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VOLUME VI

BEFORE THE SECRETARY OF
THE UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICES

In the Matter of Proposed) Docket Numbers
Amendments to Tentative) A0-14-A74, et al.,
Marketing Agreements) DA-06-01
and Orders.)

National Public Hearing
Friday, September 15, 2006
8:03 o'clock a.m.
Holiday Inn Select
15471 Royalton Road
Strongsville, Ohio 44136

BEFORE:

JUDGE VICTOR W. PALMER
US ADMINISTRATIVE LAW JUDGE
UNITED STATES DEPARTMENT OF AGRICULTURE

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E X H I B I T S

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1 JUDGE PALMER: You can mark the
2 statement that you're being given now by
3 Dr. Bailey as Exhibit 78.

4 (Thereupon, Exhibit 78 was marked for
5 purposes of identification.)

6 MR. YALE: We're ready for
7 Dr. Bailey.

8 JUDGE PALMER: All right, Doctor,
9 if you'll come forward, sir.

10 KENNETH BAILEY, PH.D.,
11 having been first sworn by the judge, was
12 examined and testified under oath as follows:

13 DIRECT EXAMINATION

14 BY MR. YALE:

15 Q. This is Benjamin F. Yale on behalf of
16 Select Milk, Zia Milk Producers, Lone Star,
17 Continental Dairy Products and Dairy Producers
18 of New Mexico.

19 And, Dr. Bailey, would you please provide
20 your name and your position?

21 A. Kenneth Bailey, Associate Professor at Penn
22 State University.

23 Q. And who are you giving testimony on behalf
24 of?

25 A. I'm giving testimony on behalf of myself.

1 Q. And do you have a written statement?

2 A. Yes, I do.

3 Q. And does that statement explain your
4 qualifications and what your position -- what
5 you wanted to provide?

6 A. It doesn't provide my qualifications, but
7 it does provide my statement.

8 Q. What are -- what is your position at Penn
9 State?

10 A. I'm an Associate Professor of Dairy Markets
11 and Policy.

12 Q. And does that -- what's your educational
13 background?

14 A. I have a bachelor of science in
15 agricultural economics at the University of
16 Arkansas, a master's of agricultural economics
17 at the University of Missouri and a Ph.D. in
18 agricultural economics from the University of
19 Minnesota.

20 Q. And how many years have you been involved
21 in dairy economics?

22 A. Roughly 20 years. I had to add it up.

23 Q. And as part of your position at Penn State,
24 are you involved in developing any models or
25 analysis of impact of Federal policy?

1 A. Yes. We have -- we develop models and
2 we're analyzing Federal policy.

3 Q. Very well. You have a statement. Could
4 you please read it?

5 A. Yes.

6 STATEMENT FOR THE RECORD OF KENNETH BAILEY, PH.D.

7 THE WITNESS: The title is
8 "Impact of Modifications to Federal Order Make
9 Allowances on Class Prices, Blend Prices and
10 Pool Values in 2006 and 2007."

11 MR. VETNE: Your Honor?

12 JUDGE PALMER: Yes, Mr. Vetne.

13 MR. VETNE: John Vetne,
14 representing proponents Agri-Mark, et al. I've
15 been glancing through the statement which we got
16 a couple minutes ago, and it's very relevant to
17 the hearing, particularly to the nature of
18 evidence discussed last winter, the first
19 segment of this hearing. However, on its face,
20 except for the concluding paragraph on page 5,
21 it appears to address matters outside of the
22 scope of the limitation of the hearing notice
23 for this reconvened session.

24 JUDGE PALMER: Well, I'm not going
25 to strike it. I'm going to allow it to go

1 forward as is, primarily because we've had
2 testimony from one dairy economist, a professor
3 of dairy economics, now we're having testimony
4 from another one. And there's a good deal of
5 statistical material here that I think would be
6 helpful to the Secretary. And if it is a little
7 bit beyond the scope, it's a little bit beyond,
8 but I'll allow this one to go ahead as is.

9 MR. VETNE: Thank you.

10 JUDGE PALMER: Go ahead, sir.

11 THE WITNESS: I am an associate
12 professor at Penn State University. I study
13 dairy markets and policy. I am testifying today
14 on behalf of myself and do not represent Penn
15 State University.

16 U.S. dairy producers participate in a
17 national market and are under intense economic
18 pressure to lower costs, expand, modernize,
19 become more efficient, possibly relocate or exit
20 the market. According to USDA, the number of
21 farm operations with milk cows fell 19.7 percent
22 from 97,560 farms in 2001 to 78,295 farms in
23 2005. During this same time period, the U.S.
24 milk supply grew 7.1 percent. Market pressures
25 resulted in fewer farms becoming more efficient.

1 Processors located in Federal orders
2 don't face the same economic incentives. They
3 face regulated make allowances for the
4 processing of American cheese, butter, nonfat
5 dry milk and dry whey. As long as their costs
6 are in line with national averages and they meet
7 minimum quality standards, they will have the
8 opportunity to cover costs and earn a return on
9 their investment.

10 I have told dairy producers in
11 Pennsylvania that they must face competitive
12 markets, and that processors face this regulated
13 margin. I explain that this is the tradeoff for
14 having Federal orders. If the make allowance is
15 set too low, plants will not be able to recover
16 their costs; however, if set too high, plants
17 will have less incentive to modernize their
18 plants and lower per unit costs.

19 Also, they will have an incentive to
20 expand production despite market conditions.
21 This will lower commodity prices and, hence,
22 farm-gate milk prices.

23 The objective of my testimony today
24 is to present a study conducted at Penn State,
25 with my graduate student, Mirjana Pajic, to

1 evaluate the impact of changes in make
2 allowances on Federal order prices, the uniform
3 blend price and pool values for 2006 and 2007.

4 We analyzed six alternative scenarios
5 for changes in make allowances. These scenarios
6 are based on results from a Cornell Study
7 conducted by Mark Stephenson on dairy processing
8 costs dated September 1, as well as his
9 testimony presented at this hearing.

10 We used a Penn State dairy industry
11 model to conduct the study. This model is a
12 monthly dynamic model that reflects the details
13 of Federal milk marketing orders. The monthly
14 results were averaged and summed for 2006 and
15 2007.

16 The scenarios conducted. The
17 following scenarios were analyzed for cheese,
18 dry whey, butter and nonfat dry milk make
19 allowances. The values are presented in
20 Table 1.

21 The baseline is the current make
22 allowances used in Federal orders.

23 Two scenarios represent the
24 confidence interval from the Cornell testimony.
25 Confidence interval low is the low range

1 presented by Mark Stephenson based on his
2 Cornell Study. Confidence level high is the
3 high end of his confidence interval range.

4 The weighted average is the weighted
5 average make allowances presented in the
6 September 1 Cornell Study.

7 Modified weight average. This is the
8 same scenario as the weighted average scenario
9 with the exception that the whey make allowance
10 was set equal to the weighted average cost of
11 the nonfat dry milk plus 2.56 cents per pound.
12 This was based on a post-hearing report
13 presented by Agri-Mark that noted that
14 processing costs for liquid skim milk and skim
15 whey were only differentiated by the volume of
16 water that had to be removed during drying time.

17 Population average. This scenario
18 used the weighted average scenario with the
19 exception that the cheese make allowance is the
20 new Cornell estimate for the population of U.S.
21 cheese plants located in Federal orders. It's
22 20.28 cents per pound.

23 Population average with energy
24 adjustments. The last scenario is the same as
25 the population average scenario plus the higher

1 energy costs for 2005 reported in Stephenson's
2 testimony. And I will note that there is a
3 Table 1 in my report.

4 Model results for 2006 and 2007. The
5 simulation results are discussed next in terms
6 of changes in Federal order prices, uniform
7 blend prices and pool values and are compared to
8 the baseline. These results are presented --
9 reported in Tables 2 through 7.

10 The model results indicate that small
11 changes in the make allowances result in big
12 changes in Federal order prices. For example,
13 the Cornell Study, dated September 1, shows that
14 the weighted average make allowances are very
15 similar to the baseline. The exception is dry
16 whey, which is currently 15.9 cents per pound in
17 the baseline and is 19.41 cents under the
18 weighted average scenario.

19 This change, when entered into the
20 model, increased the Class III skim solids value
21 and resulted in the Class III price rising
22 19 cents per hundredweight relative to the
23 baseline.

24 In addition, this change resulted in
25 the Class I mover rising 20 cents per

1 hundredweight, since the skim portion of the
2 mover is the higher of the Class III and IV skim
3 prices. This change in the whey make allowance
4 also reduced the average blend price all of 10
5 Federal orders by 14 cents per hundredweight,
6 with the largest adjustments coming out of the
7 heavy Class I and Class III markets. Finally,
8 this slight change reduced the pool value in 10
9 orders by 176 to \$177 million per year.

10 Arguing that the population average
11 scenario would be more representative of U.S.
12 cheese makers again has big implications for
13 U.S. dairy farmers. That scenario would reduce
14 the Class III price by 57 cents per
15 hundredweight and the Class I mover by 36 cents
16 per hundredweight. It would reduce the average
17 blend price by 31 to 32 cents per hundredweight
18 and transfer 428 to \$429 million per year from
19 dairy producers to processors.

20 Adding in an energy adjuster, again,
21 based on the 2005 Cornell estimates, would
22 reduce the blend prices an additional 7 cents
23 per hundredweight and would transfer an
24 additional 86 to \$87 million per year away from
25 dairy producers to processors.

1 And I'll note that page 3 and 4 and 5
2 have Tables 2 through 7.

3 Going to page 5, under "Summary and
4 Conclusions," the weighted average make
5 allowances presented in the Cornell Study, dated
6 September 1, are very similar to make allowances
7 currently used in Federal orders. The
8 exception, however, is dry whey.

9 Cornell estimated a weighted average
10 of 1941 -- I'm sorry, 19.41 cents per pound
11 compared to the current value of 15.9. In my
12 opinion, current make allowances are set at a
13 level that has allowed processors to expand
14 plant capacity and production levels.

15 For example, data from USDA's Dairy
16 Products report indicates that total cheese
17 production in the U.S. continues to grow year
18 after year and is above the five-year average
19 for 2001 through 2005. And I'm referring to
20 Figure 1 in my report.

21 And two large and efficient cheese
22 plants have been built in the West within the
23 last year. The point is, these two facts would
24 not be possible if current make allowances are
25 not too small.

1 This hearing is being conducted
2 during a time period where milk prices are
3 relatively low. The Class III price averaged
4 \$12.62 per hundredweight during the 10-year
5 period 1996 to 2005. For 2006 I am forecasting
6 it will be \$11.81 per hundredweight, 6.4 percent
7 below the 10-year average. Clearly dairy
8 producers will scrutinize every penny deducted
9 from the Federal order pools in this current
10 marketing environment.

11 On the one hand, USDA could set the
12 make allowances at a level that will allow most
13 plants to operate profitably. On the other
14 hand, USDA may not want to set make allowances
15 at a level that will guarantee every plant in
16 Federal orders a profit regardless of
17 efficiency.

18 From these two arguments, one could
19 state that individual processing plants should
20 face the same economic realities that dairy
21 producers face: they should lower costs,
22 expand, modernize, become more efficient,
23 possibly relocate or exit the market.

24 To conclude, given the current
25 environment of low milk prices, USDA should be

1 very cautious about increasing make allowances
2 from current levels due to their negative impact
3 on farm-gate milk prices.

4 That concludes my testimony.

5 JUDGE PALMER: All right. Is
6 there a motion to receive the statement? So
7 Exhibit 78 is received.

8 (Thereupon, Exhibit 78 was received
9 into evidence.)

10 JUDGE PALMER: And now he's
11 available for questioning. Are there questions?
12 I presume there are. Who will start? Oh, you
13 have some more?

14 MR. YALE: No, if somebody
15 else wants to start. I just didn't want him to
16 get down before I asked him some questions. I
17 just have two.

18 JUDGE PALMER: Yes, go ahead, sir.

19 FURTHER DIRECT EXAMINATION

20 BY MR. YALE:

21 Q. The model that you present, does that look
22 at the prices on a month-to-month basis?

23 A. Yes, it's a monthly model.

24 Q. So it's able to reflect that the Class I
25 movers went from Class III to Class IV?

1 A. Correct. All those equations are in the
2 model.

3 Q. I noticed in one of your exhibits that
4 Class II -- the impact on Class I is less than
5 the impact on Class III, and that indicates that
6 because of these changes, you would be
7 predicting some months in which Class IV would
8 be the mover?

9 A. Correct. We simulated changes in the make
10 allowances for protein fat, all the make
11 allowance changes, and they fed through all the
12 equations, and still a Class I mover is the
13 higher of the Class III and IV skim, so yes.

14 Q. Now, do you put out a weekly thing called a
15 Dairy Outlook or a newsletter?

16 A. We switched to a monthly Outlook
17 newsletter, which I released yesterday.

18 Q. Okay. And that's available on the web?

19 A. Correct.

20 Q. All right. And do you send an e-mail out
21 notifying people that it's up, or do you have a
22 broadcast that lets people know that it's
23 available?

24 A. I have an e-mail list server where we send
25 out a notice wherever the Outlook report is made

1 available. But it forecasts for 2006 and 2007
2 market prices, and it's available on my website,
3 correct.

4 Q. And on this e-mail list, does that include
5 just the industry? Does that include -- what
6 does that include?

7 A. Anybody that wants to get on my list, they
8 can do it themselves.

9 Q. Now, do you have any communications with
10 producers?

11 A. I have a lot of communication. Producers
12 call in, I write. A lot of my columns end up in
13 "Farm Shine" and "Lancaster Farming." I've had
14 them call on the phone; I've had them crying on
15 the phone in recent weeks. So it's a low, low
16 price.

17 Q. So the economic statement that you made
18 regarding the prices in there, the kind of cold
19 numbers, that has a very personal impact in
20 terms of people talking to you?

21 A. Yes. I interact with producers not only in
22 Pennsylvania, but throughout the United States.
23 People call me on the phone. My number and
24 e-mail is listed in all my publications, and
25 people freely call me and discuss things with

1 me.

2 Q. Now, you mentioned, you know, two plants
3 being built out in the West. They're kind of a
4 follow-up on a question that was asked yesterday
5 that you weren't here to hear, so I'm going to
6 try to set up the scenario. The question is,
7 let me put it simply, cheese and manufacturing
8 products, are they in a national market or a
9 regional market?

10 A. It's clearly a national market.

11 Q. So if you have a plant, say, out in Eastern
12 New Mexico or the panhandle of Texas that can
13 produce cheese at, say, 14 cents a pound, and
14 they can market it and bring it to
15 Philadelphia -- we'll bring in a Pennsylvania
16 connection. Bring it to Philadelphia for
17 2 cents a pound, what about a cheese plant
18 located in the Northeast? Will it have to meet
19 that 16 cents, or can it sell its cheese at a
20 higher price?

21 A. If it's producing commodity cheese, it will
22 have to compete in the national market.

23 Q. Which would be whatever the lowest cost is
24 plus the cost of that market, or transportation?

25 A. It's the low pricing point for cheese plus

1 the basis. In this case, the transportation
2 costs.

3 Q. All right. Now, there's a proposal here to
4 reduce make allowances. Who knows what the
5 level, but we use sometimes it's 50 cents. I
6 mean, whatever the number is. Let's just use 50
7 cents as an example in the proposal across the
8 board on this cheese. For all plants in the
9 country. Will that protect a plant in New
10 England that's selling commodity cheese in its
11 competitive relationship with a plant in Texas
12 or New Mexico?

13 A. Are you talking about -- I'm confused. Are
14 you talking about lowering the make allowance or
15 increasing the make allowance?

16 Q. Lowering the make -- increasing the make
17 allowance, lowering the minimum price, I'm
18 sorry.

19 A. Okay. So you're talking about all of the
20 plants facing the same higher costs?

21 Q. Sure. Throughout the Federal order, you
22 reduce the make allowance. I mean, increase the
23 make allowance and reduce the Class III price
24 throughout the country. All right. So that
25 would affect the plants in the West and affect

1 the plants here in the East, right?

2 A. It would not impact -- obviously, it
3 wouldn't impact the sale price directly. It is
4 a market for cheese, and the basis is set by
5 transportation costs. So if you lowered -- if
6 you lowered the Class III value, obviously, they
7 would still sell things at national market.
8 Both plants would still face the national
9 market.

10 Q. In the same relationship they started?

11 A. Correct. And their costs wouldn't
12 obviously, in the short run, wouldn't -- besides
13 the cost of milk, their costs wouldn't change.
14 If they have one plant that's very efficient,
15 one plant that's inefficient, that would change
16 it.

17 Q. And we see such fluctuations in the raw
18 milk price from month-to-month, right?

19 A. Correct. Because of the Federal formulas,
20 those Federal order prices are off of the
21 commodity markets, which fluctuate.

22 Q. So what would be the effect of reducing
23 that make allowance -- or increasing the make
24 allowance and reducing the price to 50 cents a
25 cost? If it doesn't affect the plants and help

1 it compete, what is the impact?

2 A. Well, in the short run, it's a transfer.

3 In the short run it's a transfer from the pool

4 to the producer.

5 Q. I don't have any other questions.

6 JUDGE PALMER: All right. Yes,

7 sir.

8 CROSS-EXAMINATION

9 BY MR. ROSENBAUM:

10 Q. Steve Rosenbaum for the National Cheese

11 Institute. Dr. Bailey, when did you start to

12 draft your testimony?

13 A. I think two days ago.

14 Q. I -- on page 2 you report some results from

15 your model, and maybe you can explain the logic

16 to me. The statement is made that you're

17 tracking their -- you talk about how the

18 weighted average make allowances are very

19 similar to baseline. Do you see where I'm

20 referencing towards the bottom?

21 A. You're talking about the last paragraph on

22 page 2?

23 Q. I am. Do you see the second sentence?

24 A. Correct.

25 Q. "The Cornell Study showed the weighted

1 average make allowances are very similar to the
2 baseline"?

3 A. Yes.

4 Q. And then you say the exception is dry whey,
5 which is currently 15.9 cents per pound, the
6 baseline is 19.41 cents under the weighted
7 average scenario. Do you see that?

8 A. Correct.

9 Q. And you say "this change," and the
10 word -- when you're talking about this change,
11 you're talking about the change from the
12 15.9-cent make allowance for dry whey to a
13 19.41-cent make allowance for dry whey, is that
14 what you mean by the words "this change"?

15 A. That's correct.

16 Q. "This change, when entered into the model,
17 increased the Class III skim solids value and
18 resulted in the Class III price rising 19 cents
19 per hundredweight relative to the baseline"?

20 A. Correct.

21 Q. You're saying an increase in the base
22 allowance causes the Class III price to rise by
23 19 cents?

24 A. Oh, sorry, I record the results
25 differently. It declined.

1 Q. So --

2 A. If you look at Table 3, it shows the
3 results.

4 Q. So when you say -- when you said in your
5 report "rising," you actually meant the exact
6 opposite? Is that what you're telling us?

7 A. From Table 3, that when you increase the
8 make allowance, obviously prices -- prices will
9 decline.

10 Q. In the next sentence you said, "This change
11 resulted in the Class I mover rising 20 cents."
12 Is that another example where what you really
13 meant to say is the exact opposite? That you
14 meant to say --

15 A. Yes, it is. That would probably be
16 incorrect. If you look at -- it depends from
17 which point of view, the baseline, but for
18 Table 2, you can see the results are there.

19 Q. So --

20 A. The Class I mover would, under the weighted
21 average, would decline 20 cents and the
22 Class III would decline 19 cents.

23 Q. So just to confirm --

24 A. Yes.

25 Q. What you said here is the exact opposite of

1 what you meant to say?

2 A. Yes.

3 Q. Now, you're aware of -- I mean, in your
4 last paragraph you talk about something along
5 the lines of "USDA may not want to set make
6 allowances at a level to guarantee every plant
7 in Federal orders a profit regardless of
8 efficiency." Do you see that?

9 A. Yes.

10 Q. You're aware of the fact that
11 Dr. Stephenson testified that under his
12 scenario, where you use the weighted population
13 average for cheese, 67 percent of plants would
14 not even be able to cover their costs. Are you
15 aware of that fact?

16 A. I've read his study.

17 Q. Yeah. You haven't performed your own, I
18 take it?

19 A. No.

20 Q. Now, make allowances, I'm sure you'll agree
21 with me -- well, let me just back up. I mean,
22 the way the Federal order system works now is
23 you take the -- let's focus on cheese. You take
24 the price that's available in the market for
25 cheddar cheese based upon a NASS survey of

1 actual prices paid, correct?

2 A. Correct.

3 Q. And you -- the processor gets to keep --
4 assuming the processor is making cheese and
5 selling it for that price, which is the national
6 price, then the only thing the processor is able
7 to keep, by law, is the make allowance, right?
8 The rest he has to turn over to the farmer for a
9 minimum price for milk, right?

10 A. Well, that's assuming that they don't get
11 any premiums for cheese. Cheese is on the
12 national market. It is not one price.

13 Q. I'm assuming that they're making the very
14 cheese that's the surveyed cheese. Commodity
15 cheddar cheese. Okay? And under those
16 conditions, the only thing the processor is
17 allowed to hang on to is the make allowance,
18 correct?

19 A. Assuming they're not getting -- there is a
20 national market for cheese and there is a
21 premium difference between the East and West,
22 and there's premiums for different kinds; but
23 assuming they're producing cheddar cheese and
24 receiving the NASS survey, that's correct.

25 Q. And so -- all right. And you're aware of

1 the phenomenon that if cheese prices, in
2 general, go up, that results in the minimum milk
3 price going up, correct? The processor has to
4 pass that on to the farmer, correct?

5 A. Correct.

6 Q. So the make allowance is a cap on what the
7 processor can receive, correct? Assuming he's
8 making commodity cheese?

9 A. Making those assumptions, yes.

10 Q. Okay. And is there a cap by law as to what
11 the dairy farmer can receive for their milk?

12 A. They face a competitive market.

13 Q. And so the answer to my question is there
14 is no legal limit on that, correct?

15 A. No, that's correct.

16 Q. Okay. There's no regulation that says a
17 farmer can only receive his cost of producing
18 the milk, correct?

19 A. They face the open market there.

20 Q. Right. And you would agree with me that it
21 would be a -- that if you have a scenario under
22 which the make allowance is set at a level that
23 simply isn't sufficient to cover costs, then the
24 processor making commodity cheese is just losing
25 money as a matter of law. There's nothing we

1 can do about it, right?

2 A. Is the question that if the make allowance
3 is set at a level that nobody can make a profit?

4 Q. Well, a make allowance set at a level at
5 which a -- which processor A can't cover his
6 costs, that processor A is out of luck in terms
7 of any ways to solve the problem, right?

8 A. They'll have to compete with processors
9 that can produce below that cost.

10 Q. And according to Dr. Stephenson, even if we
11 raise the price to the weighted average
12 population level of 20.28 cents, 67 percent of
13 the processors currently will not cover the
14 costs, right?

15 MR. YALE: Your Honor, I
16 object. It's not what the testimony was. It
17 said, "was not able to produce it at these
18 margins." It did not say that they were unable
19 to make a profit or recover their costs.

20 MR. ROSENBAUM: I believe "cover
21 the costs" is the exact right phrase. Are we
22 helping the witness?

23 JUDGE PALMER: We'll let the
24 witness answer it. I don't remember the
25 testimony that clearly. The witness can

1 clarify.

2 THE WITNESS: I read
3 Dr. Stephenson's report very quickly. I'm sure
4 that he can answer that question.

5 BY MR. ROSENBAUM:

6 Q. Okay. Is there a value to having a
7 continued cheese manufacturing base in the
8 Northeast, from your perspective?

9 A. From my perspective, I work with producers
10 and processors in Pennsylvania, and so I'm not
11 going to speak on behalf of the Northeast. I'm
12 from the State of Pennsylvania, and more and
13 more of our milk has been going to Class I,
14 Class II markets and away from cheese.

15 Q. If you happened to be located in
16 Massachusetts, you think you would have a
17 greater concern?

18 A. I think if you're located in Massachusetts,
19 your milk should go to the highest and best use
20 of that milk.

21 Q. And are you indifferent then to the
22 continued existence of a manufacturing cheese
23 population in the Northeast?

24 A. I think the milk in the Northeast should go
25 to the highest and best value use that returns

1 the best value for dairy producers. That's the
2 way it works in the rest of the economy. It
3 would benefit producers.

4 Q. Well, of course, there is -- when you say
5 "the highest and best use," there is competition
6 for milk above the minimum regulated price,
7 correct?

8 A. We have premiums in our market, yes.

9 Q. And that exists other places, too, correct?

10 A. It depends on where you're located.

11 Q. Well, I mean, when you talk about a
12 guaranteed return, for example, I mean, to the
13 extent that a dairy processor facing
14 competition, from an example, Class I users, and
15 forced to place an over-order premium result,
16 that's a burden that that processor has to bear
17 above and beyond the minimum price that's been
18 based on the make allowance; is that correct?

19 A. In the Northeast -- in the Eastern
20 Seaboard, we have a competitive market for fluid
21 milk that involves over-order premiums; and if a
22 processor wants a current milk supply, they will
23 have to pay premiums.

24 Q. And so -- all right. And so the answer is
25 that, yes, Class III processors face -- many

