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ASSOCIATED MILK PRODUCERS, INC.
Southern Region

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April 25, 1997

Mr. Richard M. McKee
Director, Dairy Division
USDA/AMS, Room 2968
South Building,
P.O.Box 96456
Washington, DC 20090-6456

Via facsimile: (202) 690-3410

Dear Richard:

The following comments are submitted in response to the anticipation of a revised consolidated federal order map. Associated Milk Producers, Inc. - Southern Region has submitted several proposals to merge Texas and New Mexico, dating back to the early part of 1995. Since that time, several market changes have occurred which influence the inclusion of additional areas within the Southwest federal order area proposed by the cooperative.

On July 2, 1996, AMPI along with three other co-ops submitted a proposal to merge Texas, New Mexico, Arizona, Oklahoma, and Colorado into the "Great Southwest" federal marketing order. Since that time, the department published a preliminary recommendation for order consolidation as directed by Congress. The publication of that map resulted in a departure of two of the original supporters of the Great Southwest merger who consequently redirected their support to the boundaries suggested by the Division. This departure is primarily a result of both perceived and real benefits to these cooperatives. With the larger cooperative, having a Central market which would provide advantages through interest holdings in joint ventures with bottling facilities located within the stated boundaries gives them motivation to support the Central market. Such a market nurtures exclusion of outside supplies, as the fluid outlets contained therein are controlled by a small number of parties. Additionally, the departure of support from the West is due to a perceived price improvement through higher utilization in the Central market versus one in the Southwest. Such inferences are relative to differential levels and pooling provisions among the stated and surrounding federal order boundaries.

AMPI and United Dairymen of Arizona continue to support the initial effort with a consolidation of Texas, New Mexico, Arizona, and Oklahoma. The following comments support such a movement and provide reiteration and additions to comments previously submitted on behalf of AMPI.

The Southern Region of AMPI currently markets milk to five federal orders. AMPI accounted for 54% of the marketings under the combined Texas and West Texas/New Mexico orders in March of 1997.

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The Southern Region accounts for approximately 10% of the Southeast market through direct ship producer deliveries and plant transfers to bottling facilities located there. AMPI additionally markets milk through the Southwest Plains federal order, holding approximately 54% of milk located within the state of Oklahoma. AMPI also markets a small volume of milk into the Southern Illinois/Eastern Missouri market.

Background

The preliminary report on suggested federal milk order consolidation provides several criteria for combining order boundaries as directed by the 1996 Farm Bill. AMPI generally supports these parameters for order association which include:

1. Overlapping route disposition.
2. Overlapping areas of milk supply.
3. Number of handlers within a market.
4. Natural boundaries.
5. Cooperative association service areas.
6. Features common to existing orders, such as similar multiple component pricing payment plans.
7. Milk utilization in common dairy products.

The evolution of processing and quality control technologies coupled with transportation efficiencies and higher capital requirements drive fluid processors to work in larger, more efficient environments. In some parts of the US, milk plants process more milk on a monthly basis than some of the smaller federal orders. With the occurrence of this phenomenon, larger milksheds are required to fulfill their needs. This need for such milksheds paired with the distribution patterns of larger bottling facilities requires larger, common regulations within such boundaries.

AMPI views these changes in the marketplace as additional principles for identifying common marketing areas. Small order areas encourage manipulation resulting from misaligned utilizations and blend values. The move to larger federal order geographies promotes both efficient administration of the system and greater market efficiency through the minimization of such pricing challenges. As the number of processors declines, the opportunity to control market access becomes more apparent. The lack of sufficient handlers within some of the current order boundaries clearly exhibits this movement as the publishing of statistics is restricted. This again promotes the need for expansion of several federal order geographies.

Under the above stated criteria and background, AMPI offers the following:

Support

Southeast Marketing Area

AMPI supports continuation of the Southeast market as currently outlined with the addition of areas to include all of the state of Arkansas in addition to the reserve supply milkshed traditionally associated with the Southeast located in southern Missouri.

Proposals to subdivide this order have been filed with the Department. One such proposal suggests a division of the Southeast in order to alleviate the pricing pressures from milk located within this southern Missouri corridor. The incentive from a higher utilization market, and thus higher blend returns encourage such movements. Additionally, the transportation credit becomes an attraction for independent supplies from surrounding areas, which create disorderly market conditions throughout the year. These reasons for dividing the Southeast support the inclusion of this reserve supply area to be subject to regulation under the Southeast order. AMPI opposes any divisions to current boundaries, as the farm bill mandates "consolidation" of the system.

The referenced proposal also supports the division of East Texas/Louisiana/Mississippi and the Alabama/Georgia areas. Such a division would move the line for opportunity to obtain the much higher utilization orders to a more easterly direction. As southern Missouri and east Texas are now the line from which such attraction exists, that line would become divided between the Mississippi/Alabama border and the proposed east/west Texas border.

The inclusion of east Texas in a "Mid-South" proposal is supported by only a minuscule overlap in handler distribution. In the consolidation report, only 3.8% of route disposition overlapped from the Southeast into Texas. Conversely, Texas was only one of eleven orders that represented a small disposition into the Southeast. The present southeast area coupled with the aforementioned amendments would improve the balancing for the normally deficit region while maintaining more stable marketing conditions in the surrounding areas, and would retain the balance in handler route disposition between order areas.

The opportunity to address any intra-market issues may be dealt with through regional concessions afforded the reformation process as directed by the Department. Such issues as intra-order alignment, specifically with Louisiana milksheds failing to be attracted to nearby deficit locations, can be dealt with through the alignment of prices within the order. The inclusion of Arkansas and Southern Missouri with the Southeast are necessary to maintain a balance of supply as the regulation status of those areas change association to the Southeast. This is accomplished through the disincentive of moving milk only when pricing and transportation credits differences can move milk into the market. The suggested amendments for the Southeast will then become necessary for these intra-order changes to be effective.

AMPI has maintained the position of open marketing with all federal orders, and continues to support such an open-door policy. The attempt to construct "fences" through base-excess, dairy farmer for other markets, and similar plans prohibits price discovery through free markets.

Southwest Marketing Area

As stated, AMPI supports the merger of Texas, New Mexico, Arizona, and Oklahoma. It is clear that a majority of this merger is also apparent to the Department. Reasons to include the state of Oklahoma are reiterated in this paper.

There is significant overlap between handlers and milk production located within the state. One of the largest handlers in the state obtains the majority of its supply from New Mexico. Route disposition is obvious between handlers located in the market to both Texas and New Mexico. The criteria outlined in the initial report supports all of these facts, with the addition of common cooperative service areas.

In reviewing the preliminary report, it was revealed that the Department supported merging orders based on current boundaries. Upon review of data presented by numerous entities, we hope such ideas do not suggest a final consolidation based on this assumption. AMPI and others support the separation of Arkansas and southern Missouri as additions to the Southeast area. Such separation warrants review of the remaining portions of the Southwest Plains area. The data given in the preliminary report shows little association of this market to those located in the Central order. The limited association is primarily due to movements from plants located in the Springfield area to the north. Such associations are not true with respect to the Oklahoma market.

Frankly, the concept of constructing a Central market with limited opportunity to market to fluid handlers either owned or joined with other marketing entities restricts both sales and pooling opportunities under such an environment. AMPI currently operates a cheese plant in Hillsboro, Kansas which would be subject to this order. The Hillsboro plant has a capacity of 34 million pounds of milk per month. This is an insignificant portion of the total order area, when reviewing the status of probable regulated plants within the area. With eighteen of forty-one such plants owned or controlled by only two entities, the barriers to entry are compounded. Additionally, the proximity of the Hillsboro cheese plant to the milkshed for AMPI membership prohibits economically sound movements from southern locations to ensure pooling. And, the question of pooling standards under the order further exacerbates such pooling problems.

The milkshed in Oklahoma is closer to, and moves in a more parallel relationship with Texas. Texas and New Mexico offer balancing for these supplies where fluid markets are not available. It is our opinion that Oklahoma has more association when reviewing the list of parameters for measuring association in terms of market overlap.

In conclusion, we believe that these reasons along with previously stated positions warrant amendments to the initial order consolidation. Many of these views are supported by other entities and would provide strong economic reasoning for this stage of the reform effort.

Thank you for the opportunity to address this report. If you need any additional data regarding this request, please contact me.

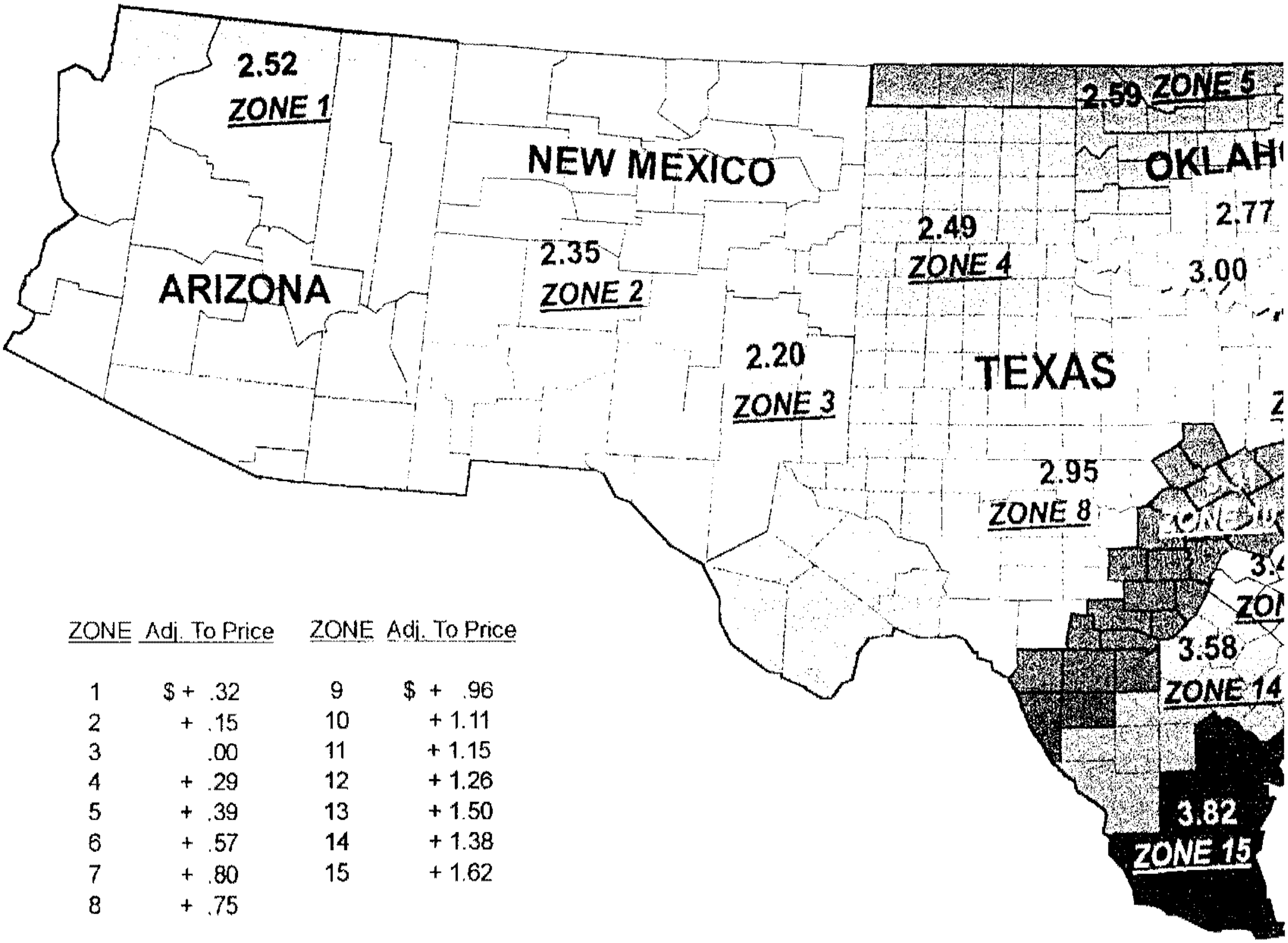
Sincerely,

Amy Clapper

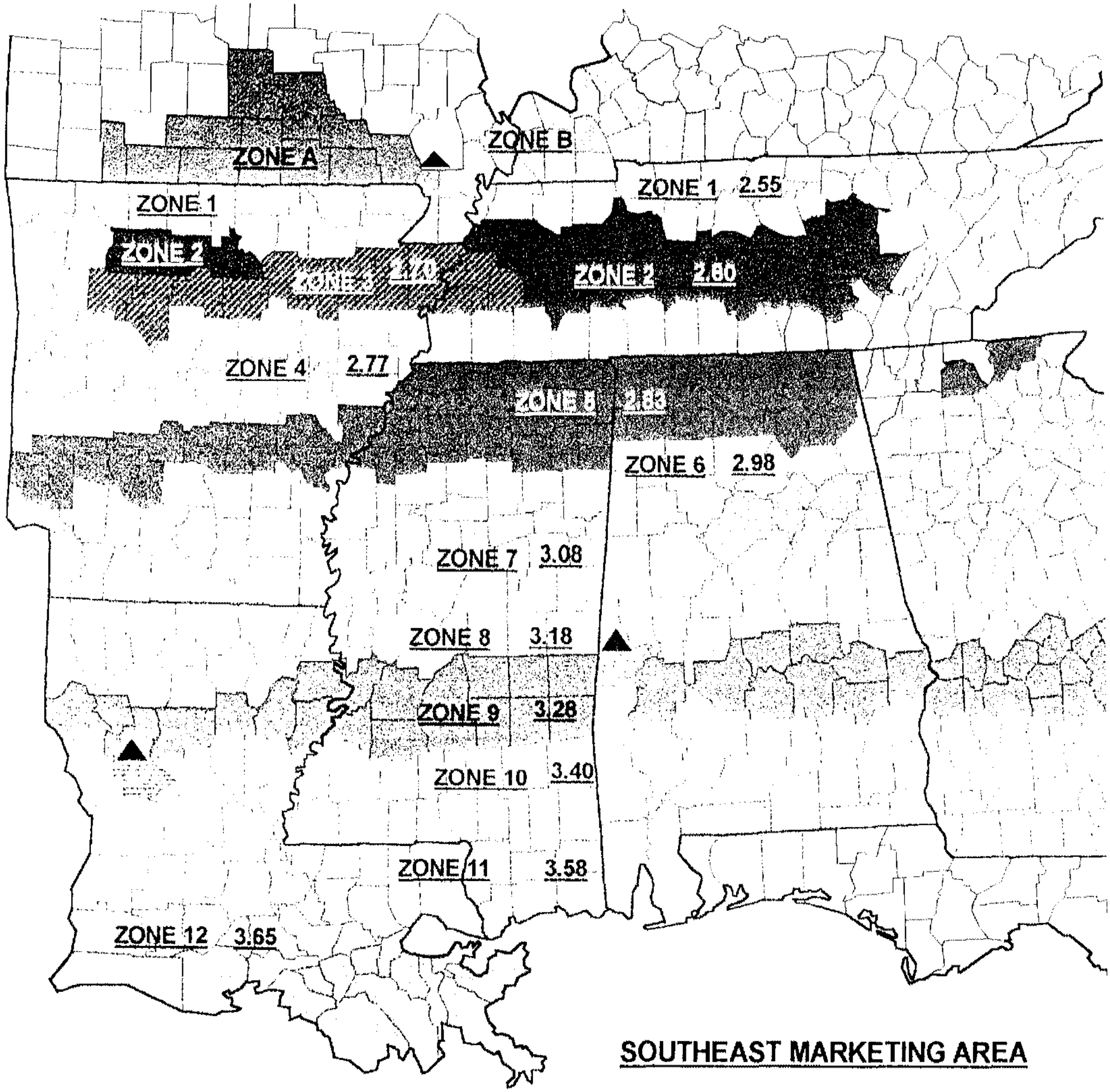
Amy Clapper
Associated Milk Producers, Inc.

cc: Sue Mosely, Market Administrator
Richard Fleming, Market Administrator
Don Nicholson, Market Administrator
Jim Carroll

PROPOSED GREAT
SOUTHWEST FEDERAL
MILK MARKETING ORDER
APRIL 1997



ZONE	Adj. To Price	ZONE	Adj. To Price
1	$ + .32	9	$ + .96
2	+ .15	10	+ 1.11
3	.00	11	+ 1.15
4	+ .29	12	+ 1.26
5	+ .39	13	+ 1.50
6	+ .57	14	+ 1.38
7	+ .80	15	+ 1.62
8	+ .75		



SOUTHEAST MARKETING AREA