

**BEFORE THE UNITED STATES DEPARTMENT
OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE**

In the Matter of :
Milk In The Northeast : **Docket Nos.:**
 : **AO-14-A70 et al;**
Marketing Area : **DA-02-01**
 :

Testimony of
Edward Gallagher
Vice President
Dairylea Cooperative, Inc.

on behalf of the
Association of Dairy Cooperatives
in the Northeast

Proposal 7

September 10, 2002
Alexandria, Virginia

Hello. My name is Edward Gallagher. I appear here today on behalf of the Association of Dairy Cooperative's of the Northeast – known as ADCNE. Our members are Agri-Mark, Inc., Land O'Lakes, Inc., Maryland and Virginia Milk Producers Cooperative Association, Inc., St. Albans Cooperative Creamery, Inc., Upstate Farms Cooperative, Inc., Dairy Farmers of America, Inc., O-AT-KA Cooperative, Inc., and Dairylea Cooperative, Inc. Collectively, ADCNE members represent more than 65 percent of the producers pooled under the Northeast Order.

On behalf of ADCNE, I want to thank USDA's Dairy Division for honoring our request, convening this hearing, and listening to our testimony that will present undisputed evidence of disorderly marketing conditions in the Northeast order and a need to take quick, concise and immediate emergency action to resolve these conditions.

I am the Vice President of Planning and Regulatory Policy for Dairylea Cooperative Inc. During this hearing, I am representing Dairylea, Dairy Marketing Services and the Northeast Area Council of Dairy Farmers of America. My business address is 5001 Brittonfield Parkway, Syracuse, New York, 13221.

Dairy Marketing Services is the milk marketing and membership joint venture between Dairylea and Dairy Farmers of America. This business venture markets all of the milk produced by Dairylea and the Northeast Area Council of Dairy Farmers of America. Although a Dairylea employee, I act in a consulting basis with both Dairy Marketing Services and the Northeast Area Council of Dairy Farmers of America and am involved in their day-to-day business operations.

Dairylea Cooperative represents 2,400 dairy farmers, most of whom are pool producers under the Northeast Order. The Northeast Area Council of Dairy Farmers of America represents 2,200 dairy farmers, with most being pool producers under the Northeast Order. Dairy Marketing Services is the pooling handler for Dairylea and the Northeast Area Council of Dairy Farmers of America.

Dairylea and Dairy Farmers of America are members of the Association of Dairy Cooperative of the Northeast.

Make Up of Northeast Milk Market Is Unique

The Northeast Federal Order was created from the merger of the New England, New York-New Jersey and Middle Atlantic Federal Orders, during the Federal Order Reform process. It has a number of characteristics that make it unique among Federal Orders.

Northeast Densest "Mega Milk Region"

Its milk shed includes most of the states of New York and Pennsylvania, the 3rd and 4th largest milk producing states in the United States. It also includes the state of Vermont, the 13th largest milk producing state. The combined square mileage area and milk production of the contiguous states of New York, Pennsylvania and Vermont does not equal the size of the other two mega milk producing regions in the United States, that

of California and the Upper Midwest states of Wisconsin and Minnesota (see Exhibit 11, Figure 1).¹ However, on a milk production per square mile of land mass basis, these three contiguous northeastern states make up the densest milk production region, of its size, in the country.

Northeast Largest Population Base and Class I Market

The Northeast Order's marketing area is depicted on the Federal Order map shown as Exhibit 11, Figure 3. The Northeast Order includes the eastern seaboard metropolis that includes the cities of Boston, New York, Philadelphia, Baltimore and Washington. Approximately 51.6 million people live within the geographic boundaries of the marketing area. This region has the largest population base of any Federal Order in the country. It contains 20 million more people than the next largest Federal Order marketing area population base (see Exhibit 11, Table 1).

The Northeast Order, the handlers it regulates and the cooperatives that provide the service of assuring that the marketing order functions properly and efficiently, serve the largest Class I market in the country, and perhaps in the world. During 2001, 10.6 billion pounds of milk was pooled as Class I under the Northeast order (see Exhibit 11, Table 2). This was almost 60 percent more Class I milk than the next largest Class I market. The 10.6 billion pound Class I market was larger than the entire quantities of milk pooled in 7 of the remaining 10 Federal orders.

Additionally, the Northeast Order is the largest Class II market in the United States, and perhaps the world. It pools twice as much Class II milk as the next largest Class II market under Federal Orders (see Exhibit 11, table 3). Many pool distributing plants also process Class II products, such as cream based products. In 2001, handlers under the Northeast Order distributed 775.8 million pounds of fluid cream products. This was the largest amount under any Federal Order, making up almost 50% of all fluid cream products under Federal Orders and represented more than 4 times the amount produced and pooled under any other Federal Order (see Exhibit 11, Table 4). Class II is much more than fluid cream. For instance, New York and Pennsylvania are leading producers of cottage cheese, yogurt and candy and confectionary products, all Class II products.

Unlike other Class I markets, specifically, the Appalachian, Southeast and Florida Orders, the Northeast also is home to a strong manufacturing sector. The Northeast Order ranks 1st among all Federal Order in the amount of Class IV milk that is pooled and rank fourth in Class III pool pounds (see Exhibit 11, Tables 5 and 6).

Huge Population Base Supports Large Number of Plants

The diversity and demographics that exists in the Northeastern US has provided a strong economic environment that has created a very strong processing and

¹ In 2001, the states of New York, Pennsylvania, Vermont, Minnesota, Wisconsin and California produced 89.6 billion pounds of milk. This represented 54% of milk produced in the United States. These three mega milk producing regions are expected to garner a larger share of the US milk market through this decade (see map depicting mega regions that is Exhibit 11, Figure 2).

manufacturing sector. Presently, there are 75 pool plants and 184 non pool plants serving the Northeastern Federal order.² A handful of these plants are operated by dairy cooperatives. The remaining plants are owned and operated by proprietary businesses. Although, the make up of the operators within the industry has changed over time, historically, the Northeastern Federal Orders has had a very large number of proprietarily operated milk plants.

Relative to other Federal Orders, the Northeast has more pool handlers, 62 and more distributing plants, also 62, than any other Federal Order in the country (see Exhibit A, Table 7). Keep in mind that a pool handler can operate more than one plant, either pool or non pool. A review of table 7 shows that the Northeast Order has 26 percent more distributing plants than any other Order and has more than double the distributing plants than the high Class I utilization markets.

Many Proprietary Marketing Options

An additional characteristic that makes the Northeast quite different from the dairy industry in any other part of the county or any other Federal Order is the tremendous quantity of milk that is not marketed through dairy cooperatives.

In the Northeast, a dairy farmer does not need a dairy cooperative in order to have a milk market. The tremendous number of competing proprietary milk plant operators and the even larger number of plants they operate has created an environment where there are a tremendous number of competitive marketing options for a dairy farmer. Historically, proprietary plant operators have developed their own dairy farmer milk supplies to meet a majority of their milk needs. This still holds true today.

Northeast Home to Largest Non-member Population in U.S

Presently in the Northeast Order, approximately 32 proprietary handlers have their own milk supply (see Exhibit A, Table 8). Of these, 27 operate Class I distributing plants.³

The USDA exhibit, Cooperative and Non-Cooperative member Share of Producer Receipts and Producers, January 2000-June 2002, presented by Peter Fredericks, that depicts the number of, and pounds produced by, cooperative member and non-cooperative producers, is very telling of the uniqueness of the Northeast Federal Order. In June of 2002, 4,310 dairy farmers, whose milk was pooled under the Northeast Order, did not belong to dairy cooperatives. This represented 25.3 percent, more than one-quarter of the producers under the Northeast Order. This milk represented 503.4 million pounds, a huge quantity. In fact, for 2001, almost 5.9 billion pounds of milk was delivered to handlers under the Northeast Order, by producers that were not members of

² Taken from the Order No. 1 Northeast Area Pool Handler Location Index June 2002 (counting pool distributing plants, pool supply plants, partially regulated plants and other Federal Order plants located in a state the makes up the marketing area, Maine or West Virginia) and Northeast Marketing Area Non-Pool Manufacturing and Other Order Pool Plant Location Index, December 2001, entered as exhibits by Peter Fredericks.

³ Please note, a few handlers operate more than one plant.

dairy cooperatives. I believe that the Northeast Order has more milk produced by non-members than any other Federal Order in the country. In fact, the amount of milk supplied by non-members to proprietary plant's under the Northeast's Order represents more milk than was pooled in three Federal Orders that year – Western, Arizona-Las Vegas and Florida.

Northeast Also Home to High Concentration of Dairy Cooperatives

Dairy farmers in the Northeast have quite a wide variety of marketing options as evidenced by the 32 proprietary milk companies that have their own non-member milk supply. However, discussion of the plethora of marketing options would not be complete without including information about independent dairy cooperatives. The Northeast is home to about 78 of the 208 dairy cooperatives in the US – almost 40 percent.⁴ Each of these 78 cooperatives compete in their own way to maintain or grow their membership roles. Each cooperative is active in the Northeast Order's milk procurement arena. This being the case, dairy farmers in the Northeast have about 110 different business entities to choose from when looking for a milk market.

Turning this around a little bit, the 78 cooperatives and 4,310 non members provide 4,388 options from which the 259 milk plants (75 pool plants and 184 non pool plants) can purchase their milk.⁵

Continuing with information about the Northeast cooperative structure, many have fewer than 100 members, a number fewer than 20. Some of these cooperatives have joined DairyLea or Allied Federated Cooperatives or another larger cooperative as member cooperatives, or remain independent but ship their milk through a cooperative organization. However, others, such as Boonville Farms Cooperative, Oneida-Lewis Cooperative, HP Farmers Cooperative and Middlebury Cooperative, to name just a few, are truly independent marketers. By this I mean that every year they place their milk out to bid and market to the highest bidder. Usually, cooperatives such as these contract with a Class I proprietary plant, and ship their milk to that plant just about every day.

Seasonality Issues Not Unique to Northeast Order


Northeast Order Class I sales run along a predictable seasonal pattern. They are at their highest levels when schools are in session and at their lowest levels in the summer. Exhibit II, Figure 4 graphically depicts this. This graph shows Class I deliveries per month, divided by the days in each month, for 2000 and 2001. Effectively estimating average deliveries per day pooled as Class I, the seasonal nature of the Northeast Order's Class I demand can be seen.

Exhibit II, Figure 5 is another graph. This one depicts the seasonal nature of Northeast Order producer deliveries that are pooled in Classes III and IV. Using the

⁴ Taken from Order 1 Cooperative List entered as an exhibit by Peter Fredericks and the USDA, RCBS publication, "Farmer Cooperative Statistics, 2000".

⁵ Actually the plant purchasing options are much greater when you consider that in any given month, on average, 1,000 dairy cooperative members could exercise their option to leave the cooperative and change their milk market.

same methodology as used for Class I, the graph shows average deliveries per day pooled in the two manufacturing classes. Again, the predictable and expected seasonality is shown. Milk receipts are highest in the spring time, remain high through the summer, slump in the late summer and fall, and rise again for the year ending holidays.

Exhibit , Figure 6 combines data from the two previous graphs to show, for 2001, both average daily deliveries pooled as Class I and average daily deliveries pooled in Classes III and IV. As you see, the two groups trend differently by season. As average daily Class I receipts decline in the spring and summer, average daily Class III and IV receipts increase. In the fall, as average daily Class I receipts rise, average daily Class III and IV receipts decline. Especially during the autumn months, tremendously different delivery patterns exist for the two groups.

Diversity Sets Northeast Apart

The diversity created by the Northeast's geography, population base, relative concentration of milk production and the milk plants that have chosen to invest is a tremendous asset to the Northeast's dairy economy and its region's dairy farmers. This diversity has set the Northeastern Order apart from any other Class I market in the country, and from any other marketing order, for that matter. Among other things, this is due to the Northeast's:

- ❖ Geography that makes it home to the densest milk production area of any mega milk producing region in this country,
- ❖ Population base, the largest of any Federal Order in the country, anchored by the huge metropolis along the north eastern seaboard,
- ❖ Dairy demand from this population base that creates the largest Class I and II markets, maybe in the world, and one of the largest Class III manufacturing regions in the United States,
- ❖ Need to balance what is likely the world's largest Class I market thus supporting the largest Class IV market under Federal Orders,
- ❖ Resulting diversity that creates opportunities for 259 milk plants to thrive within the region, including 32 proprietary companies that buy milk directly from dairy farmers,
- ❖ Huge non-cooperative producer milk supply, likely the largest in the country and larger than some Federal Orders, and
- ❖ Cooperative presence, as almost 40 percent of this country's dairy marketing cooperatives operate in the region.