

**Testimony of Paul G. Christ  
at the hearing to consider amendments  
to Federal milk orders 5 and 7  
Atlanta, Georgia  
February 25, 2004**

**Proposal No. 5**

My name is Paul G. Christ. I reside at 245 Indian Trail, So., Afton, Minnesota 55001. I appear here as a dairy consultant with 40 years of experience in working with Federal milk marketing orders, both as an employee of the Dairy Programs of the Agricultural Marketing Service, and as a vice president of Land O'Lakes, Inc. During this time I have been exposed to nearly all issues related to Federal milk orders, and participated in the development of many of the current provisions of milk orders.

My testimony here is offered on behalf of Dean Foods, Inc., in support of proposal No. 5 and in opposition to proposal No. 1. Proposal No. 5 would divide the existing Federal order No. 7 area into a smaller territory, representing the eastern part of the existing marketing area, and a new, Mississippi Valley Marketing Area (proposed Federal order No. 94) that would cover the western part of the existing Federal order No. 7 marketing area.

The provisions of the new Federal order No. 94 would be the same as the provisions of the existing Federal order No. 7, with the exception of the marketing area provision (paragraph 1007.2) and the producer-handler definition (paragraph 1007.10).

The new Mississippi Valley Marketing area proposed by Dean Foods, Inc., and Prairie Farms Dairy would include all the territory in Arkansas, Louisiana and Mississippi, plus the counties in Missouri and Tennessee that are now included in the Southeast Marketing Area.

The effect of our support of proposal No. 5 and opposition to proposal No. 1 would be construct three independently functioning Federal orders in the territory now covered by the Appalachian and Southeast marketing areas. The reason for doing this is to create a more flexible set of incentives to get milk delivered to all the pool distributing plants in the area covered by the three orders.

There are two basic incentives to ship milk to a pool distributing plant under any order. These are:

1. The blend price paid on the milk shipped at the location of the pool distributing plant receiving the milk.

2. The blend price paid on additional milk that is qualified for pooling by the shipment, but not shipped to the distributing plant.

There are two basic disincentives to ship milk to a pool distributing plant under any order. These are:

1. The net cost of transportation of milk shipped to a pool distributing plant.
2. The blend price available on the same milk, shipped and not shipped, under another Federal milk marketing order.

Obviously, milk that is currently pooled on Federal orders No. 5 and 7 could be pooled on another order. Maybe not so obviously, milk that is not currently pooled on Federal orders No. 5 and 7 could be pooled on other orders (or on proposed Federal order No. 94) if the incentives to do so were greater, and the disincentives for not doing so were smaller.

From the above discussion it is clear that the primary force driving where milk is shipped and pooled is blend price, and in particular, relative blend prices among potential destinations. So, any modification of the existing orders that will facilitate flexibility in the blend price within an order, and greater variation of blend prices between locations will encourage shifts in milk shipments away from areas with a relative abundance of milk to areas with a relative shortage of milk.

It is now the case for the Southeast order that much of the milk pooled in the area originates to the North or to the West of the marketing area. And, since the Southeast order produces an attractive blend price, there exists an incentive to ship milk to pool distributing plants under the order. However, the greatest incentive is to ship to the closest pool distributing plant, which would likely be located on the fringe of the marketing area. There is less of an incentive to ship to a more distant pool distributing plant within the marketing area, even though it has a greater need for milk. The disincentive of increased transportation costs increases faster than the incentive of the greater location value of the blend price.

An example of this same phenomenon occurs in the St. Louis/Southern Illinois portion of the Central Milk Marketing Area. The Central order has an abundance of milk pooled on it and a low Class I utilization percentage. But, fluid processors in the St. Louis/Southern Illinois portion of the marketing area have great difficulty attracting adequate supplies of milk for Class I use. The difference in blend prices between the fringe areas where much of the milk is pooled and St. Louis is too small to cover the additional cost of transporting milk to St. Louis.

The current situation in the Southeast complicates the problems of St. Louis and Southern Illinois handlers in attracting milk for Class I use. While there is not enough incentive to attract milk to the area from other Central order sources, the Western Kentucky and Western Tennessee portions of the Southeast Marketing Order Area provide much better

incentives to attract milk for Class I use. For example, the difference in location value between St. Louis (\$2.00 zone) and Western Kentucky (\$2.20 zone) is small (\$0.20), the difference in blend prices during 2003 was \$0.81 (Exhibit 44). This means that milk flowing from north to south has an incentive to bypass the deficit location of St. Louis to be delivered to a less deficit area of Western Kentucky or Western Tennessee.

But, once the milk from the north finds an outlet under the Southeast Milk Marketing order, there is little further incentive to find an outlet further east or south.

Splitting Federal Order No. 7 into two orders would reduce the blend price difference between St. Louis and the new Mississippi Valley Marketing Area, reducing the incentive for milk to bypass St. Louis.

Splitting the Southeast Order Area into two would also increase the blend price difference between the western portion of the current order and the eastern portion of the order. This would increase the incentive to move milk further east and south to the more deficit portion of the current marketing area. This change of circumstances would improve the functioning of all three orders; the Central order, the new Southeast order, and the new Mississippi Valley order.

Keeping a separate order to regulate the Appalachian Marketing Area will provide separate and distinct incentives to ship milk to pool distributing plants under both orders, encouraging milk to go to the more favorably priced area, which has the greater need for milk.

Similarly, establishing a separate order to regulate the Mississippi Valley Marketing area would provide separate and distinct incentives to ship milk to pool distributing plants under what is now the eastern part of the Southeast Marketing Area, and what is now the western part of the Southeast Marketing Area. Milk would be encouraged to flow to the area that had the greatest need for milk, as exhibited by the higher blend price.

Another reason for splitting the current Federal Order No. 7 marketing area into two orders is that it would improve the functioning of the transportation credit program.

The rate of payment for movements of supplemental milk from the west (Texas and New Mexico) is greater than the rate of payment for movements of supplemental milk from the northeast (Pennsylvania, Virginia, Maryland) because the Class I price differences are smaller. It is likely, with our proposed change, that the new, smaller, Southeastern order transportation credit pool could operate at a lower average cost than if it must also absorb the higher transportation credit payments for supplemental milk from the west.

The result of these recommendations would be to enhance the performance of local Federal milk marketing orders in fulfilling their legal mandate of "assuring an adequate supply of milk for fluid use."