

My name is Gary Lee. I am employed by Prairie Farms Dairy, Inc. as the Vice President of Procurement. I have been employed by Prairie Farms since May 1973 and have served in my current position since 2000. Prairie Farms is a dairy farmer cooperative headquartered in Carlinville, Illinois.

At the close of its most recent fiscal year on September 30, 2008, Prairie Farms had 743 dairy farmer member-owners. The geographic breakdown of those 743 farms was as follows:

| | |
|----------|-----|
| Illinois | 426 |
| Indiana | 152 |
| Iowa | 62 |
| Missouri | 89 |
| Michigan | 11 |
| Ohio | 3 |

For the 2007-2008 fiscal year, Prairie Farms member milk production was 1,387,347,510 pounds. This equates to about 1,873,000 pounds of milk produced per farm.

All but two of Prairie Farms' members could be described as small "family" farms. By that we mean that a family unit provides most of the labor, management and capital. The two exceptions to this term "family" farm are university research farms.

Prairie Farms members' herd sizes range from fewer than 20 cows to about 3,000 cows. We estimate that the "average" Prairie Farms member milks about 100 cows. That estimate is arrived at by dividing average total production per farm of 1,873,000 pounds by USDA's most recent estimate of milk production per cow in Illinois of 18,700 pounds (2007 estimate). $(1,873,000 \div 18,700 = 100.16)$. Most of the family farms who are members of Prairie Farms qualify as small businesses under the Regulatory Flexibility Act in that their annual gross revenue is less than \$750,000.

Prairie Farms was founded in 1938 making butter, condensed milk and nonfat dry milk. Prairie Farms got into the fluid milk processing business after World War II. The current company is the result of more than 100 mergers, acquisitions, and joint ventures as well as internal growth.

Through wholly-owned facilities and joint ventures, Prairie Farms currently operates 35 milk and dairy product processing plants. Twenty six of those plants are regulated under five federal orders.

Prairie Farms plants regulated by Order 32 include:

| | |
|------------------|------------------------------|
| Carlinville, IL | Fluid |
| Olney, IL | Fluid |
| Hazelwood, MO | Fluid and Cultured |
| Granite City, IL | Fluid, Ice Cream Mix and UHT |
| Peoria, IL | Fluid |
| Quincy, IL | Cultured |
| Carbondale, IL | Cultured |

Prairie Farms plants regulated by Order 33 include:

| | |
|------------------|--------------------|
| Battle Creek, MI | Fluid |
| Ft. Wayne, IN | Fluid and Cultured |
| Anderson, IN | Fluid |

Prairie Farms plants regulated by Order 5 include:

| | |
|--------------|-------|
| Holland, IN | Fluid |
| Somerset, KY | Fluid |

Prairie Farms operates one plant regulated by Order 7

| | |
|---------------|-------|
| Kosciusko, MS | Fluid |
|---------------|-------|

A joint venture with Midwest Dairymen called Muller Pinehurst Dairy operates one plant regulated by Order 30:

| | |
|--------------|-------|
| Rockford, IL | Fluid |
|--------------|-------|

A joint venture with DFA called Roberts Dairy operates 3 plants regulated by Order 32:

| | |
|-----------------|-------------------------|
| Iowa City, IA | Fluid |
| Omaha, NE | Fluid and Ice Cream Mix |
| Kansas City, MO | Fluid |

A joint venture with DFA called Hiland Dairy operates 3 plants regulated by Order 32 and 3 plants regulated by Order 7:

The Hiland plants regulated by Order 32 are:

| | |
|--------------|--------------------|
| Wichita, KS | Fluid and Cultured |
| Chandler, OK | Fluid and Cultured |
| Norman, OK | Fluid |

The Hiland plants regulated by Order 7 are:

| | |
|------------------|---------------------|
| Springfield, MO | Fluid and Ice Cream |
| Fayetteville, AR | Fluid |
| Ft. Smith, AR | Fluid |

A joint venture between Prairie Farms and Hiland Dairy called Turner Dairy operates 3 plants regulated by Order 7:

| | |
|-----------------|-------|
| Fulton, KY | Fluid |
| Memphis, TN | Fluid |
| Little Rock, AR | Fluid |

The unregulated plants are as follows:

| | |
|--------------------|--|
| Jefferson City, MO | Fluid, Cultured and Ice Cream |
| Decatur, IL | Ice Cream |
| O'Fallon, IL | Ice Cream and Ice Cream Mix |
| Springfield, IL | Ice Cream Mix |
| St. Louis, MO | Butter, Butter Oil and Anhydrous Milkfat |
| Norfolk, NE | Ice Cream |
| Kansas City, MO | Cultured and Ice Cream |
| St. Louis, MO | Ice Cream Novelties |
| Lafayette, IN | Ice Cream Novelties |

In the 2007-2008 fiscal year, sales for Prairie Farms and joint ventures was about \$2.90 billion. About 70% of those sales were in the fluid milk category. Over 10% of the fluid milk sales are to schools and institutions.

I am here today to offer Prairie Farms support of proposals 1 and 2.

Prairie Farms is not against producer-handlers. In fact Prairie Farms could be described as a producer-handler. But instead of being one dairy farmer who has vertically integrated, Prairie Farms is 700+ dairy farmers who have pooled their resources to process and market their milk.

Because of this pooling of resources, the majority of the plants that Prairie Farms operates are regulated by various federal orders, as indicated earlier in this testimony. This prevents Prairie Farms from qualifying or using the producer-handler provisions in federal orders.

System wide, Prairie Farms' Class I utilization is about 70%. This means that most months, Prairie Farms pays more into the pool than it draws out. The exception being those rare months when the Class III or Class IV price is higher than the Class I price. In other words, Prairie Farms members must share their Class I utilization with all dairy farmers participating in a federal order pool each month.

The U.S. dairy industry is large and diverse. There is plenty of room for entrepreneurs and innovators. When businesses offer unique products or packaging or serve a small niche market, that is a good thing and helps expand the product category.

Proposals 1 and 2 do nothing to harm most dairy farmers who are trying to capture more of the consumer's dairy dollar. Prairie Farms members collectively do that everyday.

Proposals 1 and 2 would preserve equity for those who operate under the constraint of the federal order vis-à-vis, larger than average dairy farmers who vertically integrate their operations, but use a loophole in the order to permit them to grow to sizes that allow them to cherry pick the fluid milk market.

While there are currently only a few large scale producer handlers, failure to close this loophole may encourage more to enter the fluid milk business.

Prairie Farms has no problem competing with any other fluid milk processor on an equitable basis. If a milk processor offers products that are superior in quality or packaging or if that company provides better service to its customers, it should be successful.

Likewise, if a milk processor operates efficient processing plants that enable it to offer its products at a lower price, the owners of that company and its customers benefit.

However, if a milk processor's main advantage is exploiting a loophole in federal orders, that is unfair to those who play by the rules everyday.

One of my biggest concerns with the federal order hearing process is that quite often we hold hearings to fix last year's problems. At this hearing we have a chance to address a concern before it becomes a large problem. Adoption of Proposals 1 and 2 will simplify federal order language and close a loophole that while currently not widely exploited, may be in the near future.

Failure to remove the producer-handler definition from federal orders could lead to the creation of business relationships that could not have been anticipated not so long ago. It is quite possible that fluid milk processing entities could be created that involve farmers and retailers that fall completely outside the current system.

Dairy farmers could be faced with two difficult choices. They can keep the current system in place, but be relegated to serving only the customers that a new generation of producer-handler chooses not to serve. Or they can vote out the current system and face the unknown of deregulation in the fluid milk business.

Recent problems in financial markets show that some parts of the American economic system need a regulatory safety net. Prairie Farms believes that the fluid milk industry is another industry that needs some minimal level of regulation to protect dairy farmers and consumers.

The situation that we are talking about at this hearing is not about the big processor exploiting the small dairy farmer; it is about larger dairy farms potentially using a regulatory loop hole to harm smaller dairy farms. As I said earlier, Prairie Farms is not afraid to compete with any company on an equitable regulatory basis. But if present and future competitors use regulatory

loopholes as their primary advantage it amounts to an institutionalized unfair economic advantage.

Proposals 1 and 2 do nothing to harm dairy farmers who want to process, package and sell their own milk. At the same time Proposal 2 recognizes that after reaching a certain size any processor can use their regulatory advantage to negatively impact dairy farmers and milk processors operating under the federal order system.

Failure to address the producer-handler definition now has the potential to cause serious financial harm to dairy farmers and consumers.