

qualifying shipments for determining if the supply plant performance standard had been met.

Proposal 1 also would limit a handler's ability to qualify supply plants located outside the Central Order marketing area as pool plants through direct deliveries of milk to pool distributing plants. The proposal also calls for establishing a "net shipments" provision. A net shipments standard would exclude from a supply plant's qualifying shipments any transfer or diversion of bulk fluid milk products made by a distributing plant receiving a qualifying shipment.

In support for Proposal 1, the DFA, *et al.*, witness testified that the orderly marketing of milk requires appropriate performance standards for supply plants to ensure that distributing plants are adequately supplied with milk as a condition for receiving the Central order's blend price. The witness explained that performance standards should require a level of association to a market by demonstrating the ability to supply the Class I needs of that market. The witness testified that milk located far from the market also should have performance standards that are workable and consistent with Federal order policy. According to the witness, the current practice of using direct deliveries from farms to distributing plants located inside the marketing area as a method to qualify plants located outside of the Central order marketing area as pool supply plants is inappropriate because milk pooled in this manner does not provide any reasonable service to the Class I needs of the market.

According to the DFA, *et al.*, witness, the reform of Federal milk orders provided unique pooling standards that apply to each market on an individual basis. The witness testified that during the reform process, the more lenient performance standard was often selected for the new consolidated orders. According to the witness, such standards are proving to be inappropriate for the larger consolidated Central milk marketing order.

As evidence that milk is being inappropriately pooled on the order, the DFA, *et al.*, witness noted that at the time of implementing Federal milk order reform, the consolidated Central order was expected to have Class I use of nearly 50 percent. Instead, Class I use is averaging below 30 percent, the witness noted. The witness was of the opinion that this shortfall in projected Class I use was due to pooling much more milk from sources outside the marketing area than could be explained by consolidating the nine pre-reform

orders into the current Central order. The DFA, *et al.*, witness asserted that milk order reform did not intend to provide for pooling milk supplies on the Central order that would not also provide a consistent and reliable service to the Class I needs of the market. Stressing that such milk does not provide a consistent and reliable service to the Class I needs of the market, the witness maintained that such milk should not be pooled on the Central order and receive the order's blend price.

The DFA, *et al.*, witness testified that the ability of handlers to pool large volumes of milk from distant sources without having to actually deliver the milk to the market has resulted in a significant reduction of the blend price received by producers who are serving the market's Class I needs. The witness also asserted that some Central order fluid handlers are having difficulties in obtaining sufficient milk supplies and find themselves competing for a supply of milk with other fluid handlers regulated under adjacent orders where blend prices are higher.

The DFA, *et al.*, witness also explained that a portion of the pre-reform Southwest Plains order area had contributed a significant share of the milk supply needed for fluid use in the southeastern portion of the current Central marketing area. Much of the milk produced in Arkansas and southern Missouri became part of the milk supply for the Southeast order area, added the DFA, *et al.*, witness. The witness was of the opinion that adoption of Proposal 1 would result in a higher blend price for the Central order dairy farmers and enhance the ability of local Class I handlers to procure local milk supplies.

A DFA, *et al.*, witness from Prairie Farms testified that the significantly higher blend prices paid to producers under the neighboring Southeast and Appalachian orders are attracting milk supplies located in the southern and southeastern areas of the Central marketing area. The witness observed that these producers receive a higher price for their milk without incurring a significant change in hauling costs. The witness indicated that this situation is resulting in distributing plants needing to pay substantial over-order premiums to obtain a supply of milk for distribution in the Central marketing area.

Witnesses representing several distributing plant operators confirmed that they are experiencing problems obtaining an adequate supply of milk for fluid use, especially during the fall months. These fluid handlers supported

the adoption of Proposal 1 because the link between milk pooled on the Central order needs to be tied to actual deliveries of milk to the order's pool distributing plants.

A witness from Anderson-Erickson (A-E), a distributing plant operator regulated by the Central order, testified that the order's pooling provisions need to be revised to better condition the receiving of the order's blend price to actual performance in supplying the market's Class I needs. Similarly, a witness representing Suiza Foods (Suiza), a company which owns and operates distributing plants regulated by the Central order, testified that the pooling of milk on the Central order needs to be directly tied to actual performance in serving the fluid market. The Suiza witness stressed that actual performance in serving the fluid market should be necessary because it is the fluid market that generates the additional dollars to the marketwide pool.

The Suiza witness testified that their costs and ability to obtain raw milk for Class I use are tied directly to the pooling provisions of Federal milk orders, including the Central milk order. The witness stressed that blend prices, especially relative blend prices, provide the incentives for producers to move milk to where it is needed. However, explained the witness, Suiza faces new challenges in the Central marketing area since its formation under milk order reform. Specifically, the witness noted difficulty in procuring milk at one of their plants because local dairy farmers are delivering their milk to plants regulated on the Southeast and Appalachian orders. According to the witness, the blend prices in those orders are higher than in the Central milk order and therefore attract milk to those markets.

The Suiza witness was of the opinion that milk order reform placed other Central order distributing plants at a similar competitive disadvantage in competing for a supply of milk. While noting that the purpose of this proceeding is to address pooling problems resulting in lower blend prices to Central order dairy farmers, the witness stressed that in their opinion, the real issue that needs to be addressed is whether the Central order is too large. The witness cited the geographic diversity of the order and vastly differing marketing conditions within the marketing area's boundaries to question whether the Central order is truly a viable, single milk marketing area.

A witness from Mid States Dairy, an organization that operates a distributing