May 17, 2001

Mr. David Ikari., Chief
Dairy Marketing
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814

Dear Mr. Ikari:

Land O' Lakes Inc. in Tulare California offers an alternative proposal for the hearings scheduled on June 28, 2001 and July 2, 2001 on the matter of the transportation allowance program. We oppose the proposal by Milk Producers council and the proposal by Imperial County. Southern California producers receive the highest quota prices in the state of California and so we see little need to provide for a transportation allowance for those producers. The pool does not need to be used for economic development for the Imperial Valley. We believe that the transportation allowance should continue to apply to milk from the South Valley to Southern California. Milk movement information clearly suggests that Southern California is a deficit market and that the transportation credit and allowance programs are needed to ensure adequate supplies of pure and wholesome milk for Class 1 purposes in Southern California. It is also true that the Southern California market area is losing producers and milk production and this is not the time to even consider a reduction in the transportation credits or allowances from the South Valley to Southern California.

Based upon updated information on hauling rates we recommend the following adjustment to the current transportation allowance in Article 9.2, Section 921.2 ©

For plants located in the Southern California receiving area, which shall consist of the counties of Los Angeles, Orange and Ventura:

(1) From Imperial, Inyo, Los Angeles, Mono, Orange, Riverside, San Bernardino, San Diego, and Ventura Counties: 0

(2) From Fresno, Kern, Kings, and Tulare Counties:

(1) From zero through 75 miles	0
From 76 – 125 miles	.4525 (per cwt)
From 126 – 160 miles	.575 (per cwt)
Over 160 miles	.645 (per cwt)

The current transportation allowance is inadequate to cover the cost of moving milk from the South Valley to Southern California Class 1 milk plants. The current transportation allowance program also provided a dis-incentive to move the closest milk to Southern California. We believe the new proposal will provide the incentive to move the closest milk to Southern California and improve the over-all efficiency in serving the Southern

California market. If the milk is needed for Class 1 purposes, then the transportation allowance should be adequate to cover that cost so as to not dis-advantage a producer from serving the Class 1 market.

Transportation Credit

Land O' Lakes recommends that the transportation credit in Section 300.2 of the Stabilization and Marketing Plan be increased from $.50 to $.695, or an increase of $.195 per cwt. The 19.5 cents per cwt increase in the transportation credit is needed to make up the difference between the freight cost and the area differential between the South Valley and Southern California for plant to plant movement of milk from Tulare to Swiss plant in Riverside California.

The specific language is as follows:

Section 300.2. Each handler located in counties designated herein as a supply county may deduct from the applicable minimum prices pursuant to Section 300.00, paragraph (A), a transportation credit for quantities of market milk and market skim milk shipped in bulk form to a plant located in a designated deficit county. Shipments of condensed skim milk and market cream are excluded from such transportation credits. Such deduction shall not exceed the amounts shown for such bulk transfers in the following schedule:

Designated Supply County	Maximum Deduction per cwt	For Shipments to Designated Deficit Counties
Tulare County	**$.695**	San Diego, Orange, Los Angeles, Riverside or Ventura Counties

The remainder of schedule remains unchanged. Please note Land O' Lakes did not recommend a change in the transportation credit from Fresno to Southern California. Very little milk is moved on a plant to plant basis from Fresno.

Land O' Lakes has served plants in Southern California on a plant to plant basis for about 40 years. The need to do so continues. The Swiss plant in Riverside utilizes tailored milk and in the past it has made sense to supply that product from the Land O' Lakes plant in Tulare. Milk is also being supplied to Driftwood on a plant to plant basis. The Southern California market remains a deficit market when taking into account the existence of a large cheese operation in Corona. We have argued in the past that plant-to-plant milk shipments are an efficient means of supplying the Southern California markets with milk.

(A) The Department of Food and Agriculture published data which showed that it was more efficient (less costly) to utilize plant to plant milk than when using ranch to plant milk movement.

(B) The demand for low fat products continues to be strong and this is why the Swiss plant has utilized low fat product, skim and condensed skim from the Land O' Lakes operation. For years, no one else seemed to want to serve the Swiss operation with tailored product. The Swiss plant pays service charges to cover costs involved in tailoring the milk products.

(C) To maintain equal raw product costs for California fluid milk operations it is necessary to update the transportation credit to reflect the cost of moving the milk into the Swiss operation of the Land O' Lakes plant in Tulare.

(D) Economic theory supports the concept of having price differences large enough to cover the costs of transportation between deficit market areas and surplus producing areas. In California a decision was made years ago that a transportation credit would compensate for some of the cost differences in moving milk from an area of surplus in the South Valley to deficit markets in Southern California.

(E) Milk production data clearly shows that Southern California's milk production is declining. Production declined in the year 2000 and production continues to fall in the year 2001.

(F) Milk is needed in Southern California. There is a considerable amount of milk that moved from the South Valley to Southern California on a plant to plant basis as well as on a ranch to plant basis. The milk shipped to Southern California is primarily used for Class 1 purposes. (Of course, the transportation credit only applies to the Class 1 milk moved from the South Valley to Southern California). Most of the milk moved to Southern California is tailored milk. The tailoring of milk on a plant to plant basis avoids the costly process of separating skim and cream in the Southern California bottling facility and from shipping surplus cream from Southern California to the South Valley for processing into butter

We urge you to consider the alternative proposals as a part of the hearings on June 28, 2001 and July 2, 2001.

Sincerely,

James W. Gruebele

James W. Gruebele
Consultant for Land O' Lakes