

Economic Analysis of Proposed Policy Change

The following are estimates of historical Federal Order 7 pooled pounds and uniform prices for January 2004 - March 2005 under the requested change in the administration of the producer milk definition to eliminate the requirement that at least one day's production of a dairy farmer be received at a pool plant prior to being eligible for diversion. Under this proposal, a qualified producer would be eligible to divert milk prior to his or her first shipment of a full day's production into a Federal Order 7 pool plant. This analysis assumes continuation of the current 4 and 10 day "touch base" shipping requirements and 50% and 33% diversion limits. This proposed change in the administration of the definition of producer milk would effectively expand the window of opportunity during which some producers may divert milk and could result in increased diversions on the order.

This analysis is static in nature. It assumes that the only additional milk pooled under the proposed change is that which was produced prior to a producer's first qualification or "touch base day" on Federal Order 7 and was pooled on a Federal Order other than Federal Orders 5, and 6, or, was shipped to an unregulated manufacturing plant and not pooled on any federal order. Producers with market association from the previous month are not included. The analysis assumes no other changes in pooling behavior by either cooperatives or by plants receiving milk from independent producers.

Figure 1. shows actual pooled pounds (black), actual pooled pounds delivered to Federal Order 7 pool plants, that is, regulated distributing plants and regulated pool supply plants (blue), diversion limits; calculated as pounds delivered to regulated pool plants multiplied by the appropriate diversion limit percentage for the month (solid red), actual diversions (dotted red), and estimated diversions under the proposed change for the Jan. 2004 - Mar. 2005 time period (yellow). Current touch base requirements and diversion limits are shown in Figure 3.

Figure 1.

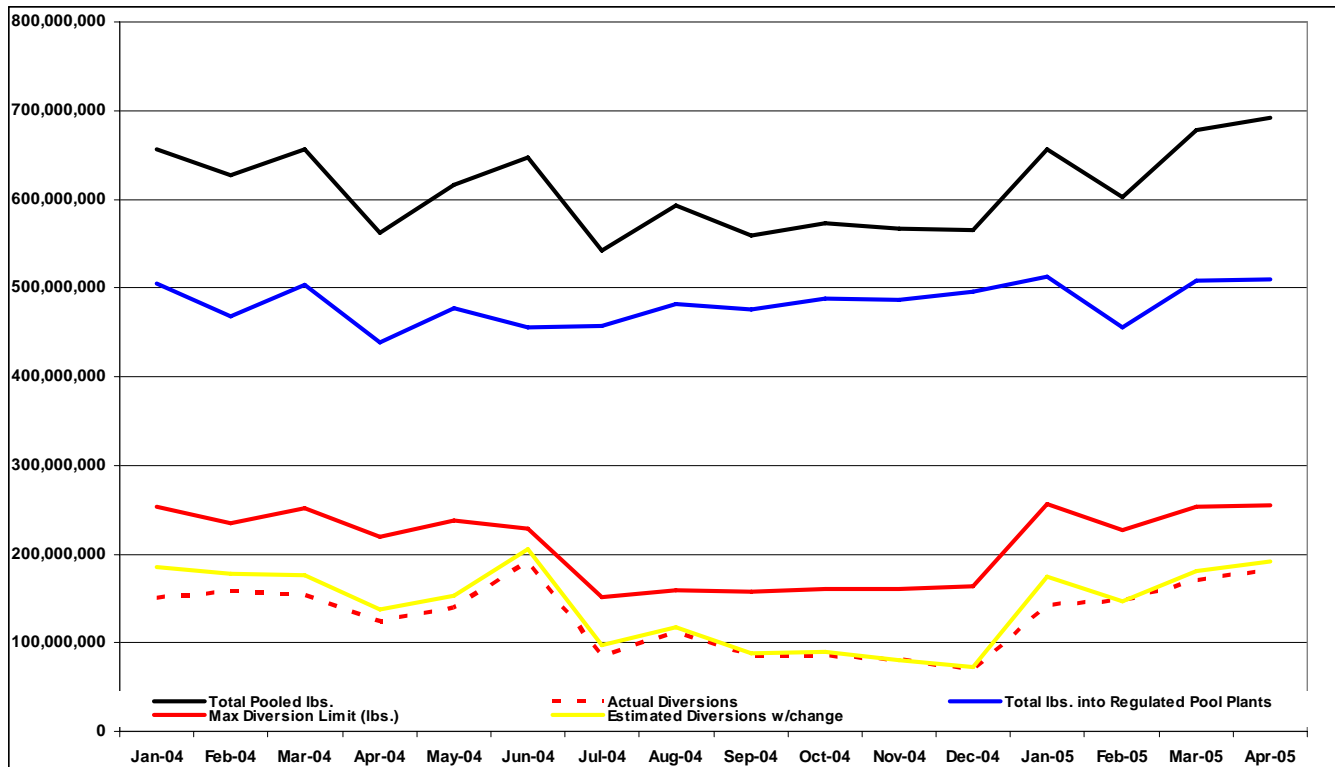


Table 1. shows the corresponding data along with the estimated increase in diversions resulting from the proposed change.

Table 1.

	Total Pooled lbs.	Total lbs. into Regulated Pool Plants	Max Diversion Limit (lbs.)	Max Diversion Limit (%)	Actual Diversions (lbs.)	Actual Diversions (%)	Estimated Increase in Diversions	Estimated Diversions w/change
Jan-04	655,699,057	505,722,231	252,861,116	0.50	149,976,826	0.30	35,658,785	185,635,611
Feb-04	626,269,948	468,227,255	234,113,628	0.50	158,042,693	0.34	19,298,507	177,341,200
Mar-04	656,089,413	503,017,800	251,508,900	0.50	153,071,613	0.30	22,325,282	175,396,895
Apr-04	562,224,672	439,271,162	219,635,581	0.50	122,953,510	0.28	15,266,780	138,220,290
May-04	615,936,019	477,199,287	238,599,644	0.50	138,736,732	0.29	14,117,055	152,853,787
Jun-04	647,473,416	456,249,728	228,124,864	0.50	191,223,688	0.42	14,439,040	205,662,728
Jul-04	542,311,747	456,614,249	150,682,702	0.33	85,697,498	0.19	11,748,567	97,446,065
Aug-04	593,593,226	481,639,186	158,940,931	0.33	111,964,040	0.23	5,510,364	117,464,404
Sep-04	559,692,724	475,052,577	156,767,350	0.33	84,640,147	0.18	2,793,411	87,433,558
Oct-04	573,162,791	487,528,031	160,884,250	0.33	85,634,760	0.18	4,193,961	89,828,721
Nov-04	566,673,283	486,304,692	160,480,548	0.33	80,368,591	0.17	672,204	81,040,795
Dec-04	565,306,975	495,417,192	163,487,673	0.33	69,889,783	0.14	2,590,752	72,480,535
Jan-05	656,001,381	513,329,200	256,664,600	0.50	142,672,181	0.28	31,198,861	173,871,042
Feb-05	601,849,534	455,586,824	227,793,412	0.50	146,262,710	0.32	668,125	146,930,835
Mar-05	678,515,457	507,988,003	253,994,002	0.50	170,527,454	0.34	9,624,512	180,151,966

Figure 2 compares actual Federal Order 7 uniform prices at Atlanta (Fulton County) at 3.5% butterfat for the Jan. 2004 - March 2005 time period with estimates of the expected uniform price under the proposed change in administration of the producer milk definition.

Figure 2.

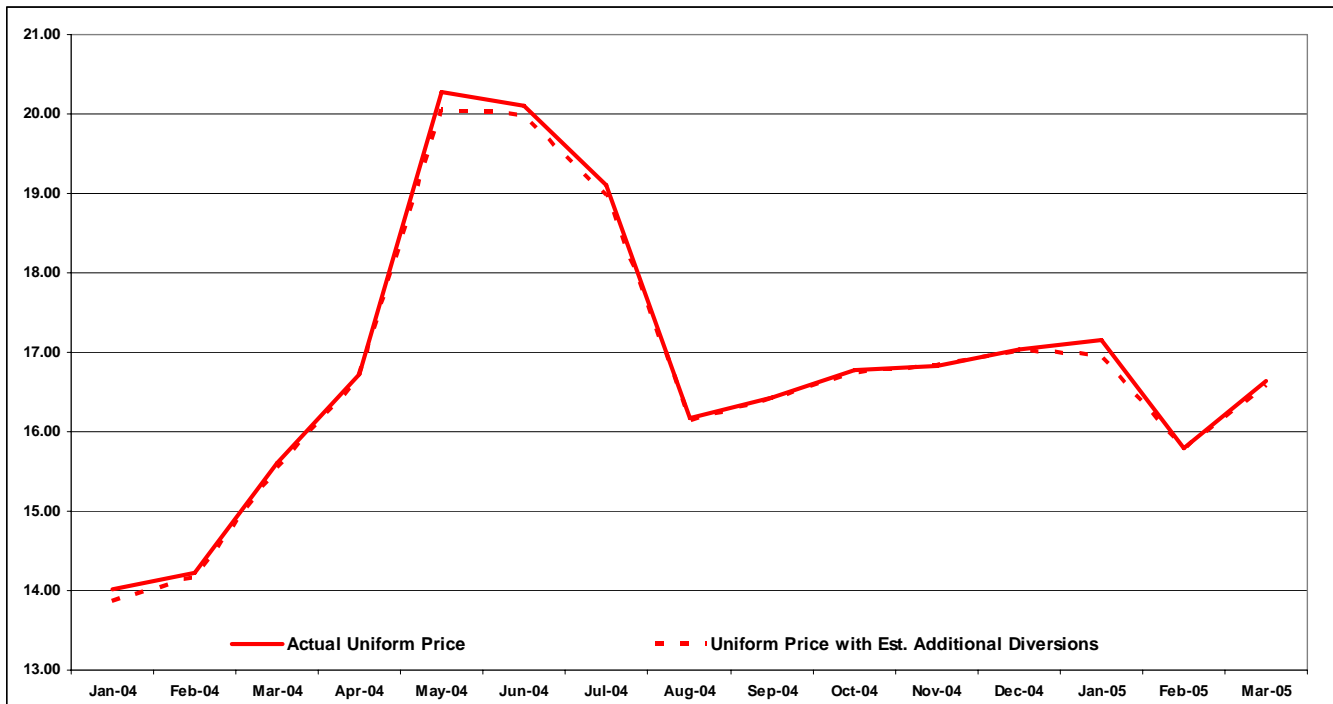


Table 2. shows actual Federal Order 7 Uniform prices for 2004 - 2005, along with estimates of corresponding prices under the proposed change in administration of the producer milk definition.

Table 2.

	Actual Uniform Price	Uniform Price with Est. Additional Diversions
Jan-04	14.02	13.87
Feb-04	14.23	14.17
Mar-04	15.61	15.56
Apr-04	16.72	16.69
May-04	20.27	20.05
Jun-04	20.11	19.99
Jul-04	19.10	18.98
Aug-04	16.17	16.14
Sep-04	16.43	16.41
Oct-04	16.78	16.75
Nov-04	16.83	16.83
Dec-04	17.03	17.02
Jan-05	17.16	16.97
Feb-05	15.80	15.80
Mar-05	16.63	16.58
Avg.	16.86	16.79

Table 3 compares actual class utilization percentages with the corresponding estimated class utilization percentage under the proposed change.

Table 3.

	Class I %		Class II %		Class III %		Class IV %	
	Class I % (Act.)	Class I % (Est.)	Class II % (Act.)	Class II % (Est.)	Class III % (Act.)	Class III % (Est.)	Class IV % (Act.)	Class IV % (Est.)
Jan-04	0.6288	0.5964	0.0987	0.1041	0.1585	0.1553	0.1139	0.1442
Feb-04	0.5832	0.5658	0.1073	0.1082	0.1770	0.1843	0.1325	0.1418
Mar-04	0.6114	0.5913	0.1192	0.1193	0.2026	0.2082	0.0667	0.0812
Apr-04	0.6946	0.6762	0.1320	0.1320	0.0238	0.0278	0.1496	0.1640
May-04	0.5761	0.5632	0.1389	0.1384	0.1162	0.1172	0.1687	0.1811
Jun-04	0.5356	0.5240	0.1398	0.1403	0.1395	0.1429	0.1851	0.1928
Jul-04	0.6871	0.6725	0.1133	0.1171	0.1388	0.1375	0.0608	0.0729
Aug-04	0.6756	0.6694	0.1271	0.1286	0.1103	0.1100	0.0870	0.0919
Sep-04	0.7036	0.7001	0.1140	0.1143	0.1049	0.1061	0.0775	0.0795
Oct-04	0.6895	0.6845	0.1166	0.1160	0.1137	0.1160	0.0803	0.0835
Nov-04	0.7195	0.7150	0.1039	0.1039	0.1228	0.1234	0.0574	0.0576
Dec-04	0.7090	0.7058	0.1002	0.1016	0.1101	0.1101	0.0807	0.0825
Jan-05	0.6183	0.5903	0.1015	0.1045	0.1270	0.1338	0.1532	0.1714
Feb-05	0.6101	0.6094	0.1265	0.1264	0.1005	0.1009	0.1630	0.1632
Mar-05	0.5928	0.5845	0.1278	0.1279	0.1354	0.1348	0.1440	0.1528
Avg.	0.6423	0.6299	0.1178	0.1188	0.1254	0.1272	0.1147	0.1240

This analysis is limited to re-calculating historical Federal Order 7 pool calculations under the proposed change in administration of the producer milk definition. It assumes that all producer milk pooled on a Federal Order other than Federal Orders 5 and 6, or, shipped to an unregulated manufacturing plant, prior to the producer's first shipment to a Federal Order 7 pool plant (commonly referred to as establishing market association) would be pooled on Federal Order 7 by diversion. As a static analysis, it does not address any changes in pooling behavior that might have occurred if the proposed policy had actually been in place during these months, nor does it presume that such changes in pooling behavior will not occur in the future should this proposed change be adopted.

Figure 3.

Federal Order 7 Touch-Base and Diversion Limitations

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Touch Base Days	4	4	4	4	4	4	10	10	10	10	10	10
Div. Limit	50	50	50	50	50	50	33	33	33	33	33	33