

**Prepared Testimony of
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Re: Proposal No. 2 and No. 9, "State Unit Pooling Standards"

Federal Milk Market Order Hearing
Docket Nos. AO-368-A30; AO-380-A18; DA-01-08
April 16, 2002

My name is Daniel S. McBride. I am testifying today on behalf of Northwest Dairy Association, which is usually referred to as "NDA". In earlier testimony I have introduced myself, as well as NDA and WestFarm Foods.

NDA Has Concerns About Proposal No. 2 and Proposal No. 9. As we understand these two proposals, similar language would be added to both the Pacific Northwest Federal Order (Proposal No. 2) and the Western Order (Proposal No. 9). These proposals would apply only to milk pooled from outside the order's marketing area. Such milk would have to be reported on a state by state basis, and specific pooling standards would have to be met by each state unit.

As we entered this hearing, NDA was unclear about all of the ramifications of these proposals. At this point, we would like to simply state our concerns, without taking a formal pro or con position. We expect to do so in post-hearing briefs.

As a general comment, we note that both of these proposals would not have been proposed under the Federal orders that pre-dated the so-called "Reform" process. But the "reform" of location pricing has created a situation, since January 1st of 2000, in which there is no location penalty for pooling "distant milk" on an order (and presumably offering to make it available to that marketing area) but instead delivering it to a plant that is hundreds or perhaps thousands of miles away.

NDA suggests that the better solution to this problem of "distant pooling" would be to recognize that the "reform" philosophy that established the location value of Class I milk has no relationship to the location value of manufacturing milk needed to serve the pool distributing plants of the order in which the milk is pooled. If milk is distant from the pool plants, it has less location value as a reserve supply to those pool plants. The old orders recognized this, but the "reformed" orders inexplicitly changed this without really explaining why.

The nonsensical result of this "reform" is that the location value of pooled milk in a manufacturing plant can change if it is redirected to a different manufacturing

plant in another region – even though the Class III and IV pricing systems are based on the premise of a single uniform Class price across the nation. It can also be different within the same order based on where the plant is located on the Class I price surface:

- For example, milk produced in Southern Idaho delivered to a cheese plant in the Magic Valley gets a pool settlement of the PPD less the difference in Adjusted Class I differentials – which in this case is a negative \$.30. That same milk delivered to a cheese plant in Utah would get the full PPD.
- The same rules cause an even greater disparity when distant pooling is included in the equation. When Colorado milk that is delivered to a manufacturing plant in Colorado is pooled in the Western Order, the other producers in the Western Order are required to pay the Colorado producers the PPD at Salt Lake City plus the difference in Class I differentials – which in this case is an additional \$.55.

The ostensible justification for this is in the Class I price surface, and the attempt to move milk to the higher valued locations of bottling plants. *But the benefit accrues to the favored cheese plants located in higher Class I zones, and to their suppliers.* Without a rethinking of location values at manufacturing plant locations (which should be on the Department's agenda), there is no justification in current Federal order theory for this kind of favoritism of one manufacturing plant over another, nor for this kind of arbitrary reallocation of income among producers. Our thinking would be different, of course, if the Department were to formally consider the Class III and IV price surfaces suggested by the Cornell transportation model during the Reform process.

The basic system needs to be fixed. Until a national hearing is called to bring some sense back to this system, we are reduced to patchwork solutions such as Proposals No. 2 and No. 9. We appreciate the fact that the proponent is at least trying to address the problem, but we would welcome their support for a more global solution through a national hearing.

Proposal No. 2. In the Pacific Northwest Order, there is a pending proceeding which deals with pooling of distant milk. We do not understand that Proposal No. 2 would in any way alter or minimize the intent of the proposals heard in last December's hearing; but if they should do so in any way, we would oppose Proposal No. 2 to the extent of those inconsistencies.

NDA has a number of producers in Northern California whose milk is regularly delivered to pool plants at Medford and Portland, Oregon and producers in Northern Idaho whose milk regularly is delivered to pool plants at Spokane,

Washington. There should be no impact on the ability of these producers to pool their milk.

Finally, we would be concerned if the result of this proposal would be to make it easier to pool distant milk on the order. For example, consider the producers already delivering to the Pacific Northwest order from Northern California. This provision uses state units, which would potentially combine such milk with Southern California milk from farms that are hundreds of miles further south. We fear that Southern California milk would get a "free ride" on the backs of the Northern California milk that is moving only a normal distance to Oregon pool plants. There is plenty of milk in this market, and no need to make it any easier for distant milk to be attracted to it.

Proposal No. 9. In the Western Order, there are no present provisions dealing specifically with milk produced or received outside the order area.

NDA sees no obvious objection to establishing an orderly, performance-based system of qualifying milk from out of area states. But we would be concerned if the result of this proposal would be to make it easier to pool distant milk on the order. For example, consider hypothetical West Texas producers who might be delivering to a pool plant in Utah, in order to qualify on the Western order. Would this proposal then give other producers in EAST Texas a "free ride" on the West Texas milk? If so we would oppose it. There is plenty of milk in this market, and no need to make it any easier for distant milk to be attracted to it.

NDA will continue to examine the implications of these proposals, and will comment further in our post-hearing brief.

I would be happy to answer any questions.

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