

Michigan Milk Producers Association

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February 2, 2001

Office of the Hearing Clerk
USDA, Room 1081, South Building
1400 Independence Ave., S. W.
Washington, D.C., 20250

RECEIVED

2001 FEB -5 P 2:12

USDA
OALJ/HCO

Re: Tentative Decision on Proposed Amendments to the Class III and Class IV Pricing Formulas Included in the Final Rule for the Consolidation and Reform of Federal Milk Orders

Dear Sir or Madam:

Michigan Milk Producers Association (MMPA) has reviewed the tentative decision issued by the USDA regarding recommended changes to the Class III and IV pricing formulas and we would like to add the following comments for your consideration:

Price Series for Use in Manufacturing Formulas. We support the USDA's decision to continue using the National Agricultural Statistical Service's (NASS) price series for the Class III and IV pricing formulas. We agree that this data provides the broadest range of price information and is representative of the product prices realized by the dairy industry. We also continue to support mandatory reporting and auditing of the NASS results.

Make Allowances. We originally supported the make allowance adjustments recommended by NMPF for all Classes of milk. We believe that the make allowances as proposed by the USDA reflect a reasonable compromise between the various proposals to reduce or increase the levels from the original reform values. We continue to urge caution against the logic presented by IDFA and others that suggest a low risk of setting make allowances too high. We represent over 2,700 dairy farmers that may not all survive a market adjustment period that theoretically might return greater premiums back to producers if make allowances were set too high. We believe that it is critical to use the "right" make allowance for each Class price determination and are satisfied that the adjustments recommended by the USDA will meet that objective.

We support the USDA's decision to include a "snubber" concept for the whey price in the calculation of the other solids value in the determination of the Class III price. We believe that the value of other solids used in the Class III milk price should add to the value of milk and under no circumstances be allowed to subtract from the milk value. We strongly agree with the decision proposed by the USDA that limits the whey price used in the calculation of other solids value to the greater of the whey survey price or the whey manufacturing allowance plus any marketing or return on investment.

Yield Factors. We support the yield factors recommended by the USDA for all Classes of milk. We believe that the yield factors as proposed by the USDA reflect a reasonable compromise between the various proposals to reduce or increase the levels from the original reform values.

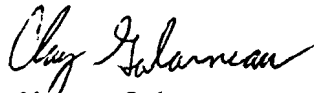
Class I Price Mover. We strongly support using the higher of the Class III or IV prices as the Class I price mover. We feel that the decision to use the higher of III or IV in establishing the Class I price mover has been instrumental in affecting farmers milk prices in a manner designed to assure that milk is marketed to its highest use value at all times. Prior to the implementation of the "higher of" calculation there were times when milk prices for Class I products could not effectively compete with Class III or Class IV prices. We strongly agree with the Department's analysis that using a weighted average of the two prices to set the Class I mover would have a severe impact on the ability of fluid users to attract sufficient quantities of milk during periods when there were large differences between the two class prices. The new system has been much more effective in assuring adequate milk is available for Class I at reasonable prices to meet consumer needs.

Miscellaneous and conforming changes. The Tentative Recommended Decision changed the classification of anhydrous milkfat, butteroil, and plastic cream from Class III to Class IV. The rationale for the change in classification was that these products competed with butter and needed to have a similar cost base for butterfat. Although we originally supported this decision, recent events have uncovered a serious shortcoming regarding market movements of butterfat. When one sees tanker load quantities of anhydrous milkfat moving into cheese plants when there is no shortage of fresh cream, it would appear that this product is no longer competing with butter, but with Class III butterfat. Based on the current disparity between the Class III butterfat cost and the Class IV butterfat value in anhydrous milkfat, the changes have practically created a pipeline for pumping a lower class value butterfat into the higher value cheese products. We do not believe that this was an intended outcome. We strongly recommend correcting this loophole. We believe that the movement of these products in tanker load quantities is so similar to the movement of cream that similar accountability is justified. We believe that the utilization of these products should be based on their intended use. Tanker loads of anhydrous milkfat are not

inventory items that can be stored and used for balancing seasonal fluctuations in market demand. The movement of these products into cheese is clearly an effort to circumvent the current pricing mechanisms. We strongly recommend that the butterfat used in anhydrous milkfat, butteroil, and plastic cream, which is then used in cheese products should be classified as Class III and priced accordingly.

These comments are submitted on behalf of the Michigan Milk Producers Association which is a member owned and operated dairy cooperative serving over 2,700 dairy farmers in Michigan, Ohio, Indiana and Wisconsin. Thank you for considering our comments.

Sincerely,

A handwritten signature in cursive script that reads "Clayton Galarneau".

Clayton Galarneau

Director, Manufactured Sales and Operations