



April 12, 2015

Member Organizations:

Associated Milk
Producers, Inc.

Bongards' Creameries

Ellsworth Cooperative
Creamery

FarmFirst Dairy Cooperative

First District Association

Midwest Dairymen's
Company

Scenic Central Milk
Producers

Coordinator:

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Erin C. Taylor
Marketing Specialist
Order Formulation and Enforcement Branch
USDA/AMS/Dairy Programs, STOP 0231-Room 2971-S
1400 Independence Avenue SW.
Washington, DC 20250-0231

Docket Number: AMS-DA-09-0065

Dear Ms. Taylor:

I am writing on behalf of the member cooperatives of the Midwest Dairy Coalition to provide comments with regard to Agricultural Marketing Service's (AMS) review of the Federal Milk Marketing Orders under section 610 of the Regulatory Flexibility Act (RFA).

The Midwest Dairy Coalition (MDC) is an alliance of dairy cooperatives representing dairy producers in eight Upper Midwest states on federal dairy policy issues. The Coalition collectively represents over 9,000 dairy farmers, or about 20 percent of the dairy farmers in the nation. On a regional basis, the Coalition's membership represents the majority of dairy farmers in the Upper Midwest.

The Benefits of the Federal Milk Marketing Order System

As noted in the supplementary information accompanying the Federal Register notice on this subject:

The Federal milk marketing order (FMMO) program is authorized by the Agricultural Marketing Agreement Act of 1937 (Act), as amended (7 U.S.C. 601-674). It is designed to ensure a stable supply of fresh fluid milk for fluid processors and consumers. The program accomplishes this by providing a framework to make buying and selling milk a more orderly process thereby counteracting the inherent instability in the fluid milk markets.

For the dairy farmers of the Upper Midwest, the two main benefits of the FMMO system are the uniform blend pricing provisions within each order and the market information provided through federal orders.

Uniform Blend Pricing

Because of perishability, the value of Class I (fluid) milk is usually higher in the marketplace than milk used for manufacturing. Unlike fluid milk, manufactured product

One of the benefits of the FMMO system is that the monthly minimum pricing establishes a minimum blend price that must be paid to all producers in the federal order, no matter whether the producer's milk was shipped to a plant processing fluid milk, cheese, or non-fat dry milk. While it is true that over-order premiums can be offered that result in differences in pay price to producers within that order, the minimum uniform blend price provisions generally limit wide pay variations between producers.

Without these uniform blend pricing provisions, it would be very disruptive to markets and dairy producers. Otherwise, producers would clamor to ship their milk to fluid bottling plants in order to get a higher price, and be reluctant to ship their milk to cheese or powder plants because of the lower price. This could result in a shortage of milk for manufacturing plants, and a surplus of milk vying for access to fluid milk plants. This disorderly marketing would be harmful to consumers and farmers alike.

Market Information

Each month, using data compiled through the FMMO system, the Agricultural Marketing Service publishes detailed data on end-product usage of milk that is pooled on the federal order. The federal order Market Administrators conduct comprehensive audits to independently verify data provided by regulated handlers. These data are useful for the industry as a whole, including farmers and other small businesses, by providing some predictability and order to the market.

In addition, the FMMO system provides the following additional benefits for producers:

- establishment of procedures to verify weights and component tests for producers' milk, to ensure that payments to producers by handlers regulated under the order are accurate and equitable; and,
- establishment and enforcement of payment dates that ensure that producers get paid in a timely manner for their milk.

Need for Reform of the FMMO System to Address Regional Inequities to Producers

In spite of the benefits of the FMMO order system, there are outdated aspects of the system that are harmful to producers, particularly in regions of the country where the majority of milk produced is used for manufactured dairy products instead of fluid milk.

Because the main purpose of the FMMO system is to ensure an adequate supply of fluid milk, structures were long ago established that artificially inflate the value of fluid milk through Class I differentials established in each federal order. The benefits of this regulated price discrimination accrue only to those producers within that order, and the level of the Class I differentials vary by order. In many cases these differentials are set at levels no longer needed to ensure adequate supplies of fluid milk within the order, and the excess milk produced as a result of those market signals is flowing over into manufactured product markets. This artificially depresses the value of milk used to manufacture butter, powder and cheese.

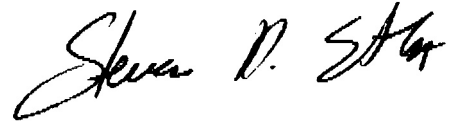
Therefore, we are encouraging a comprehensive review and reform of Class I differential values in the FMMO system to bring them in line with modern market realities. In addition, we are also recommending the system wide, not market wide, pooling of Class I benefits to ensure that producers benefit more equitably from the system.

Relevance to Section 601 of the Regulatory Flexibility Act

Based on AMS and NASS figures for 2014, about 37 percent of dairy producers who ship their milk to plants regulated under federal orders, and 44 percent of those in the Upper Midwest, have average annual receipts below \$750,000, the relevant threshold definition of “small entity” for purposes of this RFA review.

Thank you for your consideration of these comments and concerns.

Thank you,

A handwritten signature in black ink that reads "Steven D. Etko". The signature is written in a cursive style with a large, sweeping initial 'S'.

Steven D. Etko
Coordinator