfield, MO	15.10	13.46	1.64	13.56	11.91	1.65	16.89	15.84	1.05	22.40	21.85	0.55
Washington, DC	16.01	14.26	1.75	14.48	12.71	1.77	18.49	16.64	1.85	24.50	22.65	1.85
Simple Average	15.23	13.74	1.49	13.77	12.19	1.58	17.68	16.17	1.51	23.68	22.18	1.50

1/ This table contains information obtained from the Class I price announcements sent by the major cooperative in each city market to all handlers who buy milk from them. These over-order prices include charges for various services performed by the cooperative. In some instances, these over-order prices may not include all credits that may be allowed. These prices have not been verified as having been actually paid by handlers.

2/ The data series for these cities was discontinued for April 2004, as the Federal milk order in which these cities are located was terminated on April 1, 2004.

3/ Announced cooperative price for April has been revised to \$17.06.

ANNOUNCED COOPERATIVE CLASS I PRICES IN SELECTED CITIES, JUNE 2004, WITH COMPARISONS 1/												
CITY	June 2002			June 2003			May 2004			June 2004		
	Announced Coop.	Federal Order	Differ- ence									
Dollars Per Hundredweight, 3.5% Butterfat												
Atlanta, GA	16.06	14.13	1.93	15.10	12.84	2.26	23.78	22.75	1.03	25.26	24.23	1.03
Baltimore, MD	15.78	14.03	1.75	14.51	12.74	1.77	24.50	22.65	1.85	25.98	24.13	1.85
Boise, ID 2/	12.93	12.63	0.30	11.64	11.34	0.30	---	---	---	---	---	---
Boston, MA	15.88	14.28	1.60	14.39	12.99	1.40	24.60	22.90	1.70	26.08	24.38	1.70
Charlotte, NC	16.06	14.13	1.93	15.10	12.84	2.26	23.78	22.75	1.03	25.26	24.23	1.03
Chicago, IL 3/	14.89	12.83	2.06	13.61	11.54	2.07	25.17	21.45	3.72	26.56	22.93	3.63
Cincinnati, OH	14.84	13.23	1.61	13.89	11.94	1.95	23.53	21.85	1.68	25.01	23.33	1.68
Cleveland, OH	14.64	13.03	1.61	13.69	11.74	1.95	23.33	21.65	1.68	24.81	23.13	1.68
Dallas, TX	15.86	14.03	1.83	14.14	12.74	1.40	23.15	22.65	0.50	24.63	24.13	0.50
Denver, CO	14.43	13.58	0.85	13.14	12.29	0.85	23.05	22.20	0.85	24.53	23.68	0.85
Des Moines, IA	14.20	12.83	1.37	12.92	11.54	1.38	23.15	21.45	1.70	24.63	22.93	1.70
Detroit, MI	14.08	12.83	1.25	13.08	11.54	1.54	23.07	21.45	1.62	24.55	22.93	1.62
Hartford, CT	15.78	14.18	1.60	14.29	12.89	1.40	24.50	22.80	1.70	25.98	24.28	1.70
Houston, TX	16.46	14.63	1.83	14.74	13.34	1.40	23.75	23.25	0.50	25.23	24.73	0.50
Indianapolis, IN	14.64	13.03	1.61	13.69	11.74	1.95	23.33	21.65	1.68	24.81	23.13	1.68
Kansas City, MO	14.79	13.03	1.76	13.51	11.74	1.77	22.84	21.65	1.19	24.32	23.13	1.19
Louisville, KY	14.33	13.23	1.10	13.74	11.94	1.80	23.43	21.85	1.58	24.91	23.33	1.58
Memphis, TN	15.56	13.83	1.73	14.60	12.54	2.06	23.28	22.45	0.83	24.76	23.93	0.83
Miami, FL	18.57	15.33	3.24	17.26	14.04	3.22	26.05	23.95	2.10	27.53	25.43	2.10
Milwaukee, WI 3/	14.99	12.78	2.21	13.71	11.49	2.22	25.12	21.40	3.72	26.51	22.88	3.63
Minneapolis, MN 3/	14.34	12.73	1.61	13.06	11.44	1.62	24.82	21.35	3.47	26.21	22.83	3.38
New Orleans, LA	16.21	14.63	1.58	15.25	13.34	1.91	24.08	23.25	0.83	25.56	24.73	0.83
Oklahoma City, OK	15.28	13.63	1.65	13.99	12.34	1.65	22.80	22.25	0.55	24.28	23.73	0.55
Omaha, NE	14.25	12.88	1.37	12.97	11.59	1.38	22.90	21.50	1.40	24.38	22.98	1.40
Philadelphia, PA	15.95	14.08	1.87	14.56	12.79	1.77	24.55	22.70	1.85	26.03	24.18	1.85
Phoenix, AZ	13.53	13.38	0.15	12.24	12.09	0.15	22.15	22.00	0.15	23.63	23.48	0.15
Pittsburgh, PA	15.13	13.13	2.00	13.74	11.84	1.90	23.75	21.75	2.00	25.23	23.23	2.00
St. Louis, MO	14.28	13.03	1.25	12.99	11.74	1.25	23.20	21.65	1.55	24.68	23.13	1.55
Salt Lake City, UT 2/	13.23	12.93	0.30	11.94	11.64	0.30	---	---	---	---	---	---
Seattle, WA	13.35	12.93	0.42	12.06	11.64	0.42	21.97	21.55	0.42	23.45	23.03	0.42
Springfield, MO	14.88	13.23	1.65	13.59	11.94	1.65	22.40	21.85	0.55	23.88	23.33	0.55
Washington, DC	15.78	14.03	1.75	14.51	12.74	1.77	24.50	22.65	1.85	25.98	24.13	1.85
Simple Average	15.03	13.51	1.52	13.80	12.22	1.58	23.68	22.18	1.50	25.16	23.66	1.50

1/ This table contains information obtained from the Class I price announcements sent by the major cooperative in each city market to all handlers who buy milk from them. These over-order prices include charges for various services performed by the cooperative. In some instances, these over-order prices may not include all credits that may be allowed. These prices have not been verified as having been actually paid by handlers.

2/ The data series for these cities was discontinued for April 2004, as the Federal milk order in which these cities are located was terminated on April 1, 2004.

3/ Announced cooperative prices for May and June 2004 include a \$1.50 surcharge due to expected negative Producer Price Differentials.

ANNOUNCED COOPERATIVE CLASS I PRICES IN SELECTED CITIES, JULY 2004, WITH COMPARISONS 1/												
CITY	July 2002			July 2003			June 2004			July 2004		
	Announced Coop.	Federal Order	Difference									
Dollars Per Hundredweight, 3.5% Butterfat												
Atlanta, GA	15.65	13.72	1.93	15.13	12.87	2.26	25.26	24.23	1.03	22.08	21.05	1.03
Baltimore, MD	15.37	13.62	1.75	14.64	12.77	1.87	25.98	24.13	1.85	22.55	20.95	1.60
Boise, ID 2/	12.52	12.22	0.30	11.67	11.37	0.30	---	---	---	---	---	---
Boston, MA	15.47	13.87	1.60	14.72	13.02	1.70	26.08	24.38	1.70	22.90	21.20	1.70
Charlotte, NC	15.65	13.72	1.93	15.13	12.87	2.26	25.26	24.23	1.03	22.08	21.05	1.03
Chicago, IL 3/	14.44	12.42	2.02	13.64	11.57	2.07	26.56	22.93	3.63	23.47	19.75	3.72
Cincinnati, OH	14.43	12.82	1.61	13.92	11.97	1.95	25.01	23.33	1.68	21.98	20.15	1.83
Cleveland, OH	14.23	12.62	1.61	13.72	11.77	1.95	24.81	23.13	1.68	21.78	19.95	1.83
Dallas, TX	15.02	13.62	1.40	14.17	12.77	1.40	24.63	24.13	0.50	21.45	20.95	0.50
Denver, CO	14.02	13.17	0.85	13.17	12.32	0.85	24.53	23.68	0.85	21.35	20.50	0.85
Des Moines, IA	13.79	12.42	1.37	12.95	11.57	1.38	24.63	22.93	1.70	21.45	19.75	1.70
Detroit, MI	13.67	12.42	1.25	13.11	11.57	1.54	24.55	22.93	1.62	21.37	19.75	1.62
Hartford, CT	15.37	13.77	1.60	14.62	12.92	1.70	25.98	24.28	1.70	22.80	21.10	1.70
Houston, TX	15.62	14.22	1.40	14.77	13.37	1.40	25.23	24.73	0.50	22.05	21.55	0.50
Indianapolis, IN	14.23	12.62	1.61	13.72	11.77	1.95	24.81	23.13	1.68	21.78	19.95	1.83
Kansas City, MO	14.38	12.62	1.76	13.54	11.77	1.77	24.32	23.13	1.19	21.14	19.95	1.19
Louisville, KY	13.92	12.82	1.10	13.77	11.97	1.80	24.91	23.33	1.58	21.83	20.15	1.68
Memphis, TN	15.15	13.42	1.73	14.63	12.57	2.06	24.76	23.93	0.83	21.58	20.75	0.83
Miami, FL	18.16	14.92	3.24	17.29	14.07	3.22	27.53	25.43	2.10	24.35	22.25	2.10
Milwaukee, WI 3/	14.54	12.37	2.17	13.4	11.52	2.22	26.51	22.88	3.63	23.42	19.70	3.72
Minneapolis, MN 3/	13.89	12.32	1.57	13.09	11.47	1.62	26.21	22.83	3.38	23.12	19.65	3.47
New Orleans, LA	15.80	14.22	1.58	15.28	13.37	1.91	25.56	24.73	0.83	22.38	21.55	0.83
Oklahoma City, OK	14.87	13.22	1.65	14.02	12.37	1.65	24.28	23.73	0.55	21.10	20.55	0.55
Omaha, NE	13.84	12.47	1.37	13.00	11.62	1.38	24.38	22.98	1.40	21.11	19.80	1.31
Philadelphia, PA	15.54	13.67	1.87	14.69	12.82	1.87	26.03	24.18	1.85	22.60	21.00	1.60
Phoenix, AZ	13.12	12.97	0.15	12.27	12.12	0.15	23.63	23.48	0.15	20.45	20.30	0.15
Pittsburgh, PA	14.72	12.72	2.00	13.87	11.87	2.00	25.23	23.23	2.00	21.80	20.05	1.75
St. Louis, MO	13.87	12.62	1.25	13.02	11.77	1.25	24.68	23.13	1.55	21.50	19.95	1.55
Salt Lake City, UT 2/	12.82	12.52	0.30	11.97	11.67	0.30	---	---	---	---	---	---
Seattle, WA	12.94	12.52	0.42	12.09	11.67	0.42	23.45	23.03	0.42	20.27	19.85	0.42
Springfield, MO	14.47	12.82	1.65	13.62	11.97	1.65	23.88	23.33	0.55	20.70	20.15	0.55
Washington, DC	15.37	13.62	1.75	14.64	12.77	1.87	25.98	24.13	1.85	22.55	20.95	1.60
Simple Average	14.59	13.10	1.49	13.86	12.25	1.61	25.16	23.66	1.50	21.97	20.48	1.49

1/ This table contains information obtained from the Class I price announcements sent by the major cooperative in each city market to all handlers who buy milk from them. These over-order prices include charges for various services performed by the cooperative. In some instances, these over-order prices may not include all credits that may be allowed. These prices have not been verified as having been actually paid by handlers.

2/ The data series for these cities was discontinued for April 2004, as the Federal milk order in which these cities are located was terminated on April 1, 2004.

3/ Announced cooperative prices for June and July 2004 include a \$1.50 surcharge due to negative Producer Price Differentials experienced in prior months.

ANNOUNCED COOPERATIVE CLASS I PRICES IN SELECTED CITIES, AUGUST 2004, WITH COMPARISONS 1/												
CITY	August 2002			August 2003			July 2004			August 2004		
	Announced Coop.	Federal Order	Difference									
Dollars Per Hundredweight, 3.5% Butterfat												
Atlanta, GA	15.51	13.58	1.93	16.00	14.07	1.93	22.08	21.05	1.03	18.75	17.72	1.03
Baltimore, MD	15.23	13.48	1.75	15.82	13.97	1.85	22.55	20.95	1.60	19.22	17.62	1.60
Boise, ID 2/	12.38	12.08	0.30	12.87	12.57	0.30	---	---	---	---	---	---
Boston, MA	15.13	13.73	1.40	15.92	14.22	1.70	22.90	21.20	1.70	19.57	17.87	1.70
Charlotte, NC	15.51	13.58	1.93	16.00	14.07	1.93	22.08	21.05	1.03	18.75	17.72	1.03
Chicago, IL 3/	14.37	12.28	2.09	15.04	12.77	2.27	23.47	19.75	3.72	19.97	16.42	3.55
Cincinnati, OH	14.29	12.68	1.61	14.74	13.17	1.57	21.98	20.15	1.83	18.65	16.82	1.83
Cleveland, OH	14.09	12.48	1.61	14.54	12.97	1.57	21.78	19.95	1.83	18.45	16.62	1.83
Dallas, TX	14.88	13.48	1.40	15.07	13.97	1.10	21.45	20.95	0.50	18.12	17.62	0.50
Denver, CO	13.88	13.03	0.85	14.37	13.52	0.85	21.35	20.50	0.85	18.02	17.17	0.85
Des Moines, IA	13.65	12.28	1.37	14.15	12.77	1.38	21.45	19.75	1.70	18.12	16.42	1.70
Detroit, MI	13.53	12.28	1.25	13.98	12.77	1.21	21.37	19.75	1.62	18.04	16.42	1.62
Hartford, CT	15.03	13.63	1.40	15.82	14.12	1.70	22.80	21.10	1.70	19.47	17.77	1.70
Houston, TX	15.48	14.08	1.40	15.67	14.57	1.10	22.05	21.55	0.50	18.72	18.22	0.50
Indianapolis, IN	14.09	12.48	1.61	14.54	12.97	1.57	21.78	19.95	1.83	18.45	16.62	1.83
Kansas City, MO	14.24	12.48	1.76	14.74	12.97	1.77	21.14	19.95	1.19	17.81	16.62	1.19
Louisville, KY	13.78	12.68	1.10	14.59	13.17	1.42	21.83	20.15	1.68	18.50	16.82	1.68
Memphis, TN	15.01	13.28	1.73	15.50	13.77	1.73	21.58	20.75	0.83	18.25	17.42	0.83
Miami, FL	18.02	14.78	3.24	18.27	15.27	3.00	24.35	22.25	2.10	21.02	18.92	2.10
Milwaukee, WI 3/	14.47	12.23	2.24	15.14	12.72	2.42	23.42	19.70	3.72	19.92	16.37	3.55
Minneapolis, MN 3/	13.82	12.18	1.64	14.49	12.67	1.82	23.12	19.65	3.47	19.62	16.32	3.30
New Orleans, LA	15.66	14.08	1.58	16.15	14.57	1.58	22.38	21.55	0.83	19.05	18.22	0.83
Oklahoma City, OK	14.73	13.08	1.65	15.22	13.57	1.65	21.10	20.55	0.55	17.77	17.22	0.55
Omaha, NE	13.70	12.33	1.37	14.20	12.82	1.38	21.11	19.80	1.31	17.87	16.47	1.40
Philadelphia, PA	15.40	13.53	1.87	15.87	14.02	1.85	22.60	21.00	1.60	19.27	17.67	1.60
Phoenix, AZ	12.98	12.83	0.15	13.47	13.32	0.15	20.45	20.30	0.15	17.12	16.97	0.15
Pittsburgh, PA	14.58	12.58	2.00	15.07	13.07	2.00	21.80	20.05	1.75	18.47	16.72	1.75
St. Louis, MO	13.73	12.48	1.25	14.22	12.97	1.25	21.50	19.95	1.55	18.17	16.62	1.55
Salt Lake City, UT 2/	12.68	12.38	0.30	13.17	12.87	0.30	---	---	---	---	---	---
Seattle, WA	12.80	12.38	0.42	13.29	12.87	0.42	20.27	19.85	0.42	16.94	16.52	0.42
Springfield, MO	14.33	12.68	1.65	14.82	13.17	1.65	20.70	20.15	0.55	17.37	16.82	0.55
Washington, DC	15.23	13.48	1.75	15.82	13.97	1.85	22.55	20.95	1.60	19.22	17.62	1.60
Simple Average	14.44	12.96	1.48	14.96	13.45	1.51	21.97	20.48	1.49	18.62	17.15	1.47

1/ This table contains information obtained from the Class I price announcements sent by the major cooperative in each city market to all handlers who buy milk from them. These over-order prices include charges for various services performed by the cooperative. In some instances, these over-order prices may not include all credits that may be allowed. These prices have not been verified as having been actually paid by handlers.

2/ The data series for these cities was discontinued for April 2004, as the Federal milk order in which these cities are located was terminated on April 1, 2004.

3/ Announced cooperative prices for July and August 2004 include a \$1.50 surcharge due to negative Producer Price Differentials experienced in prior months.

**MAILBOX MILK PRICES FOR SELECTED REPORTING AREAS IN FEDERAL MILK ORDERS AND CALIFORNIA, FEBRUARY 2004**

In February 2004, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$13.54 per cwt., \$.42 more than the figure for the previous month. The component tests of producer milk in February 2004 were: butterfat, 3.75%; protein, 3.07%; and other solids, 5.69%. On an individual reporting area basis, mailbox prices increased in all reporting areas, and ranged from \$16.00 in Florida to \$12.09 in New Mexico. In February 2003, the Federal milk order all-area average mailbox price was \$11.19, \$2.35 lower.

Reporting Area	Mailbox Milk Price <sup>2/</sup>		
	February 2003	January 2004	February 2004
	Dollars per hundredweight		
Northeast Federal Milk Order	11.22	13.50	13.98
Appalachian States <sup>3/</sup>	12.12	13.74	14.05
Southeast States <sup>4/</sup>	12.54	14.30	14.61
Southern Missouri <sup>5/</sup>	11.44	12.97	13.37
Florida	13.98	15.97	16.00
Ohio	11.34	13.29	13.57
Indiana	---	13.30	13.54
Michigan	11.06	13.04	13.34
Wisconsin	11.28	13.34*	13.80
Minnesota	11.21	13.11	13.72
Iowa	11.24	13.17	13.51
Illinois	11.48	13.17	13.53
Corn Belt States <sup>6/</sup>	11.11	12.46*	12.77
Western Texas <sup>7/</sup>	11.17	12.72	13.17
New Mexico	10.16	11.74	12.09
Idaho	10.17	12.14	12.53
Utah	9.98	12.11	12.32
Northwest States <sup>8/</sup>	10.57	12.39	12.76
All Federal Order Areas <sup>9/</sup>	11.19	13.12	13.54
California <sup>10/</sup>	10.33	12.11	NA

\* = Revised

NA= Not available.

<sup>1/</sup> Information is shown for those areas for which prices are reported for at least 75% of the milk marketed under Federal milk orders. The price shown is the weighted average of the prices reported for all orders that received milk from the area. As applicable, includes milk not-pooled due to disadvantageous intra-order price relationships. <sup>2/</sup> Net pay price received by dairy farmers for milk. Includes all payments received for milk sold and all costs associated with marketing the milk. Price is a weighted average for the reporting area and is reported at the average butterfat test. Mailbox price does not include any Milk Income Loss Contract (MILC) payments. Mailbox price does include, for the most part, the \$0.05 per cwt. assessment under the Cooperatives Working Together (CWT) program. <sup>3/</sup> Includes Kentucky, North Carolina, South Carolina, Tennessee, and Virginia. <sup>4/</sup> Includes Alabama, Arkansas, Georgia, Louisiana, and Mississippi. <sup>5/</sup> The counties of Vernon, Cedar, Polk, Dallas, Laclede, Texas, Dent, Crawford, Washington, St. Francois, and Perry and all those to the south of these. <sup>6/</sup> Includes Kansas, Nebraska and the Missouri counties to the north of those listed in <sup>5/</sup>. <sup>7/</sup> All counties to the west of Fanin, Hunt, Van Zandt, Henderson, Anderson, Houston, Cherokee, Nacogdoches, and Shelby. <sup>8/</sup> Includes Oregon and Washington. <sup>9/</sup> Weighted average of the information for all selected reporting areas in Federal milk orders. <sup>10/</sup> Calculated by California Department of Food and Agriculture, and published in "California Dairy Information Bulletin."

**MAILBOX MILK PRICES FOR SELECTED REPORTING AREAS IN FEDERAL MILK ORDERS  
AND CALIFORNIA, MARCH 2004**

In March 2004, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$15.28 per cwt., \$1.74 more than the figure for the previous month. The component tests of producer milk in March 2004 were: butterfat, 3.68%; protein, 3.05%; and other solids, 5.70%. On an individual reporting area basis, mailbox prices increased in all reporting areas, and ranged from \$16.82 in Florida to \$13.46 in New Mexico. In March 2003, the Federal milk order all-area average mailbox price was \$10.73, \$4.55 lower.

Reporting Area	Mailbox Milk Price <sup>2/</sup>		
	March 2003	February 2004	March 2004
	Dollars per hundredweight		
Northeast Federal Milk Order	10.86	13.98	15.57
Appalachian States <sup>3/</sup>	11.54	14.05	15.06
Southeast States <sup>4/</sup>	11.93	14.61	15.28
Southern Missouri <sup>5/</sup>	10.82	13.37	14.55
Florida	13.56	16.00	16.82
Ohio	10.85	13.57	15.38
Indiana	---	13.54	15.28
Michigan	10.61	13.34	14.85
Wisconsin	10.70	13.80	16.13
Minnesota	10.72	13.72	16.22
Iowa	10.68	13.51	15.55
Illinois	10.78	13.53	15.58
Corn Belt States <sup>6/</sup>	10.40	12.77	14.31
Western Texas <sup>7/</sup>	10.71	13.17	14.51
New Mexico	9.78	12.09	13.46
Idaho	9.71	12.53	14.58
Utah	9.55	12.32	14.29
Northwest States <sup>8/</sup>	10.33	12.76	14.34
All Federal Order Areas <sup>9/</sup>	10.73	13.54	15.28
California <sup>10/</sup>	10.06	12.69	NA

NA= Not available.

<sup>1/</sup> Information is shown for those areas for which prices are reported for at least 75% of the milk marketed under Federal milk orders. The price shown is the weighted average of the prices reported for all orders that received milk from the area. As applicable, includes milk not-pooled due to disadvantageous intra-order price relationships. <sup>2/</sup> Net pay price received by dairy farmers for milk. Includes all payments received for milk sold and all costs associated with marketing the milk. Price is a weighted average for the reporting area and is reported at the average butterfat test. Mailbox price does not include any Milk Income Loss Contract (MILC) payments. Mailbox price does include, for the most part, the \$0.05 per cwt. assessment under the Cooperatives Working Together (CWT) program. <sup>3/</sup> Includes Kentucky, North Carolina, South Carolina, Tennessee, and Virginia. <sup>4/</sup> Includes Alabama, Arkansas, Georgia, Louisiana, and Mississippi. <sup>5/</sup> The counties of Vernon, Cedar, Polk, Dallas, Laclede, Texas, Dent, Crawford, Washington, St. Francois, and Perry and all those to the south of these. <sup>6/</sup> Includes Kansas, Nebraska and the Missouri counties to the north of those listed in <sup>5/</sup>. <sup>7/</sup> All counties to the west of Fanin, Hunt, Van Zandt, Henderson, Anderson, Houston, Cherokee, Nacogdoches, and Shelby. <sup>8/</sup> Includes Oregon and Washington. <sup>9/</sup> Weighted average of the information for all selected reporting areas in Federal milk orders. <sup>10/</sup> Calculated by California Department of Food and Agriculture, and published in "California Dairy Information Bulletin."

**MAILBOX MILK PRICES FOR SELECTED REPORTING AREAS IN FEDERAL MILK ORDERS AND CALIFORNIA, APRIL 2004**

In April 2004, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$17.40 per cwt., \$2.13 more than the revised figure for the previous month. The component tests of producer milk in April 2004 were: butterfat, 3.63%; protein, 3.02%; and other solids, 5.71%. On an individual reporting area basis, mailbox prices increased in all reporting areas, and ranged from \$19.89 in Wisconsin to \$15.00 in Northwest States. In April 2003, the Federal milk order all-area average mailbox price was \$10.79, \$6.61 lower.

Notes: 1.) Mailbox prices for Idaho and Utah are being discontinued due to the termination of the Western Federal milk order on 4/01/04. Information for Idaho may become available again depending of future pooling decisions. 2.) As a reminder, the mailbox price data series includes, for the most part, milk not-pooled under Federal orders due to disadvantageous price relationships. This contributes to the explanation of the large increases from March to April noted in some reporting areas.

Reporting Area	Mailbox Milk Price <u>2/</u>		
	April 2003	March 2004	April 2004
	Dollars per hundredweight		
Northeast Federal Milk Order	11.06	15.57	17.12
Appalachian States <u>3/</u>	11.29	15.06	15.95
Southeast States <u>4/</u>	11.63	15.28	16.52
Southern Missouri <u>5/</u>	10.61	14.55	15.16
Florida	13.21	16.82	18.07
Ohio	10.80	15.38	16.30
Indiana	---	15.28	16.36
Michigan	10.48	14.85	16.34
Wisconsin	10.85	16.13	19.89
Minnesota	10.86	16.22	19.81
Iowa	10.73	15.55	18.55
Illinois	10.84	15.58	17.63
Corn Belt States <u>6/</u>	10.68	14.31	16.07
Western Texas <u>7/</u>	10.62	14.51	16.35
New Mexico	9.72	13.46	15.27
Idaho	9.87	14.50*	---
Utah	9.54	14.29	---
Northwest States <u>8/</u>	10.31	14.34	15.00
All Federal Order Areas <u>9/</u>	10.79	15.27*	17.40
California <u>10/</u>	10.14	14.65	17.21

\*=Revised.

1/ Information is shown for those areas for which prices are reported for at least 75% of the milk marketed under Federal milk orders. The price shown is the weighted average of the prices reported for all orders that received milk from the area. As applicable, includes milk not-pooled due to disadvantageous intra-order price relationships. 2/ Net pay price received by dairy farmers for milk. Includes all payments received for milk sold and all costs associated with marketing the milk. Price is a weighted average for the reporting area and is reported at the average butterfat test. Mailbox price does not include any Milk Income Loss Contract (MILC) payments. Mailbox price does include, for the most part, the \$0.05 per cwt. assessment under the Cooperatives Working Together (CWT) program. 3/ Includes Kentucky, North Carolina, South Carolina, Tennessee, and Virginia. 4/ Includes Alabama, Arkansas, Georgia, Louisiana, and Mississippi. 5/ The counties of Vernon, Cedar, Polk, Dallas, Laclede, Texas, Dent, Crawford, Washington, St. Francois, and Perry and all those to the south of these. 6/ Includes Kansas, Nebraska and the Missouri counties to the north of those listed in 5/. 7/ All counties to the west of Fanin, Hunt, Van Zandt, Henderson, Anderson, Houston, Cherokee, Nacogdoches, and Shelby. 8/ Includes Oregon and Washington. 9/ Weighted average of the information for all selected reporting areas in Federal milk orders. 10/ Calculated by California Department of Food and Agriculture, and published in "California Dairy Information Bulletin."

**MAILBOX MILK PRICES FOR SELECTED REPORTING AREAS IN FEDERAL MILK ORDERS AND CALIFORNIA, MAY 2004**

In May 2004, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$19.01 per cwt., \$1.61 more than the figure for the previous month. The component tests of producer milk in May 2004 were: butterfat, 3.57%; protein, 2.98%; and other solids, 5.71%. On an individual reporting area basis, mailbox prices increased in all reporting areas except one, and ranged from \$20.98 in Florida to \$16.59 in Northwest States. In May 2003, the Federal milk order all-area average mailbox price was \$10.83, \$8.18 lower.

Notes: 1.) Mailbox prices for Idaho and Utah has been discontinued due to the termination of the Western Federal milk order on 4/01/04. Information for Idaho may become available again depending of future pooling decisions. 2.) As a reminder, the mailbox price data series includes, for the most part, milk not-pooled under Federal orders due to disadvantageous price relationships.

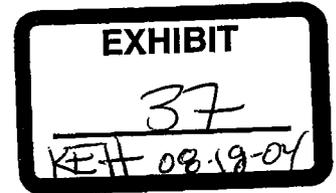
Reporting Area	Mailbox Milk Price <sup>2/</sup>		
	May 2003	April 2004	May 2004
	Dollars per hundredweight		
Northeast Federal Milk Order	11.10	17.12	19.28
Appalachian States <sup>3/</sup>	11.32	15.95	19.02
Southeast States <sup>4/</sup>	11.69	16.52	19.79
Southern Missouri <sup>5/</sup>	10.71	15.16	18.45
Florida	13.18	18.07	20.98
Ohio	10.84	16.30	18.90
Indiana	---	16.36	19.14
Michigan	10.66	16.34	18.28
Wisconsin	11.04	19.89	20.39
Minnesota	10.95	19.81	19.80
Iowa	10.83	18.55	19.29
Illinois	10.89	17.63	19.48
Corn Belt States <sup>6/</sup>	10.66	16.07	17.40
Western Texas <sup>7/</sup>	10.48	16.35	18.16
New Mexico	9.62	15.27	16.85
Idaho	9.87	---	---
Utah	9.64	---	---
Northwest States <sup>8/</sup>	10.39	15.00	16.59
All Federal Order Areas <sup>9/</sup>	10.83	17.40	19.01
California <sup>10/</sup>	10.13	17.21	NA

NA=Not Available.

<sup>1/</sup> Information is shown for those areas for which prices are reported for at least 75% of the milk marketed under Federal milk orders. The price shown is the weighted average of the prices reported for all orders that received milk from the area. As applicable, includes milk not-pooled due to disadvantageous intra-order price relationships. <sup>2/</sup> Net pay price received by dairy farmers for milk. Includes all payments received for milk sold and all costs associated with marketing the milk. Price is a weighted average for the reporting area and is reported at the average butterfat test. Mailbox price does not include any Milk Income Loss Contract (MILC) payments. Mailbox price does include, for the most part, the \$0.05 per cwt. assessment under the Cooperatives Working Together (CWT) program. <sup>3/</sup> Includes Kentucky, North Carolina, South Carolina, Tennessee, and Virginia. <sup>4/</sup> Includes Alabama, Arkansas, Georgia, Louisiana, and Mississippi. <sup>5/</sup> The counties of Vernon, Cedar, Polk, Dallas, Laclede, Texas, Dent, Crawford, Washington, St. Francois, and Perry and all those to the south of these. <sup>6/</sup> Includes Kansas, Nebraska and the Missouri counties to the north of those listed in <sup>5/</sup>. <sup>7/</sup> All counties to the west of Fanin, Hunt, Van Zandt, Henderson, Anderson, Houston, Cherokee, Nacogdoches, and Shelby. <sup>8/</sup> Includes Oregon and Washington. <sup>9/</sup> Weighted average of the information for all selected reporting areas in Federal milk orders. <sup>10/</sup> Calculated by California Department of Food and Agriculture, and published in "California Dairy Information Bulletin."

UNITED STATES DEPARTMENT OF AGRICULTURE  
Agricultural Marketing Service – Dairy Programs

IN RE: ) Docket No. AO-361-A39;  
) DA-04-03  
MILK IN THE UPPER )  
MIDWEST MARKETING AREA )



TESTIMONY ON BEHALF OF NORTHWEST DAIRY ASSOCIATION

My name is Michael L. Brown. I am employed as Director of Industry Relations for Northwest Dairy Association, 635 Elliot Avenue, Seattle, Washington 98119.

Northwest Dairy Association (NDA) is a dairy cooperative with approximately 680 members in Washington, Oregon, Idaho and Northern California. NDA markets or processes about 7 billion pounds of milk annually to other milk processors or through NDA's marketing subsidiary, WestFarm Foods. We manufacture products included in all four product classes, as defined by the Federal Milk Marketing Order Program.

I am here today solely to testify regarding the depooling provisions contained within Proposal No. 2. The national implications of this require us to put these comments into the hearing record, so that we can separately propose what we feel will be a better approach to dealing with the issue. Specifically:

*NDA urges USDA to reject consideration of any regulation of depooling in the Upper Midwest and other Federal Orders on a market-by-market basis, but instead do so as part of a national hearing which puts the issue in proper context with other issues related to the Class III and IV price formulas.*

NDA's concerns over addressing depooling on an order by order basis, and without consideration of other Class III and IV issues, are outlined NDA's letter to USDA regarding their July 12, 2004 invitation to submit proposals for a public hearing to amend the pooling provisions of the Central Milk Marketing Order. In that letter, NDA urges USDA not to consider separate regulation of depooling in the Central Order, and outlines many reasons why depooling is best addressed nationally, along with other manufacturing milk issues. We ask that the letter be marked as an Exhibit, and included in the hearing record.

I also ask that the reasoning set forth in this exhibit be considered as my testimony here today.

We believe that taking a broader, system-wide approach to the depooling issue will provide consistent depooling rules across orders, but also allow the industry to simultaneously address other the other pricing issues that can also encourage depooling.

At the same time, we also recognize that there would be no harm to our cooperative if the Secretary were to proceed to consider how best to address depooling here in the Order 30 market. We recognize that this initial Order 30 proceeding may help both the industry and the Department develop a better understanding of how best to deal with the issue.

That said, I can also testify, based on my understanding of our operations in the Northwest and my general understanding of the economics of plant operations around the country, that if I were operating a manufacturing plant here in the Order 30 area, I would be very concerned about the future financial viability of my operation if I lost the ability to depool, unless and until the Class III and IV formulas are modified to reflect today's operating costs, especially energy and labor. Both energy and labor costs have risen significantly since the 1998-99 period, when the evidence was prepared upon which today's Class III and IV formulas are based. And together, these two factors represent roughly half of the cost of operating a manufacturing plant.

Like it or not, depooling is part of the financial picture of plant operations, and those operations are being squeezed with each upset in the international energy market (be it from Iraq, Russia, or Venezuela). Regardless of the plant's direct energy source, their energy costs will over time relate directly or indirectly to the price of oil, which is now at record levels.

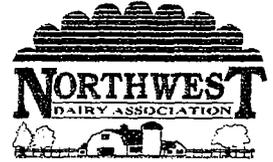
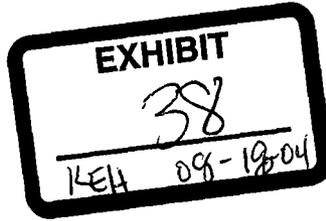
The recent run-up in oil prices will continue to negatively impact dairy manufacturers, until the Class III and IV formulas are adjusted to reflect those cost increases. Yet we all know that the last hearing on that subject took three years to conclude. Closing down depooling before that problem is fixed could jeopardize plants, by locking them into an unprofitable economic posture.

Many producers without such plant investments may consider my testimony and respond that depooling is not fair and should be fixed immediately. I urge them to recognize that if rising energy and labor costs are not reflected in the pool calculation, then the plant operators are bearing costs that – under the system of end product pricing that we have had for more than four years – are supposed to be shared in the pool. Put another way, failure to address the energy and labor cost

issues in the manner intended by USDA brings a windfall subsidy to producers without plant investments through the Federal Order blend price, at the same time that depooling takes money away from them.

Depooling may not be fair, but neither is a system that overcharges for Class III and IV milk. The thrust of my testimony is that the two issues are related, and both must be considered together so that producers will have profitable plants to ship to.

Thanks you very much for considering my views. I would be happy to answer any questions about this testimony.



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August 11 2004

Ms. Dana Coale  
Acting Deputy Administrator  
Dairy Programs  
USDA/AMS/Dairy Programs,  
STOP 0225–Room 2968  
1400 Independence Avenue, SW  
Washington, DC 20250-0225

Re: Invitation to Submit Proposals for a Public Hearing to Amend the Pooling Provisions of the Central Marketing Order, dated July 12, 2004.

Dear Ms Coale:

I am writing in response to USDA's July 12<sup>th</sup> announcement inviting comment on possible proposals for a hearing regarding the pooling provisions in the Central Order.

The purpose of this letter is to urge USDA not to consider a hearing for the purpose of dealing with market attachment (depooling) on a market by market basis, but instead to do so as part of a national hearing which puts that issue into a proper context with other issues related to the Class III and IV price formulas.

- As you know, there are a number of justifications for a national hearing to update the 2000-2003 process, which reviewed and modified the Class III and IV formulas. Those formulas were based on data heard at a hearing in May of 2000, at which the principal evidence on manufacturing costs dated from 1998 and 1999. (See Dr. Ling's 1998 study, Hearing Exhibit #9.)
- During the past five years since the hearing, labor costs (which represented roughly 1/3 the cost of manufacturing in Dr. Ling's exhibit) have risen about 20% (per the national index of wages in manufacturing published by the Bureau of Labor Statistics, Department of Labor).

- Even more alarming has been the increase in energy costs, particularly natural gas. Our research indicates a roughly a 250% increase in natural gas costs (from the \$2 per btu range, to over \$6). Dr. Ling's exhibit indicated that fuels other than electricity represented 13.6% of the costs of drying powder, and of course the department recognized in the decisions that whey requires more energy to dry than powder (more water).
- We are not optimistic about any relief in energy prices in the near or mid-term. As you may know, Chairman Greenspan has warned of an impending natural gas crisis, and the potential effect on the U.S. economy. Today's record world prices for oil also suggest that energy cost adjustments are of paramount importance as the Federal Order system moves forward. The experience of 2000-03 indicates that those adjustments should be a priority for your Order Formulation group.

The purpose of this letter is not to request such a hearing at this time. Mike Brown of our staff is working with you and others in the Dairy Division to develop such a proposal. We are optimistic that this can be delivered to you in the near future.

However, the purpose of this letter is to suggest that depooling should be – and must be – part of the larger discussions about conversion costs and make allowances. As you well know, one primary purpose of the Class III and IV formulas is to “fairly” allocate the money from the commodity market between processors and the producers in the pool. Depooling impacts that allocation, by shifting revenue at times from the marketwide producer pool to plants or their suppliers.

One goal of the Class III and IV formulas is to ensure that plants can be profitable, so that producers will have a market. That goal requires considering all aspects of overall plant profitability, including plant revenue opportunities like depooling. It's all linked.

Limiting depooling without reconsideration of today's make allowances and the rest of the Class III and IV formulas could represent a dramatic change in the terms of profitability of plant operations. It could easily lead to closure of marginal operations in some regions, which in turn could lead to disorderly market conditions in those regions.

We recognize that a hearing will be held soon in the Upper Midwest region to consider depooling and other aspects of market attachment. We recognize that those proposals will be heard, and may generate some useful approaches that could be followed in a national hearing. We are not commenting in this letter on the merits of that proposal for the Upper Midwest market. We will participate in that hearing and put our comments on the record, as is proper for that proceeding.

With respect to the Central Order, and perhaps other orders where the “depooling” issue is raised, I respectfully suggest that the need to revisit the Class III and IV formulas is a much more urgent issue, and a much better priority for the scarce resources of the Order Formulation branch.

Thank you for your consideration of our views.

Sincerely,

Douglas C. Marshall  
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