BEFORE THE UNITED STATES DEPARTMENT
OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

In the Matter of

MILK IN THE MIDEAST MARKETING AREA — Docket No: AO-166-A72, DA-05-01-A

COMMENTS AND EXCEPTIONS OF NATIONAL ALL-JERSEY, INC.,
UPON THE TENTATIVE PARTIAL DECISION

These comments and exceptions are submitted on behalf of National All-Jersey, Inc. (NAJ). NAJ is a national organization of over 1,000 members. Approximately one-half of NAJ's producers reside within the geographic boundaries of Order 33 or in states contiguous to the Order 33 marketing area.

NAJ opposes the tentative decision to decrease the diversion limits by 10 points. A change from 60% to 50% of milk supply during the fall is actually a reduction of 17% in the volume of milk that can be diverted: (10/60 = 17). A reduction from 70% to 60% in other months is a reduction of 14% diverted milk.

However simple arithmetic understates the true impact of the reduction. If a handler/co-op is now shipping 40 lbs. to qualify 100 lbs. (diverting 60%), the same shipment of 40 lbs. will only allow diversions of 40 lbs. in the fall (i.e., 50%). So the actual reduction in the volume of milk that can be diverted from existing customer base is 20 lbs. of 60, or 1/3 of the diverted milk. For other months, current rules allow diversion of 70 lbs. with shipment of 30. The same 30 lbs. shipped at 60% diversion would allow 75 lbs. to be pooled, so diverted milk would drop from 70 lbs. under current rules, to 45 lbs. under proposed rules. The 25 lbs. of disallowed diversions represents a 36% reduction in allowable diversions from current rule to recommended rule.

So a handler would have to sell more to distributing plants to supply the same milk to manufacturing plants. How much more? By the same process, in the fall, to continue to meet manufacturing needs of 60 lbs., the handler must increase distributing plant sales from 40 lbs. to 60 lbs., a 50% increase. The handler would also have to procure 20 lbs. (20%) more producer milk, pooling a total now of 120 lbs..

For other months, to continue to supply 70 lbs. to a manufacturing plant, the handler would have to pool 117 lbs. milk, and increase shipments to distributing plants from 30 lbs. to 47 lbs., an increase of 57% in shipments.

Who needs these additional 50 - 57% shipments? The record does not reveal anyone is short; rather, there are very few buyers who are not already committed to current suppliers.

Since the distributing plants that may provide pooling access for milk are very limited, producers or producer milk would have to be dropped. The recommended decision would affect in-area cheese plants and producers that supply them no less than out-of-area plants and producers.

Hearing exhibit 7, table 18 showed the amount of milk that would have been ‘forced’ out of the Order 33 pool month by month for the years 2003 and 2004 if the recommended diversion limits had been in effect. A total of nearly 158.5 million pounds would have been unable to be pooled in 2003, and over 221 million pounds of milk would have been unable to be pooled in 2004. This represents Grade A milk from producers who stand ready and able to serve the Class I market, but who may be excluded from the Order 33 pool because the Class I plants can only qualify a finite amount of milk above and beyond the needs for their shrinking Class I needs.

In effect, pooling capacity may soon become a commodity more valuable than actual processing capability. To wit, the same hearing exhibit 7 (page 44) also showed the impact on the Producer Price Differential (PPD) for the month that would have been most impacted by over-diverted milk. In October 2004, if 63.8 million pounds of milk had been forced out of the Order 33 pool due to lower diversion limits, the PPD for the producers remaining in the pool would have increased by $0.02 per hundredweight from $0.73 to $0.75. However, the producers no longer able to pool their milk in Order 33 would have lost the entire PPD of $0.73 per hundredweight plus the additional $0.02 per hundredweight their pooled neighbors would have received, putting them at a $0.75 per hundredweight disadvantage. Given such price discrepancies, it is easy to envision that pooling fees (the handling cost charged by plants and co-operatives with excess pooling capacity) will increase substantially, perhaps to the point that more money is made from pooling fees than from processing milk. Pooling fees could easily increase to $0.50 per hundredweight or more if the payoff from being able to receive the PPD is $0.75 per hundredweight.

The inequity in producer pay price from forcing Grade A producers out of the Order 33 pool goes against the very tenant of why market wide pooling was established in the first place; to establish a uniform pay price for all Grade A producers who are willing to serve the Class I market. Tighter diversion limits may well lead to a category of Grade A producers who are willing to serve the Class I market, but who can't find a pool home for their milk because of the decreased diversion limits. The resulting inequities in producer pay prices will lead to classes of have and have-not producers, both of whom are able to serve the market.

Finally, it is important to note that decreasing diversion limits will force more high solids milk from its optimum use, cheese plants, to distributing plants. With less high solids milk available for cheese manufacturing, the processing efficiencies of these plants will decrease, and their cost of production will increase. The result will be to put cheese plants in the marketing area at a disadvantage to competing plants in surrounding areas. Without a robust cheese manufacturing industry in the marketing area, producers in the region stand to suffer from decreased marketing options for their milk and, subsequently, lower prices for their milk.

Because of:

- The amount of milk that will be forced out of the Mideast order pool,
- The resulting pay price discrepancies for producers within the marketing area,

- Lower pay prices for producers no longer able to participate in the pool, and
- The impact on the processing efficiencies in-area cheese plants,

we urge the Secretary to revisit the recommended decision and not to decrease the diversion limits in the final decision.

Respectfully submitted,

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