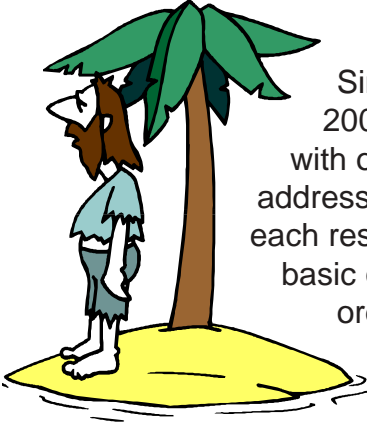
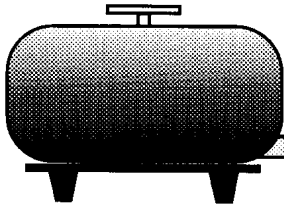


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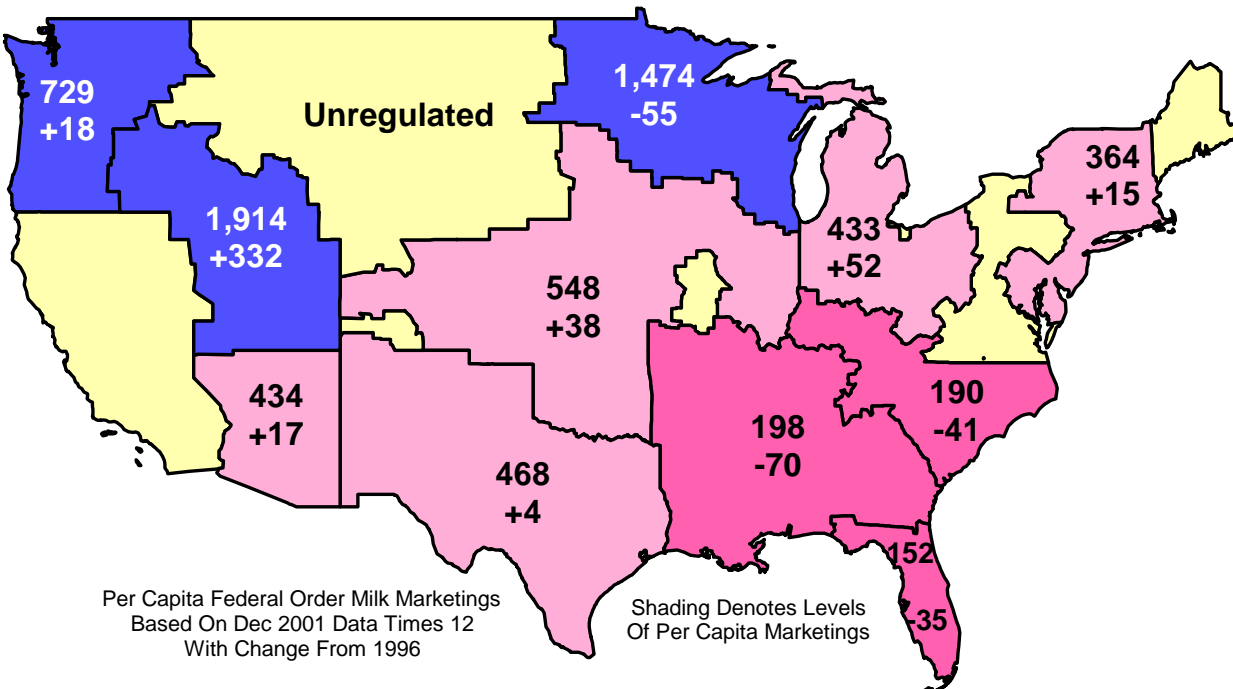
No Federal Milk Order Is An Island

Since the implementation of federal milk order reform in January 2000, there have been five hearings for individual federal milk orders with one more expected. In addition to other topics, each hearing has addressed the issue of limiting the amount of milk eligible to be included in each respective marketwide pool. These "pooling" issues all relate to the basic question of which producers should share in any given federal order's Class I proceeds. Everyone has an opinion pertaining to what the correct pooling provisions should be. One school of thought is that milk produced outside a marketing area should have limited access to the federal order pool proceeds. Another is that

barriers to pooling should be minimal. These differing opinions and pooling issues may be important to an individual or an organization, but have limited significance with where milk is needed and where it is produced.

Examining per capita consumption and per capita milk marketings provides a quick comparison of the differences in where milk is produced versus where it is needed. The average per capita consumption of fluid milk, related products, and necessary reserves equals approximately 300 pounds. Total per capita consumption of all milk products is approximately 600 pounds. As illustrated by the map below, the three southeastern federal

2001 Per Capita Milk Marketings From Within Federal Orders -- Change From '96



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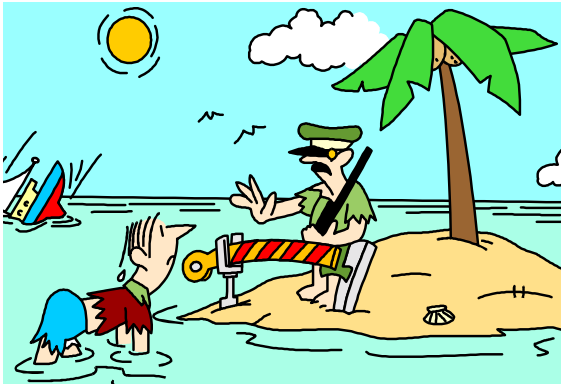
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milk orders have per capita milk marketings of less than 200 pounds. These orders do not produce enough milk from counties within their boundaries to meet the fluid milk needs of the population inside the order. Obviously, milk and or milk products must move to these areas in order to meet consumer needs. However, dairy producers in these areas may prefer to limit the amount of out-of-area milk and preserve a high federal order Class I utilization.

The five federal orders illustrated by the light pink shading have per capita milk marketings of less than 600 pounds from counties within each order. These orders are deficit for the total milk consumption requirements of the population within each order. Three of these orders have had or will have hearings to consider provisions which may affect the pooling of outside milk.

Those facts being noted, one might assume the optimal solution to supply and demand inequalities would be to open all markets and minimize pooling requirements across the board. Many dairy producers do not like that idea and want to protect their "own" markets. Dairy producers should not be faulted for not wanting distant milk pooled on their order since opening a market may not necessarily mean that milk actually participates in that market's requirements. Local dairy producers become upset when this outside milk takes Class I dollars away from "their" pool. Thus, they ask that their markets be protected.



What If The Central Order Really Were An Island ?

In reality, this protection in the form of stricter pooling standards may not be the solution everyone envisions. The following two maps show the Central federal order milkshed as it currently exists and an "island" milkshed that would allow only milk produced within the marketing area to be pooled. A common belief is that this "homeland security" measure of sealing the borders would result in a significantly higher Class I utilization and thus higher producer prices. The key here is what is significant. At the onset of federal

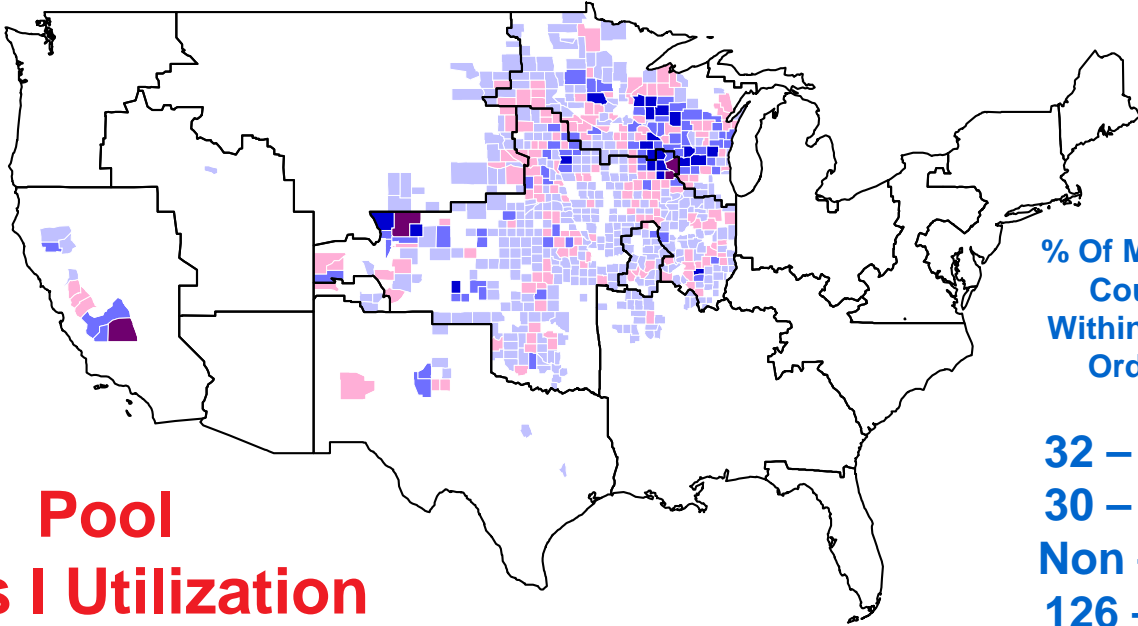
milk order reform, many people anticipated the Central federal order Class I utilization would be higher than the actual Class I utilization which averaged 27 percent during 2001. Many producers believe that if most of the milk from areas outside the marketing area were eliminated, the Class I utilization would be much closer to the pre-reform anticipated level.

Total Class I sales within the Central federal order boundaries were examined and compared with the producer milk marketed from counties within the order boundaries. This, in effect, created a statistical "island" in which producer milk could not come in nor go out. It also allowed access to the total Class I sales inside the area for producers within the order boundaries. If the borders were sealed, the "geographic" Class I utilization would increase to approximately 38 percent.

However, it is unrealistic to picture a federal milk order as an island. Processed dairy products move across the entire United States. A dairy farmer's milk may be shipped to a different location with every pickup. Congressionally mandated federal milk order reform created eleven regional federal milk orders. In almost all cases, the milk production areas supplying the orders are not correlated with the marketing area boundaries. Assuring an adequate supply of milk for fluid use to a market is a tenet on which federal orders were founded. Bridging the gap between production areas and marketing areas will continue to challenge the dairy industry.

Central Milkshed Map -- December 2001

1.575 Billion Lbs



% Of Milk From
Counties
Within Federal
Order ...

32 – 54.0%

30 – 35.5%

Non – 8.7%

126 – 1.4%

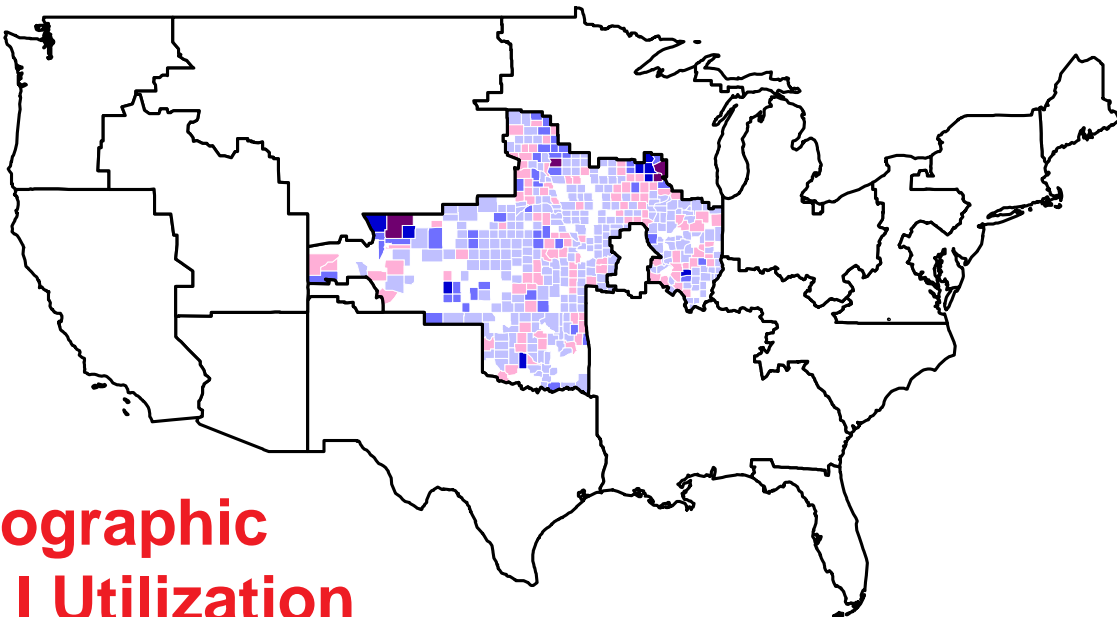
7 – 0.4%

135 – 0.0%

**Pool
Class I Utilization
26.8%**

Central Geographic Milkshed Map -- December 2001

1.030 Billion Lbs



**Geographic
Class I Utilization
38.3%**

	Statistical Uniform Price		Producer Price Differential		Class I Utilization	
	<u>5/2002</u>	<u>4/2002</u>	<u>5/2002</u>	<u>4/2002</u>	<u>5/2002</u>	<u>4/2002</u>
Pacific Northwest	11.35	11.64	0.53	0.79	26.91	26.56
Western	11.31	11.54	0.49	0.69	18.16	17.43
Arizona-Las Vegas	11.51	11.79	-----	-----	29.94	28.09
Central	11.47	11.68	0.65	0.83	24.73	26.22
Southwest	12.42	12.71	1.60	1.86	38.02	38.48
Upper Midwest	11.30	11.35	0.48	0.50	21.94	19.31
Southeast	12.89	13.23	-----	-----	53.37	54.79
Mideast	11.63	11.92	0.81	1.07	32.11	34.52
Appalachian	13.09	13.43	-----	-----	61.88	60.14
Northeast	12.63	12.94	1.81	2.09	39.77	38.92
Florida	14.55	14.93	-----	-----	87.43	87.74

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