

Testimony of the Michigan Milk Producers Association

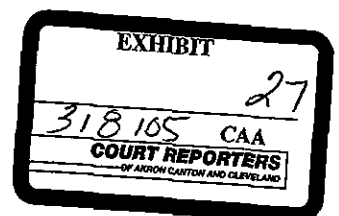
By Carl Rasch

Mideast Marketing Order Hearing

Docket No. AO-166-A72; DA-05-01

Wooster, Ohio

March 7, 2005



Proposed Modification – Proposal No. 2

My name is Carl Rasch. I am employed by the Michigan Milk Producers Association as its Director of Bulk Milk Sales. I am here to testify on behalf of MMPA. MMPA is a member owned Capper-Volstead cooperative actively engaged in marketing milk in the Mideast Federal Order.

MMPA agrees that current performance standards are too lax and need to be adjusted. We are a proponent of Proposal #2 but are requesting that USDA consider a modification of the proposal that appears in the hearing notice.

Specifically, MMPA requests that the performance requirement for a cooperative association per Section 7(d) be increased from 30% to 35% for the month of August and to 40% for the other months of September through November.

MMPA believes that an intermediate performance standard of 35% that would apply only to the month of August is appropriate.

Although the current performance standard requires that a cooperative association deliver only 30% of the producer milk of its members to distributing plants during the current month or 30% of its aggregate supply during the preceding 12 months, MMPA has performed at levels greater than this prescribed minimum for the past two years. MMPA has performed at a level that has ranged from 35% - 41% during the peak fluid demand months of August through November. These percentages that I have listed have been adjusted to

include any volume of producer milk that may have been depooled during these same months.

In both of the past two years, August has been MMPA's lowest performance month. This can be attributed to a number of factors. First, more than 90% of MMPA's producer milk originates from member farms located in Michigan. Because of our concentration of milk supply, most of our long-term supply arrangements are with Michigan processors. The percent of Michigan's milk production that is utilized for Class I purposes is less than most of the other milk-sheds in the Mideast order as demonstrated in Exhibit # 7. The combined Class I sales volume for Michigan distributing plants expressed as a percentage of the Michigan pooled producer milk during the month of October 2004 was only 36%. Typically, October Class I utilization is greater than August. Of the other four milk-shed regions, only the northern Ohio region displayed a lower percentage. Its percentage was 31%, primarily due to an absence of distributing plants in northwest Ohio.

The fluid milk processing industry in Michigan has experienced a great deal of consolidation in recent years. As a result, access to fluid sales for qualification purposes is becoming more limited. Access is also limited due to supply relationships that have a lot of history behind them. An analysis of the supply relationship for the twelve distributing plants that were located in Michigan during October of 2004 will illustrate this. Four plants are owned by Dean Foods, which has a national supply agreement with DFA. Consequently, MMPA serves as a supplemental supplier at three of these facilities. Four other distributing

plants have their own patron supply so MMPA again acts as a supplemental supplier for three of these plants. Of the remaining four plants, two have exclusive supply arrangement with DFA and the other two are supplied exclusively by MMPA.

Because of MMPA's role as a market balancer, most of the supplemental needs of the processors for whom MMPA balances don't fully materialize until after schools have reopened. This is reflected in MMPA's higher performance percentages for the months of September and October. A review of the Market Administrator's compilation of statistical data will confirm that the amount of Class I utilization in FO#33 was greater in both of the months of September and October than it was in August 2003 and August 2004. In each of the past four years, FO#33 Class I sales in October exceeded those reported in August.

In order to increase MMPA's performance level in August several options exist. MMPA could attempt to change current supplier arrangements in order to deliver more milk to distributing plants. This would likely displace other milk and be met with resistance. MMPA could attempt to enter into some type of milk exchange with other market participants. This could possibly work in the other months, but for August would most likely result in inefficient movement of milk simply to satisfy qualification requirements.

MMPA could also attempt to expand our sales area beyond Michigan and pursue new fluid outlets for our producer milk on a permanent basis. Because MMPA's milk supply is not located in close proximity to most of these alternative outlets this would not necessarily be an economically viable option. Therefore

MMPA has elected to execute seasonal supplemental supply agreements with the major supply cooperative in Ohio and Indiana and markets further south. Those agreements typically commence on August 1 and end sometime in November. These supply agreements usually contain a cancellation provision which allows the purchasing cooperative to draw on this supplemental supply after other available supplies are first fully utilized.

Previous testimony in this statement indicated that the northern Ohio area was also a reserve supply region for the Mideast market. Exhibit #14 demonstrated that the mileage from this region to designated deficit markets within the Mideast order are considerably less than from central Michigan. For example, 86 miles to Newark, Ohio and 200 miles to Newport, KY from northern Ohio versus 317 miles to Newark, Ohio and 365 miles to Newport, KY from central Michigan. Differences in miles to the market will translate directly to differences in hauling costs making the northern Ohio region a preferred reserve supply versus central Michigan. The ability of the purchasing cooperative to cancel supplemental loads has resulted in more cancellations during August versus other months during each of the past two years which again makes it harder to comply with a 40% performance standard during the month of August.

MMPA does not currently have nor has MMPA previously had any arrangement to qualify producer milk for other entities from outside of or within the FO#33 marketing area. MMPA does not condone selling qualification privileges. Our request for a 35% performance standard for the month of August

is not intended to assist MMPA in qualifying producer milk for anyone but our own members.

Conclusion – MMPA recognizes the need to increase performance standards in order to assure that the Class I needs of the market are adequately and equitably serviced and to assure that the proceeds from the Class I market are shared among the appropriate producers. A 40% performance standard for the months of September through November is reasonable, but we believe a 35% performance standard is a more reasonable standard for the month of August. The proposed higher performance standards will require more shipments from MMPA in each of these four months in order to assure an adequate margin of error because of the “hard limit” of either 35% or 40% versus the current 12 month rolling average provision. MMPA is more than willing to comply with the higher performance standard provided there is cooperation from other market participants to assure access to the necessary level of deliveries without any charges for the qualification privilege.

In regards to the performance level for the month of August, if market conditions warrant a higher degree of performance the market administrator does have the discretionary authority to increase the shipping percentage. MMPA is confident that the Market Administrator is capable of reacting to changing market conditions in a timely manner and can make the appropriate adjustment.

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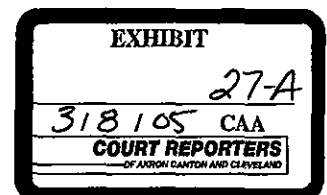
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MODIFIED MICHIGAN TRANSPORTATION CREDIT

My name is Carl Rasch. I am employed by Michigan Milk Producers Association as its Director of Bulk Milk Sales. I am here to testify on behalf of the proponents of Proposal #9 in regards to a modification of the transportation credit that would be applicable to milk delivered from Michigan farms to Michigan plants. Such a modification is necessary to account for the larger size trailers that are used to haul milk in Michigan.

Michigan roads and bridges are constructed to allow for significantly heavier truck weights than other mid-western states. The limiting factor to hauling milk in Michigan is the number of axles that the weight is distributed across not the gross weight of the truck and payload. Over time the average size of farm pickup trailers has increased dramatically in order to take advantage of the economies of scale allowed by Michigan weight restrictions. As haulers replace equipment, 10,500 gallon trailers have become much more common. Although operating costs per mile for these larger trailers are greater, the additional payload allowed is large enough to offset these costs and result in lower hauling costs per cwt. These economies are depicted in Exhibit #____ and are the basis of the modified transportation credit that is proposed for Michigan.

Operating costs per mile for these larger units average \$3.12 per mile or approximately 40% greater than the costs which were previously quoted for a

48,000 pound load. Operating costs are higher due to more fuel consumption, greater capital investment, additional insurance cost for equipment and cargo, and additional maintenance expense related to an increase in the number of axles, tires, and brakes. Typically these larger units travel fewer miles per day because their operation is confined to within Michigan and that also contributes to a higher cost per mile for fixed expenses such as licenses, insurance, wages, and fringe benefits.

A 10,500 gallon trailer is capable of hauling 90,000 pounds of milk but because these trailers are assembling milk from multiple farms of various volumes, a 86,400 pound payload is more representative and was used to calculate the credit rate for Michigan. Dividing the operating cost per mile of \$3.12 by a payload of 86,400 pounds results in a transportation credit rate of \$.0036/cwt/mile in order to achieve full recovery of the hauling cost. To be consistent with earlier testimony by Mr. Gallagher, we are proposing that the credit rate be reduced by 33% which then results in an adjusted credit rate of \$.0024/cwt/mile. This specific rate would apply only to milk delivered from Michigan farms to plants located within Michigan.

Modified Michigan Transportation Credit

Rate calculation:

| | <u>Operating cost/mile @ \$1.20/gal diesel</u> | <u>Payload</u> | <u>Safeguard factor</u> | <u>Rate/cwt/mile</u> |
|-----------------------|--|----------------|-------------------------|----------------------|
| DFA testimony | \$2.20 | 48,000 | 67% | 0.0031 |
| Michigan modification | \$3.12 | 86,400 | 67% | 0.0024 |

