Statement of Steve Matthees

Docket No. AO-14-A76; DA-07-01

December 11, 2007

Pittsburgh, Pennsylvania

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

I operate a family dairy with my son, my son-in-law, and my brother. We farm 760 acres and milk 200 cows. My family and I are active participants in the dairy industry both off and on our farm; Amie, my oldest daughter, is the past Chairperson of Goodhue County American Dairy Association (ADA). Nicole, my youngest, was a finalist this year in the state's Dairy Princess contest. This made for a busy and exciting year for her and our family.

I am a member-owner of Dairy Farmers of America (DFA) and our farm markets all our milk thru the cooperative. I serve as a corporate director for Dairy Farmers of America. Our farm is located in DFA's Central Area Council, which spans portions of Orders 30 and 32. Our Corporate Board of Directors, of which I am a member, has discussed and reviewed the Proposal made by National Milk Producers Federation and supports its intent. DFA is a member of National Milk Producers Federation.

I am not a technical expert on the inner workings of Federal Orders and am not prepared to answer many technical questions about them or this proposal.

DFA member milk from my area is marketed to plants that make many types of dairy products. DFA manufactures cheese, butterfat items and dry dairy blends in plants we own or are partners with others in the Upper Midwest. All of these plants are experiencing the same margin pressure that has been outlined in the recent make allowance hearings. I know this to be true because as a director of the cooperative I review plant-operating statements every month with management. Those statements reveal the difficulty our plants have had dealing with higher costs. This is why USDA recognized the problem and dealt with it in a reasonable manner consistent with the Hearing data. I understand from comments I read in our local agriculture newspapers and from my contacts with other dairy farmers nationally that some were concerned that the make allowance changes were not enough and some feel they are too much – It would seem to me that the Secretary has picked a middle of the road decision to address this problem, with the announced make allowance change.

If the proposal before you today is not accepted it seems that producers in my area that ship only or mostly to fluid processors will have their prices lowered unfairly as the make allowance changes will reduce not only Class III and IV prices but also Class I and II prices. Since all prices are shared through the Orders pooling process, everyone's blend price is affected. For those producers that ship most of their milk to a manufacturing facility that they own, they will have a chance to recover their lost income due to a lower Order blend price from the plant's profits that are shared back to the farmer. If this proposal is accepted then all producers will have a chance to get their increased costs recognized - like the manufacturing plants.

As I understand it the main reason that the make allowance changes were necessary is that the product formulas prevent a manufacturer from recovering his

costs by raising prices. Any price increase in the market place gets reflected right back in the formulas and there is no way for the manufacturer to be made whole. Our accountants and plant operators have made that fact pretty clear at our Board meetings.

But these reasons do not seem to be true for the Class I and II businesses in the industry. While it may not be easy for fluid processors to pass through price increases it is possible. And for those products, the increases do not get reflected in the price formulas.

The changes proposed today would positively affect the prices for all dairy farmers in an Order. The increased prices would be part of the blend price and shared by every producer in the Order.

As a dairy farmer I face many of the same cost pressures as a manufacturer. I buy electricity, diesel fuel, LP gas, and gas, hire labor, pay for transportation and other factors. I have summarized some of those costs on schedule A. This proposal seems to recognize that I have cost pressures also and attempts to reflect them in the minimum order prices – something I think Orders are supposed to do.

I can tell you our Board had a lively discussion about why they should support increasing make allowances and there were some who felt the Cooperative should vote against the amendments and thus eliminate the Orders. This discussion reviewed the fact that we own and operate manufacturing assets, which would benefit from the changes, and the fact that we sell a lot of milk to other parties – and would get less for those sales. However, as the discussion continued we recognized that Orders have a value to our members. Perhaps most important, we realized that this Hearing is the next step in the process of reviewing price

formulas. We had hoped these two steps would have been combined in the Hearing in January but that did not happen.

The producers I represent are pleased to see that the Secretary is considering the fact that producers do need a mechanism under the Order to reflect their production cost increases also.

In our region this Proposal will have a positive price affect on the blend prices for FO #30 and FO #32. The industry is expecting the make allowances to be in effect in February. It would be very good if this proposal could be made effective at the same time; if that is not reasonable then as soon as possible.

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

Schedule A

Costs at Lone Oak Farms

	2005	2006	Increase
Electricity	kwH .0331	kwH .0399	20%
	KW 9.26	KW 9.26	0%
Diesel	2.00/gallon	2.24/gallon	12%
		Up to 2.98/gallon	49%
LP Gas	1.10/unit	1.44/unit	30%
Farm Gas	1.84/unit	1.92/unit	5%
Labor	Range	Range	
	5.5 to 11/hour	6 to 12/hour	9%
Transportation			
Fuel Surcharge	$25 to $50/	$50 to $100/	100%
	Semi-load	Semi-load	