Family Dairies USA

Family Dairies USA responds to interim order on Make Allowance decision

January 17, 2006

Agriculture Marketing Service
United States Department of Agriculture
1400 Independence Ave., SW Room 3510-S
Washington, DC 20250

Dear Agricultural Marketing Service,

Family Dairies USA which represents 3700 member producers throughout the Midwest reiterates its previous recommendation that an increase in the manufacturing (make) allowance not be considered for the following reasons:

- Our members contend that dairy producers and dairy manufacturers should be considered to be equal stakeholders and to be afforded equal consideration in matters affecting the production side of this great industry. Producers have witnessed the same or even greater cost increases relating to product production, yet they will be the ones paying for part of this increase to manufacturers, rather than the retail consumer.
- Our members' reluctance to support this interim order announcement is not due to our failure to empathize with some who are seeing their operating margins squeezed by increased energy costs. Our members fully understand dwindling margin scenario's because their own dairy farm bottom lines are severely impacted negatively by these same energy cost increases.
- The concern of our membership is that which has been echoed by most economists, such an adjustment in manufacturing (make) allowance would lower Class III and IV prices. The money needed to pay these allowance adjustments would come right out of the producers' already limited milk check. This issue alone creates an adversarial situation between producer and processor which limits future relationships. It is important to note that the lack of asymmetry in the way the Federal Milk Marketing Order rules are in relation to cost of production for processors compared to producers (farmers), makes this an inequitable situation.
- It should be noted that once an upward adjustment to the allowance is made, it becomes virtually permanent. We understand that the key energy used in manufacturing cost is natural gas. To consider an adjustment that is reflective of these prices over an established time period would be a more accurate method that is tied to direct manufacturing costs of the processor.

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As University of Wisconsin-Madison Dairy Economists Brian Gould and Ed Jesse have noted: "In response, we note that fixed cheesemakers margins may be fine if they assure reasonable profitability, promote efficiency and productive growth, and encourage competition for cheese milk at prices above the federal order minimum. On the other hand, fixed margins can be a serious problem if they consistently yield sub-par returns and cause disinvestment in cheesemaking. Farmers and cheesemakers are partners-both must be profitable over the long run to sustain a healthy dairy industry."

Due to the recent year that dairy producers have experienced in low milk prices, rising fuel costs, and increasing feed costs, an increase in the "make" allowance at this time will surely effect the producer's price negatively. So while an adjustment is made to assist one (manufacturer), the change affects another (producer) exponentially. We urge you to consider other options in your final decision which would more equivalently assist all parties in this process. We believe the Secretary has a responsibility to treat everyone involved in this fairly and at this time this proposed decision does not meet those standards.

On behalf of our Board of Directors at Family Dairies USA and its 3700 members, we respectively submit these comments and ask for you consideration of them in your final decision.

Sincerely,

David Cooper

David Cooper
General Manager
Family Dairies, USA