



Dairymen's Marketing Cooperative, Inc.

USDA

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To: Hearing Clerk, STOP 9200-Room 1031
United States Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250 - 9200

MILK IN THE APPALACHIAN and SOUTHEAST FEDERAL MARKETING AREAS Docket Numbers AO-388-A17 and AO-366-A46; DA-05-06

This brief is filed by Dairymen's Marketing Cooperative, Inc.

Dairymen's Marketing Cooperative, Inc. (DMCI) supports Proposals 1, 2 and 3 -- Milk in the Appalachian and Southeast Marketing Areas, Docket Numbers AO-388-A17 and AO-366-A46; DA-05-06. DMCI opposes Proposals 4 and 5.

All of DMCI's member milk is located inside the Southern Missouri portion of the Southeast Order marketing area. Virtually all of DMCI's member-producers would be small businesses as defined by USDA for Federal Order hearings.

While DMCI doesn't have milk outside the marketing area and therefore doesn't receive Market Order Transportation Credit payments, we are members of Southern Marketing Agency, Inc. which does bring milk into Order 7 from outside the marketing area, and agency members receive Market Order Transportation Credit payments on these supplemental supplies. As an agency member, we see that the funds which flow into the agency pool from Market Order Transportation Credit payments are an important revenue source offsetting some of the massive costs of hauling milk into the southeast to meet the Class I deficit in the area. USDA must continue the Market Order Transportation Credit payments or producer members of cooperative associations like DMCI will suffer the losses brought on by higher supplemental milk costs. USDA must also get the Market Order Transportation Credit system back to a level of payment which was originally envisioned when the Market Order Transportation Credit provisions were first put into the Orders.

The contract haulers DMCI utilizes to move member milk have all complained of high fuel costs, and have increased their hauling charges to DMCI as a result. When DMCI moves milk beyond the local area, the Federal Order Class I differentials are not enough to cover the additional hauling cost. DMCI understands completely the losses that occur on these

movements and how these losses accrue to our member-producers. DMCI feels USDA has a choice: (1) fix the Class I differentials by having them reflect more of the cost of hauling, (2) put provisions in the Orders which help move milk located inside the Order and bring up to date the Market Order Transportation Credit provisions which help move milk from outside the Order, or (3) do both (1) and (2). We feel doing both is best, but will settle for interim relief via the processes proposed in Proposals 1, 2 and 3.

DMCI experiences hauling costs which greatly exceed the mileage rate included in the Orders and used in the Market Order Transportation Credit payments. In fact, actual costs of hauling can be \$0.50 to \$0.60 per loaded mile more than the mileage rate which goes into the Market Order Transportation Credit payments. Updating the mileage rate and making it responsive to changes in fuel costs should be a high priority for USDA. As costs of diesel fuel continue to rise, the emergency situation faced by marketers of milk only worsens. Likewise, increasing the assessment to fund the Market Order Transportation Credits is overdue. DMCI urges USDA to recognize these emergency marketing conditions and issue a Final Decision as soon as possible, and forego the recommended decision phase. It should be noted that as fuel costs increase, the Federal Order Class I differential surface becomes more and more outdated and irrelevant to the costs of moving milk. Emergency action by USDA is necessary to slow this degradation in the relevance of Class I differentials.

Over order prices do exist in the southeast, and these revenues are used to cover some of the enormous costs of supplying milk to meet the area's Class I needs. However, DMCI supports inclusion in the Orders of provisions which help move milk into and move milk inside the Orders, and assessments on handlers through the Orders to help pay for these costs. Over order prices have a place, but they are not permanent fixes. Many things can happen to cause over order revenues to decline or go away entirely. These causal factors can have absolutely nothing to do whatsoever with the supply and demand for milk, and just because over order revenues decline does not mean costs of supplying Class I milk will go down too.

Marketers of milk in the southeast need the assurance that some portion of the costs of supplying milk for Class I will be covered. Orders provide a level of assurance that over order prices simply cannot provide. Fairness in the allocation of these costs will be enhanced as more of the cost allocation is regulated. Marketers of milk will be much more likely to continue to serve the Class I needs of the marketing areas if there is some reasonable expectation of reimbursement of costs.

DMCI is opposed to proposal 4.

A handler's needed level of reserve is an individual business decision and should only be limited by the pooling provisions of the Order. If a handler desires a higher level of reserve yet all of the handler's milk is pooled by virtue of proper association with the Order, there is no need to limit payments from the Market Order Transportation Credit fund.

In addition, DMCI feels too many questions remain unanswered about the functioning of proposal 4 to be able to fully analyze the implications of the proposal and to establish procedures which treat all parties fairly. Proposal 4 should not be adopted.

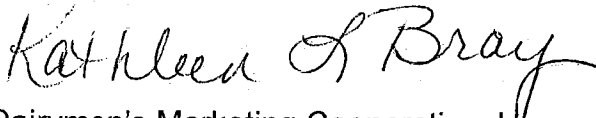
DMCI is also opposed to proposal 5.

As we mentioned, all of the member producers of DMCI reside in the southern Missouri portion of the Southeast Order marketing area. All of DMCI's member-producers are continually pooled on Order 7. Virtually every month, milk from DMCI members is diverted to a manufacturing plant located outside the Order 7 marketing area. Our producers serve the Class I needs of the Order 7 marketing area, yet proposal 5 seeks to punish our producers and create for them a blend price disadvantage simply because our milk must move outside the marketing area. This is not right, and smacks of discriminatory action or preferential treatment of some producers over others. These small businesses which are our producers would be treated unfairly even though their milk is available to supply the Class I needs of the Order every day, and all of the milk sits inside the marketing area.

Proposal 5 will encourage milk to move in uneconomic ways to avoid the price favoritism which the proposal will create. The last thing the southeast needs is an Order process or provision which will enrich haulers -- we spend too much money on hauling milk already.

Proposal 5 should be rejected as improper on its merits, as encouraging uneconomic movements of milk, and as just plain unfair. We believe a producer who serves the Order is due their prorata share of the Order's classified proceeds. There is no place for creating two classes of producers -- the favored class located in the interior of the marketing area, and an underprivileged class, located outside or on the edge of the marketing area.

Sincerely,

A handwritten signature in cursive script that reads "Kathleen L. Bray". The signature is written in black ink and is positioned above the typed name and title.

Dairymen's Marketing Cooperative, Inc.
Kathleen L. Bray
General Manager