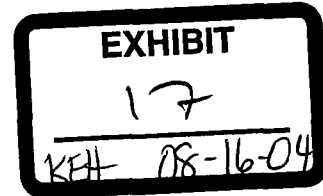


7 CFR Part 1030

Docket No. AO-313-A44; DA-01-07



Milk in the Upper Midwest Marketing Area
(Public Hearing August 2004)

I am Neil Gulden, Director of Fluid Marketing for Associated Milk Producers Inc. (AMPI). My office address is 315 North Broadway, New Ulm, Minnesota, 56073.

My testimony is in support of Proposal No. 1. I am joined in that support by Bongards' Creameries, Ellsworth Cooperative Creamery Association and First District Association.

Since order "reform" was implemented in January 2000, milk from California, Idaho, Utah, Oregon, Colorado, Montana, Nebraska, Ohio, Indiana and Georgia has been pooled on the Upper Midwest Order at various times and in various volumes. All have had a negative effect on the Upper Midwest marketing area producer price differentials (PPD's), but the vast majority of this milk has come from California and Idaho.

Substantial volumes of California milk began pooling on order 1030 late in 2000. A hearing was held in June 2001 and an interim final rule was made effective May 1, 2002, that prohibited the ability to simultaneously pool the same milk on the Upper Midwest order and a State-operated milk order that has marketwide pooling. This was adopted as a final rule in the fall of 2003.

Subsequent to the Upper Midwest hearing, hearings were held in the Central and Mideast orders that tightened their pooling requirements, including the same California issue as well as addressing distant pooling from other states. These two orders about the Upper Midwest order and the pooling requirement changes had the effect of moving milk formerly pooled there onto order 1030 and reducing PPD's for order 30 dairy farmers.

In the mean time, Idaho milk had been and continues to pool large quantities of milk on order 1030. Exhibit _____ page 68 shows that in December 2003, 12.4 percent of producer milk on order 1030 was from Idaho. That same exhibit on page 71 shows Jerome County Idaho as having the most producer milk of any county in the Upper Midwest Federal order. The Upper Midwest marketing area seems to be the dumping ground for milk from areas that either can't get pooled in their geographic area because of lack of access or they find the pooling and diversion provisions on order 1030 so liberal that it is economically advantageous. We believe it is some of each but mostly the latter.

Milk so distant from the market cannot be logically thought of as a consistent supply for distributing plants in the marketing area or even as a reserve supply for a market with 15 – 20 percent Class I utilization. This milk is being pooled by handlers in the marketing area that consistently ship more than the order 1030 required 10 percent to a distributing plant. Under current order provisions a handler can pool 10 times the volume of milk shipped to distributing plants and divert the milk not shipped to nonpool plants inside or outside the marketing area after the milk has been physically received at a pool plant during the first month the dairy farmer is a producer. Handlers using this provision are pooling Idaho milk, for example, shipping one days' production to an order 1030 pool plant (either a supply plant or distributing plant) the first month the milk is eligible and diverting the balance to an Idaho nonpool plant until the milk loses association with the market.

This type of pooling has been consistently happening with Idaho milk since April of 2001 and reached its highest volume level in December 2003 at 263 million pounds. These "sham" pooling arrangements have caused considerable economic loss to Upper Midwest dairy farmers. Exhibit _____ shows the actual

producer price differential vs. the estimated PPD calculated by the market administrator by not including Idaho milk in the Upper Midwest Federal order pool from April 2001 through June 2004. The average loss in PPD value in 2001 and 2002 was \$.02 and \$.03 per hundredweight respectively. The 2003 loss was \$.24 and the January 2004 through June 2004 6 month period was \$.25. The dollar loss on just the \$.24 for 2003 on milk remaining in the pool was \$36.5 million dollars to Upper Midwest dairy farmers. As we have stated earlier, this milk is not supplying the market and never intended to.

There are obviously other local problems that prevented Idaho milk from pooling in their geographic area and causing that supply to seek out pooling partners some 1,500 miles from home. What ever they are, midwest dairy farmers shouldn't be paying for it. Adding fuel to the fire, the Western order was terminated effective April 1, 2004. This means there is an even bigger milk shed no longer regulated by a federal order, raising concern that even more Idaho milk will be pooled on the Upper Midwest order.

The first part of Proposal No. 1 would limit certain activities to the States of Illinois, Iowa, Minnesota, North Dakota, South Dakota, Wisconsin and the Upper Peninsula of Michigan. These are all states or areas that have counties in the Upper Midwest Marketing area.

Qualifying shipments by plants located outside these states could only be made to distributing plants inside the marketing area.

Operators of supply plants within these states may use milk delivered directly from producers' farms to distributing plants in the marketing area as qualifying shipments.

Handlers could not use milk delivered directly from produces farms to qualify plants located outside these states.

Handlers would be prevented from diverting milk to nonpool plants located outside of the states.

The second part of Proposal No. 1 would limit the transportation credit calculation to not more than 400 miles between the shipping pool plant and the receiving distributing plant. Exhibit _____ shows no milk in 2003 receiving a transportation credit for milk shipped to a distributing plant from supply plants outside this 400 mile distance and in fact very little from 300 to 399 miles. Limiting the credit to 400 miles will not disadvantage anyone currently shipping supply plant milk to distributing plants.

Proposal No. 1 will not prohibit the pooling of distant milk on the Upper Midwest order. Anyone who wants to ship the order required 10 percent to distributing plants in order 1030 can still do so. This proposal will however weaken the incentive to pool unneeded blocks of milk without serving the market in any substantial manner.

That concludes my statement.