CENTRAL MILK PRODUCERS COOPERATIVE
200 W. HIGGINS ROAD
SUITE 305
SCHAUMBURG, IL. 60195

December 19, 2016

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

Dear Market Administrator,

On behalf of its members, Central Milk Producers Cooperative (CMPC), makes the following request. CMPC members are Dairy Farmers of America, FarmFirst Dairy Cooperative, Foremost Farms USA, Land O' Lakes, National Farmers Organization, Scenic Central Milk Producers Cooperative and Swiss Valley Farms. CMPC requests that you, as Market Administrator in Federal Order 30, in accordance with your authority under §1030.7(g) of the Order to reduce the required shipping percentages for supply plants under §1030.7(c) and 1030.7(f) and also adjust the diversion limits under §1030.13(d)(2), and (3).

Proposal

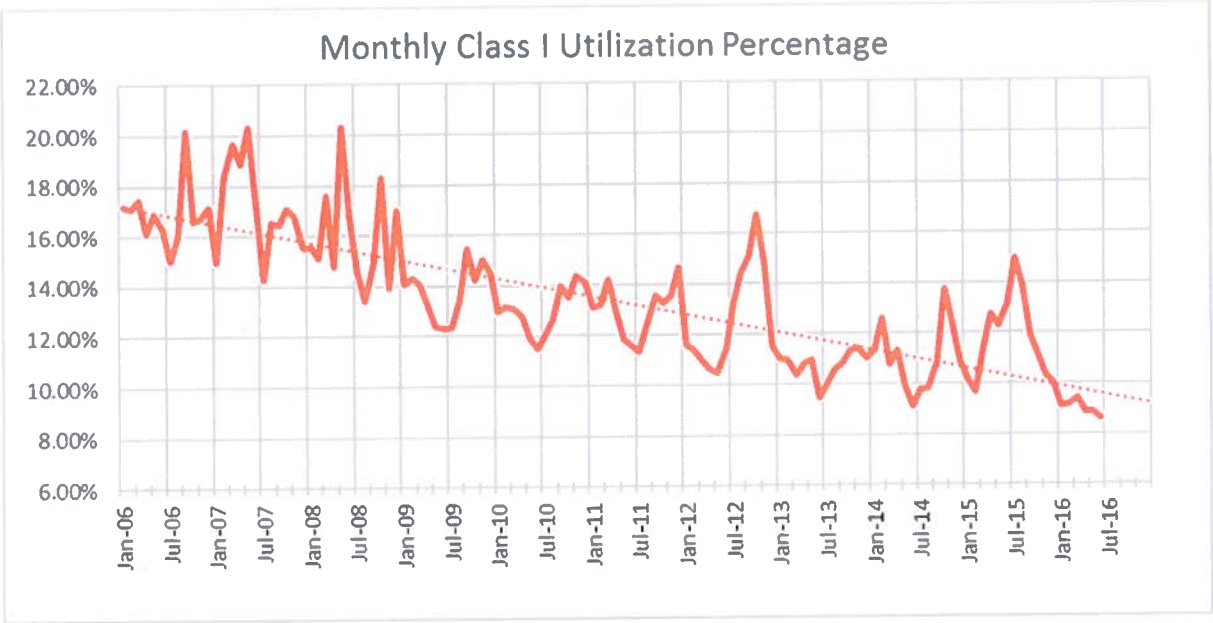
Reduce the minimum shipping requirements from supply plants to distributing plants in Order 30 from 10% to 7.5%. The reduced requirement would remain the same all year, consistent with the current FO30 practice of maintaining a uniform requirement, and would take effect March, 2017. At the same time, the diversion limits for distributing and bottling plants should be changed from "may not exceed 90%" to may not exceed 92.5%.

Data

The following data establishes the context for the request: Class 1 utilization percentage trend (Figure 1), monthly Class 1 receipts (Figure 2), number of distributing plants in FO30 (Figure 3), declining Class 1 sales (Figure 4), and monthly total milk production (Figure 5), and the possibility of months that the 10% requirement may not have accommodated the pooling of all eligible milk had all eligible milk wanted to pool (Figure 6). The combination of these trends places a burden on handlers and effects the economics of distributing plants.

- **Class 1 utilization percentage trend in FO30 (Figure 1).** Ten years ago (2006), the monthly Class 1 utilization percentage averaged almost 18%. The most recent completed year, (2015), the average was under 12%, representing a 33% decline in average percentage. Significantly, Class 1 utilization alone has been below 10% from January through July, 2016

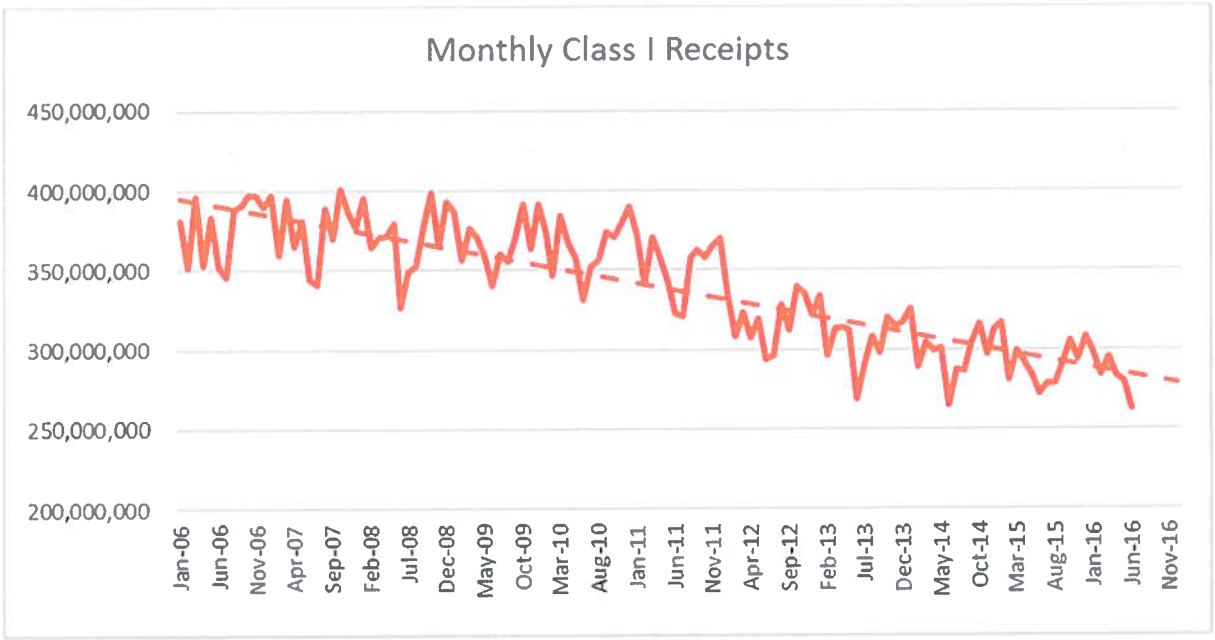
Figure 1



* Data for FMMO30

- **Declining Monthly Class 1 receipts (Figure 2).** In June 2016, Class I production reached a 16-year monthly low of just over 262 million pounds, almost 3 million pounds less than the previous low in June 2014. The average monthly total was around 290 million lbs. during this time. This represents a decline of over 22% in the average monthly total compared to totals in the 2006 – 2008 period, when they averaged 375 million pounds. The trend shows that Class I production has declined steadily within the order and could continue to decline if national and regional demand for fluid milk continues to decrease.

Figure 2

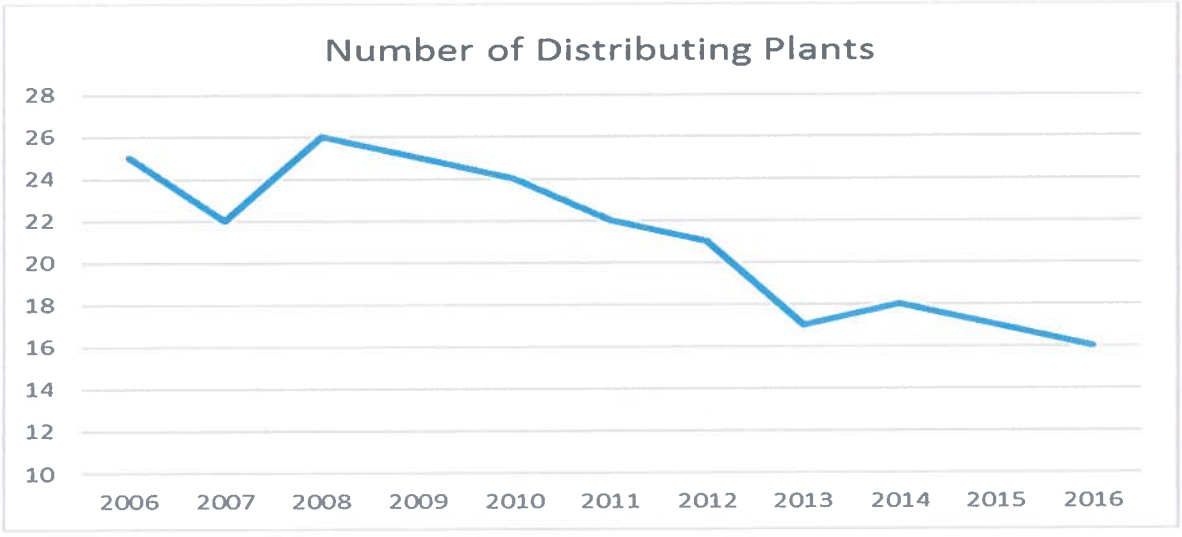


* Data for FMMO30

- **Declining number of distributing plants in FO30 (Figure 3).** In 2008 there were 26 recognized distributing plants in FO30 but as of October, 2016 that number has fallen to 17. That is a 35% decrease in just 8 years, putting massive strains on the overall milk distribution in the Upper Midwest. It is getting more difficult every year to find the production volume to meet the Order's pooling requirements and the trend towards fewer plants does not appear to be at an end. This trend impacts the locations to which milk may be delivered in order to meet the Order30 requirements.

Not only have distributing plants closed, others have changed their production mix in order to meet changing retail demand. That is, despite the large reduction in number of distributing plants, the plants that remain are not using all of the milk they receive for fluid products. Moreover, with fewer plants and changing production schedules, receiving times have been reduced, making deliveries more difficult to coordinate. With milk now traveling far greater distances, the higher shipping requirement complicates logistics without benefit to the industry or the consumer. And, in some cases requires more costly transportation in order to reach a plant for delivery.

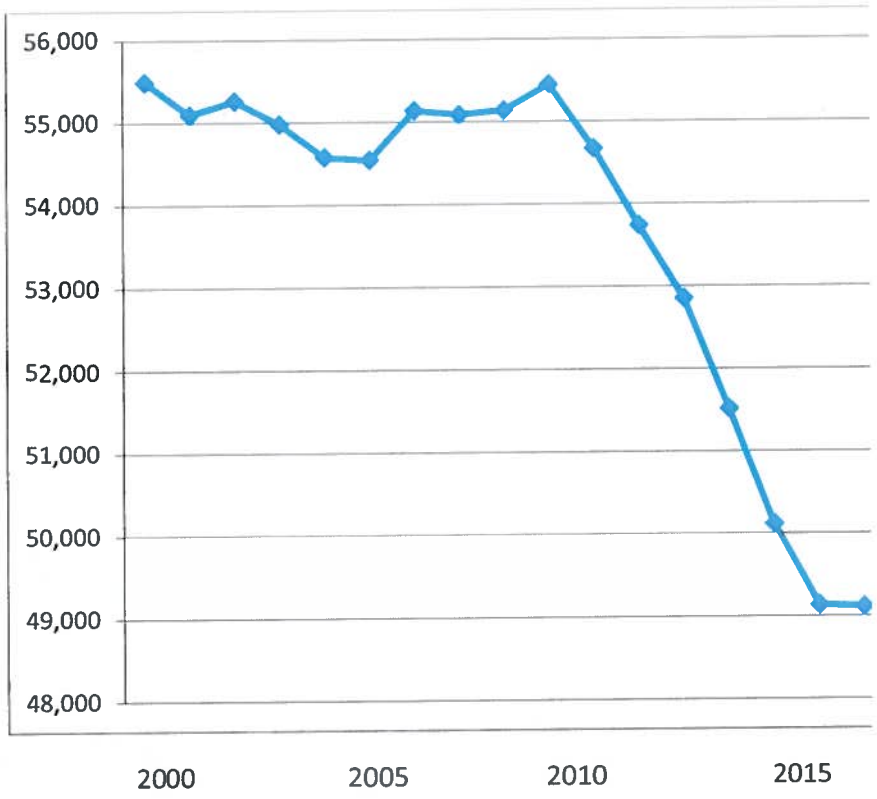
Figure 3



* Data for FMMO30

- **Declining fluid milk sales (Figure 4).** Between 2001 and 2010, total US sales of fluid milk products varied between 54,000 and 56,000 million pounds. In 2010, fluid sales broke out of its lower range and began a downward trend. By 2015, fluid sales were averaging about 10-11% below the midpoint of their 2001-2010 range. Through October, fluid milk sales are running about even with a year ago. There is no expectation that this trend will change or reverse.

Figure 4

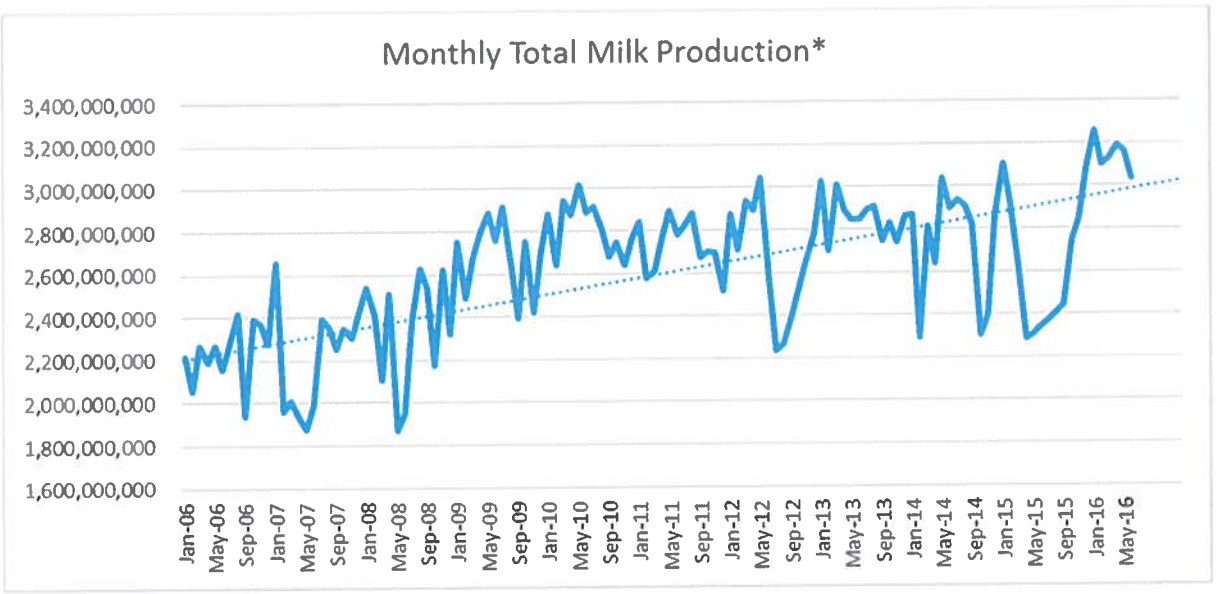


* Data for national sales.

* 2016 is an estimate of annual total fluid milk product sales.

- **Rising monthly total milk production (Figure 5).** Record amounts of milk are being produced by dairy farmers. In January 2016, 3.26 billion pounds of milk were pooled, the highest monthly amount recorded since the turn of the century. This level has continued, with each month in 2016 setting a new monthly record high at least through July. With the shipping requirements at a fixed 10%, the percentage requirement is increasingly difficult to meet.

Figure 5

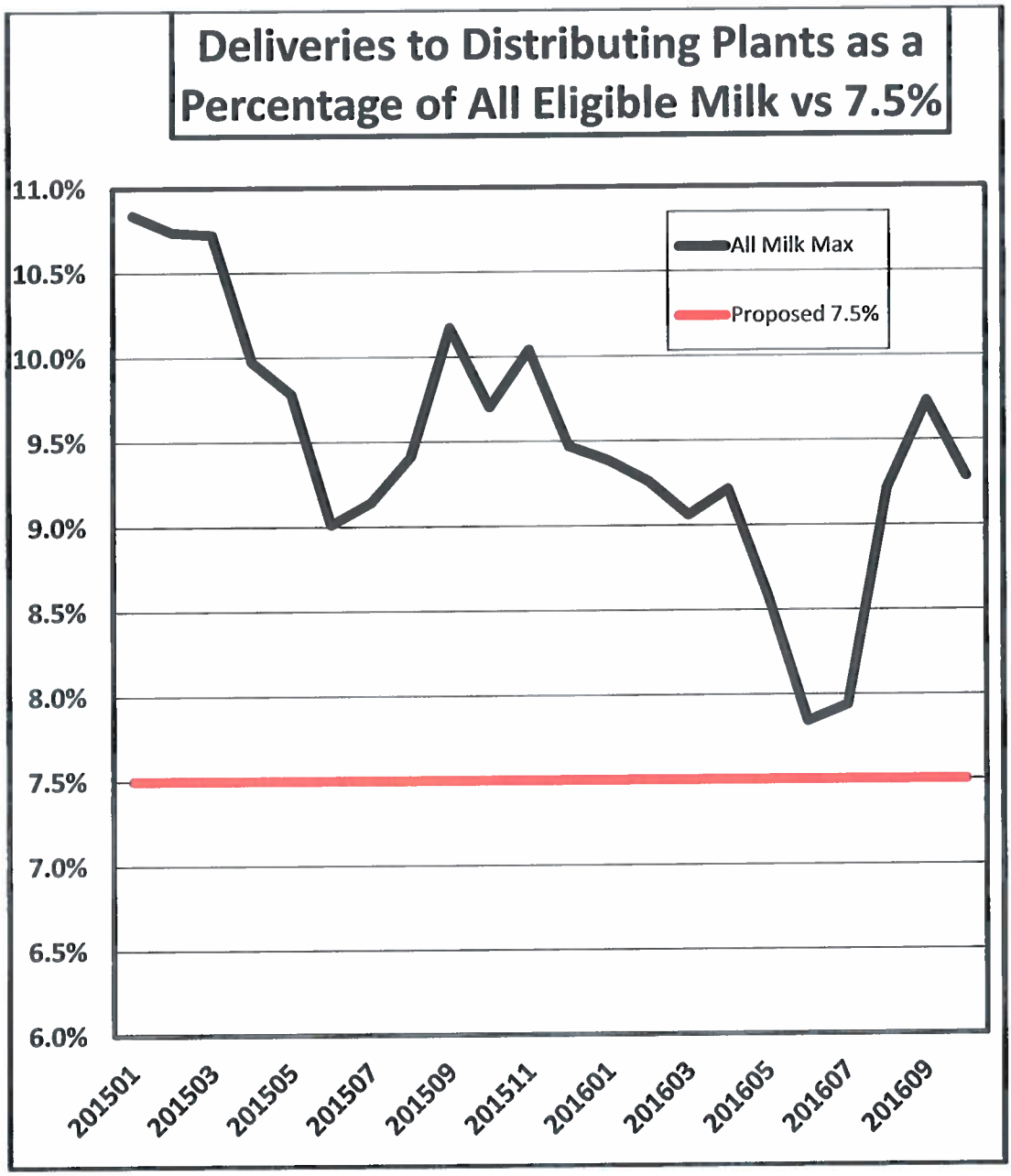


*Outliers due to negative PPD removed and replaced by interpolation

* Data for national milk production

- **Burden of depooling (Figure 6).** Pooled plus depooled milk represents total milk production that could have gone on the FMMO30 pool, had depooling not been an option. Deliveries to pool distributing plants represents the actual milk volume used in calculating the current 10% diversion limit. As a percent of the "full pool", the "actual" delivered percent has been below 10% for much of the past 22 months, ranging from a high of 10.8% to a low of 7.8%. The "actual" delivered percent has been below 10% every month in 2016, at least through October. This burden is expected to continue.

Figure 6



* Data for FMMO30

Economic Implications

The trends in monthly Class 1 utilization percentage, monthly Class 1 receipts, distributing plant number, monthly fluid milk sales, total milk production and the depooling burden presented so far, are well established and highly unlikely to reverse. The net impacts of these trends have distinct economic consequences.

- The search for plant capacity to meet the 10% requirement creates shipping inefficiencies. As milk production increases the inefficiencies and uneconomic shipments become more acute.
- It is becoming economically infeasible to meet the 10% threshold.
- This confluence of trends and their consequences has a negative impact on farmers, cooperatives and handlers without providing a benefit to consumers. Ultimately, this impacts the relative competitiveness of the region.

Recommendation

Reduce the shipping percentage requirement for deliveries from supply plants to distributing plants from 10% to 7.5%, to be maintained at this level all year long and to take effect March, 2017. A 7.5% requirement is in line with current trends in fluid sales and monthly Class 1 receipts. In addition, given rising milk production, this new shipping requirement will still provide sufficient fluid milk to supply consumer demand. At the same time, adjust the diversion limits for producer milk to "not to exceed 92.5%".

Sincerely,

Joseph Brinker, President
Central Milk Producers Cooperative (CMPC)