



United
States
Department
Of
Agriculture

Agricultural Marketing
Service
Dairy Programs

FEDERAL MILK ORDER No. 1
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February 27, 2018

TO: Northeast Order Pool Handlers
FROM: Erik F. Rasmussen, Market Administrator
SUBJECT: Request to Allow Temporary Dumping of Surplus Milk – *Approved 3/1/2018 – 7/15/2018*

On February 15, 2018, pool handler Land O'Lakes, Inc. (LOL) requested a temporary authorization allowing pool handlers to dispose of surplus milk at a farm or non-plant location, with said milk retaining the status of pooled producer milk. The period covered by this action would be March 1, 2018, through July 15, 2018. Pool handlers Agri-Mark, Inc.; Dairy Farmers of America, Inc.; St. Albans Cooperative Creamery, Inc.; Upstate Niagara Cooperative, Inc.; and Cayuga Marketing LLC submitted remarks in support of LOL's request.

During the past four years, pool handlers have requested a similar temporary dumping allowance on several occasions. The current request is similar to a period approved as recently as last year, covering March 1, 2017, through August 31, 2017. During the previously approved periods, no handler dump milk requests were received specifying that raw milk was being dumped at a farm due to surplus reasons. The only reported requests seeking authorization for dumping raw milk at a farm were caused by snowstorm milk pick up complications. Therefore, volumes reported in the Northeast Marketing Area's Monthly Statistical Report utilization table under Class IV Minimum Price Class (and often referred to as dumped milk) represent milk that was delivered to a plant, processed to some extent, and then discarded for any number of internal handler specific reasons. Such dumps are an accepted plant utilization under the provisions of the Northeast Order and do not require the temporary on-farm dumping authorization that has been requested.

As noted in LOL's request, market supply and demand conditions in the Northeast have improved to some degree since the previous request was made. Still, evidence suggest a marketing imbalance that prompted previous approval of earlier requests as stated above still exists. Milk production within the region continues at strong levels even if some decline is recently evident. Annual Northeast Order pool volume for 2017 finished the year 1.4 percent above 2016.

Northeast Order pooled milk was less than the previous year for January 2018. In light of recent trends in production and pool volumes, it is important to note that the current trend in year-over-year pooled receipts, if continued for the period February 2018 through July 2018, would still exceed the level in 2015 (the year in which the initial temporary dumping allowance was requested and approved).

In consideration of the aforementioned factors, the Market Administrator agrees to temporarily reauthorize the pooling of milk disposed of or "dumped" at farm or other non-plant locations for the requested period of **March 1, 2018–July 15, 2018**, provided the following conditions are met:

- Handlers and/or their producers that utilize this temporary policy must have been pooled on the Northeast Order for all of their commercially marketed production for the months of May through October 2017.
- The milk must be picked up at the farm, measured and sampled for payment. The tanker test will be a weighted average of the producer tests.
- Notification should be given to the Market Administrator's office by the next business day, or as soon as practicable, when the milk is dumped. At pool time a separate list must be submitted of all producers whose milk was dumped, along with the component tests of the applicable milk (if available), and the physical location and address of where the milk was dumped.

Any such requested dumps will be subject to audit verification by the Market Administrator as a condition to be included as pooled producer milk during the respective pool period.

February 15, 2018

Erik F. Rasmussen, Market Administrator
Federal Milk Marketing Order 1
302-A Washington Avenue Ext.
Albany, NY 12203-7303

Dear Mr. Rasmussen:

Land O'Lakes, Inc., a cooperative milk handler with members pooled on Federal Milk Marketing Order 1 (FMMO 1), is requesting that the Market Administrator grant temporary procedures allowing surplus milk to be disposed of at the farm and retain pool eligibility for the period March 1 to July 15, 2018.

While the difference between available processing capacity in the FMMO 1 marketing and local milk production has somewhat abated recently, still the problem remains. The inability to find homes for all milk has caused handlers to petition the Market Administrator for these temporary procedures to retain pool status for milk dumped at the farm for the last four years.

The National Agricultural Statistics Service (NASS) estimates milk production in the 11 states that comprise the FMMO 1 milk shed grew by 1.8 percent in 2017 compared to the prior year. This milk production increase was on top of a 2.4 percent increase between 2015 and 2016. While milk production in Northeast decreased by 1.3 percent in the fourth quarter, NASS reported 590 million more pounds of milk were produced by the region's dairy farmers in 2017 compared to year earlier. Milk production by dairy farmers, pooled on FMMO 1, also increased between 2017 and 2016 by 390 million pounds or 1.4 percent. This year-on-year increase was above to the addition of 960 million pounds, representing a 3.7 percent increase, between 2015 and 2016.

Utilization of FMMO 1 producer milk to Class I continued its decline through 2017. Between 2017 and 2016 Class I declined by 30 million pounds or 0.3 percent. During 2016 FMMO 1 Class I utilization declined by 115 million pounds or 1.3 percent. Class II utilization was flat between 2016 and 2017, while more milk found homes in Class III, 3.8 percent increase, and Class IV, a 3.5 percent increase between 2017 and 2016.

The Market Administrator notes each month in the Monthly Statistical Report a category of utilization defined as "Minimum Price Class Animal Feed, Dumpage, and Other Uses," as defined in Section 1000.40 of the Order (Figure 1). These monthly volumes of pooled milk would include milk dumped from plants for reasons of milk quality and volumes dumped at the farm due to weather emergencies or as surplus, when specifically permitted by the Market Administrator. While this category is an imprecise measure, due to the inclusion of milk rejected at the plant, the changes in the monthly volumes of this utilization category do provide indications of the volume of dumped at the farm and pooled milk on FMMO 1. The annual

totals for the category were 118.9 million pounds in 2015; 184.7 million pounds in 2016 and 170 million pounds in 2017. During each of these years the Market Administrator has for various months allowed milk dumped at the farm to be included on the FMMO 1 pool. While the category volume decreased in 2017, relative to 2016, the volume of dumped milk during 2017 was significantly above 2015. The implication is that the Order's handlers still require the relief from the Market Administrator, as requested in this petition.

Moreover, this petition requests a procedural change during the March through July period. Between 2015 and 2017, the aggregate volume of milk dumped, as defined by Section 1000.40, during these five months equaled 65 percent of the total category volume of the three-year period.

Note that neither LOL nor any handler would prefer the return gained from dumping at the farm to a return from a commercial sale. The return to any entity (Order 1 Statistical Uniform Price less the lowest Class price) is far less the return from an under-class priced sale to a Midwest market plus transportation. The incentive is always to market milk when possible; however during these times of milk supply and plant capacity imbalances, necessity sometimes requires dumping milk at the farm.

During the last four years the Market Administrator has granted a relaxation of the requirement to deliver a load of milk to a pool plant before disposing of it in order to gain pool status. This request is again to allow loads to be dumped on the farm and retain pool status when accurate weights, component tests and location are reported to the Market Administrator's office. Granting the petition will prevent the uneconomic hauling of milk. Note again, that the return gained by this request, represents a small fraction of the total value of the milk and would not incent uneconomic behavior simply to collect payment.

I will be glad to answer any questions you may have.

Sincerely,

A handwritten signature in black ink that reads "Kai Knutson". The signature is written in a cursive, flowing style.

Kai Knutson
Milk Supply Manager, Eastern Region
Land O'Lakes, Inc.

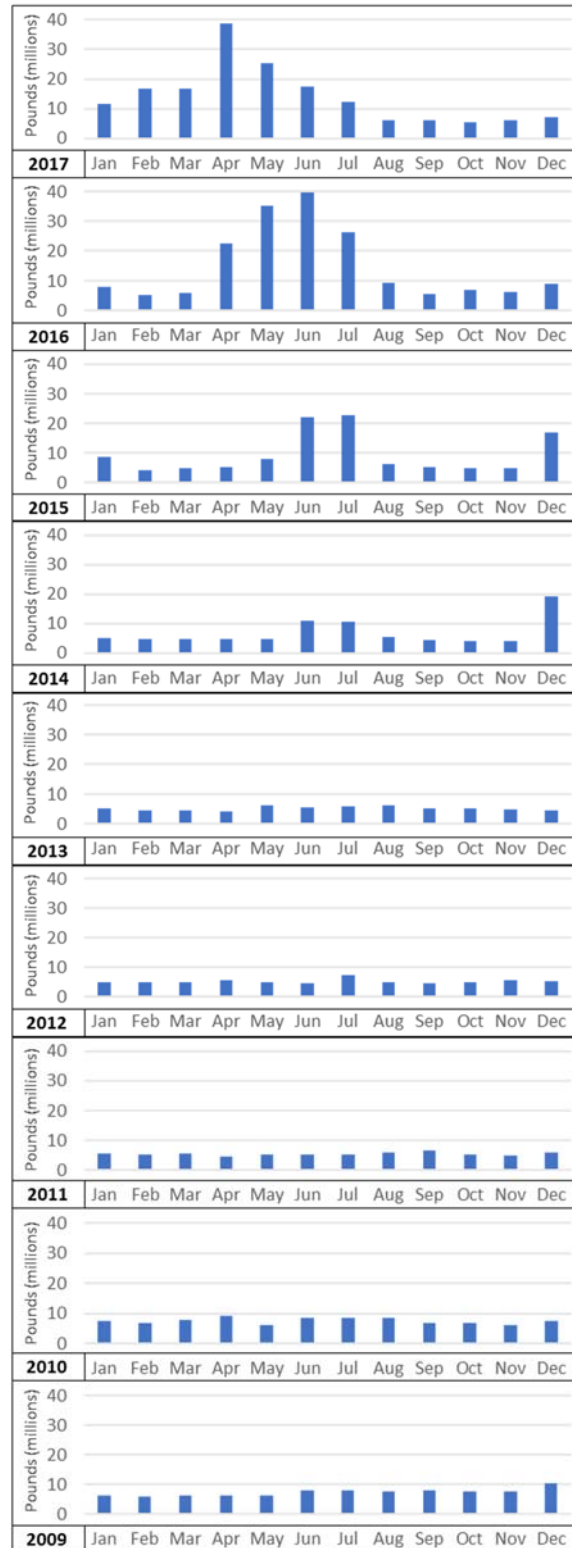


Figure 1. Total Other Uses Milk Pounds Pooled, 2009 – 2017; "Other Uses" milk is as defined in section 1000.40 of the Order. It includes pooled milk that is dumped at plants - including route returns - or at farms, lost by occurrence beyond the handler's control, or used for animal feed.