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January 22, 2007

The Honorable Mike Johanns
United States Department of Agriculture
Attn: Hearing Clerk
Stop 9200-Room 1031
1400 Independence Avenue, SW.
Washington, DC 20250-9200

Re: Docket No. AO-14-A74, et al.; DA-06-01: *Milk in the Northeast and Other Marketing Areas; Tentative Final Decision on Proposed Amendments and Opportunity to File Written Exceptions to Tentative Marketing Agreements and Orders*

Dear Mr. Secretary,

Thank you for the opportunity to submit these comments regarding the U.S. Department of Agriculture's (USDA) tentative final decision to adopt changes to the manufacturing allowances contained in the Class III and Class IV product price formulas applicable to all Federal milk marketing orders.

Glanbia is the largest American-style cheese producer in the United States, processing 18 million pounds a day of milk, with a 16.5 percent share of the domestic market. We are the world's largest producer of both whey protein isolate and dairy-derived ingredients; the second largest producer of both milk calcium and customized pre-mixes for the nutritional sector; and the fifth largest producer of whey protein concentrate 80. We employ over 1,000 people directly in our U.S. operations. Our facilities in Idaho and New Mexico -- the latter of which is a joint venture with Dairy Farmers of America, Select, Lonestar and Zia -- utilize state of the art technology. Since 1990, when Glanbia first began making cheese in the United States, our cheese sales volume has grown twenty-two fold, while our dairy ingredients sales volume has grown eleven fold. This success has been built on two critical elements: an efficient scale of dairy farming and manufacturing; and the zealous pursuit of world-class technology, quality and marketing. However, our success has come in spite of, and in the face of, a fixed and inadequate manufacturing allowance, which has failed to rise commensurate with the natural increase in our sector's costs of production. The lack of an adequate manufacturing adjustment has posed a very significant, frustrating, and -- most disturbingly -- unnecessary impediment to our business.

While Glanbia Foods strongly supports an upward adjustment of the manufacturing allowances, the USDA's new make allowances contained in the tentative final decision are far too low. USDA should increase the make allowances to a much higher level, particularly for cheese.

The USDA's new make allowance for cheese, of 16.82 cents, is simply too low for Glanbia to cover the growth in the costs of processing that has occurred since the last make allowance adjustments were implemented. The segment already faces constant competitive pressures imposed by the inflexible and economically outdated marketing order system. The rapid rise of energy and other costs over the past two years has only exacerbated these competitive pressures. A failure by USDA to offset the increased processing costs will simply discourage the investment in the sector that is so badly needed to secure the U.S. dairy sector's viability and global competitiveness.

To understand why the new allowance of 16.82 cents is too low, an observer need look no farther than California, where a system with some of the largest, most efficient plants in the country report an audited cost of production for cheese of 17.69 cents. No tenable argument can be made that costs of production for cheese are lower in the federal order system than they are in California.

We understand that USDA has rejected a higher make allowance for cheese based on its belief that a similar adjustment cannot be made for butter, nonfat dry milk, and whey. This seems flatly wrong. Even Dr. Mark Stephenson, of Cornell University, who provided much of the data on which the USDA has based its new decision, has made the case for a higher cheese make allowance. The record seems clear that Dr. Stephenson had originally used an unbalanced, stratified sampling procedure, and that a simple adjustment to reflect this fact would remedy the problem for cheese. Since butter, nonfat dry milk, and whey were not sampled using an unbalanced, stratified basis, no further adjustment for these products would be necessary. Rather, making the adjustment only for cheese would actually correct the imbalance that currently exists compared to these other products.

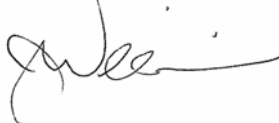
It also seems clear to us that USDA errs when it ignores California data on costs of whey production. However they are perceived, California's whey data are real and audited.

Further, given that the data from both Dr. Stephenson and California were more than a year old at the time of USDA's hearing, the inclusion of an energy adjustment to account for the obvious recent increase in energy costs in the sampled data would be equitable.

Finally, I cannot refrain from expressing my deep frustration with USDA and the constant delays during its consideration of the proposals to update make allowances. To have waited this long, only to receive make allowance adjustments that are frankly and utterly inadequate, is terribly disappointing. In my opinion, this predicament raises a broader and deeper question about the utility of the federal milk marketing order system, itself, which was launched many decades ago when economic and technologic circumstances were dramatically different.

In sum, Glanbia supports an increase in the make allowances and strongly urges you to increase the make allowances, particularly for cheese, above the levels contained in the tentative final decision. Thank you again for the opportunity to submit these comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeff Williams', with a stylized flourish at the end.

Jeff Williams
CEO and President