64

BEFORE THE UNITED STATES DEPARTMENT
OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

In the Matter of	:	**Docket Nos.**
	:	AO-14-A74 et al;
	:	DA-06-01
Milk In The Northeast	:	
	:	
	:	
Marketing Area, et al	:	

<u>TESTIMONY OF DENNIS SCHAD FOR THE ASSOCIATION OF DAIRY COOPERATIVES IN THE NORTHEAST</u>

This statement is given on behalf of the Association of Dairy Cooperatives in the Northeast (ADCNE). The ADCNE cooperatives represent in aggregate more than 65% of the Order 1 pool. Following is a brief description of their operations in Order 1.

Agri-Mark, Inc., headquartered in Methuen, Massachusetts, has approximately 1300 members located in the six New England states and New York. It markets about 2.5 billion pounds of milk annually. Agri-Mark owns and operates four manufacturing plants including cheese plants in Middlebury, Vermont, Cabot, Vermont, and Chateaugay, New York; and a butter and powder plant in West Springfield, Massachusetts.

Dairylea Cooperative Inc., headquartered in Syracuse, New York, represents 2,400 dairy farmers, most of whom are pool producers under the Northeast Order.

Dairy Farmers of America, Inc. (DFA) is a national cooperative of more than 13,000 farms. The DFA Northeast Area Council represents 2,200 dairy farmers, with most being Order 1 pool producers. DFA owns two Order 1 area powder plants at Reading and Middlebury Center, Pennsylvania under the name of Deitrich's Milk Products, LLC; and is an owner-member of O-AT-KA.

Land O'Lakes, Inc., is a cooperative with a national membership base. In the Northeast, Land O'Lakes has over 2,000 members who are pooled on Order 1. LOL owns and operates an Order 1 pooled butter/powder plant located in Carlisle, Pennsylvania.

Maryland and Virginia Milk Producers Cooperative Association, Inc., is a cooperative headquartered in Reston, Virginia, with approximately 1400 producers in 11 states in the east and southeast. It owns and operates an Order 1 pool plant at Laurel, Maryland, which has butter/powder manufacturing capacity; and also owns and operates an Order 5 pool manufacturing plant at Strasburg, Virginia. Maryland and Virginia also owns and operates Class I plants in Virginia and North Carolina.

O-AT-KA Milk Products Cooperative, Inc., is a federated cooperative owned by Upstate, DFA and Niagara Milk Producers Cooperative, Inc., of Niagara Falls, NY. O-AT-KA owns and operates the manufacturing plant at Batavia, New York.

St. Albans Cooperative Creamery, Inc., is a Capper-Volstead cooperative with 600 members headquartered in St. Albans, Vermont. It owns and operates an Order 1 supply plant which includes facilities receiving, separating, condensing and drying milk.

Upstate Farms Cooperative, Inc., is headquartered in Buffalo, New York, and has about 300 member dairy producers the majority of whom are pooled on Order 1. Upstate owns and operates a pool distributing plant at Rochester and is a member owner of the O-AT-KA butter/powder plant in Batavia, New York.

The ADCNE cooperatives are an important part of the Order 1 market, which is the largest federal order representing more than 20% of the milk in the federal order system. Order 1 is the largest Class I market in the federal order system, with nearly 24% (23.8%) of producer milk used in Class I in the federal order system in 2004 and 2005, nearly 900 million lbs per month on average. Its Class I utilization was 47 percent in 2004 and 45 percent in 2005. It is also the largest Class II market in the system with 20% Class II utilization, and 4.8 billion lbs of Class II use in 2005. The Class III and IV manufacturing uses, the remaining 35% of milk in the Order, are essential to balance Order 1's massive Class I and II marketplace. Order 1 is home to the largest regional concentration of butter powder balancing plants in the system. These plants, owned and operated by the ADCNE cooperatives, give Order 1 the largest Class IV utilization in the federal order system, 2.9 billion lbs of producer milk in 2005. By contrast, the region's Class III industry, with a greater proportion of proprietary ownership, has been declining, with plants closing as Bob Wellington and others have detailed. From peak usage of 7.8 billion lbs in 2002, 2005 use for cheese was 5.4 billion lbs. The viability of these Class III and IV uses is a critical concern for the northeast cooperatives and the northeast dairy industry.

ADCNE supports the positions of the National Milk Producers Federation on the proposals in this hearing. ADCNE has reviewed the hearing proposals independently with particular reference to the marketing conditions in the Northeast and believes that the consensus positions advanced by the National Milk Producers Federation represent constructive, positive positions on the issues which are in the best interests of the dairy farmers of the Northeast. We offer the following additional testimony in support of the National Milk Producer Federation positions so ably articulated by Dr. Cryan.

Make allowances: ADCNE supports the National Milk Producer Federation's testimony with respect to the urgent need to update manufacturing allowances for Class III and IV products. We believe the Department should follow the procedure used to adopt the current make allowances. Both the RBCS – Ling data and the State of California data should be utilized. The RBCS and CDFA data have been reinforced by the additional testimony from individual plant operators. Weighted average data from California manufacturing operations as well as plants in the Federal Order System should be used. In an end product pricing system, make allowances **must** be reasonable and adequate; but should not unduly depress producer revenues.

Emergency action. The make allowances must be updated at the earliest possible time, on an emergency and expedited basis, through an interim final rule.

Energy costs/fuel adjuster. All milk marketers, and plant operators in particular, are acutely aware of the cost burdens of energy cost increases. It is important that these volatile input costs be accounted for in the Class III/IV make allowances. The NMPF recommendation for a monthly adjuster is the most equitable solution, allowing for prompt input of cost increases and decreases in the make allowances and resulting class prices. The index should use the 2004 costs embedded in the RBCS and CDFA data as a base to be adjusted from that level by the mechanism elaborated by Dr. Cryan.

Class I and II prices. While it is urgent to adjust Class III and IV make allowances, and prices, it is not necessary, and would be positively detrimental, to allow the changes to impact Class I and II prices. The Order 1 market illustrates well the issue: 35% of utilization is in

Classes III and IV and requires emergency price adjustments. However, 65% of utilization is in Classes I and II. These uses do not operate on pre-set make allowances; and the prices charged for finished products are not reflected back in the minimum Class prices. The Class I and II competitive marketplace allows processors the opportunity to pass through to consumers increases in their costs of operation. There is no reason that producers should suffer price reductions on these classes of utilization. It would mean, in Order 1, that producers would suffer price reductions on 2 pounds of production for every pound requiring make allowance adjustment. The status quo should be preserved for Class I and II prices by simply retaining the current order language and formulae for advance Class I and II pricing factors. These prices are calculated independently of Class III and IV prices and should not be changed.

Thank you for the opportunity to present the views of the ADCNE cooperatives.