

**BEFORE THE UNITED STATES DEPARTMENT
OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE**

In the Matter of :
Milk In The Northeast : **Docket Nos.:**
 : **AO-14-A70 et al;**
Marketing Area : **DA-02-01**

Testimony of
Dennis Schad
Economist and Marketing Director
Land O' Lakes, Inc.

on behalf of the
Association of Dairy Cooperatives
in the Northeast

Proposals 8, 9, and 11

September 13, 2002
Alexandria, Virginia

ADCNE Opposes Proposal #8

Proposal #8, submitted by Friendship Dairies would liberalize the Pool Supply Plant qualification procedures. Currently a Pool Supply plant must transfer or deliver directly (divert) to 7-A or 7-B plants sufficient volumes of milk to qualify. Qualification is determined by a relationship where distributing plant deliveries (numerator) are compared to total deliveries to the supply plant plus the diversions of the handler operating the supply plant (denominator). Proposal #8 would limit the deliveries in the denominator to only pooled Order 1 milk controlled by the operator and included on his handler report. The proposal would specifically exclude from the denominator milk from producer-handlers, milk pooled on another Federal order, non-pool milk and milk received at the supply plant as Order 1 coop diverted milk (9-C).

The intent of the supply plant qualification procedure is to qualify both the plant and the handler-operator of the plant. It is meaningless to qualify a supply plant in which the operator does not control the milk of a group of dairy farmers. A cheese plant operator would never incur the costs to ship milk from the plant to a distributing plant unless the plant intended to pool a group of dairy farmers and draw from the Federal order pool.

Thus, it is appropriate for the operator of plant, who also controls the milk of a group of dairy farmers, to qualify both the plant and the supply of milk he controls.

Proposal 8 would effectively reduce the supply plant qualification standards from their existing modest levels in this 45% Class I utilization market. ADCNE does not believe that reduction in the performance requirements in Order 1 are appropriate.

ADCNE Opposes Proposal #9

Proposal #9, submitted by Friendship Dairies, would liberalize the Pool Supply Plant qualifications. Currently a Pool Supply plant must transfer or deliver directly (divert) to 7-A or 7-B plants sufficient volumes of milk to qualify. Qualification is determined by a relationship where distributing plant deliveries (numerator) are compared to total deliveries to the supply plant plus the diversions of the handler operating the supply plant (denominator). Proposal #9 would add to the numerator route distribution and packaged fluid milk transfers from the supply plant.

Order 1 has a provision to qualify a distributing plant, the 7-A provision. That provision qualifies a distributing plant based on a Class I percentage of 25 percent and in-area route distribution of the Class I of 25 percent. The Proposal would cause unnecessary confusion to handlers by merging the characteristics of the 7-A and 7-C provisions together.

Additionally, the Proposal would have the possible unintended consequence of pooling on the order partially regulated distributing plants with route distribution (1001.3) greater than the 7-C plant-shipping requirement of 10 or 20 percent. Moreover, while the 7-A definition only includes in-area route distribution, the Proposal does not specify that the route distribution be within the marketing area.

ADCNE opposes Proposal #9 which combines the characteristics of two different order provisions for the benefit of the few supply plants that may have Class I sales. The Proposal confuses the provisions, such that a distributing plant could qualify as a supply plant. During the Reform Process, ADCNE advocated the expansion of Federal regulation into the unregulated portions of the Northeast and a lower in-area route disposition standard for 7-A plants. The Final Rule included neither. If the Proposal's intention is to accomplish the goal of extending regulation, ADCNE rejects the method and opposes Proposal #9.

ADCNE Opposes Proposal #11

Proposal #11, submitted by Friendship Dairy, would change the “producer for other markets” provisions of the Producer section. Currently a dairy farmer who is caused to be reported as non-pool by his handler is excluded from the pool for a specified period. Proposal #11 would change the effective dates of (b) (5) from December to June to January through July and in (b) (6) from July to November to August through December. On that portion of the proposal ADCNE sees no compelling reason to change the dates, but is open to other reasoning.

Our opposition to Proposal #11 comes from its abandonment of the provision in (b) (5) where a dairy farmer is excluded for the month he is de-pooled and for the two succeeding months. Proposal #11 would take away any penalty for de-pooling a producer during the current December through June period.

ADCNE proposed the “dairy farmer for other markets” provisions during the Order Reform process. Order 1 is surrounded by large areas of geography that is not regulated by any Federal order. This federally unregulated marketing area has allowed distributing plants in New York, Pennsylvania, Maryland and Virginia to be partially regulated by the Federal orders. The “dairy farmer for other markets” provision was advocated to provide a disincentive to handlers to use Order 1 to balance these partially regulated plants.

ADCNE opposes the portion in the Proposal that eliminates the two-month penalty for de-pooling milk during the first half of the year.

DAIRY FARMERS FOR OTHER MARKETS

SUCCEEDING MONTHS

<u>INITIAL MONTH</u>	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
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JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	