



Michigan Milk Producers Association

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February 15, 2006

Hearing Clerk
STOP 9200-Room 1031
United States Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250 - 9200

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USDA
OAL/1/0140

Re: Request for changes in the make allowances in the Class III and IV price formulas

Dear Sir/Madam:

MMPA provided testimony at the Federal Order hearing on January 26, 2006 supporting the proposal presented by Agri-Mark advocating increasing the make allowance provisions of the Class III and IV pricing formulas. Our testimony provided evidence of the significant increases in our production costs for butter and powder that we have not been able to recover as a result of the circularity of the milk pricing mechanisms. These costs are real and amount to millions of dollars that our members are suffering as a result of the obsolete make allowances, which are inadequate to recover the costs of production in today's cost environment.

Agri-Mark Dairy Cooperative provided testimony to increase the make allowances for butter, powder, cheese and whey based upon the updated information obtained from the most recent Rural Business Cooperative Service (RBCS) survey and the California Department of Food and Agriculture annual survey of plant costs. We agree with the need to update the 2004 survey information for the fuel and electricity cost increases experienced in 2005. Our plants experienced cost per pound of increases for butter and powder production that were similar to the values proposed by Agri-Mark and we are satisfied with the rationale and values for the fuel and electricity submitted by Agri-Mark.

National Milk Producers Federation (NMPF) also provided testimony regarding the need to adjust the make allowance in the Class III and IV price formulas and we support their conclusions as well. As a result of the widely fluctuating fuel and electricity prices and the significance of these costs in the production of butter, powder, cheese and whey, we agree with NMPF that it is appropriate to include a mechanism for adjusting fuel and electricity on a monthly basis. As these energy costs increase, manufacturers need to be

able to recover the increased costs by adjusting the make allowance. As energy costs decrease make allowance should be adjusted downward to maintain a fair make allowance for the processor and return any additional revenue to the producers. When make allowances for the Class III and IV milk price formulas were first established in January of 2000 there was considerable evidence presented on the need for make allowances to be set at the "right" level. In order for the product make allowances to be "right" they need to be set at a level sufficient enough for most processors to make a profit, but not so high that producers are not receiving a fair price for the milk. The "right" level should cover the costs of production, marketing, and provide some return on investment for most processors of the base commodity products. The make allowances established were reasonable and accepted by the industry. However, costs have changed dramatically in the last couple of years and the old make allowances need revision.

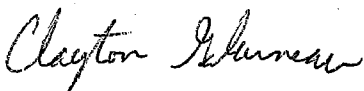
We believe the proposals presented by Agri-Mark and NMPF provide a reasonable method of revising the old make allowances to reflect the realities of the current processing environment. Several witnesses including ourselves provided testimony regarding the losses incurred by processors as a result of the inadequacy of the current make allowances. Our cooperative, as well as many other processors of powder, butter and cheese anticipate having to balance huge quantities of surplus milk for federal order markets during the next several months. The current make allowances will not allow us to recover our costs of production and we will suffer tremendous losses on a significantly growing portion of our business.

We urge the department to revise the make allowances as recommended by Agri-Mark and NMPF and provide an emergency decision as expeditiously as possible.

MMPA also supports the proposal, which NMPF was not allowed to present during the hearing regarding the separation of the Class I and II milk prices from the effects of the make allowance adjustments. We would be supportive of a separate hearing to consider this issue.

These comments are submitted on behalf of the Michigan Milk Producers Association which is a member owned and operated dairy cooperative serving over 2,400 dairy farmer members in Michigan, Ohio, Indiana and Wisconsin. Thank you for considering our comments.

Sincerely,



Clayton Galarnau
Director, Manufactured Sales and Operations