United States Department Of Agriculture
Agricultural Marketing Service
Dairy Programs

FEDERAL MILK ORDER No. 1
Northeast Marketing Area
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June 29, 2018

TO: Pool Handlers on the Northeast Order

FROM: Shawn Boockoff, Acting Market Administrator

SUBJECT: Request to Reduce Fall-Month Shipping Percentages – **Approved 10% for 2018**

On April 5, 2018, 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

In their 2018 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 asserting that a reduction to a 10 percent shipping percentage would have an insignificant effect on individual producer's milk pay prices.

Summarized Handler Comments

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 from 20 to 10 percent, for the months of September, October, and November, though for 2018 only. Agri-Mark noted the continuing decline of Class I sales while milk continues to be discarded as surplus or sold at significant value losses in condensed form.

Cayuga Marketing LLC (Cayuga Marketing), a cooperative handler under Section 1000.9(c) of the Northeast Order, submitted comments in support of the reduction from 20 to 10 percent, for the months of September, October, and November, until further notice. Cayuga Marketing underscored their support of the reduction by presenting data that compared relatively stable Class I utilization against producer milk available. They state the results show that producer milk is more than sufficient to meet Class I demand given Class I utilization has fallen precipitously. Cayuga Marketing claims to be maintaining uneconomic milk sales in effort to meet a 20 percent minimum requirement.

Dairy Farmers of America - Northeast Area (DFA-NA), a cooperative handler under Section 1000.9(c) of the Northeast Order and operator of multiple pool supply plants, submitted comments in support of a reduction for the months of September, October, and November, but to a 15 percent level. DFA-NA did not oppose an "until further notice" period for the decision, but also stated to be agreeable to a one or two-year period for the decision. DFA-NA states that the 20 percent level could result in uneconomic shipments of milk supplies solely to meet the Order provision and not in response to actual demand. The cooperative states that ensuring the higher value Class I market is satisfied while not imposing additional costs of accommodating "excessive deliveries" to that market that reduce producer returns is the role of an appropriate shipping percentage. The cooperative believes a 15 percent level to be most appropriate. DFA-NA notes a slowing in milk production increases that the region has experienced over many quarters as well as milk price decreases, but adds that they do not view either as permanent and that, long term, they anticipate stronger dairy demand across all classes.

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 from 20 to 10 percent, for the months of September, October, and November, until further notice. St. Albans believes the continued reductions in Class I utilization and reduction of Class I facilities warrants such a decision.

Upstate Niagara Cooperative, Inc. (Upstate Niagara), 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, 2018, but only to the 15 percent level. Additionally, Upstate Niagara prefers that the September-November shipping percentages be reviewed regularly, rather than "until further notice." Upstate Niagara feels that the market conditions that warranted the past adjustment to 15 percent remain true today. The cooperative sees no signs in the downward trend in Class I sales, and though acknowledging year-over-year contraction evident in USDA's NASS Milk Production Report since August 2017, overall supply and demand balance has not "recalibrated" after the loss of sales to Canada.

Findings

Monthly pool statistics continue to present a picture of declining Class I utilization for the Northeast Order, though there has been some slowing of this trend during the past year. The Class I utilization for the most recent pool, May 2018, at 735.7 million pounds was the second lowest volume for the month in 19 years. At 30.2 percent, Class I utilization in May was the lowest ever for the month and fifth lowest Class I utilization by percent for any month since the Order's inception. In 2000, the year in which the 20 percent fall month shipping percentages were adopted as part of Order Reform, the Class I utilization for the months of September, October, and November averaged 49 percent of the volume of milk pooled during those months. In 2017, Class I utilization for these same three months averaged 34.4 percent of the total pool – a drop of nearly 15 percentage points.

The volume of milk pooled on the Order through the first 5 months of this year is the second largest volume since the inception of the Northeast Order. A record high volume pooled was set during the most recent month of May 2018. The calculated daily deliveries per producer (DDP) statistic also was the highest ever for the respective month for the last 47 consecutive months (June 2014 – May 2018). DDP has surpassed 7,000 pounds for the last 4 months (7,433 in May 2018).

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 5 months of this year, the pounds of milk utilized in Class IV has ranked second highest since the Order's inception (only this period in 2017 being higher).

Plant and Handler Issues

Since the last decision on fall month shipping percentages was written, the single remaining bottling plant in New York City (Elmhurst Dairy, Inc.) ceased operations in November 2016. The impact of that closure continues to impact the Northeast milk shed given its status as an independent fluid milk plant that received a significant volume of farm milk from multiple sources within the milk shed. More recently, Dean Foods's Garelick Farms division announced that they will close a long operating bottling plant in Lynn, MA, later this fall. With every bottling plant closure, the challenge becomes greater for cooperatives and milk marketers to find Class I bottling plants with physical processing capacity and/or the need for additional milk supplies.

The closure of long-operating Class I bottling plants in the marketing area is one sure sign of continued soft demand for milk supplies to be utilized in Class I products. Requiring additional volumes of raw farm milk to be delivered to bottling plants that would appear to have adequate milk supplies for the level of sales they have, could lead to disorderly marketing scenarios within the milk shed of the Northeast Federal Order.

Within recent months two handlers whose primary business is the sale of Class I fluid milk products independently announced that they were releasing a number of independent producers who directly sold milk to the respective handlers. The effective termination date for one of the handlers has yet to occur - scheduled to become effective in mid-July. The primary reason cited for the release of producers was a supply of milk in excess of demand, with handlers noting that the decision to release producers in order to bring their milk supply into better balance was not taken lightly. For the released producers, finding a handler or cooperative willing to add them as new producers has been and continues to be a significant challenge. This is reflective of a marketplace where handlers feel that they have all the milk that they need.

Existing Provision

The shipping provisions of the Order (under Section 1001.7 (c) (1) and (2) 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. As noted in prior decisions, the option is not to "ask" whether the milk is needed or not but, instead, delivery to a pool distributing plant is stipulated. However, under Section 1001.7(g) the provision authorizes the Market Administrator to adjust the shipping percentage "to prevent uneconomic shipments", if so warranted. Thus, preventing the administratively required delivery of excessive milk to distributing plants, when order data and industry comments indicate a lower required shipping percentage is appropriate, is a measure that can and has been taken for the past six years by the Market Administrator, following the receipt of similar industry requests to review the provision as a measure to prevent disorderly marketing and uneconomic shipments of milk.

Decision

After reviewing a variety of Northeast Order statistical data related to total pool volume, class utilization changes over time, fluid sales reports for the Order, and recent industry dynamics, 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 10 percent for the three months of September, October, and November is approved. In consideration of the current milk price cycle and the potential impact on future milk production within the region, the decision at this time will be limited to a single year, 2018.

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.

More Information

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.

UPSTATE NIAGARA
COOPERATIVE, INC.
FARMER OWNED

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25 Anderson Road
Buffalo, NY 14225

Membership Division:
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Batavia, NY 14020

Information Technology:
90 Anderson Road
Buffalo, NY 14225

Buffalo Fluid Plant:
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Rochester Fluid Plant:
45 Fulton Avenue
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Valley Farms Dairy, LLC:
1860 East Third Street
Williamsport, PA 17701

Cultured Products Plant:
3300 North America Drive
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North Country Dairy LLC:
22 County Route 52
North Lawrence, NY 12967

Oatka Milk Products:
700 Ellicott Street
Batavia, NY 14020

June 15, 2018

Peter Fredericks
Federal Milk Order No. 1
Northeast Marketing Area
Sent via email to: pfredericks@fedmilk1.com

Mr. Fredericks,

Upstate Niagara is writing in response to your invitation for comment on the 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.

In 2016, performance standards were adjusted down to 15% during the months of September, October, and November for two consecutive years. Prior to this, each year between 2013 and 2015 were also adjusted to 15%. Upstate Niagara believes that maintaining the recent status quo of reducing shipping requirements from 20% to 15% continues to be warranted. Regarding to timing, we would prefer to see the Market Administrator continue to review this matter regularly. However, given current market dynamics, we also see reason to extend shipping percentage reductions for the months of September, October, November for each year 2018 and 2019.

The Cooperative believes that overall market conditions that warranted the past adjustment to 15% remain largely true today. The well-documented downward trend in overall Class I milk sales continues with no signs of reversal. Although, milk production in New York, Pennsylvania, and Vermont, as reported monthly by USDA's NASS Milk Production Report, is showing signs of year-over-year contraction in each of the months since August 2017, the overall supply-demand balance has not recalibrated after the loss of significant sales to Canada.

To summarize, Upstate Niagara believes that a reduction of shipping requirements from 20% to 15% is warranted for the months of September, October, and November with review regularly.

Sincerely,

Jodi C. Smith
Economist

Date: June 14, 2018

United States Department of Agriculture
Federal Milk Market One
c/o Peter Fredericks
302A Washington Ave Ext.
Albany, NY 12203-7303

RE: Shipping Requirements Comments

Dear Peter:

Cayuga Marketing is in favor of lowering the shipping percentage from 20 percent to 10 percent for the months of September, October, and November until further notice. 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.

In determining our position, we reviewed the amount of producer milk produced in Federal Order 1 during September through November from years 2000 to 2017. We then compared the producer milk available against Class I demand for the same period of time. For the time period spanning from 2000 to 2009, the demand for Class I milk expressed as a percentage of total producer milk sold during September through November ranged from a low of 46.7% to a high of 52.0%. The Class I utilization during this period of time remained relatively stable. Starting in 2010 and continuing through 2017, the percentage of Class I milk sold as a percent of total producer milk decreased consistently each year from 45.4% in 2010 to 34.4% in 2017. Thus, the cumulative Class I demand for the September to November timeframe as a percent of producer milk available decreased by a total of 11%, or about 1.6% per annum.

The data presented above solidified our position that producer milk is more than sufficient to meet Class I demand and furthermore, the fall pooling percentage should be reduced by 10% to reflect the fact that Class I utilization has decreased precipitously. Furthermore, Cayuga Marketing is maintaining uneconomic milk sales in an effort to meet the 20% minimum pooling requirement for shipments during the months of September, October, and November, which is taking money away from our members during a difficult period where we desire to return as much money to members as possible.

Feel free to reach out to me at my office: 315-612-3224, or my cell at 585-943-9950 if you should have any further questions.

Sincerely,
Kevin J. Ellis
CEO
Cayuga Marketing

June 14, 2018

Peter Fredericks
Northeast Marketing Area
302A Washington Avenue Extension
Albany, NY 12203-7303

Dear Mr. Fredericks:

Dairy Farmers of America, Inc. – Northeast Area (DFA-NA) is responding to your May 1 request for comments, data, or views to lower the shipping percentages from 20 percent to 10 percent applicable during the months of September–November until further notice. DFA-NA is a cooperative handler under Section 1000.9(c) of the Northeast Order and operator of multiple pool supply plants. Additionally, we market milk from more than 3,000 farms pooled on Order 1.

Current Order provisions, §1001.7 (c) (2) states:

> *(2) In each of the months of September through November, such shipments and transfers to distributing plants must equal not less than 20 percent of the total quantity of milk (except the milk of a producer described in §1001.12(b)) that is received at the plant or diverted from it pursuant to §1001.13 during the month.*

Market conditions suggest the possible reversion to a shipping percentage of 20% is too large and could result in uneconomic shipment of milk supplies solely to meet the Order provision and not in response to actual demand. DFA-NA supports the proposed intention of the request to reduce the required minimum shipping percentage but suggests that the reduced percentage be 15% rather than 10%.

The purpose of the shipment standard is to assure that Class I demand be satisfied and accomplished in an orderly manner. Returns from Class I sales are almost always the highest return in the marketwide pool and producer income is maximized when all Class I demand is filled, thus it is in the producer's interest for the Class I market to be fully supplied. If the standard of 20% forces more milk to be delivered than is needed, excess costs for milk transport and plant operations to accommodate the "excess deliveries" will reduce producer returns. Finding the "sweet spot" between these two options combine some elements of art and science and we suggest 15% is a better choice for the appropriate level.

The increase in milk production in the primary states comprising the Order that we have experienced for many quarters has slowed. Per the National Agricultural Statistics Service's *Milk Production* report, combined total milk production for the first quarter of 2018 for Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont collectively decreased by 1.3%. (TABLE 1) Milk prices have decreased for the states with production in the Marketing Area impacting total production. The most recent Agriculture Marketing Service's Mailbox Milk Price published in May with mailbox milk prices for February 2018 for the New England States, New York and Eastern Pennsylvania regions compared to February 2017 show decreases of 19%, 18% and 20% respectively. While this milk price trend may continue near term, we have no reason to expect that it is a permanent change. Longer term we anticipate stronger demand for dairy products in all Classes based on population growth in the Northeast.

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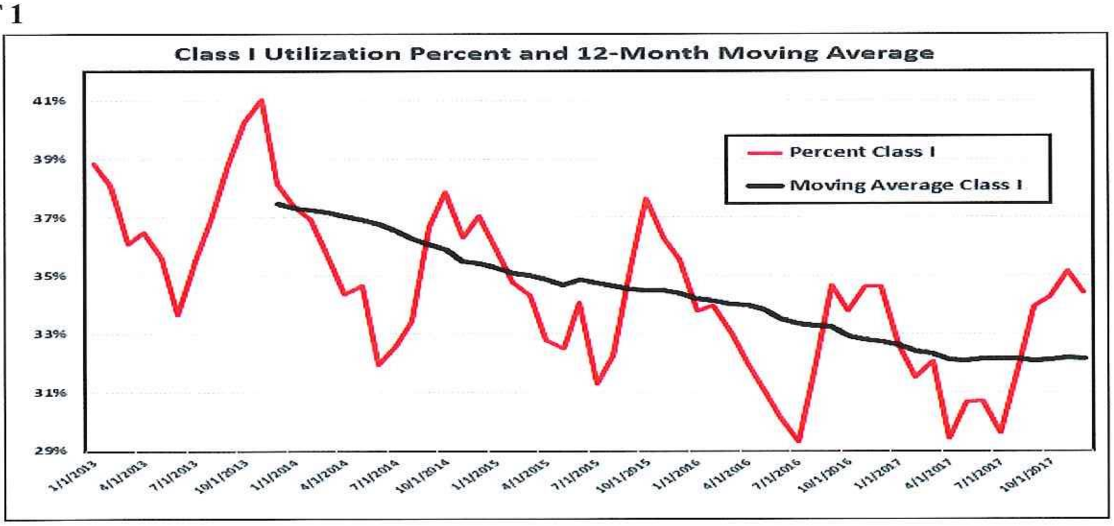
TABLE 1

States - Federal Order 1 Milk Production			
Million Pounds			
State	Quarter 1 2018	Quarter 1 2017	Percent change
Connecticut	108	104	3.8%
Delaware	25	25	0.0%
Maine	151	155	-2.6%
Maryland	247	247	0.0%
Massachusetts	50	54	-7.4%
New Hampshire	64	72	-11.1%
New Jersey	30	31	-3.2%
New York	3,613	3,694	-2.2%
Pennsylvania	2,753	2,751	0.1%
Rhode Island	3	3	0.0%
Vermont	667	680	-1.9%
Eleven State Total	7,711	7,816	-1.3%

Source: National Agricultural Statistics Service

Two serious trends support the requested change even in the face of a downturn in milk production. Class I demand continues to show a decline and likely will continue to require less milk for Class I use. (CHART 1) This data, from Market Administrator statistics, indicates the longer-term trend in Class I sales and we see no reversal in the short term.

CHART 1



DFA-NA faces this demand situation daily – steady milk production seeking a declining Class I sale. Compounding this trend, as indicated by Queensboro in their request, is the reduction in the number of pool distributing plants in Order 1. We have noted plant closings in prior submissions. A recent announcement by the Dean Foods Company included the closing their West Lynn, Massachusetts, Federal Order 1 plant – a new closure. With each announcement the availability of delivery points decreases and the cost to serve the remaining plants increases as the miles to service them increases. We note that the HP Hood plant in Batavia, New York, is scheduled to open in August. However, we do not anticipate an initial increase in total volumes of Class I milk across the Hood plant system at this time.
The Northeast region continues to suffer marketing impacts from the trade decision by Canada to revise its pricing policies on skim milk powder (SMP) with the result being a loss of markets to US milk protein producers – especially producers in Wisconsin and New York. While comments on international trade policy issues are outside the scope of this request the practical impact is not. The Northeast region suffered not only a significant loss of sales into Canada and but also potentially to other markets where it might have some location-based price advantages due this policy change which lowered Canadian SMP prices.

This April 17 press release by the National Milk Producers Federation sharply outlines the result. "Canada's protectionist dairy policies are having precisely the effect Canada intended: cutting off U.S. dairy exports of ultra-filtered milk to Canada despite long-standing contracts with American companies," said Jim Mulhern, president and CEO of NMPF. "American companies have invested in new equipment and asked dairy farmers to supply the milk to meet demand in the Canadian dairy market. This export access has suddenly disappeared, not because the market is gone, but because the Canadian government has reneged on its commitments." With the loss of this market more milk in the Northeast is available for processing and serving Class I buyers.

http://www.nmpf.org/files/Dairy-Orgs-Trump-Canada-Trade-Policies%200405017.pdf

DFA-NA would prefer the shipping percentage be lowered to 15% instead of the requested 10%. We feel this is a more reasoned conclusion and buffers the possibility that the milk production decreases we see presently continue longer than expected. It would be easier for the market to respond to an additional decrease if needed in the fall than to request an increase if deliveries fall short of demand. Regarding the period requested, we are not opposed to the, "until further notice" as proposed but would also be agreeable to the 2016 finding by the Market Administrator that a one or two-year period be implemented. This would recognize the possible positive impact of increases in demand that the HP Hood plant in Batavia as well as possible increases from the Safeway plant at Hatfield, Pennsylvania may provide.

I will be glad to respond to any questions you may have.

Sincerely,

Elvin Hollon

Elvin Hollon
Vice President, Economic Analysis/Fluid Marketing

St. Albans Cooperative Creamery, Inc.
138 Federal Street
St. Albans, VT 05478
802.524.6581
800.559.0343

June 8, 2018

Federal Milk Order No. 1
Market Administrator
P.O. Box 51478
Boston, MA 02205-1478

Re: Shipping Requirements Investigation

On behalf of St. Albans Cooperative Creamery, Inc. this letter supports the request to lower the shipping requirements under the provisions of the Northeast Marketing Order for the months of September, October and November as prescribed in the notice dated May 1, 2018.

With the continued reduction in Class I Utilization and reduction of Class I facilities, the request to drop the shipping percentage from 20 percent to 10 percent is warranted.

Sincerely,

Leon J. Berthiaume

Leon J. Berthiaume
CEO

Dear Mr. Fredericks,

Agr-Mark Dairy Cooperative supports the Queensboro proposal to the Market Administrator to lower the shipping requirements to (Class I) pool distributing plants from 20% to 10% during September through November of 2018. Class I sales continues to decline in the Northeast Marketing Area. While milk production has slowed in the milkshed, surplus milk continues to be discarded or sold at significant value losses in condensed form.
While Agri-Mark supports the 10% level for this September through November, our support is just for this autumn. This should be reviewed each year to determine the appropriate percentage.

Thank you for your consideration,

Robert D. Wellington
Senior Vice President
Agri-Mark Dairy Cooperative

USDA United States Department Of Agriculture
Agricultural Marketing Service
Dairy Programs

FEDERAL MILK ORDER No. 1
Northeast Marketing Area
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May 1, 2018

TO: Pool Handlers

FROM: Erik F. Rasmussen, Market Administrator

SUBJECT: Shipping Requirements Investigation – Solicitation of Comments

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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 June 15, 2018 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.

51-20 59th Street • Woodside, N.Y. 11377 • Telephone (718) 658-5000 • Fax (718) 658-0408

April 5, 2018

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 % to 10 % for the Pool Supply Plants in Federal Order One. As a handler operating as a family business for 109 years and one of the two Pool Supply Plants remaining in Order One, we have zero calls for Class I milk in years. 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 at least 8 large plants in the last 7 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 past years Queensboro has had to seek out Class I customers in order to reach the 20% shipping requirement. In addition this year as in other recent years in the Northeast, milk and skim milk will have to be dumped due to lack of plant capacity. Class IV, 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 February 2018 indicate that the Class I volume was the lowest ever for the month and the Class IV volume among the highest for the month. This imbalance in supply and demand will continue throughout the next ten years and for the foreseeable future. In the last few years only one customer has called upon us to sell 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 % and from 2011 to 2012 by an additional 2.7 %. 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 % 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. Again, in the spring of 2018 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 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 February 2018 was less than 32.0 %. April 2017 was 29.4%, April 2016 was 32.0 %, April 2015 was 32.8 %, April 2014 was 34.4 % and Class I for April 2013 was 36.5 %. In the first quarter of 2018 Class I utilization will have dropped to approximately 32.0 %. In point of fact for many months the volume of milk utilized as Class I has set a new low for that respective month. Class IV utilization is rising each month to take up the slack. Milk supplies have risen dramatically and the market Administrator has recognized this in his decision to lower the Class I shipping percentage for June, July and August 2015 from 10% to 5 % and to reduce the shipping percentage to 15% for 2016 and 2017. For all of the reasons that we have presented, we are requesting that the 20% Class I shipping requirement for September, October, and November be reduced to 10% for pool supply plants until further notice.

Very truly yours,
Lewis P. Miller
President
Lewis P Miller