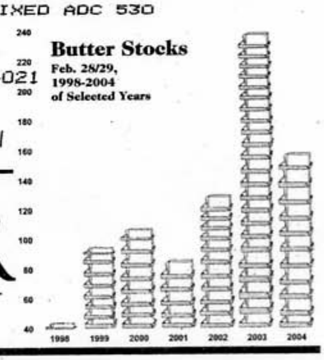

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Northeast Order To Tighten Pooling Standards, Rejects Marketwide Credit

Washington—USDA's Agricultural Marketing Service (AMS) on Thursday published a recommended decision that amends certain pooling and related provisions in the Northeast federal milk marketing order but denies a proposal that would have established a marketwide service payment in the order.

Also, AMS is recommended that amendments that would change reporting and payment date provisions be adopted.

The decision is based on the record of a public hearing held in September of 2002. Comments are being accepted on this recommended decision through May 24.

Marketwide Service Payments

The marketwide service payment proposal being denied by AMS had sought to establish a six-cent per hundredweight payment in the form of a market "balancing" credit to handlers. As proposed, a balancing credit would have been provided if the handler pooled a least a million pounds of milk per month, provided less than 65 percent of such pooled milk is shipped to distributing plants for Class I use or represents at least 3 percent of the total volume of milk pooled on the Northeast order.

The Northeast order does not currently contain a marketwide service payment provision. However, a form of a marketwide service payment had been available to certain cooperative handlers in the pre-federal-order-reform New York-New Jersey order. That payment consisted of two components: a cooperative service payment and a balancing payment.

The balancing component was far smaller than the proposed six cents per hundredweight credit under consideration in this proceeding, AMS pointed out. The cooperative service payment could total up to three cents per hundred. An additional "up to" one cent was provided for balancing.

By comparison, the marketwide service payment proposal considered in this proceeding was dedicated entirely to compensating eligible handlers for balancing functions.

The marketwide service payment proposal was offered by the Association of Dairy Cooperatives in the Northeast (ADCNE), which represents a number of dairy co-ops whose milk is pooled on the Northeast order, including Agri-Mark, Dairy Farmers of America (DFA), Dairylea Cooperative, Land O'Lakes, Maryland and Virginia Milk Producers Cooperative, O-AT-KA Cooperative, St. Albans Cooperative Creamery, and Upstate Farms Cooperative.

The proposal also received additional support or endorsement in writing from the National Milk Producers Federation and New York State Farm Bureau Federation.

In post-hearing briefs, support for this proposal was completely withdrawn by Agri-Mark, a major participant and member of ADCNE who provided hearing testimony in favor of adopting a marketwide service payment for balancing. Also, Land O'Lakes, another ADCNE member, indicated its change to a neutral and uncommitted position for the adoption of a balancing credit.

ADCNE's rationale for balancing payments rested on the argument that the Northeast order has a large number of independent milk producers who avoid incurring the costs of operating and maintaining facilities that provide outlets for milk when not needed for fluid use.

• See **No Marketwide Credit**, p. 3

Mountain Region Posted Biggest Increase In Milk Production Last Year; Was Only Region To Boost Cow Numbers & Output Per Cow

Washington—The Mountain region posted the largest increase in milk production among the 10 milk production regions broken out by the US Department of Agriculture (USDA), according to statistics released by USDA this week.

The Mountain region also posted the biggest gain in the percentage of total US production among all regions last year, according to a table included in an update to the "Livestock, Dairy & Poultry Outlook," which is published by USDA's Economic Research Service (ERS).

For this statistics series, the Mountain region includes eight states: Idaho, New Mexico, Arizona, Montana, Wyoming, Colorado, Utah and Nevada.

Last year, milk production in the Mountain region totaled 23.571 billion pounds, up 4.2 percent, or 940 million pounds, from 2002. The region accounted for 13.84 percent of total US milk production, up from 13.31 percent in 2002 and more than double its share of 6.7 percent in 1991.

The Mountain region was also home to the nation's most productive dairy cows last year. Output per cow in the region was 21,144 pounds, up 0.6 percent, or 119 pounds, from 2002.

Cow numbers also increased in the Mountain region, from 1.076 million head in 2002 to 1.115 million head last year. That increase was due to increases in cow numbers in Idaho, New Mexico, Arizona and Nevada, plus no change in cow numbers in Montana and Colorado.

Pacific: The Most Milk, And Cows

The Pacific region—which includes California, Oregon, Washington, Hawaii and Alaska — also boosted milk output and its share of national production last year, but to a lesser extent than did the Mountain region. Milk production in the

• See **Mountain Region Milk**, p. 8

USDA Extends Pilot Program That Turns CCC-Owned NDM Into Cheese To Help Feed The Needy

Washington—US Secretary of Agriculture Ann M. Veneman on Thursday agreed to extend for one year a Milwaukee Hunger Task Force program that converts surplus nonfat dry milk into Mozzarella cheese for local food pantries and shelters.

Her decision reverses USDA's decision last month denying permission to continue the pilot program.

The Hunger Task Force of Milwaukee, WI, worked with USDA to turn surplus nonfat dry milk into 20,000 pounds of Mozzarella that was distributed to needy families.

In the task force's pilot program, USDA had shipped 43,000 pounds of nonfat dry milk to Alto Dairy Cooperative last August, which then provided about 20,000 pounds of Mozzarella to the task force and kept almost 12,000 pounds of NDM to compensate for its ingredient and labor costs. •

EU Cheese Output, Consumption Expected To Keep Growing; Exports To Fall Slightly

Brussels, Belgium—The medium- and long-term outlook for European Union (EU) cheese consumption is in general positive, though slightly weaker than the 7-percent increase posted over the 2000-01 period, according to a report published this week by the European Commission.

Over the medium term, butter production is projected to decrease slightly, while the downward trend both for production and consumption of skimmed milk powder (SMP) should resume over the medium and long term, after a short interruption in 2002 and 2003.

These and other projections are included in the new report, "Reform of the Common Agricultural Policy: Medium-Term Prospects for Agricultural Markets and Income in the European Union, 2003-2010."

Per capita cheese consumption for the EU is projected to rise from 18.9 kilograms (about 41.6 pounds) in 2002 to about 20.3 kilograms (44.7 pounds) by 2010.

The steady growth in domestic consumption is expected to absorb most of the expected increase in cheese production, leaving less to be exported. From 2005 onwards, EU cheese exports are expected to decline slightly and then stabilize somewhat at around 430,000 tons (948 million pounds) by 2010.

The recent slowdown in cheese production growth resulted in more milk being channelled into butter production, creating a situation of weak prices and high intervention stocks, the report noted. But butter output is projected to fall slightly.

Milk quota increases foreseen for the period 2006/07-2008/09 are not expected to change this downward trend as the production of other dairy products is projected to absorb most of the additional deliveries. Further, lower intervention prices under the reform of the EU's Common Agricultural Policy (CAP) will

• See **EU Cheese Prospects**, p. 5

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In this regard, it was asserted that the independent producers essentially receive a higher blend price for their milk because they avoid the costs of balancing, which are largely absorbed by dairy co-ops that own manufacturing plants. As a matter of equity, ADCNE is of the opinion that the entire market, rather than only co-ops, should share in bearing the costs that arise from providing these market-balancing operations and facilities.

A witness for Dairylea asserted that the Class I needs of the Northeast market are so large and unique among federal orders that without compensation for the costs incurred for balancing, such activities might not otherwise be provided.

Dairylea's witness asserted that there is no other viable market mechanism through which excess milk supplies can be adequately disposed of other than through the butter-powder balancing facilities of the region's six largest co-op handlers.

Among those opposing the marketwide service payment proposal and the need in general for a balancing credit were representatives for New York State Dairy Foods, Inc. (NYSDF), the International Dairy Foods Association, several proprietary handlers including Friendship Dairy, Queensboro Farms, Marcus Dairy, and Worcester Creameries, Dean Foods, H.P. Hood, and two independent dairy farmers.

Representatives for the proprietary handlers testified and all maintained that if a balancing credit feature were adopted, they would not be eligible to receive the proposed marketwide service payments even though they too incur costs for performing market balancing functions. These witnesses also testified that if this proposal were adopted, they would be placed at a competitive disadvantage in procuring milk when compared to large co-op handlers because they would need to pay a higher effective price for milk.

In this regard, the witnesses indicated that as small businesses they would be treated unfairly. Each of the proprietary handlers pointedly observed that the benefit of marketwide service payments would accrue only to the large-scale butter-powder processors located in the Northeast marketing area.

A witness for Queensboro Farms testified that as an operator of a supply plant, the company provides balancing services for the market that are similar to those performed by large-scale nonfat dry milk plants and accordingly should receive compensation for providing balancing services if a balancing credit for the order is adopted.

However, the witness emphasized and asserted that the proposal unfairly excludes proprietary handlers on the basis of the milk volume eligibility criteria.

A witness testifying on behalf of NYSDF noted that every handler in the Northeast marketing area performs some market balancing functions and therefore should be eligible to receive a credit if USDA decided to adopt a balancing credit feature for the Northeast order.

The witness asserted that if the largest handlers received marketwide service payments, then smaller handlers would face relatively higher costs and would therefore be placed at a competitive disadvantage in the price they pay for a supply of milk.

A consultant witness for NYSDF testified that adoption of this proposal would serve to unduly enhance the power of larger co-ops at the expense of smaller co-ops.

The witness asserted that smaller co-ops pooling milk on the Northeast order whose monthly milk receipts are not sufficient to meet the proposed criteria for receiving a balancing credit might be forced to affiliate with a larger co-op eligible to receive marketwide balancing credits.

Why USDA Opposed Payments

USDA said the hearing record contains no persuasive argument or compelling evidence to find that there are cost inequities that prevail between co-op dairy farmers and independent dairy farmers to the extent that would warrant adoption of a provision providing payments from one group of producers to another that is supervised by government regulation.

The applicable Class III and Class IV pricing formulas and other free market transactions charged by the large co-ops with balancing facilities sufficiently offset balancing costs and are adequate to sustain existing balancing facilities and operations, according to USDA.

Further, the Northeast order Class I price is sufficiently high to ensure that a sufficient supply of milk for fluid use, together with the Class IV price as established under the order, will provide for the orderly disposal of milk when not needed for fluid use, USDA continued. The Northeast order already provides for cost equity in the minimum pricing mechanisms and the marketplace is providing the ability for transactions outside the terms of the order that currently do not exhibit the need for additional regulation.

Changes To Pooling Standards

Regarding Northeast order pooling standards, USDA's decision recommends amendments that would establish year-round supply plant performance standards, exclude milk received by supply plants from producers not eligible to be pooled on the Northeast order from supply plant performance standards, remove the split-plant provision, establish a one-day touch base standard, establish explicit diversion limits for pool plants, prohibit the ability to pool the same milk on the Northeast order and a marketwide pool administered by another government entity, and grant authority to the market administrator to adjust the touch-base and diversion limit standards as market conditions warrant.

The hearing record provides sufficient evidence to conclude that features of the pool plant provision are not appropriate given the prevailing marketing conditions of the Northeast order, USDA said.

The record reveals that the lack of supply plant performance standards in every month and the lack of explicit diversion limit standards for all pool plants in every month of the year has allowed producers from areas located far from the marketing area to participate in the distribution of proceeds from the marketwide pooling of milk without demonstrating a reasonable level of consistent and regular service in meeting the market's Class I needs, USDA said.

Reporting, Payment Date Changes

USDA's decision recommends several specific changes to the reporting and payment date provisions of the Northeast order, including changing the submission date of monthly handler reports to on or before the 10th day of the month, from the current ninth day.

Also, USDA recommends announcing the producer price differential (PPD) and statistical uniform price on or before the 14th day of the month (from the current 13th), but allowing the market administrator additional days if the 14th falls on a Saturday, Sunday, or national holiday. Making payments to the producer settlement fund (PSF) would be required no later than two days after the announcement of the PPD; currently, payments must be made no later than the 15th of the month, unless the 15th falls on a weekend or holiday.

Finally, USDA's decision modifies the date which payments from the PSF are to be disbursed to handlers to the day after the due date required for payment into the PSF; requires partial payments to producers be made no later than the last day of the month (currently, payment must be received by each producer on or before the 26th of the month); and requires final payments to producers be made no later than the day after the required date of payment to handlers from the PSF (currently payment must be received by each producer no later than the day after the 16th day of the following month). •