



Federal Order 30
Vic Halverson, Market Administrator
1600 west 82nd Street Suite 200
Minneapolis, Minnesota 55431-1420

RECEIVED
JAN 30 2017
MARKET ADMIN. F.O.#30

Dear Mr. Halverson

I am writing in response to the request by the Upper Midwest Marketing Agency (UMMA) to reduce the Class 1 shipping requirement in Order 30 from 10% to 7.5% and changing the diversion limit from 90% to 92.5%

In analyzing the data presented by UMMA there are questions that need to ask as to why some of the conditions in the market exist. First, the drop in percentage of the Class 1 utilization is due to two factors. One, consumer consumption is down as stated by the UMMA data and also milk production is up by producers. This would account for the change in percentage.

Figure 3 of UMMA request sites the decline in the number of distributing plants. Again the question has to be asked, why. The Federal Milk Marketing orders have brought this on by artificially high Class 1 differentials. The purpose of the Order is to attract a sufficient supply of Grade A milk the fluid market and to provide a uniform price to producers. However marketing conditions have change drastically since the Orders inception. There is more demand for cheese than ever before and no longer are cheese manufacturers making cheese just to use up the excess milk on the market. The attached documents shows this. Looking at the information taken from a NASS report for 2015 Wisconsin cheese production one can clearly see the growth in cheese production from 2005 to 2015, especially the specialty cheeses. The cheddar in the report only accounts for 20% of the total cheese produced. Here in lies the problem with the system. When computing a uniform blend price for producers, only the cheddar prices are looked at and not the specialty cheese (all cheese) market. This method keeps the price of milk lower to the producer to begin with. The producers do not receive the benefit of the entire cheese market. The reason more and more manufacturing plants are turning to the specialty cheese market is because of the growing demand for these products and the added value that they return to the manufacturer.

The Class 1 handler and consumer continues to carry the burden of supporting this antiquated system. I believe that it's the Administrators obligation along with the Secretary of Agriculture to ensure that all participants' in the Federal Order 30 system be treated equally without putting undue burden on the consumer and Class 1 Handler. By allowing the shipping requirement to be lowered even by the 2.5% that would result an additional 2.5% of Class 3 milk in the pool further burdening the consumer and Class 1 handler.

Under the current system 10% of the market is subsidizing 90% of the market, a market whose true value is not reflected. This just does not make any sense. With the pooling provisions of the Order as they are currently the Class 1 handler is at a distinct disadvantage when it comes to procuring Grade A Milk for fluid use. Not only does the Class 1 handler have to pay into the pool they also have to meet or beat competition in the market when it comes to over Order premiums being payed to producers.



UMMA states the loss of Class 1 handlers as being a burden to them because of the distance they need to move milk. It is the Class 1 handler who is carrying the real burden. Artificially high Class 1 differentials should not be used to prop up prices to producers especially when the true value of the cheese market is not being considered.

Remedy/Recommendation

As an alternative to the pooling provision I would suggest looking at a cost base plus margin protection as a means for setting minimum pricing for producer milk. What that would entail is a full study as to what the true cost would be for producers to supply a hundred pounds of milk. Added to that would be a certain margin based protection to offset temporary fluctuations to their costs. Also there would have to be some mechanism for supply control to the market. The free market would then dictate over and above premiums to attract milk to certain markets just as they do today.

If the Market Administrator is to lower the shipping requirements as UMMA proposes I would request that he also reduces the Class 1 differential to the 1999 level of \$1.10 per cwt. (Eau Claire, Wi.) zone along with reformulating the Class 3 price to reflect the All Cheese value in the market and not just the cheddar market. Under the current market conditions it is not justifiable to continue to further burden the consumer and the Class 1 handler. By reducing the Class 1 differential and using an all cheese price I believe that this would be a good first step in balancing the Federal Order System. There has to be some way to come up with a system that will stop the subsidizing to the manufacturing market and put all handlers and producers on a level play field.

Sincerely

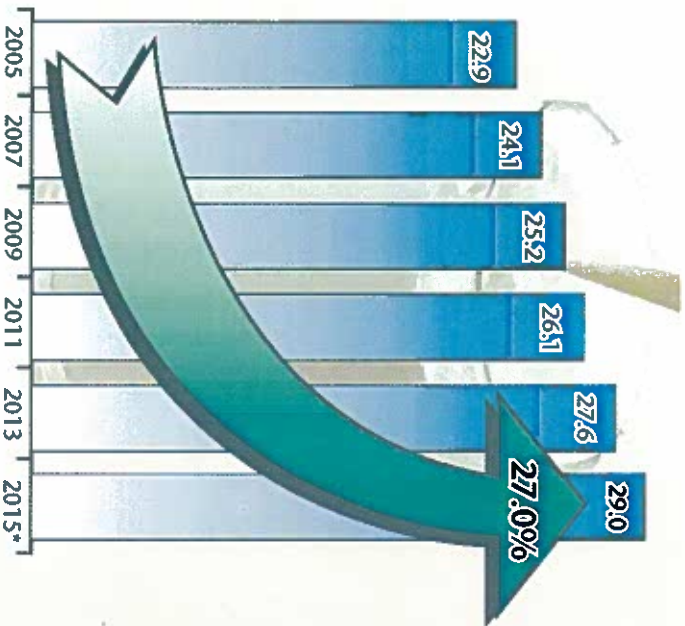
Mark Lamers

President Lamers Dairy Inc.

Wisconsin Milk & Cheese Production

Wisconsin set a record for milk production in 2015, at just over 29 billion pounds.

Wisconsin Milk Production, 2015*
29.03 billion lbs.

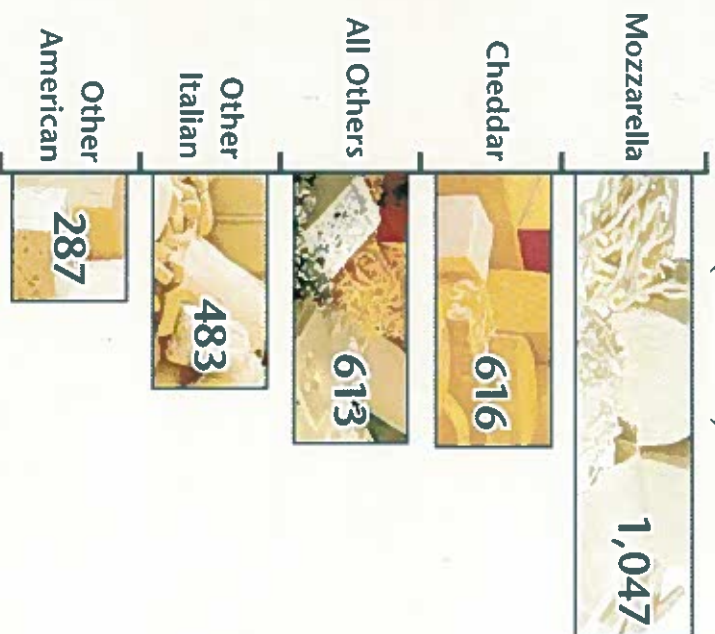


*Preliminary.
Source: NASS



Wisconsin cheese production reached a milestone in 2015, topping 3 billion pounds for the first time.

Wisconsin Cheese¹ Production, 2015*
3,046 million lbs.
(million lbs.)



*Preliminary.
Source: NASS

¹ Excludes Cottage Cheese.

Wisconsin's Dairy Industry

• Number of licensed Wisconsin dairy farms	9,900 dairy farms
• Number of Wisconsin dairy cows	1,279,000 dairy cows
• Average milk production per cow per year in Wisconsin	22,697 lbs. / 2,639 gal.
• Total Wisconsin milk production	29,030,000,000 lbs. / 3,376,000,000 gal.
• Wisconsin milk production (percentage of the U.S. total)	13.9%
• Average number of cows per farm in Wisconsin	129 dairy cows
• Total Wisconsin cheese production	3,045,748,000 lbs.
• Wisconsin cheese production (percentage of the U.S. total)	26.0%
• Total Wisconsin specialty cheese production (2014)	659,887,000 lbs.
• Total Wisconsin cheddar cheese production	615,546,000 lbs.
• Total Wisconsin other American cheese production	287,351,000 lbs.
• Total Wisconsin mozzarella cheese production	1,047,221,000 lbs.
• Total Wisconsin other Italian cheese production	482,782,000 lbs.
• Total Wisconsin dry whey (for human consumption) production	308,582,000 lbs.
• Number of cheese plants in Wisconsin	138 plants
• Number of butter plants in Wisconsin	14 plants
• Number of yogurt plants in Wisconsin	14 plants
• Total Wisconsin plants manufacturing one or more dairy products (2014)	203 plants

All statistics are from 2015 data unless noted otherwise.

Source: Wisconsin Agricultural Statistics Service (WASS); USDA National Agricultural Statistics Service (NASS); Wisconsin Department of Agriculture, Trade and Consumer Protection (WDATCP)

