



MID-AMERICA DAIRYMEN, INC.

3253 E. CHESTNUT EXPWY

SPRINGFIELD, MISSOURI 65802

A.C. 417/865-7100

FOR-33



Wednesday, April 3, 1996

Mr. Rich McKee
USDA/AMS Dairy Division
Order Formulation Branch
Room 2968, South Building
P.O. Box 96456
Washington, DC 20090-6456




Dear Rich,

For your information enclosed is a copy of potential Federal order marketing areas being considered by Mid-America Dairymen. I would be very interested in your comments.

If you have any questions, please give me a call.

Sincerely,

MID-AMERICA DAIRYMEN, INC.


John Wilson
Vice President of Fluid Milk Marketing/
Economic Analysis

JW/dr

Enclosure

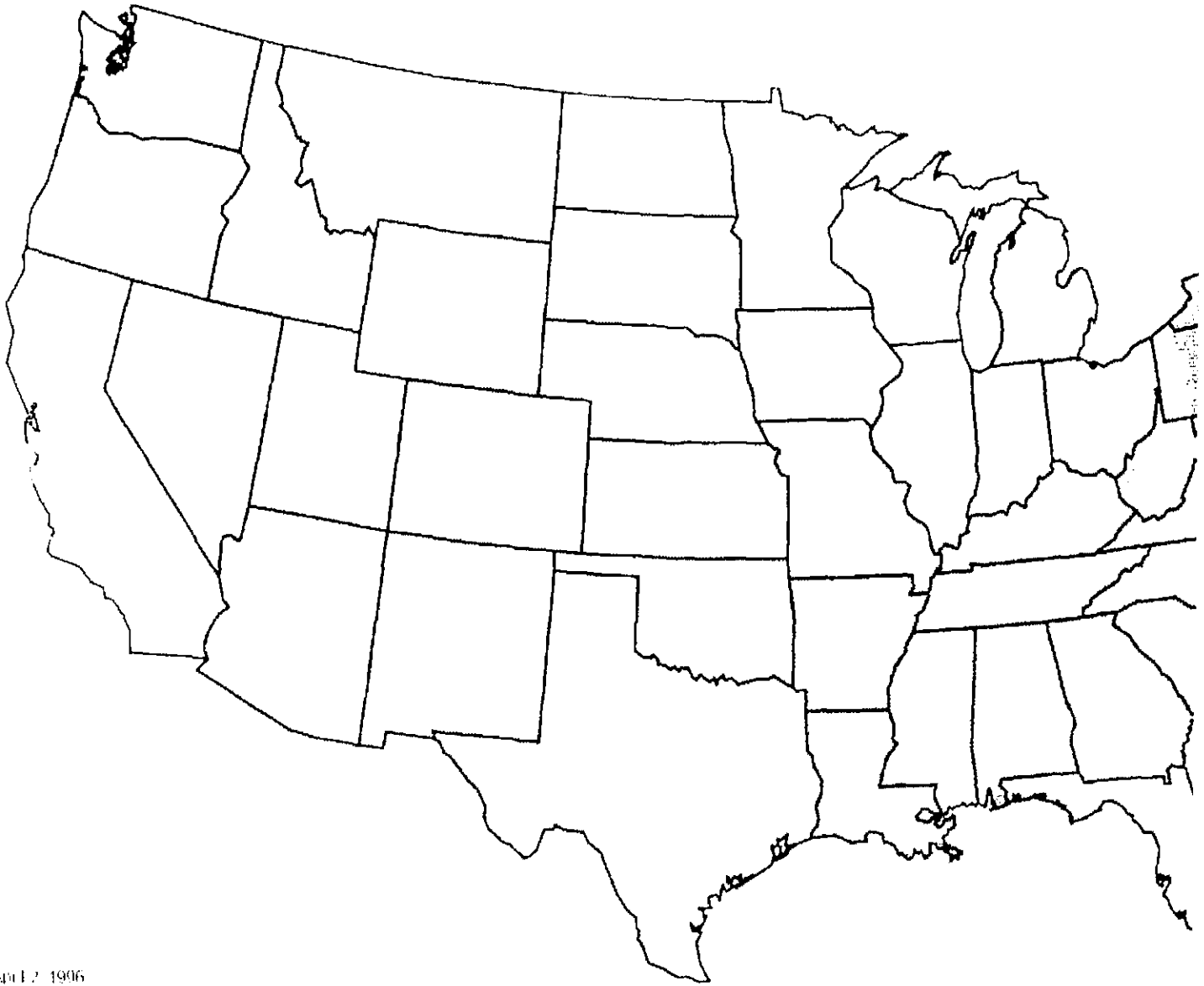
Distribution:

Dr. Donald Nicholson
Myron McKinley
Paul Kyburz
Jim Williamson

Richard Fleming
Rex Lothrop
Joe Albright

Arnold Stallings
Sue Mosley
Marvin Baumer

Proposed Federal Order Marketing



April 2, 1996



MID - AMERICA DAIRYMEN, INC.

3253 E. CHESTNUT EXPWY

• SPRINGFIELD, MISSOURI 65802

• A.C. 417/865-7100

Friday, August 9, 1996

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



Dear Richard,

This letter is in response to the invitation to submit proposals according to your letter of May 2, 1996 announcing the procedures to implement the FAIR Act. It is our understanding that ideas may be submitted at any time through the informal rule making process. Therefore, this letter is not intended to be totally inclusive, but to state a basic foundation of Mid-Am's beliefs in general terms.

General Provisions

Mid-Am supports four classes of milk. Class I and Class II products should remain unchanged in all Federal orders. Class III should be all current Class III products except butter, and Class IV should include nonfat dry milk and butter. Butter and nonfat dry milk should be in a separate class since they are market clearing commodities. The Class III and IV prices should be derived from product price formulas. Class III could be as simple as taking a factor times the Green Bay Exchange block cheddar cheese price. The Class IV price should be calculated with a formula similar to the current Class IIIA pricing formula. Consideration should be given in the Class III and Class IV formulas to produce yield, conversion costs and seasonal availability of milk for Class III and Class IV uses. Class III and Class IV prices in the Midwest should be higher than the West Coast.

Class I and II prices should move simultaneously. Mid-Am supports decoupling Class I and II prices from Class III and IV prices. Class I and II products are widely accepted as inelastic and command higher prices than milk used to produce Class III and IV products. Class I and II products should not be subject to the same price volatility as Class III products. Mid-Am is not prepared, at this time, to submit a detailed proposal on the Class I mover. However, in principal, we support fixing Class I prices at 1996 levels and adjust according to the supply/demand situation in the local market. In total the price surface is appropriate as demonstrated by the current balance in national supply and demand. Major adjustment in price is not necessary nor justified. We support adjustments through an informal rule making process based on industry comments to Market Administrators-somewhat similar to "call provisions" in some of today's Federal orders. This would allow Class I and II prices to remain responsive to current supply demand situations, but relieve the industry of the volatility it currently experiences. Class I prices should be high enough to attract an adequate supply of locally produced milk.

Class I and Class II prices should be established at levels that allow cooperatives to recover market balancing costs (supplemental and surplus) in order for consumers to pay those costs instead of dairy farmers.

The pooling provisions of various orders should be structured to assure that adequate supplies of milk will be attracted to fluid use. Therefore, higher utilization markets, such as the Southeast should have tighter shipping provisions than lower utilization markets such as the Upper Midwest.

Federal Order Mergers

Attached is a map outlining Mid-Am's proposed merged orders which complies with the congressional mandate of not less than 10 or more than 14 Federal milk marketing orders.

In the Southwest, an agreement has been reached between Mid-Am, AMPI, WDCI, and United Dairymen of Arizona regarding the merger of the following Federal orders: Texas, New

Mexico/West Texas, Central Arizona, Eastern Colorado, Western Colorado, the Oklahoma portion of Southwest Plains and parts of Wyoming. Jim Box of AMPI submitted a request on behalf of the above parties under separate cover. Therefore, we will not discuss this proposal further at this time.

The Great Basin, Southwestern Idaho, Eastern Oregon and Pacific Northwest Federal orders should be merged. Mid-Am does not have any involvement in these orders, but it is our understanding that there is significant Class I and procurement overlap.

The Southeast Federal order should be modified to include the Carolina, Tennessee Valley, and Louisville-Lexington-Evansville Federal orders, as well as the Arkansas and Missouri portions of Southwest Plains. The Counties in the state of Virginia, not currently part of Federal order 1004, should also be included. The reasoning for this configuration is the intense procurement overlap, as well as some Class I overlap between these new areas.

Southwest Missouri is clearly a reserve supply for Southeastern Class I markets. Milk in the Southwest Missouri portion of the Southwest Plains marketing area regularly moves to handlers pooled on Federal order 1007 (e.g., Little Rock, Fulton, Memphis on a 12 month basis). Additional shipments are made to other areas of Federal order 1007 in the fall months. With the close proximity (relatively low hauling cost) and higher blend price resulting in a competitive advantage for producers shipping directly to these markets, disorderly marketing conditions prevail which can be eliminated only by including Southwest Missouri in the Southeast Region. Northwest Arkansas likewise has the potential for the same situation, considering it's location. However, Class I sales overlap is a major reason for it's inclusion. The Hiland Dairy plant in Ft. Smith, Arkansas has significant sales in the Little Rock market and is expected to have more of a presence in the future.

Handlers regulated on Federal orders 1005 and 1007 compete for supplies in East Georgia, and sales in South Carolina and Georgia. There are blend price disparities in East Georgia which will be eliminated by including the area in the Southeast Region.

Handlers regulated on Federal orders 1005 and 1011 compete for supplies in East Tennessee and Southwest Virginia, and sales in the Carolinas and East Tennessee. There are blend price disparities in Southwest Virginia and East Tennessee which will be eliminated including both areas in the Southeast Region.

Handlers regulated on Federal orders 1007 and 1011 compete for supplies in South Central Tennessee and South Central Kentucky and sales in Central Tennessee and Atlanta/ North Georgia. There are blend price disparities in Central Tennessee which will be eliminated by including the areas on the Southeast Region.

Handlers regulated on Federal orders 1046 and 1011 compete for supplies in Eastern and Southeastern Kentucky and sales in Central and Eastern Kentucky. There are blend price disparities in Southeastern Kentucky which will be eliminated by including the area in the Southeast Region.

Handlers regulated on Federal orders 1007 and 1046 compete for supplies and sales in South Central Kentucky. There are blend price disparities in the same area which will be eliminated by including the area in the Southeast Region.

Southern Virginia should be included with the Southeast for the following reasons: 1) the Kroger plant at Lynchburg, Virginia is already pooled on Federal order 1005; 2) There is major sales overlap between Virginia plants and plants regulated on Federal order 1005; 3) Western, Southwestern and Southern Virginia are common procurement areas for both Virginia and Federal order 1005 plants.

Federal order 1046 should be included with the Southeast Region and not with a Northern region. Pooling Kentucky plants with areas to the north will widen the blend difference between Nashville and Louisville. This will encourage Kentucky producers to shift to Southern handlers, thus possibly making it difficult for Kentucky handlers to attract an adequate supply of milk.

A significant overlap of handler packaged sales is present between Louisville, Tennessee Valley, and Southeast order handlers. With the exception of some Cincinnati area handlers and the Kroger Winchester, Kentucky sales into Federal order 1033, only a limited overlap of sales occurs between Louisville order handlers and handlers pooled on the northern Federal orders.

The overlap of the Federal order 1046 procurement area is much greater with that of Federal order 1011 and Federal order 1007 than with any Federal order to the north.

It is our understanding there is a proposal submitted by the two Florida cooperatives merging the three Florida Federal orders. Mid-Am supports that proposal. As an alternative, Southern Georgia could be included in the Florida order since that area is used to supply Florida most of the year.

There is an understanding between several cooperatives in the Northeast to merge Federal orders 1, 2, and 4. Mid-Am supports that combination based on producer procurement overlap, as well as Class I sales overlap.

The Southern Michigan Federal order should remain as it is today. Like Florida, Michigan is surrounded by water, allowing it to remain relatively isolated from other markets.

The Ohio Valley and Eastern Ohio/Western Pennsylvania Federal orders should be merged. There is producer overlap, as well as Class I competition between handlers regulated on these various orders.

The Upper Midwest and Chicago regional Federal orders should be merged. There is major procurement and Class I sales overlap between these orders. These markets are similar in that the Class I handlers compete with cheese plants for their milk supply.

Eastern South Dakota, Nebraska-Western Iowa and the Greater Kansas City orders should be merged along with the entire State of Kansas. This includes part of the current Southwest Plains

order. There is significant overlap in these areas on procurement and Class I sales. Northeast Kansas is a reserve supply for the Kansas City, Wichita and Omaha/Lincoln markets. Also, there are packaged sales into Kansas City from plants in Lincoln and Omaha, Nebraska. There is Class I sales overlap in Southwest South Dakota between handlers regulated in Federal order 1065 and Federal order 1076. Milk located in Northern Nebraska has been a reserve supply for Black Hills.

The Iowa, Southern Illinois-Eastern Missouri, Central Illinois and Indiana Federal orders should be merged. Iowa is a reserve supply for the St. Louis and Central Illinois markets. Indianapolis and St. Louis Class I markets are closely associated from a Class I competitive standpoint and both use the Mid-Am supply plant at Effingham, Illinois, as a reserve supply. Iowa could be included with the Chicago-Upper Midwest merger except Des Moines is a difficult market to service and requires a higher blend to attract an adequate supply for Class I. This market should act as a buffer between the very low utilization market to the North and the very high utilization market to the South.

Mid-Am appreciates the opportunity to participate in this historic event. We would be pleased to provide additional information if the department desires.

Sincerely,

MID-AMERICA DAIRYMEN, INC.



John Wilson
Vice President of Fluid Marketing/
Economic Analysis

JW/dr

