**Testimony of National Dairy Holdings/Meyer Dairy by Michael Meyer**

# Mideast Milk Marketing Order Hearing
## Docket No. AO–166–A77; DA–08–06
## Cincinnati, OH
## August 20, 2008

Hello, my name is Michael Meyer. I am employed by Meyer Dairy as General Manager. Meyer Dairy is one of 2 distributing plants that are owned and operated by National Dairy Holdings that are regulated by the Federal Order 33. Meyer Dairy is the only National Dairy Holdings plant that is directly impacted by the proposal to raise Class I differentials in the Mideast Order. I appear before you today to oppose Proposal 1 to raise Class I differentials in the Southern portions of the Mideast Order. We have not had trouble in the past, nor are we having trouble since the changes to Orders 5 and 7, attracting milk to our plant. However, if in the opinion of USDA there is a need to provide further incentive for milk to move from the surplus areas in Northern Indiana, Northern Ohio and Michigan to the deficit areas on the southern portions of the marketing area, we would support the Dean Foods alternative proposal to lower Class I differentials in the northern portions of the Mideast Order as a means of providing that additional incentive.

The proponents' requested changes would have the impact of raising our milk cost anywhere from just over 2 cents per gallon to nearly 3.5 cents per gallon relative to several of our major competitors. In some cases, the proposal would increase our competitor's costs as well, just not to the degree that ours would be increased. In some cases our competitors would see no increase at all as a result of the proposal being considered. If the proposal is adopted, we would be forced to choose between "eating" the difference in cost and losing business to competitors, thereby forcing our per unit conversion costs higher on the business we are able to retain. We routinely see bids won or lost based on price differences of tenths of one cent, so disadvantages of multiple cents would without question be devastating to our company.

As was stated in the proponents' testimony, most of the increase in population in the marketing area is being seen in cities such as Columbus, OH and Indianapolis, IN. Consequently, the focus of our marketing has been in Cincinnati and north toward Columbus and Indianapolis. As a result, we have not been beneficiaries of the recent changes to differentials in Federal Orders 5 and 7.

There has been a lot of discussion at this hearing about how conditions have changed since the current Class I price surface was implemented in 2000 and that those changes necessitate higher Class I prices in parts of the Mideast Federal Order. While it is clear that fuel and transportation costs have risen dramatically since 2000 and that a case can be made that additional revenue in the destination markets relative to the surplus supply areas would help to cover those higher costs, it is our opinion that there are better solutions.

Over the period 2000 to 2008 we have seen packaged sales of fluid milk in the Mideast Federal Order decline by 8.8% (in spite of the population growth referenced by the proponents) while milk production in Ohio, Indiana and Michigan has risen by 28% over the same period. It is clear that the producer milk prices in the area are sufficiently high to encourage surplus milk production while the prevailing Class I prices are sufficiently high to discourage demand.

**Packaged Fluid Sales - Mideast Order**

| | 2000 (Mil Lbs) | 2008 (Mil Lbs) | | Difference (Mil Lbs) |
|---|---|---|---|---|
| January | 572 | 530 | | -42 |
| February | 550 | 502 | | -48 |
| March | 574 | 522 | | -52 |
| April | 541 | 502 | | -39 |
| May | 564 | 517 | | -47 |
| June | 516 | 451 | | -65 |
| Total | 3317 | 3024 | | -293 |
| Pct Change 2000-2008 | | | -8.8% | |

Source: USDA/Agricultural Marketing Service
Federal Milk Marketing Order Statistics

**Combined IN, MI and OH Milk Production**

| | 2000 (Mil Lbs) | 2008 (Mil Lbs) | | Difference (Mil Lbs) |
|---|---|---|---|---|
| January | 1,050 | 1371 | | 321 |
| February | 1,000 | 1274 | | 274 |
| March | 1,091 | 1363 | | 272 |
| April | 1,060 | 1358 | | 298 |
| May | 1,099 | 1415 | | 316 |
| June | 1,051 | 1351 | | 300 |
| Total | 6351 | 8132 | | 1781 |
| Pct Change 2000-2008 | | | 28.0% | |

Source: USDA/National Agricultural Statistics Service
Milk
Production

I am clearly not an expert on the inner workings of the Federal Order system but trying to solve this problem by charging consumers higher prices and thereby raising producer prices is unnecessarily generous to producers and unnecessarily penal to consumers. Since it is clear that additional revenue is not necessary to insure a sufficient milk supply, achieving the proper price relationship to encourage the milk to move south could be better accomplished by lowering differentials in the surplus supply area and not forcing higher prices on the consumers in the southern metropolitan markets. The optimal solution to the problem would be to accept the proponents claim that the various areas of the Mideast Order have dramatically different marketing conditions and break the order into three separate orders and let the differences in blend price attract milk to the deficit areas.

While we only have a few weeks of data to evaluate the impacts of raising Class I differentials in Federal Orders 5, 6 and 7 the data that is available is compelling. In the eight weeks immediately following the June 1 price changes, IRI scan data shows an alarming negative correlation between the differential increases and fluid milk sales. When looking at major markets in the areas affected by the previous decision and markets in the Mideast Federal Order, sales in Atlanta and Miami (areas with the largest differential increases) were down 8.5% and 7.9% respectively, Louisville was down 3.7%, Cincinnati down 1.4% and Detroit was actually 3.7% higher over the same 8 week period.

While it is admittedly only eight weeks of data, the implication seems clear, the erosion in sales unfortunately tracks rather closely with the level of increase in Class I differential. Given that all of Federal Orders 5, 6 and 7 are deficit areas USDA may have felt that there was no alternative to raising Class I prices. That is clearly not the case in the Mideast Order, there is an abundance of milk in the marketing area and raising Class I differentials is unnecessary and will only lead to more rapidly declining Class I sales.