USDA United States Department Of Agriculture
Agricultural Marketing Service
Dairy Programs

FEDERAL MILK ORDER No. 1
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July 21, 2016

TO: Pool Handlers on the Northeast Order

FROM: Erik Rasmussen, Market Administrator

SUBJECT: Request to Reduce Fall-Month Shipping Percentages – Approved 15% for 2016 and 2017

On June 6, 2016, pool handler, Queensboro Farm Products, Inc. (Queensboro), an operator of a supply plant under the provisions of the Northeast Marketing Area (Northeast Order), submitted a request that the shipping percentage specified in Section 1001.7 (c) (2) for the months of September, October, and November be lowered from 20 percent to 10 percent for pool supply plants regulated under the Northeast Order until further notice.

Section 1001.7 (g) of the Northeast Order states that the shipping percentages under the above provision may be increased or decreased by the market administrator if, after conducting an investigation and soliciting comments, the market administrator determines that such adjustment is necessary to encourage needed shipments or to prevent uneconomic shipments.

Petition

This is the fourth consecutive year where a handler has requested to reduce the shipping percentages for the months of September, October, and November. In their 2016 petition, Queensboro cited declining Class I sales, a decline in the number of Class I customers seeking to purchase milk for Class I usage, and a comment that they, as a long-standing participant of the Northeast dairy industry, were unaware of any instances where Class I needs have not been covered. Queensboro's petition states that as pool distributing plants in the region have closed, many of the remaining bottling plants have established full supply agreements with cooperatives. The impact of such arrangements, according to Queensboro, is fewer Class I customers willing to take their milk and an increased cost of moving milk. In the past several years the petition states that Queensboro has had to seek out Class I customers in order to reach the 20 percent shipping requirement, with only one Class I customer calling upon them for milk to which they stated they immediately complied.

The petitioner noted that they have a unique relationship with a large cooperative operating in the Northeast Order area. They report that they separate and balance product (for this cooperative) when they are long in supply and help furnish milk supplies when they are short.

In their petition, Queensboro states that the provision of the Order that allows for handlers, who operate two or more supply plants, to form a "system of plants" and thereby attain the applicable shipping percentage requirements jointly in the same manner as a single plant puts stand alone supply plants at a disadvantage. The petitioner noted that being an independent small business, and a single plant operation, they do not have that luxury. As one of two independent supply plants remaining on the Order, Queensboro asserts that this seems to discourage entrepreneurship and penalize small businesses. The petition notes that to fulfill the current 20 percent shipping requirement, Queensboro would have to make uneconomical and unnecessary movements of milk resulting in higher hauling costs to their producers. The petition includes a statement that a 10 percent reduction in shipping percentages would have an insignificant effect on individual producer's milk pay prices.

Summarized Handler Comments

Cayuga Marketing LLC, (Cayuga Marketing) a cooperative handler under Section 1000.9(c) of the Northeast Order, submitted comments in support of the reduction for the months of September, October, and November, 2016, to between a 10 percent and 15 percent level. Cayuga marketing believes a case can be made for the 10 percent level given that milk production has increased year over year while Class I utilization remained "basically flat." They contend that strong milk production will continue through the fall months as producers continue to maximize cash flow during low milk prices.

Agri-Mark, Inc. (Agri-Mark), a cooperative handler under Section 1000.9(c) of the Northeast Order and operator of multiple pool supply plants, submitted comments in support of the reduction for the months of September, October, and November, 2016, but only by 5 percentage points, to 15 percent. Agri-Mark noted the combination of continued decline in the Class I utilization percentage for the Northeast Order and significant increase in the amount of producer milk in the Northeast so far this year. The handler noted that manufacturing capacity at most dairy plants has been reached resulting in the dumping of producer milk and/or skim milk since no willing and appropriate buyer could be found. Agri-Mark added that some pooled producers are having great difficulty finding a regular handler to purchase their milk. Agri-Mark asserts that shipping a significant percentage of their producer milk to distributing plants remains an important obligation of all milk handlers seeking to be included in the Northeast Federal Order and its payment pool. Therefore, Agri-Mark does not support lowering the percentage by the proposed 10 percentage points, from 20 percent to 10 percent, but does find appropriate lowering the minimum shipping percentage of producer milk to 15 percent, limited to only the September, October, and November, 2016, period and not to other current or future time periods.

St. Albans Cooperative Creamery, Inc. (St. Albans), a cooperative handler under Section 1000.9(c) of the Northeast Order and operator of a pool supply plant, submitted comments in support of the reduction for the months of September, October, and November, 2016, but only by 5 percentage points, to 15 percent. St. Albans does not support a further reduction nor the indefinite reduction as requested in the initial petition. St. Albans claims their position is based on marketing conditions that include declining Class I sales with continued growth in milk production. Additionally, the cooperative supports an extension of the reduction for September-November 2017.

Dairy Farmers of America - Northeast Council (DFA-NE) and Dairy Marketing Services, LLC. (DMS), cooperative handler under Section 1000.9(c) of the Northeast Order and operator of multiple pool supply plants, submitted comments in support of the reduction for the months of September, October, and November, 2016, but only by 5 percentage points, to 15 percent. DMS cites the supply of raw milk exceeding the market demand in supporting a decrease to 15 percent. However, DFA-NE/DMS believes that a reduction to the 10 percent level could undermine the integrity of the shipping requirement and result in other disorderly movement of milk. Supporting the reduction to 15 percent, DFA-NE/DMS notes that the same basic conditions that warranted reductions in 2013, 2014, and 2015, continue to exist. They point out that the upward trend in receipts has existed since 2010, as the downward trend in Class I has existed since 2011. DFA-NE/DMS additionally stated that they are comfortable with extending the reduction to the 15 percent level to apply to the September-November 2017 period as well. They do not support extending beyond 2017 given that expansions can be operational in less than two years, thus changing the market conditions.

Upstate Niagara Cooperative, Inc. (Upstate), a cooperative handler under Section 1000.9(c) of the Northeast Order and operator of pool distributing and partially regulated pool distributing plants, submitted comments supporting a reduction for the months of September, October, and November, 2016, but only to the 15 percent level. Upstate feels that given the current market conditions, the environment of oversupply is likely to persist throughout the fall period. Growing milk supplies combining with deteriorating Class I sales can present challenging issues of maintaining the pooling of milk supplies while avoiding unnecessary and disorderly shipment of milk for qualification purposes. As such, they support the reduction in Class I shipping requirements. However, they feel a reduction to 10 percent may not provide sufficient incentive to maintain an association with the pool and meet Class I requirements this fall. Additionally, Upstate prefers that the decrease in September-November shipping percentages to 15 percent be in place for both years 2016 and 2017, rather than “until further notice.”

Land O’Lakes, Inc. (Land O’Lakes), a cooperative handler under Section 1000.9(c) of the Northeast Order and operator of a pool supply plant, submitted comments in support of a reduction to 10 percent for the months of September, October, and November, for the year 2016 only. Land O’Lakes stated that the reality of increasing producer milk production and decreasing Class I sales has resulted in growing difficulty experienced by handlers in qualifying dairy farmers historically pooled on the market. The cooperative cited the closing of bottling plants and the concentration of ownership of the remaining Section 1001.7 (a) plants in their response. Land O’Lakes claims maintaining the current 20 percent shipping percentage in 2016 would certainly result in inefficient movements of milk.

Mohawk Valley Cooperative, Inc. (Mohawk Valley), a cooperative handler under Section 1000.9(c) of the Northeast Order, submitted comments supporting a 10 percent shipping percentage in the fall as a good first step while suggesting eliminating the shipping requirement completely. The cooperative’s response reiterated their previous year’s remarks, claiming there no longer exists a shortage of milk that would prevent the purchase of milk for use as Class I, particularly given the continued decline of milk consumption as fluid use. Mohawk Valley suggests the market would respond quickly in the face of increasing demand by raising the Class I price.

Oneida-Lewis Milk Cooperative, Inc. (Oneida-Lewis), a cooperative handler under Section 1000.9(c) of the Northeast Order, submitted comments supporting a reduction for the months of September, October, and November, 2016. Oneida-Lewis asserts that pool handlers are not interested in taking extra milk as they either have their own farms or have full supply contracts with another entity. The cooperative’s comments finish with an implication that shipping percentage qualification is a challenge in their efforts to remain an ‘independent’ cooperative.

Complete copies of comments submitted by handlers regarding the requested shipping percentage reduction, along with Queensboro’s request, can be found on the Northeast Order website; www.fmmone.com or by contacting the Market Administrator’s office at 518-452-4410.

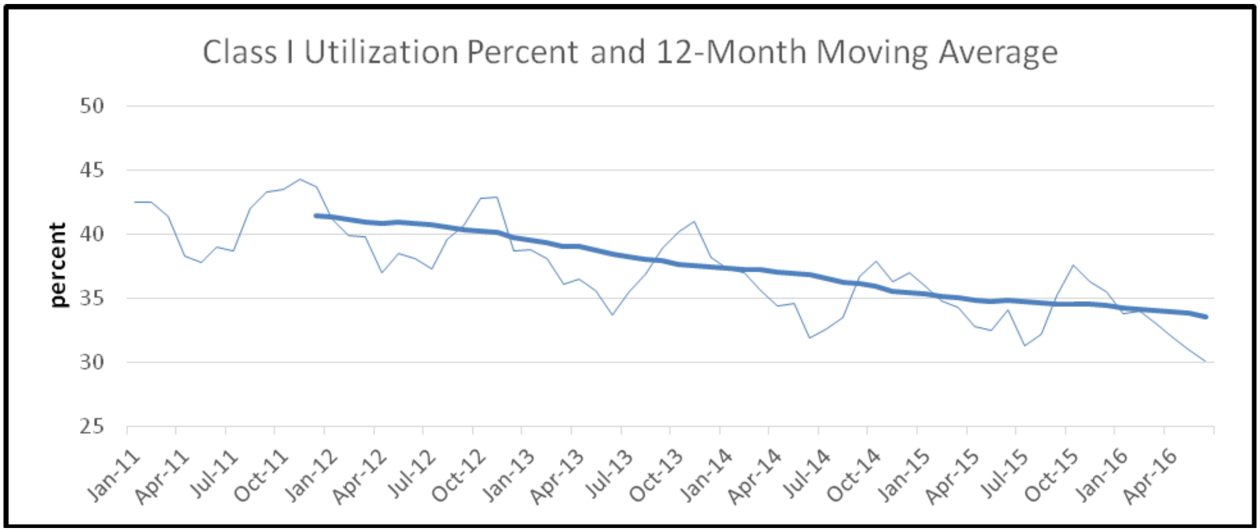
Findings

Monthly pool statistics continue to present a picture of declining Class I utilization for the Northeast Order. The Class I utilization for the most recent pool, June 2016, at 681.0 million pounds was the lowest ever for any month out of 198 pool calculations and 31 million pounds less than the June 2015 volume. The June Class I utilization volume was roughly 117 million pounds less than the average volume utilized in Class I during June of the prior 16 years. At 30.1 percent, Class I utilization in June accounted for less than one-third of the total pool volume for the fourth month in a row.

Class I utilization percent is depicted in Chart 1, including a 12-month moving average trend line. Seasonality in Class I utilization percent is still very evident with fall increases peaking above the trend line as revealed in the accompanying Chart 1.

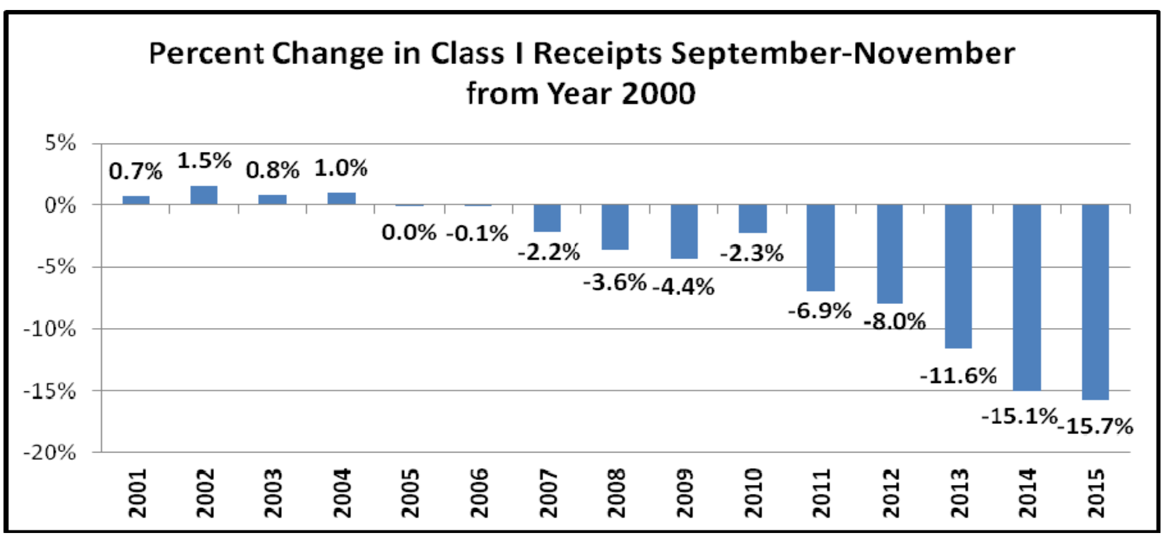
Three of the past five months, Class I utilization was slightly higher than the same month a year ago, before establishing an all-time record low in June. In last year's decision, extended school years in the Northeast due to winter storms were cited as a possible contributor to higher than expected Class I utilization. Though the overall trend in Class I utilization is declining, swings from months in which the total Class I volume slightly surpasses the previous year to months in which a record low volume is established may warrant some caution in making conclusions.

Chart 1.



Class I utilization for the September through November period was 15.7 percent below the same period during the first year of the Northeast Order, in 2000. This was down slightly from 15.1 percent below the year 2000 level that occurred in 2014. Chart 2, below, presents September-November Class I utilization as compared to that period during the year 2000.

Chart 2.



Class I utilization, in a marketing area, is in large part a reflection of the number of plants processing milk for Class I usage in the area together with the demand for fluid milk products. Since 2013, two long operating and significant volume Class I bottling plants, pooled on the Northeast Order, have closed: the Farmland Dairies plant in Wallington, NJ, and the Shenandoah's Pride plant in Springfield, VA.

The volume of milk pooled on the Order through the first 6 months of this year is larger than in any other year since the inception of the Northeast Order. A record high volume pooled was set during each month January through June, 2016. The calculated daily deliveries per producer (DDP) statistic also was the highest ever for the respective month for the last 25 consecutive months (June 2014 – June 2016). DDP has surpassed 6,000 pounds for the last 7 months (6,740 in June 2016).

Through the first 6 months of this year, the average monthly volume of milk utilized in Class II is 166.5 million pounds more than what was utilized during the same 6-month period in 2015. However, historical Order data indicates declining volumes of milk utilized in Class II during the late fall months.

Milk utilized in Class IV–historically considered a balancing class with the manufacture of lower valued storable products–typically exhibits year-to-year variation in the Northeast Order in response to the overall supply and demand for milk in the region. During the first 6 months of this year, the pounds of milk utilized in Class IV has ranked highest, for that respective month, since the Order's inception, for three months, and second highest for the other three months. Total Class IV volume over the first 6 months of 2016 was down just 1.6 percent from the same period in 2015 (a record high), though still 23 percent higher than the same period in 2008 (the highest for that period previous to 2015).

Existing Provision

A foundational premise of the Federal milk marketing order system is that the program helps assure consumers that they will have access to adequate and dependable supplies of milk, generally interpreted to mean adequate supplies of milk for fluid usage. The shipping provision of the Order establishes the requirement for a higher percentage of a supply plant's milk to be delivered to a distributing plant during the months when demand for fluid milk historically has increased "to encourage needed shipments"; however, the provision also authorizes the Market Administrator to adjust the shipping percentage "to prevent uneconomic shipments", if so warranted.

The provision stipulates that a supply plant (and this also applies to cooperatives operating as handlers under Section 1000.9(c)) must deliver milk to a distributing plant in order to meet the requirement. The option is not to ask whether the milk is needed or not but, instead, delivery to a pool distributing plant is stipulated. Thus, preventing the administratively required delivery of excessive milk to distributing plants, when order data and industry comments indicate a lower required shipping percentage might be appropriate, is a measure that can be taken by the Market Administrator to prevent disorderly marketing and uneconomic shipments of milk. Such "fine tuning" of individual plant supply needs is generally and more efficiently accomplished via handler and supplier negotiation.

Decision

After reviewing a variety of Northeast Order statistical data related to total pool volume, class utilization changes over time, and fluid sales reports for the Order, together with comments submitted by parties responding to the call for comments on Queensboro's request, a reduction in the shipping percentage under Section 1001.7 (c) (2) of the Northeast Order from 20 to 15 percent for the months of September, October, and November is approved. All handlers that submitted comments supported some reduction in the shipping percentage.

Considering 2016 is the fourth year in a row that the shipping percentage will have been reduced, and given that the market conditions that warranted previous reductions continue to exist, the reduction in the shipping percentage to 15 percent will apply to September-November for years, 2016 and 2017. As provided under the terms of the Northeast Order under Section 1001.7 (g), the Market Administrator may review the need for any further adjustment on his own initiative or at the request of interested parties.

Agri-Mark, Inc.

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P. 978.552.5500

June 16, 2016

Eric Rasmussen
Federal Milk Market Admin. Office
P.O.Box 51478
Boston, MA 02205

Dear Mr. Rasmussen,

In response to your letter dated June 8, 2016. Agri-Mark Dairy Cooperative supports lowering the minimum shipping percentage of producer milk to Federal Order 1 distributing plants from 20% to 15% for the months of September, October and November, 2016.

There has been a significant increase in the amount of producer milk in the Northeast so far in 2016 while Class I sales in the Order have continued to decline and manufacturing capacity at most dairy plants has been reached. This has resulted in the dumping of producer milk and/or skim milk at appropriate disposal sites, since no willing and time appropriate buyer could be found. This has also resulted in some pooled producers having great difficulty in finding a regular handler to purchase their milk. Under these circumstances, we understood your recent action to lower the summer shipping requirements by 5 percentage points, from 10% to 5%.

We believe that the continuation of such a 5% decline in the normal shipping requirements for September, October and November of 2016 would be an appropriate action at this time. However, shipping a significant percentage of their producer milk to distributing plants remains an important obligation of all milk handlers seeking to be included in the Northeast Federal Order and its payment pool. This is especially important as schools come back into session and Class I milk needs rebound. At this time, we do not support lowering the percentage by the proposed 10 percentage points, from 20% to 10%.

Thank you for your consideration of these comments.

Sincerely,

Robert D. Wellington
Senior V.P. of Economics,
Communications & Legislative Affairs

LAND O'LAKES, INC.
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June 27, 2016

Peter Fredericks, Economist
Federal Milk Marketing Order 1
302A Washington Avenue Extension
Albany, NY 122203

Dear Mr. Fredericks,

This letter is in response to the Market Administrator's Solicitation of Comments to Queensboro's Farms request to relax the shipping percentages specified in Section 1001.7 (c)(2) from 20 to 10 percent for the months of September through November. This is the fourth request by a Handler to lower shipping requirements since 2013.

Land O'Lakes is a cooperative with members poled on Order 1.

Land O'Lakes supports Queensboro's request for a 10 percent reduction in shipping percentages, but only for the current 2016 marketing year. The reality of increasing producer milk production and decreasing Class I sales in the marketing area has resulted in the growing difficulty experienced by Handlers in qualifying dairy farmers historically pooled on the market. The marketing environment in the Northeast has been characterized by the closing of bottling plants and the concentration of ownership of the reaming Section 1001.7 (a) plants. Maintaining the current 20 percent shipping percentage in 2016 would most certainty result in inefficient movements of milk.

Sincerely,

Dennis J. Schad
Director, Milk Sourcing and Regulatory Affairs.

June 28, 2016

Erik F. Rasmussen, Market Administrator
Federal Milk Marketing Order #1
89 South St
Boston, MA 02111

RE: Shipping Requirements Investigation memo dated June 8, 2016

Dear Mr. Rasmussen,

I am responding on behalf of Dairy Farmers of America- Northeast Council (DFA-NE) and Dairy Marketing Services (DMS) to your memo soliciting comments on the request to reduce the shipping requirement specified in Section 1001.7 (c) (2) for the months of September, October, and November from twenty percent to ten percent until further notice.

The shipping requirements in the fall are important due to the combination of decreasing seasonal milk production and increased Class I demand (with schools reopening). Keeping the shipping requirements elevated from September through November is done to ensure milk associated with the market is available for Class I needs. However, when there is excess milk and declining Class I demand, the higher shipping requirement increases the pressure on the available milk to be forced into the Class I plants in order to satisfy the shipping requirement.

Milk production has been growing in the Northeast at the same time Class I needs are declining. These are the same basic conditions that have warranted a similar request to the Market Administrator in 2013, 2014, and 2015. Looking at January through April 2016 numbers from the NE Statistical Handbook (available on the FO#1 website) and making the appropriate calculations, receipts from producers are up 3.2% while Class I utilization is down another 0.5%. These are continuing upward trends that, from an annual perspective, have existed since 2010 (for receipts) and 2011 (for Class I).

Considering these market facts, DFA-NE and DMS support the response that you have given the similar requests in prior years: a five percent reduction of the shipping percentage for September – November 2016. We feel that further reduction is not warranted. Reduction to the ten percent level could undermine the integrity of the shipping requirement and usher in other disorderly movement of milk.

Similarly, we are comfortable with extending the reduction to apply for September- November 2017 as well. Given that an expansion can be operational in less than two years, the market conditions that

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provide for the shipping requirement to be reduced could change by 2018. We feel the best course is to limit the change to 2016 and 2017.

In summary, DFA-NE and DMS support a reduction of the shipping requirement by five percentage points, from twenty percent down to fifteen percent, for September- November of 2016 and 2017 respectively.

Thank you for this opportunity to comment.

Sincerely,

John D. Rutherford Jr.

John D Rutherford Jr
Director of Economics, Planning, and Operations
Dairy Farmers of American- Northeast Council

St. Albans Cooperative Creamery, Inc.
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June 29, 2016

Erik F. Rasmussen, Market Administrator
Federal Milk Marketing Order #1
89 South Street
Boston, MA 02111

RE: Shipping Requirements Investigation memo, dated June 8, 2016

Dear Mr. Rasmussen,

I am writing to you on behalf of St. Albans Cooperative regarding your memo soliciting comments on the request to reduce the shipping requirement specified in Section 1001.7 (c) (2) for the months Of September, October and November from 20% to 10% until further notice.

St. Albans Cooperative, a Dairy Marketing Services (DMS) partner is dealing with the same issues detailed in a letter from John Rutherford at DFA, dated June 28, 2016.

The marketing dynamics in the northeast; declining Class I sales with continued growth in milk production are the reasons for supporting this request in the last three years. Producer milk receipts are up 3.2% while Class I utilization is down 0.5%.

In light of these market conditions, St. Albans Cooperative supports the response given to similar requests in prior years: a 5% reduction of the shipping percentage for September-November 2016. I do not support a further reduction at this time and do not support the indefinite reduction requested in the petition.

Additionally, I support the extension of the reduction for September-November 2017. An expansion of the shipping requirements can be adjusted in a timely manner; therefore, I feel that the change should be limited to 2016 and 2017.

In closing, St. Albans Cooperative supports a 5% reduction of the shipping requirement, from 20% to 15% for September-November of 2016 and 2017. Thanks for your consideration of my request, let me know if you'd like further information.

Sincerely,

Leon Berthiaume

Leon Berthiaume, CEO

UPSTATE NIAGARA
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FARMER OWNED

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Buffalo Fluid Plant:
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Rochester Fluid Plant:
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Rochester, NY 14608

Valley Farms Dairy, LLC:
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Williamsport, PA 17701

Cultured Products Plant:
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North Country Dairy LLC:
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North Lawrence, NY 12967

Oatka Milk Products:
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Batavia, NY 14020

June 30, 2016

Erik F. Rasmussen
Market Administrator
Federal Milk Marketing Order #1
P.O. Box 51478
89 South Street
Boston, MA 02111

RE: Shipping Requirements Investigation – Solicitation of Comments

Dear Mr. Rasmussen,

This letter is in response to your solicitation for comments dated June 8, 2016 on the proposal which would reduce shipping requirements for September, October, and November from 20% to 10% until further notice.

Milk production in the Northeast has continued to grow while available capacity for processing continues to be finite. During May 2016, over 35 million pounds of milk were classified as Minimum Price Class – Animal Feed and Dumpage. Given the current market conditions, it is apparent that the issue of oversupply is likely to persist throughout the fall period. Growing milk supplies have combined with deteriorating Class I sales in the last several years. This condition can present challenging issues of maintaining the pooling of milk supplies while avoiding unnecessary and disorderly shipment of milk for qualification purposes. Therefore we support a reduction in Class I shipping requirements. However, we believe that a reduction to 10% may be an unnecessarily large reduction in requirements and would not provide sufficient incentive to maintain an association with the pool and Class I requirements this fall. Upstate Niagara would contend that a reduction to 15%, rather than 10%, would be more prudent as this reduction has been sufficient as to prevent uneconomical shipments when this change has been made in previous years.

Additionally, Upstate Niagara would prefer the change in shipping requirements be in place for September, October and November of 2016 and 2017 rather than 'until further notice' as it states in the proposal. While the current market conditions have persisted for the past several years, there are many things that can change the overall dynamics in the market. For instance, long-term stress in farm-level economics, hot and dry weather conditions, and the potential for new or changing capacity in the market. As such, Upstate Niagara would suggest a more judicious approach when determining the length of time in which this change in shipping requirements would be in effect.

In summary, Upstate Niagara believes that a reduction in shipping requirements from 20% to 15% for September, October, and November are warranted given current market conditions and deteriorating Class I sales. Furthermore, Upstate Niagara would prefer the change to the shipping requirements be in place for September, October and November of 2016 and 2017 rather than 'until further notice' as the solicitation for comments indicated.

We appreciate this opportunity to comment and your consideration. Thank you.

Sincerely,

Kim Pickard-Dudley
General Manager – Membership/Bulk Sales Division

United States Department Of Agriculture
Agricultural Marketing Service
Dairy Programs

FEDERAL MILK ORDER No. 1
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June 8, 2016

TO: Pool Handlers

FROM: Erik F. Rasmussen, Market Administrator

SUBJECT: Shipping Requirements Investigation – Solicitation of Comments

This office has received a request from a pool handler, regulated under the provisions of the Northeast Marketing Order, to lower the shipping percentage specified in Section 1001.7 (c)(2) for the months of September, October, and November from 20 percent to 10 percent until further notice. Section 1001.7 (c)(2) states that in each of the months of September through November such shipments and transfers, by supply plants or qualified cooperative association handlers, to distributing plants must equal not less than 20 percent of the total quantity of milk that is received at the plant or diverted from it during the month.

Under Section 1001.7(g) of the Order, the applicable shipping percentages may be increased or decreased by the Market Administrator if it is determined that such adjustment is necessary to encourage needed shipments or to prevent uneconomic shipments. After reviewing milk utilization data for the Northeast Order, this office is commencing a formal assessment of milk supplies and market conditions relative to the demand for milk utilized as Class I and, in particular, for the upcoming months of September, October, and November.

The Market Administrator invites the submission of comments, data, or views on this request to lower the shipping percentages from 20 percent to 10 percent applicable during the months of September–November until further notice.

A copy of the request can be found on the Northeast Order website: www.fmmone.com

Please submit any comments by July 7, 2016, to the address or email below.

Northeast Marketing Area
302A Washington Avenue Extention
Albany, NY 122203

Attention: Peter Fredericks

Fax: 518-464-6468
pfredericks@fedmilk1.com

Queensboro Farm Products, Inc.

156-02 Liberty Avenue • Jamaica, N.Y. 11433 • Telephone (718) 658-5000 • Fax (718) 658-0408

June 6, 2016

Market Administrator
Northeast Marketing Area
Attn: Erik Rasmussen
89 South Street
Suite 301
Boston, MA 02111-2671

Mr. Rasmussen,

Queensboro Farm Products, Inc. is requesting that the shipping percentage, under Section 1001.7(c)(2) of the Order, be decreased for the months of September, October, and November from 20 percent to 10 percent for the Pool Supply Plants in Federal Order One. As a handler operating as a family business for 107 years and one of the two Pool Supply Plants remaining in Order One, we have only had one call for Class I milk in years, which we immediately complied with, and we feel that the 10% difference in shipping would have an insignificant effect on the producer's milk pay price.

In the context of the entire Order, the volume is not noteworthy, but it has a big impact on our company. In order to fulfill the 20% shipping requirement, we would have to make uneconomical and unnecessary movements of milk which would result in higher hauling charges to our producers. The constant decline of Pool distributing Plants associated with the Order (the loss of 7 large plants in the past 5 years) makes additional shipments into the remaining plants virtually impossible. In the current economic climate, any additional cost to either the producers or to a small company, such as Queensboro, could jeopardize both our viabilities.

In June 2005, when the Federal Order was amended to have year round supply plant shipping standards, handlers with multiple supply plants set up their own supply plant systems. This allowed them to meet the standards by, in effect, treating the supply plant system as one plant. They could have one plant in the system that has a high Class I shipping percentage and that could provide enough Class I sales to cover the entire plant system. Queensboro, being an independent small business and a one plant operation, does not have that luxury. As stated above we would need to move milk in an uneconomical manner to meet the shipping standards. This seems to discourage entrepreneurship and penalizes small business.

Historically there has been a dramatic drop in the number of pool supply plants. In January 2000 there were 20 pool supply plants and in January 2013 there were only 11 "plant systems" and 2 independent supply plants. Queensboro is one of those two.

Class I sales are decreasing every year and the number of viable Class I dealers is decreasing as well. In the past several years Queensboro has had to seek out Class I customers in

Queensboro Farm Products, Inc.

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order to reach the 20% shipping requirement. In addition this year in the Northeast, milk and skim milk have been dumped due to lack of plant capacity. Class 1V the balancing class in the order is ever increasing due to higher milk production and ever decreasing Class I sales in the order .The figures for March 2016 indicate that the Class 1 volume was the lowest ever for the month and the Class1V volume the highest for the month. This imbalance in supply and demand will continue throughout and be with us for the foreseeable future. In the last few years only one Class I customer has called upon us to sell to them and we immediately complied. We also have not heard of any other instances where Class I needs have not been covered.

Class I sales declined from 2010 to 2011 by 3.0 percent and from 2011 to 2012 by an additional 2.7 percent. This decline continued in 2013 with Class I volumes setting new lows. In fact, in 2013 Class I volume was the lowest ever. Volume was down 3% from the 2012 total. Eleven months in 2013 had the lowest Class I volume for those respective months in 14 years. Since the inception of the Northeast Order in 2000, annual Class I volume has declined by more than 1 Billion pounds. January 2014 had the lowest Class I volume of any January on record. The volume in June 2013 was the lowest Class I total out of 169 monthly pools. Even with the population increasing by 3.2 percent in the Northeast, these declines continue. Since the inception of Order I, almost 20% of the pool distributing plants have closed. Another difficulty Queensboro has encountered is the fact that many of the remaining pool distributing plants in the Northeast Order have established full supply arrangements with cooperatives. This certainly reduces our options and increases the cost of the movement of the milk. In point of fact, Queensboro has a unique relationship with these cooperatives. We separate and condense product when they are long in supply and we help furnish milk supplies when they are short. In the spring of 2015, at the request of a large Northeast Order cooperative, Queensboro is helping to balance their excess supply of milk by separating and condensing for them. In addition we unload and store their excess Class I weekend supplies of raw milk and feed it back to them during the week.

In a previous year's decision letter from the Market Administrator, dated August 5, 2013, it was stated that "the macro trends supported by this analysis support a reduction in the shipping percentage." We believe that those trends are continuing and past year's reduction by the Market Administrator had no adverse effect on producers. All of our industry contacts informed us that all Class I needs were met. The latest statistic available, which confirms our beliefs, is that Class I utilization for April 2016 was 32.0 percent April 2015 was 32.8 percent April 2014 was 34.4 percent and Class I for April 2013 was 36.5 percent. In the first quarter of 2015 Class I sales have dropped to an average of 35%. In point of fact for 24 consecutive months the volume of milk utilized as Class I has set a new low for that respective month in 16 years. Class IV utilization is rising each month to take up the slack. Milk supplies are rising dramatically and the market Administrator has recognized this in his recent decision to lower the Class I shipping percentage for June, July and August 2015 from 10% to 5%. Times have changed. For all of the reasons that we have presented, we are requesting that the 20% Class I shipping requirement for

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September, October, and November be reduced to 10% for pool supply plants until further notice.

Very truly yours

Mark Heuman

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