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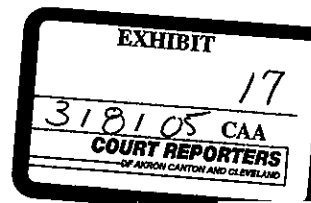
*Forging a partnership between farmers and consumers*  
• Working together for Ohio's farmers •

## TESTIMONY

### Federal Order 33 Hearing

*March 7, 2005*

*Charles "Chuck" Lausin*



Your Honor, it is my pleasure to appear before this hearing today to provide input into this very important process. My name is Charles "Chuck" Lausin. Our fifth-generation family dairy farm is located near Thompson, Ohio, in Geauga County, and includes a herd of 145 cows. Additionally, I am a member of the Ohio Farm Bureau Federation's Board of Trustees and serve as chair of the organization's Dairy Advisory Committee.

Members of the Ohio Farm Bureau Federation (OFBF) who are engaged in dairy production, including myself, very much appreciate the opportunity to participate in this hearing and express our concern over certain inequities that current Mideast Federal Order language allows. We also would like to thank the USDA Agricultural Marketing Service for responding in an expeditious and favorably manner to various requests for a hearing, some of which were filed by Farm Bureau members.

As demonstrated by our organization's current policy, our membership has become increasingly concerned over the negative impact "depooling" has had on Producer Price Differentials. We are also concerned that such actions will continue to result in escalating producer pay price volatility and decrease producer confidence in the Mideast Federal Order. Current Order language provides certain handlers the option to share in the Federal Order pool when it is to their financial advantage and to disassociate from the pool when disassociating is to their advantage.

Ohio Farm Bureau Federation policy supports a voluntary pooling program that equalizes or creates equity among and between producers of a commodity priced under a market order. Ohio Farm Bureau policy opposes the concept of "pool-riding" and other pricing strategies whereby producers from different marketing orders circumvent the intended function of the milk marketing orders to gain an unfair pricing advantage. OFBF policy supports Federal Order modifications that will enhance the price of milk received by producers.

As a brief review, approximately four years ago milk check dollars came under attack from outside producer milk coming into the Mideast Federal Milk Marketing Order pool. This diluted the value of producer milk and with it the producer price differential of PPD. Producers in the Mideast Federal Order responded to this situation by requesting an emergency hearing from the USDA Agricultural Marketing Service, Dairy Programs. This was successful and beginning August 2002 pooling qualifications became more stringent in the Mideast Order and much of the outside milk was prevented from qualifying on the pool and diluting the PPD.

Unfortunately, a new and equally serious issue has resulted, and that is the reverse side of the pool riding issue, which might be best referred to as a 'pool dodging' issue. Just as it was, and still is, advantageous to attach producer milk to a federal order pool with a larger PPD value than your own, it is also advantageous to remove that milk from that pool when it is apparent that the PPD value is going to be negative, better known as "depooling." Depooling milk allows certain milk producers to retain a much larger share of Class III milk dollars and cause those producers who cannot depool to bear a larger cost. Depooling has always been a feature of Federal Milk Marketing Orders as pooling is required only of regulated Class I milk plants. It has now become a problem precisely because it is this large volume of extra-order milk now finding a convenient home on the Mideast Order that is moving in and out of the order.

Dairy farmers are painfully aware that federal order reform initiated in 2000 has not put an end to the irritating and largely misunderstood negative producer price differential (PPD). This is why we need changes made to the Mideast Federal Order 33.

In Federal Order 33, according to data provided by the Mideast Market Administrator's office, "depooling" reduced the Producer Price Differential received by producers by as much as 42 cents per hundredweight in September 2003 and an even greater amount of \$1.66 in April 2004. According to Cameron Thraen, Ohio State University Extension State Specialist for Dairy Markets and Policy, an estimated 1.87 billion pounds were taken out of the Order, costing producers on the pool \$7.4 million in 2003 and 1.3 billion pounds in April and May 2004 at an estimated cost of \$21.3 million dollars to pooled producers. Producers whose milk remained in the Mideast pool can no longer afford to bear this burden.

In addition to the direct cost on producers' milk checks, there is an equally serious problem of equity. The ability to depool becomes a liability when an estimated 23 percent of normally pooled milk takes a walk and does not contribute to the normal pricing obligations, only to return when advantageous. This puts Class I milk plants, and their producers, at a serious financial disadvantage compared to other plants and their milk suppliers.

It also raises an important question -- how important is this extra-order milk? An estimated 328 million pounds of milk moved out and then back into the Mideast Federal Order during the period July through October 2003 without causing any real disruption in the market. How can this milk be essential to orderly marketing in the Mideast Federal Order?

Dairy producers in the Mideast Federal Order cannot afford this situation anymore. Those in surrounding Federal Orders have moved, or are actively seeking, to adopt language that will severely limit the ability to re-pool, after depooling, on that order. Doing so would make the Mideast Federal Order the balancing pool for others. This would put dairy producers in the Mideast Federal Order in an even more precarious situation than currently exists, and we can no longer afford the current situation. Thus, reform in the Mideast Federal Order is desperately needed.

Two basic changes need to occur in the Mideast Federal Order. First and foremost, language in the respective federal order needs to be amended to make it more difficult to depool and then subsequently re-enter the market pool. This would address and resolve the equity issue previously discussed. Additionally, extensive modifications need to be made to the federal order to address issues related to pricing rules.

Once again, thank you for allowing us to come forward today to provide input into this very important process that will affect the economic viability and financial stability of all dairy farmers in Federal Order 33.