



January 22, 2007

Hearing Clerk
Stop 9200 – Room 1031
U.S. Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250-9200

Re: Docket No. AO-14-A74, et al.; DA-06-01, November 22, 2006, pg. 67467-67489

Dear Sirs:

I am writing in response to the Agricultural Marketing Service's (AMS) request for comments on the proposed rule regarding milk in the Northeast and other marketing areas; changes to the manufacturing allowance contained in the Class III and Class IV product price formulas applicable to all Federal milk marketing orders. I write in strong opposition to the publication on behalf of America's dairy producers. National Farmers Union (NFU) believes providing a manufacturing allowance increase will result in an economic inequity and harm borne by America's dairy producers.

At the January 25, 2006 hearing convened by the U.S. Department of Agriculture (USDA), NFU's testimony, provided by the Ohio Farmers Union president, Joe Logan, detailed our opposition to the numerous proposals to increase the make allowance. That testimony is attached for your review.

There is no simpler way to state that dairy producers should not be expected or directed to pay additional subsidies for increased manufacturing plant costs. No one disputes the fact that every sector of the agriculture industry has battled against increased production costs, primarily due to skyrocketing energy expenses. Increased production expenses have had a negative impact on ALL sectors of agriculture, not just the processing industry.

Dairy producers and processors are partners, each dependent upon the other. However, both, not just one or the other must sustain profitability to achieve a healthy dairy industry. NFU opposes USDA proposal to increase the processor make-allowance because it is economically harmful to producers. While the make-allowance provides a fixed margin to dairy processors to cover all manufacturing costs of turning milk into a finished dairy product, there is no such fixed margin for producers. Producers have no mechanism for passing increased costs forward as virtually every other sector of the economy does.

NFU supports the establishment of a variable make-allowance that would link processor and producer prosperity together. A variable make-allowance would increase significantly when milk prices are high, thereby giving an incentive to the processor to continue production because the return would be greater. However, when milk prices are low the make allowance would decrease and send a signal to the processor to limit production in order to allow demand to catch up with production. This is a "win-win" proposal because it would enable producers and processors to receive a higher return when milk prices rise.

Again, I strongly oppose the AMS's decision to increase the processor make-allowance, which would have a detrimental impact on the future of America's dairy producers.

Sincerely,

Tom Buis, President
National Farmers Union