United States Department Of Agriculture
Agricultural Marketing Service
Dairy Programs

FEDERAL MILK ORDER No. 1
Northeast Marketing Area
89 South Street, Suite 301, Boston, MA 02111-2671

Mailing Address:
P.O. Box 51478
Boston, MA 02205-1478
Phone: 617-737-7199 --- Fax: 617-737-8002
E-mail: NortheastOrder@fedmilk1.com
Website: http: www.fmmone.com

Albany:
302A Washington Avenue Ext.
Albany, NY 12203-7303
Tel.: (518) 452-4410
Fax: (518) 464-6468

Alexandria:
P.O. Box 25828
Alexandria, VA 22313-5828
Tel.: (703) 549-7000
Fax: (703) 549-7003

June 29, 2018

TO: Pool Handlers on the Northeast Order

FROM: Shawn Boockoff, Acting Market Administrator

SUBJECT: Request to Reduce Fall-Month Shipping Percentages – **Approved 10% for 2018**

On April 5, 2018, pool handler, Queensboro Farm Products, Inc. (Queensboro), an operator of a supply plant under the provisions of the Northeast Marketing Area (Northeast Order), submitted a request that the shipping percentage specified in Section 1001.7 (c) (2) for the months of September, October, and November be lowered from 20 percent to 10 percent for pool supply plants regulated under the Northeast Order until further notice.

Section 1001.7 (g) of the Northeast Order states that the shipping percentages under the above provision may be increased or decreased by the Market Administrator if, after conducting an investigation and soliciting comments, the market administrator determines that such adjustment is necessary to encourage needed shipments or to prevent uneconomic shipments.

Petition

In their 2018 petition, Queensboro cited declining Class I sales, a decline in the number of Class I customers seeking to purchase milk for Class I usage, and a comment that they, as a long-standing participant of the Northeast dairy industry, were unaware of any instances where Class I needs have not been covered. Queensboro's petition states that as pool distributing plants in the region have closed, many of the remaining bottling plants have established full supply agreements with cooperatives. The impact of such arrangements, according to Queensboro, is fewer Class I customers willing to take their milk and an increased cost of moving milk. In the past several years the petition states that Queensboro has had to seek out Class I customers in order to reach the 20 percent shipping requirement, with only one Class I customer calling upon them for milk to which they stated they immediately complied.

The petitioner noted that they have a unique relationship with a large cooperative operating in the Northeast Order area. They report that they separate and balance product (for this cooperative) when they are long in supply and help furnish milk supplies when they are short.

In their petition, Queensboro states that the provision of the Order that allows for handlers, who operate two or more supply plants, to form a "system of plants" and thereby attain the applicable shipping percentage requirements jointly in the same manner as a single plant puts stand alone supply plants at a disadvantage. The petitioner noted that being an independent small business, and a single plant operation, they do not have that luxury. As one of two independent supply plants remaining on the Order, Queensboro asserts that this seems to discourage entrepreneurship and penalize small businesses. The petition notes that to fulfill the current 20 percent shipping requirement, Queensboro would have to make uneconomical and unnecessary movements of milk resulting in higher hauling costs to their producers. The petition includes a statement asserting that a reduction to a 10 percent shipping percentage would have an insignificant effect on individual producer's milk pay prices.

Summarized Handler Comments

Agri-Mark, Inc. (Agri-Mark), a cooperative handler under Section 1000.9(c) of the Northeast Order and operator of multiple pool supply plants, submitted comments in support of the reduction from 20 to 10 percent, for the months of September, October, and November, though for 2018 only. Agri-Mark noted the continuing decline of Class I sales while milk continues to be discarded as surplus or sold at significant value losses in condensed form.

Cayuga Marketing LLC (Cayuga Marketing), a cooperative handler under Section 1000.9(c) of the Northeast Order, submitted comments in support of the reduction from 20 to 10 percent, for the months of September, October, and November, until further notice. Cayuga Marketing underscored their support of the reduction by presenting data that compared relatively stable Class I utilization against producer milk available. They state the results show that producer milk is more than sufficient to meet Class I demand given Class I utilization has fallen precipitously. Cayuga Marketing claims to be maintaining uneconomic milk sales in effort to meet a 20 percent minimum requirement.

Dairy Farmers of America - Northeast Area (DFA-NA), a cooperative handler under Section 1000.9(c) of the Northeast Order and operator of multiple pool supply plants, submitted comments in support of a reduction for the months of September, October, and November, but to a 15 percent level. DFA-NA did not oppose an "until further notice" period for the decision, but also stated to be agreeable to a one or two-year period for the decision. DFA-NA states that the 20 percent level could result in uneconomic shipments of milk supplies solely to meet the Order provision and not in response to actual demand. The cooperative states that ensuring the higher value Class I market is satisfied while not imposing additional costs of accommodating "excessive deliveries" to that market that reduce producer returns is the role of an appropriate shipping percentage. The cooperative believes a 15 percent level to be most appropriate. DFA-NA notes a slowing in milk production increases that the region has experienced over many quarters as well as milk price decreases, but adds that they do not view either as permanent and that, long term, they anticipate stronger dairy demand across all classes.

St. Albans Cooperative Creamery, Inc. (St. Albans), a cooperative handler under Section 1000.9(c) of the Northeast Order and operator of a pool supply plant, submitted comments in support of the reduction from 20 to 10 percent, for the months of September, October, and November, until further notice. St. Albans believes the continued reductions in Class I utilization and reduction of Class I facilities warrants such a decision.

Upstate Niagara Cooperative, Inc. (Upstate Niagara), a cooperative handler under Section 1000.9(c) of the Northeast Order and operator of pool distributing and partially regulated pool distributing plants, submitted comments supporting a reduction for the months of September, October, and November, 2018, but only to the 15 percent level. Additionally, Upstate Niagara prefers that the September-November shipping percentages be reviewed regularly, rather than "until further notice." Upstate Niagara feels that the market conditions that warranted the past adjustment to 15 percent remain true today. The cooperative sees no signs in the downward trend in Class I sales, and though acknowledging year-over-year contraction evident in USDA's NASS Milk Production Report since August 2017, overall supply and demand balance has not "recalibrated" after the loss of sales to Canada.

Findings

Monthly pool statistics continue to present a picture of declining Class I utilization for the Northeast Order, though there has been some slowing of this trend during the past year. The Class I utilization for the most recent pool, May 2018, at 735.7 million pounds was the second lowest volume for the month in 19 years. At 30.2 percent, Class I utilization in May was the lowest ever for the month and fifth lowest Class I utilization by percent for any month since the Order's inception. In 2000, the year in which the 20 percent fall month shipping percentages were adopted as part of Order Reform, the Class I utilization for the months of September, October, and November averaged 49 percent of the volume of milk pooled during those months. In 2017, Class I utilization for these same three months averaged 34.4 percent of the total pool – a drop of nearly 15 percentage points.

The volume of milk pooled on the Order through the first 5 months of this year is the second largest volume since the inception of the Northeast Order. A record high volume pooled was set during the most recent month of May 2018. The calculated daily deliveries per producer (DDP) statistic also was the highest ever for the respective month for the last 47 consecutive months (June 2014 – May 2018). DDP has surpassed 7,000 pounds for the last 4 months (7,433 in May 2018).

Milk utilized in Class IV–historically considered a balancing class with the manufacture of lower valued storable products–typically exhibits year-to-year variation in the Northeast Order in response to the overall supply and demand for milk in the region. During the first 5 months of this year, the pounds of milk utilized in Class IV has ranked second highest since the Order's inception (only this period in 2017 being higher).

Plant and Handler Issues

Since the last decision on fall month shipping percentages was written, the single remaining bottling plant in New York City (Elmhurst Dairy, Inc.) ceased operations in November 2016. The impact of that closure continues to impact the Northeast milk shed given its status as an independent fluid milk plant that received a significant volume of farm milk from multiple sources within the milk shed. More recently, Dean Foods's Garelick Farms division announced that they will close a long operating bottling plant in Lynn, MA, later this fall. With every bottling plant closure, the challenge becomes greater for cooperatives and milk marketers to find Class I bottling plants with physical processing capacity and/or the need for additional milk supplies.

The closure of long-operating Class I bottling plants in the marketing area is one sure sign of continued soft demand for milk supplies to be utilized in Class I products. Requiring additional volumes of raw farm milk to be delivered to bottling plants that would appear to have adequate milk supplies for the level of sales they have, could lead to disorderly marketing scenarios within the milk shed of the Northeast Federal Order.

Within recent months two handlers whose primary business is the sale of Class I fluid milk products independently announced that they were releasing a number of independent producers who directly sold milk to the respective handlers. The effective termination date for one of the handlers has yet to occur - scheduled to become effective in mid-July. The primary reason cited for the release of producers was a supply of milk in excess of demand, with handlers noting that the decision to release producers in order to bring their milk supply into better balance was not taken lightly. For the released producers, finding a handler or cooperative willing to add them as new producers has been and continues to be a significant challenge. This is reflective of a marketplace where handlers feel that they have all the milk that they need.

Existing Provision

The shipping provisions of the Order (under Section 1001.7 (c) (1) and (2) stipulates that a supply plant (and this also applies to cooperatives operating as handlers under Section 1000.9(c)) must deliver milk to a distributing plant in order to meet the requirement. As noted in prior decisions, the option is not to "ask" whether the milk is needed or not but, instead, delivery to a pool distributing plant is stipulated. However, under Section 1001.7(g) the provision authorizes the Market Administrator to adjust the shipping percentage "to prevent uneconomic shipments", if so warranted. Thus, preventing the administratively required delivery of excessive milk to distributing plants, when order data and industry comments indicate a lower required shipping percentage is appropriate, is a measure that can and has been taken for the past six years by the Market Administrator, following the receipt of similar industry requests to review the provision as a measure to prevent disorderly marketing and uneconomic shipments of milk.

Decision

After reviewing a variety of Northeast Order statistical data related to total pool volume, class utilization changes over time, fluid sales reports for the Order, and recent industry dynamics, together with comments submitted by parties responding to the call for comments on Queensboro's request, a reduction in the shipping percentage under Section 1001.7 (c) (2) of the Northeast Order from 20 to 10 percent for the three months of September, October, and November is approved. In consideration of the current milk price cycle and the potential impact on future milk production within the region, the decision at this time will be limited to a single year, 2018.

As provided under the terms of the Northeast Order under Section 1001.7 (g), the Market Administrator may review the need for any further adjustment on his own initiative or at the request of interested parties.

More Information

Complete copies of comments submitted by handlers regarding the requested shipping percentage reduction, along with Queensboro's request, can be found on the Northeast Order website; www.fmmone.com or by contacting the Market Administrator's office at 518-452-4410.

UPSTATE NIAGARA
COOPERATIVE, INC.
FARMER OWNED

General Office
25 Anderson Road
Buffalo, NY 14225

Membership Division:
700 Ellicott Street, Suite 2
Batavia, NY 14020

Information Technology:
90 Anderson Road
Buffalo, NY 14225

Buffalo Fluid Plant:
1730 Dale Road
Buffalo, NY 14225

Rochester Fluid Plant:
45 Fulton Avenue
Rochester, NY 14608

Valley Farms Dairy, LLC:
1860 East Third Street
Williamsport, PA 17701

Cultured Products Plant:
3300 North America Drive
West Seneca, NY 14224

North Country Dairy LLC:
22 County Route 52
North Lawrence, NY 12967

Oatka Milk Products:
700 Ellicott Street
Batavia, NY 14020

June 15, 2018

Peter Fredericks
Federal Milk Order No. 1
Northeast Marketing Area
Sent via email to: pfredericks@fedmilk1.com

Mr. Fredericks,

Upstate Niagara is writing in response to your invitation for comment on the request from a pool handler, regulated under the provisions of the Northeast Marketing Order, to lower the shipping percentage specified in Section 1001.7 (c)(2) for the months of September, October, and November from 20 percent to 10 percent until further notice.

In 2016, performance standards were adjusted down to 15% during the months of September, October, and November for two consecutive years. Prior to this, each year between 2013 and 2015 were also adjusted to 15%. Upstate Niagara believes that maintaining the recent status quo of reducing shipping requirements from 20% to 15% continues to be warranted. Regarding to timing, we would prefer to see the Market Administrator continue to review this matter regularly. However, given current market dynamics, we also see reason to extend shipping percentage reductions for the months of September, October, November for each year 2018 and 2019.

The Cooperative believes that overall market conditions that warranted the past adjustment to 15% remain largely true today. The well-documented downward trend in overall Class I milk sales continues with no signs of reversal. Although, milk production in New York, Pennsylvania, and Vermont, as reported monthly by USDA's NASS Milk Production Report, is showing signs of year-over-year contraction in each of the months since August 2017, the overall supply-demand balance has not recalibrated after the loss of significant sales to Canada.

To summarize, Upstate Niagara believes that a reduction of shipping requirements from 20% to 15% is warranted for the months of September, October, and November with review regularly.

Sincerely,

Jodi C. Smith
Economist

Date: June 14, 2018

United States Department of Agriculture
Federal Milk Market One
c/o Peter Fredericks
302A Washington Ave Ext.
Albany, NY 12203-7303

RE: Shipping Requirements Comments

Dear Peter:

Cayuga Marketing is in favor of lowering the shipping percentage from 20 percent to 10 percent for the months of September, October, and November until further notice. Under Section 1001.7(g) of the Order, the applicable shipping percentages may be increased or decreased by the Market Administrator if it is determined that such adjustment is necessary to <u>encourage</u> needed shipments or to <u>prevent</u> uneconomic shipments.

In determining our position, we reviewed the amount of producer milk produced in Federal Order 1 during September through November from years 2000 to 2017. We then compared the producer milk available against Class I demand for the same period of time. For the time period spanning from 2000 to 2009, the demand for Class I milk expressed as a percentage of total producer milk sold during September through November ranged from a low of 46.7% to a high of 52.0%. The Class I utilization during this period of time remained relatively stable. Starting in 2010 and continuing through 2017, the percentage of Class I milk sold as a percent of total producer milk decreased consistently each year from 45.4% in 2010 to 34.4% in 2017. Thus, the cumulative Class I demand for the September to November timeframe as a percent of producer milk available decreased by a total of 11%, or about 1.6% per annum.

The data presented above solidified our position that producer milk is more than sufficient to meet Class I demand and furthermore, the fall pooling percentage should be reduced by 10% to reflect the fact that Class I utilization has decreased precipitously. Furthermore, Cayuga Marketing is maintaining uneconomic milk sales in an effort to meet the 20% minimum pooling requirement for shipments during the months of September, October, and November, which is taking money away from our members during a difficult period where we desire to return as much money to members as possible.

Feel free to reach out to me at my office: 315-612-3224, or my cell at 585-943-9950 if you should have any further questions.

Sincerely,
Kevin J. Ellis
CEO
Cayuga Marketing