United States Department of Agriculture
Before The Secretary of Agriculture

In re:)Docket Nos.
Milk in Northeast and other) AO-14-A74
Marketing Areas)DA-06-01

Brief on Class III/IV Price Make Allowance Hearing

Submitted by:
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Introduction

This brief is submitted on behalf of Southeast Milk, Inc. (SMI). This brief addresses Proposal One which was the subject of a hearing held January 24 – 27, 2006 in Alexandria, VA.

Proposal One sought a change in the Class III/IV price make allowances. This change was presented in three different scenarios. The three different scenarios had slightly different make allowances for producing butter, skim powder, cheese and whey powder; resulting in three different affects on the Class III and IV prices. Class I and II prices would also be affected by this change for no other reason than that the Class III and IV pricing formulas were being adjusted.

SMI is opposed to Proposal One. The loss of income by changing the make allowances causes inequity and undue for dairy farmers supplying milk for the Class I market.

Proposed Findings of Fact

The following are SMI's proposed findings of fact. All references to the transcript of the hearing are designated as "Tr" and to hearing exhibits are designated as "Ex".

A. Associated Milk Producers Inc, (AMPI) currently pays their producers at slightly higher or right at about the blend level and still meets a competitive pay price. (Gulden – Jan. 26, 2006, Volume III, Tr 30, 31, 40, & 41). The competitive pay price in the Upper Midwest Order is well above the Statistical Uniform Price as evidenced in the following information.

1. Upper Midwest Order Price Information

i.	2004 Average Statistical Uniform Price	$14.75
ii.	2004 Average Wisconsin Mailbox Price	$16.57
iii.	2004 Average Minnesota Mailbox Price	$16.30
iv.	2004 Average Iowa Mailbox Price	$16.06
v.	2005 Average Statistical Uniform Price (Jan-Sep)	$14.37
vi.	2005 Average Wisconsin Mailbox Price (Jan-Sep)	$15.36
vii.	2005 Average Minnesota Mailbox Price (Jan-Sep)	$15.12
viii.	2005 Average Iowa Mailbox Price (Jan-Sep)	$15.02

(Ex 14 & 15) & (Notice was granted to include Federal Milk Marketing Order Statistics for 2004 & 2005).

2. From the above information, it is clearly evident that Upper Midwest milk buyers are paying well above the statistical uniform price. If milk buyers are able to pay well above the statistical uniform price in a market that is dominated with cheese manufacturers, then an increase in the make allowance is not needed.

B. Dairy farmers in fluid markets are subsidizing the manufacturing markets with this change in the make allowances that calculates the Class III and IV prices.

1. Total industry revenue lost in the first year is $158 million, $243 million, and $318 million under the three different scenarios. (Ex 2)

2. SMI producers would lose $6.6 million, $10.3 million and $13.7 million under the three different scenarios in the first year. SMI's portion of the lost revenue is 4.2%. (Ex 13, page 3) and (Pittman – Jan. 27, 2006, Volume IV, Tr 66)

3. Total Federal Order Marketings for 2005/06 is 119,239,000,000 lbs. (Ex 2 page1).

4. SMI's annual milk production is 2,940,000,000 lbs, which is 2.4% of Federal Order marketings of milk. SMI producers absorb 4.2% of the income loss while supplying the market with 2.4% of the milk. Increasing the make allowances puts an additional burden on producers in the fluid markets. (Pittman – Jan. 27, 2006, Volume IV, Tr 66).

C. SMI operates a manufacturing plant that balances milk supplies in the Southeast and will not benefit from any change made to the make allowances. This creates inequity among the different Class III and IV manufacturing plants that balance milk supplies. This inequity puts our plant at a disadvantage. Processors in Class I & II markets have had to absorb these increased costs as well. Certain dairy processors should not be granted special pricing considerations, where others are forced to absorb the added costs.

1. SMI operates an Ultra Filtration plant on a seasonal basis. This operation strictly balances the milk supply in the southeast region. (Pittman – Jan 27, 2006, Volume IV, Tr 71).

2. SMI gains nothing from increasing the make allowances to help them maintain a profitable balancing plant. Higher energy and labor costs affect this plant as well as all other plants. (Pittman – Jan 27, 2006, Volume IV, Tr 71 & 74).

D. Population growth in Florida and Georgia are expected to increase greatly in the next 25 years. The challenge will be, can enough milk be produced locally and/or can enough milk be transported into the Southeast to supply the region with its growing needs for fluid milk. With dairy farmers in the Southeast region absorbing a greater percentage of the lost income, milk production will surely decline more in the Southeast, than in other areas of the country.

Increasing the make allowances will make it even more difficult to meet the demand of fluid milk in an area of growing population.

1. US Census Bureau is estimating that between the year 2000 and 2030 that an additional 16,534,779 people will move into Florida and Georgia. The 2000 population for the two states was 24,168,831. (Ex 61).

E. SMI has 294 dairy producer/members. Of those 294 members, 166 producer members or 56% of SMI's total membership are considered small businesses as defined by the USDA. These 166 small businesses will be adversely affected if the make allowances are increased. At least 25% will be affected enough to where this decision could force them out of business.

1. The Hearing Notice provides the opportunity for concerns of small businesses to be heard. (Ex 1)

Conclusion

Dairy producers in the Upper Midwest are paid well above the statistical uniform blend price and will continue to be paid that way, regardless of what happens to make allowances. The strong competition for milk in that region may even reflect higher premiums paid if make allowances are increased as proposed. The most efficient plants will continue to set the premium levels paid to dairy producers.

Since the producers in the Upper Midwest will not lose much income, who does absorb the income losses? Producers in the fluid markets! Producers in fluid markets such as the Southeast should not be asked to subsidize the manufacturing plants outside of their region. If USDA's analysis is correct that milk supplies and prices will correct over a period of five years, and the net effect of income loss from the adjusted make allowances is minimal. Then the producers who have lost the most income will be out of business and that will be the producers in the Southeast. In a market that is expecting a large growth in population in the next 25 years, it cannot afford to lose any more dairy producers. Because of the reasons stated above, we respectfully request that the Department deny the proposal request by Agri-Mark et al.

Respectfully submitted,

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