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Ms. Dana Coale
Deputy Administrator
Dairy Programs
Agricultural Marketing Services
United States Department of Agriculture
1400 Independence Avenue, S.W.
Washington, DC 20250-0225

IN RE: MILK IN THE APPALACHIAN AND SOUTHEAST MARKETING AREAS, DOCKET NO. AO-388-A17 and AO 366-A46, DA-05-06

Dear Ms. Coale:

Select Milk Producers, Inc. and Continental Dairy Products, Inc. take the following positions in the above referenced proceedings: They support the additional charge for Class I transportation and issuance of transportation credits, but oppose the reblending of transportation credits beyond any funding from the purchasers of the milk. They support in general the concept of zoned back pricing of milk pooled on distant plants, but do not support the proposal at this time as it needs to be considered in a broader market view.

Select Milk Producers, Inc. is a milk marketing cooperative with members in New Mexico, Texas, Kansas, and Oklahoma. Some of its milk is sold into the Southeast and Appalachian marketing area. Continental Dairy Products, Inc. is a milk marketing cooperative with members in Indiana, Michigan, and Ohio. Its milk is marketed into the Appalachian and Southeast marketing areas.

The proposals being considered do little to fix the underlying problems in the long term. Although the funding and issuance of transportation credits should be now adopted, the Department was consider broader and different approaches to the Southeast.

Two problems now strangling the market and being addressed in this proceeding arise out of the Federal order reform of the FAIR Act. The consolidation of marketing areas has eliminated the ability of the order pricing to move milk. Class I prices do not move milk, blend prices do. When all of the plants in a large order share in the same blend, there is no market based incentive to move milk within the large marketing area. Further the absolute pricing of diverted milk which

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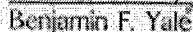
totally ignores the true relative market value to the market has created destructive economic incentives for milk never available to the market to nonetheless share in an already inadequate pool.

A third institutional factor works against the current regulations to economically provide milk to the marketing area without additional, more complex, regulations and pricing. Simply stated, milk production in the marketing area continues to decline as demand continues to grow. In the past, and continued to this day, producers in that region have assumed, and now are burdened with, the cost of supplying the milk they do produce to the market. This comes at a cost. Milk outside of the region can choose to come to market if it receives sufficient income. Milk within the marketing region must receive what it gets. What it gets depends upon how much it costs to bring in, that is attract economically, the milk from outside the region. The higher cost reduces in region producer income, reduced income reduces production, reduced production results in less milk, less milk results in more milk brought in, more milk brought results in more costs and the spiral continues. We are nearing the end of the spiral as there will soon not be any milk in the region to cover the cost to move the milk. At that point the plants will have to cover the cost. The issue needs to be fully addressed soon.

Consideration of the transportation credits and the zoned back pricing address the first two issues in part, but neither fully address the institutional issue.

Sincerely yours,
YALE LAW OFFICE, LP



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