Utah Farm Bureau Federation

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Gino Tosi, Marketing Specialist
Order Formulation Branch
USDA/AMS/Dairy Program
Room 2968
1400 Independence Avenue
S.W. Stop 0231
Washington, D.C. 20250-0231

Dear Mr. Tosi:

Utah Farm Bureau Federation is a general farm organization representing over 22,000 families, including the large majority of Utah dairy producers. We are deeply concerned over the loss of income to Utah dairymen resulting from changes made in the way Federal Milk Market Order boundaries were aligned during 2000. We welcome the opportunity to submit these written comments in addition to oral testimonies that will be presented by several Utah dairymen during this hearing.

The dairy industry is important to Utah's agricultural economy. Milk production accounted for 18.4% of total cash receipts by farmers in 2000. Dairies are a vital market for alfalfa hay, the major agronomic crop grown in the state. Utah dairymen also raise significant volumes of beef and are major purchasers of feed grains. Milk produced on Utah dairies supplies the strong demand for fluid milk along the metropolitan Wasatch Front as well as other communities throughout the state. Per capita fluid milk consumption in this region is the highest of any comparable geographic region in the nation. Farm Bureau is keenly interested in maintaining the opportunity for Utah dairymen to compete in the marketplace and to serve the needs of the citizens of our state.

Restructuring of the Federal Milk Marketing Orders two years ago had a direct, negative impact on Utah dairy producers. Under the newly created Western Order #135, enormous quantities of milk produced for manufacturing plants in Southwestern Idaho and other states can now be "pooled" on Utah's strong market for fresh fluid milk. The net effect has caused a dramatic decline in Class I utilization. As a result, the mailbox price received by Utah dairymen, which has historically been the lowest in the nation, has declined even further. Table 1 illustrates the change in Class I utilization.

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Table 1 - Class I Utilization Percentages for Utah Dairies Producing Fluid Milk for the Wasatch Front

Order	Statistical Year	Uniform Milk Price	Class I % of Market
Western (135)	Feb. 2002	$12.09	17.35%
Western (135)	2001	$14.16	22.1 %
Western (135)	2000	$11.19	25.05%
Great Basin (139)	1999	$13.69	50.96%
Great Basin (139)	1998	$14.71	45.79%
Great Basin (139)	1997	$12.73	37.41%
Great Basin (139)	1996	$14.29	34.63%
Great Basin (139)	1995	$12.53	34.95%

Source: Compiled by Utah Dairymen's Association from FMMO statistics

The irony of this loss in utilization is that while fluid milk consumption has actually increased with population growth, the incentive for Utah dairies to produce for that market has been impaired by unfair pooling in the Class I market. The decline in revenue received by Utah producers is the result of dilution by large quantities of manufacturing milk in Idaho that suddenly became eligible for inclusion in Class I pricing following consolidation into Western Order #135. This phenomenon is illustrated in Table 2.

Table 2 - Differences in Milk Production and Class I Fluid Utilization under new Western Federal Order #135

	Total pounds of producer milk	Percent Change	Pounds of Class I Utilization	Percent Change
1999, Great Basin Order	1,859,650,515		870,762,555	
2000, Western Order	4,048,483,425	+ 117%	1,014,180,965	+16%
2000, Utah Production	1,511,572,672			

Source: Compiled by Utah Dairymen's Association from FMMO statistics

Prior to formation of consolidated Order #135, Southwestern Idaho and Eastern Oregon dairy producers had Class I utilization in the range of 5-8%, while Great Basin producers benefitted from much higher Class I utilization rates ranging from 35-50%. As shown in Table 1, Class I utilization in expanded Western Order #135 is now in the neighborhood of 20%. Federal Order Reform has created a windfall for producers of manufacturing milk in Southwestern Idaho and Eastern Oregon while at the same time hurting Utah producers and processing firms who had invested and built their operations to serve the fluid market in the Metropolitan Wasatch Front. The arbitrary decision to combine the Southwestern Idaho-Eastern Oregon Order #135 with the Great Basin Order #139 has resulted in inequitable pooling of Class I milk under the new Western Order #135. This is neither fair nor right.

During Federal Order Reform, Farm Bureau vigorously opposed the merger with Order #135. Quoting from our letter dated April 13, 1998 addressed to Richard M. McKee, Director, Dairy Division, AMS/USDA commenting on the proposed order reform: "We strongly recommend that the proposed Western Order be divided into two orders, with the current Idaho-

Eastern Oregon order becoming a separate order and leaving the current Great Basin Order intact.... This recommendation is due to the disparity in Class I use in the area covered in the proposed Western Order. Western Idaho is a very large milk shed, 8th largest in the nation, and continues to grow. Pooling provisions of the Great Basin Order (Order #139) must also be kept in place in the Utah Order to prohibit opportunistic entry of outside milk into the Utah Class I pool."

Evidence now shows that this unfortunate merger combined with the liberal pooling provisions of Western Order #135 has resulted in a precipitous drop in the percentage of Class I utilization, the sequel of which is severe financial stress for Utah's dairy industry that has forced many producers out of business. In July, 2000, there were 488 Utah dairies with permits to sell milk. Today there are only 403. This astonishing loss of 85 dairies (more than 17%) has come in less than 2 years under Federal Order Reform, while at the same time Idaho's dairy industry has experienced one of the fastest growth rates in the nation.

Farm Bureau supports the Federal Milk Market Order system. We believe it was created to assure a fresh, wholesome supply of fluid milk for consumers and also for the benefit of dairymen in managing fluid milk markets. Our comments have focused on the economic disparity caused by Class I pooling under Western Federal Order #135. We urge USDA to tighten the pooling regulations in Order 135 as suggested in Proposal #6 by reducing the amount of producer milk eligible for diversion to nonpool plants from 90 percent to 70 percent. We understand that diversion requirements are 60 percent and even lower in many other federal orders. Together with the Utah Dairymen's Association, we support tightening the percentage into the 70/30 range in Western Order #135. We respectfully ask the panelists in this hearing to listen closely to the appeals of individual dairy producers in order to understand the emotional as well as economic reasoning behind this recommendation.

Sincerely,

M. Reed Balls

M. Reed Balls
Vice President - Member Relations
and Assistant Secretary