

VIA E-MAIL

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September 30, 2006

Mr. Gino Tosi, USDA/AMS/Dairy Programs
Order Formulation and Enforcement Branch
Stop 0231-Room 2971
1400 Independence Avenue, SW
Washington, D.C. 20250-0231

Re: Proposals for the hearing on changes in the Class III and IV price formulas

Dear Mr. Tosi:

NDA would like to offer one proposal for consideration in the next hearing on Class III and IV formulas, as well as indicate support for others under consideration. This correspondence is being sent to you via e-mail, but original signed copies are also being sent to your office.

We know that USDA will see several proposals to deal with the block-barrel spread. We are specifically offering support for Agrimark's proposal further on in our letter, and respectfully ask USDA to consider other proposals to address the problem in any upcoming hearing, including reconsideration of the impacts of the barrel moisture adjustment made as a result of the May 2000 hearing.

However, we believe a more simple, and perhaps more equitable approach, would be to remove the barrel price from the Cheese price used in the Class III formula, and simply rely on the block price. \

NDA believes a block-only Cheddar price deserves consideration for several reasons. First, we believe a larger than average share of the Cheddar cheese actually produced under Federal Order regulation is of the block variety. The weight placed on barrels in the cheese price may put more weight on that market than is justified under Federal order pricing. If the cheddar manufactured in Federal orders is of a different ratio than the NASS survey, that ration may need to be considered in pricing Class III milk. We do not have that data, but know that NASS and AMS could probably make that determination.

Second, the use of blocks only would improve price alignment with the California State Milk Order, which uses only blocks in its calculations.

Third, the majority of new manufacturing plants appear to be block plants. Both the Hilmar and the Southwest Cheese plants are block plant.

While we would agree that additional data and analysis may be needed to determine the validity of a block-only cheese price, we think the idea warrants inclusion in any new III-IV hearing.

Northwest Dairy Association (NDA) would like to express its support for the NMPF Proposal for Class I and II milk pricing that is being offered for inclusion through the upcoming expanded III and IV hearing. We also support the inclusion of energy cost indexing in Federal Order prices. This is particularly important if USDA does not determine plant costs on an annual basis, as outlined below. We know that indexing proposals are being submitted to USDA and we ask for the opportunity to provide detailed testimony in support for such a program at the next hearing.

NDA also supports the consideration of the proposals from Agri-Mark, inc. regarding several issues.

Agri-Mark Proposal 1. NDA supports the full funding and completion of annual comprehensive manufacturing plant cost surveys by USDA. The stress that the long delay in updating costs has placed on manufacturing plants operating in Federal Milk Marketing Orders is unacceptable, and annual cost surveys, based on methodology used by the California Department of Food and Agriculture (CDFA) and Cornell University can provide the basis for additional survey work. In addition, USDA should fully fund any such efforts, using funds collected from participants for the operation of Federal orders if necessary. The flexibility that the market administrators have for adjusting assessments based on costs can provide additional revenue, if needed. There is no reason for this very important information not to be updated on a more regular basis.

Annual manufacturing cost adjustments by USDA, based on these updated cost surveys should be considered as part of the expanded hearing. But at a minimum, the cost surveys should be completed annually in order to provide data for a new hearing, if deemed necessary and requested by industry.

Agri-Mark Proposal 2. NDA supports consideration of Agri-Mark's proposal to adjust the protein price to reflect the lower value of whey cream. We believe that this adjustment, as proposed by Agri-Mark, will more accurately reflect the value of the whey cream resulting from cheese making. Thus, it should be included in the upcoming expanded hearing.

Agri-Mark Proposal 3. NDA also supports consideration of Agri-Mark's proposal 3, to change the adjustment on block prices to \$0.015, to reflect the more recent average difference in NASS block and barrel prices. Agri-Mark outlines the needs for this change in its justification for Proposal 3. We believe the case for this change is very strong, and urge its consideration, along with our proposal to eliminate barrels from the Cheddar price average.

Agri-Mark Proposal 4. NDA is intrigued by Agri-Mark's Proposal 4 to eliminate much of the problem caused by the price lags between the CME and the NASS survey prices and believes it warrants full consideration at the expanded Class III and IV hearing. The NASS-CME spread

not only causes more opportunity for de-pooling, but also can encourage the movement of milk to lower value products, due to unfavorable margins due to the price lag. Federal orders are not designed to favor one type of manufacturing product over another, but if an order contains significant capacity for both Class III and IV products, the very significant lag found in the NASS cheese prices can (and have) resulted in movement of milk to lower value products (i.e. nonfat dry milk and butter) due to poor price alignment with current markets.

We believe the Agri-Mark proposal can both lessen the possibility of inverted price relationships, sometimes resulting in a large negative PPD, while still allowing for the large NASS survey volumes to be used as the price determinant.

NDA also supports the consideration of the National All-Jersey proposal to reassign the whey value from other solids to the protein component in milk. NAJ outlines their reasoning behind this change, and while we are not fully decided on its merits, we believe it warrants full consideration in the next III-IV hearing. We concur with NAJ's observations that in most cases, most of the significant residual value of whey resides in the protein, particularly when the high capital and operating costs of isolating lactose and other non-protein solids in whey is considered.

Thank you for your consideration of our thoughts on a possible expanded Class III-IV hearing. Please let us know if you have any questions, or need additional information.

Sincerely,

Michael Brown
Director of Member Relations.