WESTERN UNITED DAIRYMEN

FOR-2743

1315 K STREET
MODESTO, CALIFORNIA 95354-0917
TELEPHONE (209) 527-6453
FAX (209) 527-0630

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DATE: June 9, 1997

TO: Richard McKee

FAX NO: 202-690-3410

FROM: Richard Walker

RE: Western States Dairy Producers Trade Association

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ADDITIONAL INFORMATION:

Western States Dairy Producer Trade Association
1213 East, 2100 South
Salt Lake City, UT 84106
801-560-4117

June 1, 1997

Mr. Richard McKee
Director, Dairy Division
Agriculture Marketing Service
Room 2968, South Building
Washington, D.C. 20090

Dear Mr. McKee:

This comment letter is written on behalf of the Western States Dairy Producer Trade Association, including: California Dairy Campaign, Dairy Producers of New Mexico, Idaho Dairymen's Association, Milk Producers Council (California), Oregon Dairy Farmers Association, Texas Association of Dairymen, Utah Dairymen's Association, Washington State Dairy Federation, and Western United Dairymen (California). Combined, the dairy producers represented by these associations produce about 47 billion pounds of milk per year, or about 30% of all milk produced nationwide. These comments are in response to your release of preliminary reports on Class I Price Structure Options and the Basic Formula Price Alternatives report.

Class I Issues:
At our April meeting in Albuquerque, New Mexico, we took formal action to support alternative 1A of the Class I Price Structure option report, with the condition that the current $1.60 per cwt. minimum price surface differential be raised to at least $2.00 per cwt. This would include the appropriate zoning in general conformance with the Cornell price surface model.

This position is based on the fact that it will take at least that much of a Class I differential to attract milk to fluid uses on a regular basis. We would point to the current situation in the upper Midwest where the Class I differential ranges from $1.04 to $1.20. This level is too low to attract a sufficient supply of milk for Class I needs and so a very high over-order premium is required to move milk to the fluid market. More of that value should be incorporated in the regulated price. Therefore, we strongly support the establishment of a minimum Class I differential of at least $2.00 per cwt.

Furthermore, due to the removal of the support program, the price of basic dairy commodities responding to supply and demand fluctuations is expected to be quite volatile. Because of this new reality, the base price function for Class I should be separated from the minimum Class III function of the BFP. Class I prices should be priced off of a rolling average base price rather than a monthly price as it is currently. To accomplish this goal we have previously proposed a Fresh Milk Base Price (FMBP) to move Class I prices. The FMBP includes a 12-month rolling average of manufacturing product values. This proposal offers the best alternative to address the volatility that exists in the current system. Our proposals suggest a slightly higher Class I base number in exchange for the stability in the Class I price and to protect Class I from a rapid rise in Class 3 prices.

Class II Issues:
At the Albuquerque meeting we also took the position that Class II should be tied to the FMBP rather than the Class III minimum price. Since the market for Class II products is inherently less volatile than the markets for the Class III products, tying the producer price to the more stable FMBP is in everyone's best interest. It allows processors and retailers the ability to more accurately plan price sensitive marketing strategies thar. the current very volatile Class II pricing system. We propose that the Class II price be the FMBP plus $0.30 in every marketing order.

BFP Issues:
We have proposed that the BFP no longer function as the mover for Class I, but function only as the minimum price for Class III. Our current proposed Class I mover is the Fresh Milk Base Price which as currently configured recognizes only the cheese and whey fat product values in the formula. We applaud and could support the BFP Committee's suggestion in Option 1 of using the higher of the Class III (cheese) value or Class IV (butter/powder) value to move the Class I price. This suggestion recognizes that the Class I differential value should be added to the most valuable manufacturing value usage in the order for the class prices to bear an appropriate relationship to each other. This "higher of" concept could easily be adapted into our Fresh Milk Base Price calculation by using each month's highest value commodity for that month's part in the rolling average. The "higher of" concept is also endorsed by other cooperative associations.

Option 1 includes multiple component pricing and four classes of milk, which we have supported from the beginning. As for a separate class for butter/powder, we support some market clearing mechanism, but have not yet developed this part of our proposal. We hope to be working on that in the months to come.

Option 2 and Option 3 have serious flaws which make them inconsistent with our position.

Option 4 most closely resembles the Class III proposal we submitted to USDA some months ago. The difference between Option 4 and our proposal is the starting point. Option 4 starts with a competitive price and updates it with the change in value of product prices. Our plan starts with a product value price and updates it with a competitive differential. The reason our proposal is superior is that it starts fresh every month with a product market price that is established in a truly free market and then updates that price by comparing what milk plants actually paid for milk the prior month compared to what the product value formula indicated the milk was worth in that prior month. Our goal is to establish a Class III minimum price that reflects the true market value of that milk. Under our proposal, all milk plants in the competing areas know the starting point of the competition because product price information is available every week. Currently, and under Option 4, they do not know the starting point because the competitive price is not currently published information. Because of this reality the plants have to speculate on what their competition is paying. This speculation distorts the accuracy of the competitive price. This distortion can be remedied by starting from a known product value basing point, and then adjusting the product value price by the difference between what the product value formula indicated the milk was worth and what the plants that actually bought the milk thought it was worth. We believe this is a significant improvement of Option 4.

Pooling:
In previous submittals we have discussed the issue of opportunistic pooling and de-pooling. We want to clearly state that the choice to pool or not to pool should be a voluntary decision for the producer. However, what we advocate is that the decision to be in or out of the pool should be for a specific length of time, not monthly as exists currently in many orders. We recommend 12 months to be an appropriate period of time to prevent seasonal abuses of pooling.

Other Comments:
Finally, we will address what seems to be a misconception surrounding the whole federal order reform effort. There are some who claim that the final product of the reform effort must be revenue neutral when compared to the current program. We strongly disagree with this premise. If the current order system was doing an adequate job of providing producer income to meet the criteria of the 1937 Act, Congress would not have mandated this reform. We agree with Congress that the current system is inadequate. We have made specific proposals that will correct these inadequacies. If those corrections yield higher producer income, then that result is justified.

We greatly appreciate the hard work you and your staff have put into this process. Thanks for the opportunity to comment. If you have any questions, please feel free to contact me at 916-824-1460.

Sincerely,

Richard Walker /kb

Richard Walker
Chairman

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