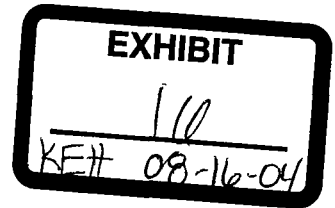


**UNITED STATES DEPARTMENT OF AGRICULTURE
AMS – Dairy Programs**

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



TESTIMONY ON BEHALF OF LAND O'LAKES, INC.

My name is James E. Hahn. I am employed by Land O'Lakes, Inc. and my mailing address is Land O'Lakes, Inc., 4001 Lexington Avenue North, Arden Hills, Minnesota 55112.

Land O'Lakes, Inc. (LOL) is a dairy and agricultural products cooperative. LOL Grade A dairy members produce approximately 12 billion pounds of milk annually. Approximately 1,400 of these dairy members produce milk in the Midwest.

The majority of the LOL milk produced in the Midwest is used for manufacturing. However, LOL performs at a much higher level than the minimum of 10 percent in meeting the shipping requirements of Order 30.

As such, LOL has moderate impact from the depooling issue resulting from negative PPD's. There are some handlers who are impacted to a greater degree due to shipping at a higher percentage level. Most handlers however perform at a lesser level than LOL and consequently are impacted to a much lesser degree.

LOL supports Proposal 2 because it is a moderate approach in addressing the negative PPD and depooling issue. Proposal 2 allows the flexibility of some depooling with no penalty. It may however have significant consequences for those handlers who elect to depool the majority of their milk. This moderate approach will instill more equity amongst handlers with differing levels of shipping performance than occurs today while allowing some degree of depooling.

Proposal 2 also places additional pooling requirements on milk produced outside the states in which Order 30 is located. LOL has gone on record in previous hearings with the position that pooling provisions should be performance oriented as opposed to location based.

Since order reform, it appears the dairy industry is embarking on the 2nd round of individual hearings designed to tighten pooling provisions for the purposes of restricting access to milk originating across order boundaries. This is amazing considering the Secretary in the reform process anticipated milk would cross order boundaries to become

pooled and priced where the greatest needs are exhibited for satisfying fluid demand. This attempt to build higher fences is designed to limit access to Class I markets.

LOL firmly believes that this issue must be dealt with on a national level because Class I utilization continues to decline each year. In 2002 the national Class I utilization in federal orders was less than 37 percent. The Class I utilization for 2003 is skewed upward due to massive depooling as will be the case in 2004. Fluid sales are down 2 percent year over year for the first half of 2004. California Class I is now at 18 percent and falling rapidly.

The following basic questions must be addressed at some future point in time.

What mechanism should be used to pool surplus reserves not needed by any order?

How will market reserves be addressed? National federal order average is 63 percent and rising.

Will we come to a point where someone will be denied pooling because the reserves are too high?

If so, who's milk?

Do all federal orders have burden of pooling excess national reserves?

This issue becomes all the more relevant with the termination of the Western Order. Putting additional pooling restrictions on "distant" milk for Order 30 will only cause pressure to be exerted on some other federal order for pooling access. This will undoubtedly create a request for a local hearing to tighten pooling provisions.

LOL is supporting Proposal 2 in regards to "distant" milk, because of its negative impact on the PPD.

LOL also supports the limit on transportation credits to 400 miles as provided in Proposal 2.