MID-AMERICA DAIRYMEN, INC.

3253 E. CHESTNUT EXPWY • SPRINGFIELD, MISSOURI 65802 • A.C. 417/865-7100

Thursday, November 20, 1997

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Mr. Richard McKee
USDA/AMS Dairy Division
Order Formulation Branch
Room 2968 South Building
P.O. Box 96456
Washington, DC 20090-6456

Dear Richard,

Mid-America Dairymen, Inc. respectfully submits these additional comments on Federal order reform as mandated by the 1996 Farm Bill.

Marketing Areas

Mid-Am supports the Mideast and Northeast marketing areas as proposed in the Revised Preliminary Report on Order Consolidation. The proposals regulate currently unregulated counties in the state of Pennsylvania .

Disorderly marketing conditions occur when unregulated distributing plants compete with regulated distributing plants. Central Pennsylvania and Western New York are good examples of this. Currently, unregulated plants are not required to pay minimum class prices nor are they required to share financially in maintaining a reserve supply of Grade A milk needed for fluid purposes when demand is high relative to production. These circumstances give unregulated distributing plants a competitive advantage when competing with regulated distributing plants.

In addition to the competitive advantage enjoyed on their cost of milk, it is quite likely an unregulated distributing plant may have a competitive advantage on producer pay prices also. Even with a lower Class I price, the unregulated plant use value may be higher than the marketwise blend allowing the unregulated plant to have a procurement advantage. These disorderly marketing conditions support the inclusion of currently unregulated counties in Pennsylvania and New York in Federal order marketing areas as proposed by the Department in the Revised Preliminary Report on Order Consolidation, May 1997.

Market Administrator Collection of All Federal Order Proceeds

Mid-Am supports the collection of all Federal order proceeds by the market administrator. This assures equitable payment terms by all handlers, thus promoting orderly marketing.

It is important the market administrator be kept abreast of actual payment dates to assure all handlers are fulfilling their payment date obligation under the order. If the market administrator collects all Federal order funds, he has immediate knowledge of any late payment. If the handler pays producers or cooperatives directly, the lateness of the payment may not be known to the market administrator at the time of noncompliance. Under a worst case scenario, several months may elapse before an audit reveals a payment irregularity. This could give a handler an undue advantage over competitors, thus not effectuating the purpose of the Act.

In addition, this payment procedure should reduce current pressures on cooperative associations to grant credit to handlers who may be delinquent in payment of the uniform price for milk received from member producers. The tendency for extension of credit by cooperatives should be minimized when handlers are required to make payments for producer milk directly to the market administrator rather than to the cooperative.

Language from the Texas Federal order should be used for all orders.

Class I Prices

As indicated in our letter dated June 30, 1997, Mid-Am supports the establishment of Class I prices by using the 1996 annual average price for each location. These prices would be adjusted in two ways: 1) a supply-demand adjuster for long term trends as specified in the previous letter, and 2) a cost of production adjuster for short term changes as explained below.

The cost of feed is the most significant expense to a dairy operation. Therefore, the milk price should be responsive to changes in feed cost. Since we propose the use of the 1996 annual average Class I price, it would be logical to use the 1996 average feed cost as a base.

To establish a theoretical feed cost, Texas A&M has developed a formula that approximates the cost of feed required to produce 100 pounds of milk. The formula utilizes corn, soybean meal and alfalfa hay prices. Chicago cash corn and soybean meal prices are published in "Feedstuffs" magazine. The average of Kansas and Nebraska grinding alfalfa hay prices as reported by USDA Agriculture Marketing Service would be the hay price. The formula equals the sum of the corn price per bushel multiplied by .536, plus the soybean meal price per ton multiplied by .0025, plus the hay price per ton multiplied by .0325. The 1996 average theoretical feed cost equals $ 5.45 per cwt.

We propose adjusting all Class I prices with the difference between the most recent monthly average theoretical feed cost and the base feed cost ($5.45). A table is attached illustrating the impact on Class I prices in Minneapolis, MN. For January through October, 1997, Class I prices in Minneapolis would have averaged $1.53 higher under our proposal than the current program.

This method is consistent with the Agriculture Marketing Agreement Act of 1937 which states: "Whenever the Secretary finds . . . that the parity prices of such commodities are not reasonable in view of the price of feeds, the available supplies of feeds, and other economic conditions which affect market supply and demand for milk and its products ..., he shall fix such prices as he finds will reflect such factors, insure a sufficient quantity of pure and wholesome milk to meet current needs and further to assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs, and be in the public interest."

As stated in our previous comments, Mid-Am believes Class I prices should be decoupled from cheese prices and the Federal order price should make up the vast majority of the total Class I price. Farmers and their cooperatives cannot rely on over order premiums to survive. This proposal meets these criteria.

Mid-America Dairymen appreciates the opportunity to submit additional comments on Federal order reform.

Sincerely,

MID-AMERICA DAIRYMEN, INC.

John J. Wilson

John J. Wilson
Vice President of Fluid Milk Marketing/
Economic Analysis

JJW/dr

Attachments

Analysis of Feed Cost Adjuster for Class I Milk Prices
Minneapolis, MN
1997

	Current Month Theoretical Feed Cost	Average 1996 Theoretical Feed Cost	Adjuster	Average 1996 Class I Price	Adjusted Class I Price	Actual Class I Price	Difference
Jan 1997	$5.01	$5.45	($0.44)	$14.83	$14.39	$12.81	$1.58
Feb	$4.99	$5.45	($0.46)	$14.83	$14.37	$12.54	$1.83
Mar	$5.09	$5.45	($0.36)	$14.83	$14.47	$13.14	$1.33
Apr	$5.10	$5.45	($0.35)	$14.83	$14.48	$13.66	$0.82
May	$4.94	$5.45	($0.51)	$14.83	$14.32	$13.69	$0.63
Jun	$4.67	$5.45	($0.78)	$14.83	$14.05	$12.64	$1.41
Jul	$4.62	$5.45	($0.83)	$14.83	$14.00	$11.90	$2.10
Aug	$4.80	$5.45	($0.65)	$14.83	$14.18	$11.94	$2.24
Sep	$4.99	$5.45	($0.46)	$14.83	$14.37	$12.06	$2.31
Oct	$4.91	$5.45	($0.54)	$14.83	$14.29	$13.27	$1.02
Average	$4.91	$5.45	($0.54)	$14.83	$14.29	$12.77	$1.53