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 due 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 an automatic "balancing credit" to handlers. As proposed, a balancing credit would have been provided if the handler pooled a lost a million pounds of milk per month, provided less than 45 percent of such pooled milk was 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 provision existed in the pre-pooling era in the Northeast and New York-Jersey orders. That payment consisted of two components: a cooperative's service payment and a balancing payment. The balancing component was far smaller than the proposed six-cent-per-hundredweight credit under consideration in this proceeding, AMS pointed out. The cooperative service payment could total up to three cents per hundredweight.

An additional "tie-up" clause was provided for balancing. By comparison, the marketwide service payment proposal considered in this proceeding was dedicated entirely to compensating slugging 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 cooperatives whose milk is pooled on the Northeast order, including Agri-Mark, Dairy Farmers of America (DFA), Dairyland Co-Op, Land O'Lakes, Maryland and Virginia Milk Producers Cooperative, Otvos Cooperative Creamery, and Upstate Farms Cooperative.

In post-hearing briefs, support for this proposal was considerably, and a major participant and number 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 spiritual 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 also avoid incurring the costs of operating and maintaining facilities that provide for milk used when net used for fluid milk.

• See Mini Marketwide Credit,p.3

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

Brussels, Belgium—The medium growth in demand for European Union (EU) cheese consumption is expected to continue through 2003, despite slighter from the 7.7 percent increase in 2002-2003 period, according to a report published this month by the International Dairy Federation (IDF).

Over the medium term, butter consumption is expected to decrease slightly, while the downward trend for both production and consumption of skimmed milk powder (SMP) should reverse over the short-term. After a sharp 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 EU, 2003-2020."

For cape cheese production for the EU is expected to remain at 18.9 million (46.7 million) in 2002 to about 20.1 kilograms (46.7 million) by 2010.

• See EU Cheese Prospects, p.5

Mountain Region Posted Biggest Increase in Milk Production Last Year; Was Only Region To Boost Cow Numbers & Milk Output Washington—The mountain region posted the largest increase in milk production among the 16 milk producing regions broken out by the USDA's Dairy Statistical Reporting Service (DSRS), according to statistics released by USDA this week.

The mountain region also posted the biggest gains in the percentage of total US milk production among all regions last year, according to a table included in an update to the "Livestock, Dairy & Fertilizer Outlook," which is published by USDA's Economic Research Service (ERS). For that statistics archive, the mountain region includes eight states Idaho, New Mexico, Arizona, Montana, Wyoming, Colorado, Utah and Nevada. Last year, milk production in the mountain region trended 23.71 billion pounds, up 4.2 percent, or 940 million pounds, from 2002. The region accounted for 13.94 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 124,444 pounds, up 6,412 from 119,032 pounds, from 2002.

Cow numbers also increased in the mountain region, from 1,276,439 to 1,313,539, an increase of 37,001 head last year. Those increases are expected to continue. In 2003, cow numbers are projected to increase to 1,352,629 in Idaho, New Mexico, Arizona and Nevada, from 1,292,670 in those same states in 2002.

Pacific; The Most Milk, And Cows

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

• See Mountain Region Milk, p.9
In this regard, it was asserted that the independent producers essentially receive a higher price basis for their milk because they avoid the costs of balancing, which are largely absorbed by the co-ops on a
milk-consuming basis. As a matter of equity, ADC in the opinion of the co-ops that the market order, rather than only co-ops, should share in bearing the costs that arise from providing these market-balancing operations and facilities.

A witness for DairyLink asserted that the Class I needs of the North- east market are so large and unique among federal orders that without compensation for the costs incurred for balancing, milk prices might not reflect adequate levels.

DairyLink's witness maintained that there is no other viable market mechanism through which excess milk supply can be adequately dis
denied of other than through the balancing power-balancing facilities of the region's six largest co-op

Handlers. Among those opposing the mar
ketwide service payments 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 property
handlers including Friendship Dairy, Quonset Farms, Martin Dairy, and Crescent Cooperatives,Dean Foods, R.E. Hoed, and two
independent dairy farmers.

Representatives for the property
handlers testified as well and main
tained 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 per
forming market-balancing functions. These witnesses also testified that if this proposal was adopted, they would be placed at a competitive dis
advantage in processing milk when compared to large co-op handlers because they would need to pay a higher effective price for milk.

So, in response, the witnesses indi
cated that small businesses would be harmed unfairly. Each of the property handlers' representative asserted that the benefit of the market
twide service payment would accrue only to the large-scale butter

processors located in the Northeastern market area.

A witness for Quonset Farms testified that in an operation of a sup
ply plant, the company provided certain services for the market that are similar to those performed by large-scale dairy customers and accordingly should receive com
pensation for providing balancing services if a balancing credit for the order is adopted.

However, the witness emphasized and asserted that the proposal unilaterally excludes proprietary busi

nesses on the basis of the milk volume
eligibility criteria.

A witness testifying on behalf of
NYSDF noted that every handler in the Northeastern market area pro
vides some market balancing service and therefore should be eligible to receive a credit if USDA decides to adopt a balancing credit feature for the Northeast order.

The witness asserted that if the largest handlers received mar
ketwide service payments, then smaller handlers would face rela
tively higher costs and would therefore be placed at a competi
tive disadvantage in the price that they pay for a supply of milk.

A consultant witness for NYSDF testi
fied that adoption of this propo
sition would serve to unfairly enhance the power of larger co-ops at the expense of smaller co-ops.

The witness noted that small co-ops pooling milk on the North
eastern order whose income from
reps is not sufficient to meet the
proposed criteria for receiving a bal
ancing credit might be forced to affil
iate with a large co-op eligible to receive marketwide balancing cred
its.

Why USDA Opposed Payments

USDA and the hearing record con
cluded to painstaking argument or cenc
elling evidence to find that there are cost inequities that prevail between co-ops they and independent dairy farmers to the extent that would prevent payment of a provision providing payments from one group of producers to another that is supported by govern
ment regulations.

The applicable Class III and Class IV pricing formulas and other mar
ket mechanisms charge by the large co-ops with balancing facilities sufficiently offset balance out and are adequate to sustain existing bal
ancing 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 final sale, together with the Class IV price as established by the market, will provide for the orderly disposal of milk when not needed for fluid
use, USDA continued. The North
east order already provides for con
certed 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 Northeastern pooling standards, USDA's decision recomm
ends immediate changes that would establish three-year supply plant performance standards, exclude milk received by supply plants of pro
ducers not eligible to be pooled on the Northeast order from supply plant performance standards, remove the explicit provision enabling the

one-day loss basis standard, elimi
nate explicit deviation limits for pool plants, prohibit the ability to pool the same milk on the Northeast order and a marketwide pool administered by another govern
ment entity, and grant authority to the market administrator to adjust the touch-base and deviation limit standards as market conditions require.

The hearing record provides suffi
cient evidence to conclude that stan
dards of the pool plant provision are not appropriate given the prevailing market conditions of the North
east order, USDA said.

The record reveals that the lack of supply plant performance stan
dards in every month and the lack of explicit deviation limit standards for all pool plants in every month of the year has allowed producers from areas located far from the marketing areas to participate in the distribution of grounds from the marketwide pooling of milk with
out demonstrating a reasonable level of commitment and regular serv
ice to the meeting the market's Class I needs, USDA said.

Reporting, Payment Data Changes

USDA's decision recommends sever
al specific changes to the reporting and payment date provisions of the Northeast order, including changing the admission date of monthly han
der reports to on or before the

day of the month, from the current third day.

Also, USDA recommends amending the producer price differentials (PPD) and statistical uniform price on or before the 14th day of the month (from the current 15th), but allowing the market administrator additional days of the 14th falls on, a Sat

day, Tuesday, 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 in the 14th day after the date required for payment into the PSF, requires partial payments to producers to 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 to be made no later than the day after the required date of payment to han
dlers from the PSF (usually must be received by each producer no later than the 16th day of the following month).