

CENTRAL MILK PRODUCERS COOPERATIVE
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February 27, 2019

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

Dear Market Administrator:

The Central Milk Producers Cooperative (CMPC) and the Upper Midwest Marketing Association (UMMA) are requesting the Market Administrator, in accordance with the authority under §1030.7(g) of the Order, permanently reduce the required shipping percentages for supply plants under §1030.7(c) and 1030.7(f) from 7.5% to 6.0% and adjust the corresponding diversion limits under §1030.13(d)(2), and (3) from 92.5% to 94% effective April 1, 2019.

Proponents

The members of CMPC are Dairy Farmers of America, Inc., FarmFirst Dairy Cooperative, Foremost Farms USA, Cooperative, Land O'Lakes, Inc., NFO, Inc., and Scenic Central Milk Producers Cooperative Association. Collectively the members market 60% of the milk typically pooled on Federal Milk Marketing Order (FMMO) 30 (the Order).

This request is conjoined by the members of the Upper Midwest Marketing Agency (UMMA) whose members are Associated Milk Producers Inc., Bongards' Creameries, Dairy Farmers of America, Inc., The First District Association, Foremost Farms USA, Cooperative, Land O'Lakes, Inc., NFO, Inc., and Plainview Milk Products Cooperative, and represent approximately 20% of the milk typically pooled on the Order. So collectively the preponderance of milk pooled on the Order is from the members of the two proponents.

Current Market Situation

The members of CMPC and UMMA collectively operate the Pooling System (organized under §1030.7(f)) known as the Central Milk Producers Cooperative system (System). The System has been in place since the 2002/2003 marketing year and serves the Order by organizing milk supplies in the most efficient manner

possible to meet the demands of milk buyers and consumers. The System participants, as listed on the FMMO 30 web site (<http://www.fmma30.com/Publications/SysLetterSupp18-19.pdf>), include 43 cooperative and/or proprietary plants that service the Order 30 market via the System. In Exhibit 1 **Federal Milk Order Distributing Plant Information for 2018**, of the 15 pool distributing plants listed for October 2018, the System serves 12 of the plants.

The System allows maximum flexibility, timeliness and marketwide balancing services to the Order in the most economical manner. It allows the closest supplies to deliver to the market when needed and remain at a balancing location when not needed. It prevents uneconomic shipments that may be made only to meet qualification standards and driving past nearby supplies. It allows milk suppliers flexibility in organizing their deliveries to both meet Order qualification and buyer standards while maximizing efficiencies in their own businesses.

To our knowledge all milk buyers have been able to secure all milk they demand, meeting the quality standards they desire and delivered timely in the manner they ordered. Also, the System has assured that all milk suppliers have been able to pool milk on the Order, if they desire, so long as they provide reasonable service to the market.

However, as market conditions change with increasing milk production and flat to decreasing Class I volumes we are concerned that it may become difficult for the Order to accommodate all the milk that would want to pool. The Order 30 market is predominately a Class III market. The annual Agricultural Marketing service publication Market Summary and Utilization Report, Annual 2018 dated February 15, 2019 notes the utilization percentages in all Orders for CY2018 and the Order 30 Class III utilization was 82%, the largest of any Order.

(<https://www.ams.usda.gov/sites/default/files/media/2018ProducerMilkMarketingAnnualSummary.pdf>)

We anticipate during 2019 that Class IV prices may well be greater than Class III prices. If so and given the pooling strategies of rational handlers, the size of the 2019 Order 30 pools will be generally larger than those of the past few years as more Class III utilized milk will seek to pool. If the market cannot accommodate all the milk that chooses to pool disorderly marketing conditions will occur.

FMMOs provide for the orderly marketing of milk as a benefit to milk suppliers, milk buyers and consumers. Orderly marketing has no exact definition but for milk marketing Orders includes parameters such as minimum pricing, marketwide pooling, classified pricing, market information and regulations to structure the market in such a way to gain economic efficiencies and avoid uneconomic costs. It requires performance standards that define how market proceeds are shared equitably by suppliers. Federal Order decisions contain many references to this fact.

One such reference would be from the 2006 Final Decision for the hearing **Milk in the Upper Midwest Marketing Area; Decision on Proposed Amendments to Marketing Agreement and to Order** (FR 71-177 p. 54136 – 54149 summarizes several of these points. This Hearing was held, “to adopt amendments to the Upper Midwest Order intended to deter the de-pooling of milk and increase the order’s maximum administrative assessment rate.” (FR 71-177 p. 54136 c.1) The Hearing resulted in provisions placing limits on the practice of de-pooling and re-pooling milk that had been done in such a manner that was deemed disorderly due to its creation of non-uniform prices to producers.

The Decision noted:

Federal milk marketing orders rely on the tools of classified pricing and marketwide pooling to assure an adequate supply of milk for fluid (Class I) use **and** to provide for the equitable sharing of the revenues arising from the classified pricing of milk. Classified pricing assigns a value to milk according to how the milk is used. Regulated handlers who buy milk from dairy farmers are charged class prices according to how they use the farmer's milk. (emphasis added)
(FR 71-177 p. 54137 c.2)

Of importance here is that Order provisions have a role well beyond only assuring an adequate supply of Class I milk including and of no less importance provide for equitable sharing of Order revenues.

The Decision further notes:

This final decision does find that disorderly marketing conditions are present when producers do not receive uniform prices. (FR 71-177 p. 54145 c.1 – c.2)

Disorderly marketing conditions occur for many reasons, some of which include when the market cannot make key supply / demand adjustments quickly in response to rapid changing market conditions; when meeting the Order provisions result in uneconomic shipments of milk; when changes in plant operating conditions that are out of the control of suppliers or changes in milk supply conditions that are out of the control of milk buyers make supplying the market more costly; or situations where all milk desiring to pool cannot do so or incur costs to pool that are greater than the value of being pooled disorderly marketing conditions are present.

While most functions of the Order can only be changed with a formal hearing, the pooling standards for delivery and diversion of milk can be modified by the Market Administrator after reviewing comments in support of or in opposition to the proposed changes. This allows the market to adjust to changes in key market conditions swiftly without the use of the formal, and lengthier, hearing process. Likewise, Order regulations allow for "a system of supply plants" to meet the delivery and diversion standards more economically than if the plants were required to meet them individually.

Our present concern is that the supplier component of this matrix may face disorderly market conditions if the current qualification standards are not modified such that all milk that would otherwise meet the pooling standards not be able to pool. This proposal will avoid potential and likely disorderly marketing conditions which can result in unequal sharing of market proceeds, negatively impact producers, and increase the costs of servicing the FMMO 30 market.

Data

Pooling standards were relaxed most recently on April 1, 2017 at the request of the same proponents listed here. (<http://www.fmma30.com/News/ShippingRequirementsAdjusted--3-6-17.pdf>) The same types of market conditions reviewed in supporting that change now further support granting this request.

Exhibit 2 - **Monthly Milk Production Minnesota, South Dakota and Wisconsin 2013 – 2018** is an examination of the trends in milk production from three states which collectively comprise 92.3% of the milk pooled on the Order and reported monthly by the National Agriculture Statistics Service. (NASS) While not directly representing milk pooled on the Order it is a better representation of the status of milk production in the Order region since pooling and depooling decisions do not impact the NASS data.

Monthly data for South Dakota began publication in 2013. Monthly data for Minnesota and Wisconsin have been available for many years. The monthly data clearly exhibits the seasonal trends in annual milk production the plotted linear trend line shows a slow but steady upward trend. Annual production for each of the six-year period is 2013 / 38.8 billion pounds, 2014 / 39.0, 2015 / 40.8, 2016 / 42.2, 2017 / 42.8 and 2018 / 43.1. The compound annual growth rate (CAGR) is 2.2% per year. We expect this trend to continue and milk production in the region to increase.

Exhibit 1 **Federal Order Distributing Plant Information for 2018** is a regular publication of the Order listing all pool distributing plants (PDP) pooled on the Order each month. For Calendar Year 2018 there were 15 plants listed over the course of the year with some plants being PDP every month and some plants in an intermittent sequence of months. Additionally, two plants Dean Foods North Central, Inc. Thief River Falls MN and Dean Foods Company Huntley are noted as closed. There are now two fewer PDP available to make a qualifying shipment to in the Order. This means the same, and likely more milk volumes, must still find a location to ship qualifying loads to in order meet the qualification standard from among fewer available plants. For those farms located near Thief River Falls, MN or Huntley, IL the distance to deliver will be further away and cost more to deliver in terms of mileage costs, waiting times as more milk must fit into the same unloading schedule, balancing schedules and possible more disruption to the remaining business of the supplying handler.

Additionally, the major component of a “qualifying sale” is deliveries for Class I use, which without argument, is currently declining in volume thus decreasing the total volume of available qualifying sales. Additionally, it is our experience that Class I plants are increasingly running less than seven-day schedules and some plants are choosing to greatly reduce weekend deliveries with the resultant impact of desiring more milk to be delivered between Monday and Friday increasing the cost to balance a Class I handler.

Exhibit 3 **Qualifying Shipments for Federal Order 30** is a table prepared by the Market Administrator staff at the request of the proponents. By month for 2018, it reveals the qualifying shipment volumes, the actual milk pooled each month, the trend in Class I producer milk and the resulting qualifying percentage met by all pool participants. For our purposes, a long data series is not as germane as the recent 2018 period where two PDP are now closed thus not an option for deliveries.

Column A “Qualifying Shipments” is the total shipments to plants that count as qualifying deliveries. Column B is the total milk pooled each month. Column C are the pounds of Class I producer milk and Column D the monthly qualifying percentage, established by §1030.7(c) and 1030.7(f) of the Order, calculated by dividing Column A by Column B.

To pool its milk, a handler, per §1030.7(c), or a system of supply plants, (per §1030.7(f) must ship 7.5% of the milk they wish to pool to a qualifying location. For 2018 all milk that was pooled met a qualifying percentage above the 7.5% standard and we are not aware of any milk that wished to pool - but was unable. However, in July the percentage “above the limit” was less than a quarter of a percent. July was the month of the largest pool in the year and the second smallest qualifying pounds volume. Our concern is in

near term future months, perhaps as soon as May or June of 2019 when Class I demand is negatively impacted by school schedules, some handlers or systems may not be able to meet the 7.5% standard.

Exhibit 4 **FMMO 30 Potential Qualification Percentage with Varying Changes in Milk Production and Qualifying Sales** depicts the relationship between potential increases in milk production and potential decreases in qualifying sales on the 7.5% calculation. For our purposes we measured the impact beginning with the largest sized pool in 2018, July's 3,252,414,247 billion pounds (see Exhibit 3) and the smallest qualifying shipments **after** the closure of the Huntley and Thief River Falls plant 255,399,516 million pounds. The largest pool is well within the realm of possibility especially for a future 31-day flush month. The smaller qualifying sales volume seems a reasonable starting point for a lesser volume with December being a 31-day month but with an extended holiday period and reduced school milk sales to impact the total volume.

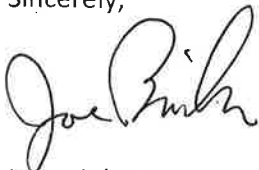
The row labeled pool size **increases** the pool volume in one percent increments and the column labeled qualifying sales **reduces** qualifying shipments by one percent. The intercept of the row and column is the resulting qualification percentage. For example, a one percent increase in production coupled with a four percent decrease in qualifying sales would compute to 7.46 and force some milk out of the pool. If sales were to fall to the lowest 2018 level of 246.7 billion pounds, a below 7.5% qualifying level could be crossed if milk production increased slightly more than 1%. ($246,666,817 / .075 = 3,288,890,893$) Both numbers are well within the range of possible and could be impactful in the flush months of 2019 when milk production peaks and Class I sales decrease as schools close for the 2018-2019 year. Hence our request that the proposed changes be made as soon as possible which would be April 1, 2019.

The 7.5% standard can be adjusted quickly by MA discretion without a hearing. However, the "quickly process" does require notice, comment and evaluation and while this can be done generally with a month's notice it can take longer. Should the standard not be met some amount of producer milk will not be able to be pooled and those producers would not have the same minimum blend price as a producer whose milk was able to be pooled. Hence our request is forward looking.

While the 10% qualifying standard served the Order for over 17 years it is possible the 7.5% level will not be adequate for 17 months. To that end we are proposing the Market Administrator set the new standard to be 6.0%. That would allow suppliers reasonable assurance that all milk could be pooled without peril over a longer period of time and long term supply arrangements could be made that will be the least cost possible. Likewise, milk buyers could be assured that their demands could be met economically. Given that the diversion percentage allowance is the reciprocal of the qualifying shipments percentage, we would request that the level as noted in §1030.13(d)(2) be increased to 94%.

Thank you for your consideration in this matter. Please direct any questions you may have to us.

Sincerely,



Joe Brinker, President
Central Milk Producers Cooperative (CMPC)

Sincerely,



Vince Martens, President
Upper Midwest Marketing Agency (UMMA)

Exhibit 1

Federal Milk Order Distributing Plant Information For 2018

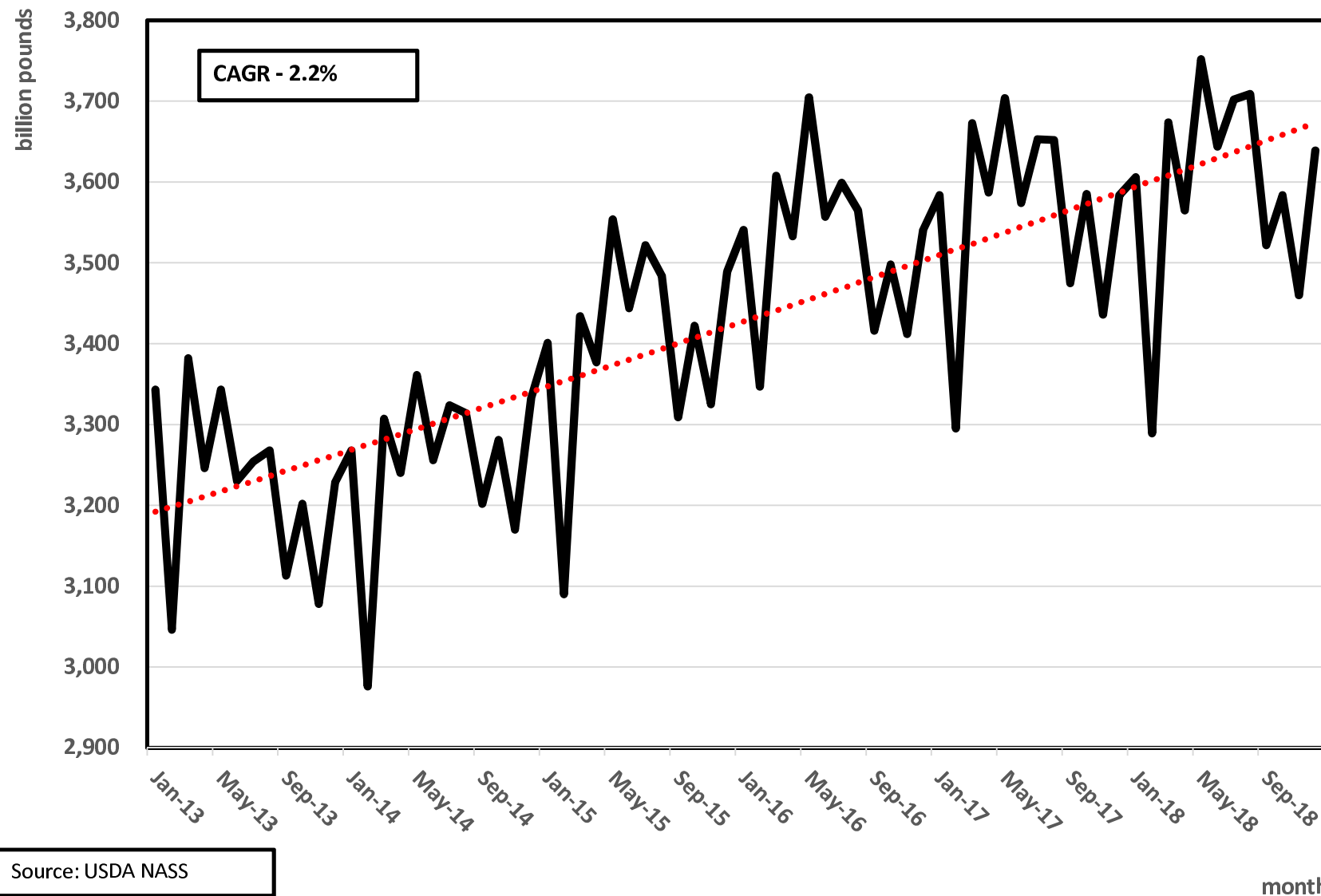
Distributing Pool Plants

Plant Name	City	State	ZipCode	FipsCode	Cl. I Dftl.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Agropur Inc.	Maplewood	MN	55113	27123	1.70	30	30	30	30	30	30	30	30	30	30	30	30
Dean Foods Company	Chemung	IL	60033	17111	1.80	30	30	30	30	30	30	30	30	30	30	30	30
Dean Foods Company	Huntley	IL	60142	17111	1.80	30	30	30	30	30	30	30	30	30	Closed		
Dean Foods Company	Rockford	IL	61101	17201	1.75	30	30	30	30	30				30	30		
Dean Foods North Central, LLC	Thief River Falls	MN	56701	27113	1.65	30	30	30	30	30	30	30	30	Closed			
Dean Foods North Central, LLC	Woodbury	MN	55125	27163	1.70	30	30	30	30	30	30	30	30	30	30	30	30
Dean Foods of Wisconsin, LLC	DePere	WI	54115	55009	1.75	30	30	30	30	30	30	30	30	30	30	30	30
Gehl Foods LLC	Germantown	WI	53022	55131	1.75		30					30					
Hastings Cooperative Creamery Company	Hastings	MN	55033	27037	1.70	30	30	30	30	30	30	30	30	30	30	30	30
Kemps LLC	Cedarburg	WI	53012	55089	1.75	30	30	30	30	30	30	30	30	30	30	30	30
Kemps LLC	Fargo	ND	58108	38017	1.65	30	30	30	30	30	30	30	30	30	30	30	30
Kemps LLC	Minneapolis	MN	55411	27053	1.70	30	30	30	30	30	30	30	30	30	30	30	30
Kemps LLC	Rochester	MN	55903	27109	1.70	30	30	30	30	30	30	30	30	30	30	30	30
Kwik Trip, Inc.	LaCrosse	WI	54603	55063	1.70	30	30	30	30	30	30	30	30	30	30	30	30
Lamers Dairy, Inc.	Appleton	WI	54915	55087	1.75	30	30	30	30	30	30	30	30	30	30	30	30
Muller Pinehurst Dairy, Inc.	Rockford	IL	61105	17201	1.75	30	30	30	30	30	30	30	30	30	30	30	30
Saputo Dairy Foods USA, LLC	White Bear Lake	MN	55110	27123	1.70	30	30		30						30	30	
Oberweis Dairy, Inc.	North Aurora	IL	60542	17089	1.80	30	30	30	30	30	30	30	30	30	30	30	30

Source: FMMO 30 Market Administrator

Exhibit 2

Monthly Milk Production Minnesota, South Dakota and Wisconsin 2013 - 2018



Source: USDA NASS

month

Exhibit 3

Qualifying Shipments for Federal Order 30

Year		A	B	C	D
		Qualifying Shipments	Actual Pooled Producer Milk	Class I Producer Milk	
		Pounds	Pounds	Pounds	%
2018	January	311,884,066	2,849,954,940	282,323,783	10.94
	February	283,387,592	2,879,211,848	252,039,832	9.84
	March	296,773,326	2,688,150,206	269,940,498	11.04
	April	295,758,306	2,596,630,880	254,756,353	11.39
	May	281,932,955	2,589,936,105	257,912,796	10.89
	June	246,666,817	3,050,257,804	234,167,256	8.09
	July	251,379,172	3,252,414,247	233,896,122	7.73
	August	264,061,034	2,949,491,000	253,375,535	8.95
	September	257,745,639	2,156,831,169	224,327,700	11.95
	October	280,033,700	2,664,889,889	247,437,418	10.51
	November	265,203,025	2,698,864,069	247,752,051	9.83
	December	255,399,516	2,946,656,308	232,193,043	8.67
2019	January	259,549,922	3,059,390,146	243,149,708	8.48

Source FMMO 30 Market Administrator

Exhibit 4

FMMO 30 Potential Qualification Percentages with Varying Changes in Milk Production and Qualifying Sales

7.5% level
7.0% level
6.5% level
6.0% level

	Pool Size	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
Qualifying Sales	3,252,414,247	3,284,938,389	3,317,462,532	3,349,986,674	3,382,510,817	3,415,034,959	3,447,559,102	3,480,083,244	3,512,607,387	3,545,131,529	3,577,655,672	
	255,399,516	7.85%	7.77%	7.70%	7.62%	7.55%	7.48%	7.41%	7.34%	7.27%	7.20%	7.14%
-1%	252,845,521	7.77%	7.70%	7.62%	7.55%	7.48%	7.40%	7.33%	7.27%	7.20%	7.13%	7.07%
-2%	250,291,526	7.70%	7.62%	7.54%	7.47%	7.40%	7.33%	7.26%	7.19%	7.13%	7.06%	7.00%
-3%	247,737,531	7.62%	7.54%	7.47%	7.40%	7.32%	7.25%	7.19%	7.12%	7.05%	6.99%	6.92%
-4%	245,183,535	7.54%	7.46%	7.39%	7.32%	7.25%	7.18%	7.11%	7.05%	6.98%	6.92%	6.85%
-5%	242,629,540	7.46%	7.39%	7.31%	7.24%	7.17%	7.10%	7.04%	6.97%	6.91%	6.84%	6.78%
-6%	240,075,545	7.38%	7.31%	7.24%	7.17%	7.10%	7.03%	6.96%	6.90%	6.83%	6.77%	6.71%
-7%	237,521,550	7.30%	7.23%	7.16%	7.09%	7.02%	6.96%	6.89%	6.83%	6.76%	6.70%	6.64%
-8%	234,967,555	7.22%	7.15%	7.08%	7.01%	6.95%	6.88%	6.82%	6.75%	6.69%	6.63%	6.57%
-9%	232,413,560	7.15%	7.08%	7.01%	6.94%	6.87%	6.81%	6.74%	6.68%	6.62%	6.56%	6.50%
-10%	229,859,564	7.07%	7.00%	6.93%	6.86%	6.80%	6.73%	6.67%	6.61%	6.54%	6.48%	6.42%
-11%	227,305,569	6.99%	6.92%	6.85%	6.79%	6.72%	6.66%	6.59%	6.53%	6.47%	6.41%	6.35%
-12%	224,751,574	6.91%	6.84%	6.77%	6.71%	6.64%	6.58%	6.52%	6.46%	6.40%	6.34%	6.28%
-13%	222,197,579	6.83%	6.76%	6.70%	6.63%	6.57%	6.51%	6.45%	6.38%	6.33%	6.27%	6.21%
-14%	219,643,584	6.75%	6.69%	6.62%	6.56%	6.49%	6.43%	6.37%	6.31%	6.25%	6.20%	6.14%
-15%	217,089,589	6.67%	6.61%	6.54%	6.48%	6.42%	6.36%	6.30%	6.24%	6.18%	6.12%	6.07%
-16%	214,535,593	6.60%	6.53%	6.47%	6.40%	6.34%	6.28%	6.22%	6.16%	6.11%	6.05%	6.00%
-17%	211,981,598	6.52%	6.45%	6.39%	6.33%	6.27%	6.21%	6.15%	6.09%	6.03%	5.98%	5.93%
-18%	209,427,603	6.44%	6.38%	6.31%	6.25%	6.19%	6.13%	6.07%	6.02%	5.96%	5.91%	5.85%
-19%	206,873,608	6.36%	6.30%	6.24%	6.18%	6.12%	6.06%	6.00%	5.94%	5.89%	5.84%	5.78%
-20%	204,319,613	6.28%	6.22%	6.16%	6.10%	6.04%	5.98%	5.93%	5.87%	5.82%	5.76%	5.71%