
SOUTHERN MARKETING AGENCY, INC.

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June 24, 2002

Mr. Richard McKee, Deputy Administrator
USDA - AMS - Dairy Programs
1400 Independence Avenue, SW
Washington, D.C. 20250-0225

Dear Mr. McKee:

Southern Marketing Agency, Inc., on behalf of the member-producers of Arkansas Dairy Cooperative Association, Inc., Dairy Farmers of America, Inc., Lone Star Milk Producers, Inc., Maryland & Virginia Milk Producers Cooperative Association, Inc., and Southeast Milk, Inc. who deliver milk to plants regulated under the Appalachian Order No. 1005 and the Southeast Order No. 1007 hereby requests that a hearing be held at the earliest practical date for the purpose of merging the two Orders into one Southeast Federal Milk Marketing Order No. 1007 pursuant to the attached proposal.

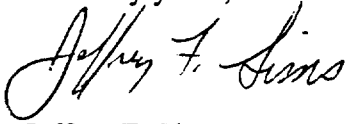
The following information is provided for your consideration regarding the proposed merger to the Southeastern Federal Order No. 1007 and the Appalachian Federal Order No. 1005:

1. Within the marketing areas of the Southeast Federal Order No. 1007 and the Appalachian Federal Order No. 1005 there is substantial and significant competition for sales between plants regulated under the two Orders. Currently there are some seventeen (17) Federal Order No. 1005 Pool Distributing plants (of a total of 26) with route disposition into the Southeast Federal Order No. 1007 marketing area while some seven (7) Federal Order No. 1007 Pool Distributing plants have route disposition into the Appalachian Federal Order No. 1005 marketing area.
2. Disposition on Routes inside the Southeast Federal Order No. 1007 area by Appalachian Federal Order No. 1005 Pool plants for the year 2001 was 10.6 percent of the total route disposition by all plants in the Southeast Federal Order No. 1007 area. Route disposition by Appalachian Federal Order No. 1005 Pool plants was 62 percent of the total route disposition in the area by all non-pool plants. When considering sales into the nearby and adjacent area (western Kentucky, Nashville, TN., Northern Alabama, Atlanta, GA., and Savannah, GA.) of the Southeast Federal Order No. 1007, route disposition by Appalachian Federal Order No. 1005 Pool plants probably represents over one-fourth of the total route disposition in that nearby and adjacent portion of the Southeast Federal Order No. 1007 area.

3. Route disposition in the Southeast Federal Order No. 1007 area by Appalachian Federal Order No. 1005 Pool plants has increased since January 1, 2000. Appalachian Federal Order No. 1005 Pool plant route disposition into the area increased by 5.9 percent in 2001 from 2000. Appalachian Federal Order No. 1005 Pool plant route disposition into the Southeast Federal Order No. 1007 area for January through April of 2002 increased by 8.1 percent over their route disposition in the area for the same period of 2001 and was 11.0 percent greater than their route disposition in the area for the same period of 2000.
4. There is a substantial and significant overlap of the source of supply of producer milk for the two Orders. Producers located within the marketing areas of the two Orders in southern Indiana, central Kentucky, central Tennessee, central North Carolina, western South Carolina, and central and southern Georgia supply milk to plants regulated under each of the two Orders. Outside the marketing areas, producers located in northeastern Texas and northwestern Indiana also supply milk to plants regulated under each of the two Orders.
5. The five cooperatives represented by Southern Marketing Agency, Inc., for the month of April 2002, marketed 79.5 percent of the producer milk pooled on the Appalachian Order No. 1005 and 87.8 percent of the producer milk pooled on the Southeast Order No. 1007. On a merged order basis the Southern Marketing Agency, Inc. cooperatives would have marketed 84.0 percent of the producer milk pooled on the merged Order.
6. The difference in the Class I utilization of producer milk pooled under the Southeast Federal Order No. 1007 and the Appalachian Federal Order No. 1005, while not great, does lead to disruptive marketing conditions in those areas of common supply. The difference in the Class I utilization of producer milk pooled on the two orders is due primarily to a disproportionate burdening of the balancing of the supply of milk necessary to meet the two order's needs by the Southeast Federal Order No. 1007 pool. For the Appalachian Order No. 1005 for the year 2001 the Class I utilization was 65.22 percent and for the Southeast Order No. 1007 for the year 2001 it was 61.85 percent
7. To help resolve the disproportionate burdening of the cost of supplying plants regulated under the two orders, beginning April 2002 the five member cooperatives of the Southern Marketing Agency, Inc. began the common pooling of the costs and returns to supply member customers regulated under the Appalachian Federal Order No. 1005 and the Southeast Federal Order No. 1007. While this procedure will help resolve the disproportionate sharing of cost and returns between the members of the five cooperatives involved, it will not resolve the burden for all the producer milk pooled on the two Federal Orders. Only a merger of the Southeast Federal Order No. 1007 and the Appalachian Federal Order No. 1005 will resolve the inequities that exist.
8. Common provisions of the Southeast Federal Order No. 1007 and the Appalachian Federal Order No. 1005 exist. Except for a few minor differences, the provisions of the Orders are the same.
9. No additional parties will be regulated as a result of the adoption of the proposed merger of the Southeast Federal Order No. 1007 and the Appalachian Federal Order No. 1005.

I hope that the above points provide the information regarding the proposed merger that you need. If you have any questions, please give us a call.

Sincerely yours,

A handwritten signature in cursive script that reads "Jeffrey F. Sims".

Jeffrey F. Sims
Administrator
Southern Marketing Agency, Inc.

Attachment

cc: S. Mosley
H. Friedly
G. Jung
F. Wiedower
J. Collins
J. Wilson
J. Baird
J. Bryant
C. Covington

Southeast Federal Order No. 1007 Merger Proposal

SOUTHERN MARKETING AGENCY , INC.

June 24, 2002

Merge the Appalachian Federal Order No. 1005 and the Southeast Federal Order No. 1007 to form a new Southeast Federal Order No. 1007 by terminating the Appalachian Federal Order No. 1005 and amending the Southeast Federal Order No. 1007 as follows:

A. Revise Section 1007.2 Southeast marketing area to read as follows:

Section 1007.2 Southeast marketing area.

The marketing area means all territory within the bounds of the following states and political subdivisions, including all piers, docks, and wharves connected therewith and all craft moored thereat, and all territory occupied by government (municipal, State or Federal) reservations, installations, institutions, or other similar establishments if any part thereof is within any of the listed states or political subdivisions:

Alabama, Arkansas, Georgia, Louisiana, North Carolina, Mississippi, South Carolina, and Tennessee

All of the States of Alabama, Arkansas, Georgia, Louisiana, North Carolina, Mississippi, South Carolina, and Tennessee.

Florida Counties

Escambia, Okaloosa, Santa Rosa, and Walton.

Indiana Counties

Clark, Crawford, Daviess, Dubois, Floyd, Gibson, Greene, Harrison, Knox, Martin, Orange, Perry, Pike, Posey, Scott, Spencer, Sullivan, Vanderburgh, Warrick, and Washington.

Kentucky Counties

All of the State of Kentucky except for the counties of Boone, Boyd, Bracken, Campbell, Floyd, Grant, Greenup, Harrison, Johnson, Kenton, Lawrence, Lewis, Magoffin, Martin, Mason, Pendleton, Pike, and Robertson.

Missouri Counties:

Barry, Barton, Bollinger, Butler, Cape Girardeau, Carter, Cedar, Christian, Crawford, Dade, Dallas, Dent, Douglas, Dunklin, Greene, Howell, Iron, Jasper, Laclede, Lawrence, Madison, McDonald, Mississippi, New Madrid, Newton, Oregon, Ozark, Pemiscot, Perry, Polk, Pulaski, Reynolds, Ripley, Scott, Shannon, St. Francois, Stoddard, Stone, Taney, Texas, Vernon, Washington, Wayne, Webster, and Wright.

Virginia Counties and Cities

Buchanan, Dickenson, Lee, Russell, Scott, Tazewell, Washington, and Wise, and the cities of Bristol and Norton.

West Virginia Counties

McDowell and Mercer.

B. Revise Paragraph 1007.7 (d) to read as follows:

Section 1007.7 Pool plant.

(d) A plant located within the marketing area or in the State of Virginia that is operated by a cooperative association if pool plant status under this paragraph is requested for such plant by the cooperative association and during the month at least 60 percent of the producer milk of members of such cooperative association is delivered directly from farms to pool distributing plants or is transferred to such plants as a fluid milk product (excluding concentrated milk transferred to a distributing plant for an agreed-upon use other than Class I) from the cooperative's plant.

C. Revise Paragraph 1007.7(g) by adding a new subparagraph to paragraph (g) to read as follows:

Section 1007.7 Pool plant.

(6) That portion of a pool plant designated as a "nonpool plant" that is physically separate and operated separately from the pool portion of such plant. The designation of a portion of a regulated plant as a nonpool plant must be requested in writing by the handler and must be approved by the market administrator.

D. Revise Subparagraphs 1007.13 (d)(1), (d)(2), and (d)(7), renumber (d)(6) to (d)(7) and (d)(7) to (d)(8), and add a new (d)(6) to read as follows:

Section 1007.13 Producer milk.

(1) In any month of January through June, not less than 15 percent of the production of the producer whose milk is diverted is physically received at a pool plant during the month;

(2) In any month of July through December, not less than 33 percent of the production of the producer whose milk is diverted is physically received at a pool plant during the month;

(6) Milk of a dairy farmer shall be eligible for diversion the first day of the month during which the milk of such dairy farmer was physically received as producer milk at a pool plant and the dairy farmer has met the delivery requirements as specified in subparagraphs (1) or (2) of this paragraph;

(7) Diverted milk shall be priced at the location of the plant to which diverted; and

(8) The delivery percentage requirements and the diversion percentages in paragraphs (d1) through (4) of this section may be increased or decreased by the market

administrator if the market administrator finds that such revision is necessary to assure orderly marketing and efficient handling of milk in the marketing area. Before making such a finding, the market administrator shall investigate the need for the revision either on the market administrator's own initiative or at the request of interested persons. If the investigation shows that a revision might be appropriate, the market administrator shall issue a notice stating that the revision is being considered and inviting written data, views, and arguments. Any decision to revise an applicable percentage must be issued in writing at least one day before the effective date.

E. Revise Subparagraphs 1007.82 (c)(1), (c)(2)(ii), and (c)(2)(iii) to read as follows:

Section 1007.82 Payments from the transportation credit balancing fund.

(1) Bulk milk received from a plant regulated under another Federal Order and allocated to Class I milk pursuant to Section 1000.44(a)(12); and

(ii) The dairy farmer was not a "producer" under this order during more than 2 of the immediately preceding months of February through May and not more than 50 percent of the production of the dairy farmer during those 2 months, in aggregate, was received as producer milk under this order during those 2 months; Provided, from the inception of this amendment, any dairy farmer who qualified for payments under the provisions of the former Appalachian Federal Order 1005 or the Southeast Federal Order 1007 shall continue to qualify under these provisions through the following January; and

(iii) The farm on which the milk was produced is not located within the specified marketing area of this order.