



**Michigan Milk Producers Association**  
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 United States Department of Agriculture  
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**Re: Hearing on Proposed Amendments of the Class 1 and Class 2 Milk Price Formulas in all Federal Milk Marketing Orders**

**Docket No. AO-14-A76, et al; DA-07-01**

**Brief of the Michigan Milk Producers Association**

**I. Introduction**

This brief is submitted on behalf of the Michigan Milk Producers Association (MMPA) in support of Proposals 1 through 5, which were submitted by the National Milk Producers Federation (NMPF). Proposals 1 through 5 would amend the Class 1 and Class 2 milk price formulas applicable to all Federal milk marketing orders. MMPA is a Copper-Volstead cooperative and markets milk for its member producers primarily in the Mideast marketing area. MMPA markets limited quantities of milk in the Northeast, Appalachian, and Southeast marketing areas as well.

**II. MMPA supports NMPF’s Proposals to Update and Simplify Class I and Class 2 Milk Price Formulas**

Pending implementation of the tentative final decision, recently issued under a previous docket (Docket No. AO-14-A74, et al.), addresses outdated and inadequate manufacturing make allowances and is intended to provide some economic relief to the processors of Class 3 and Class 4 milk products. These changes will result in lower prices received by dairy farmers for that portion of their milk production utilized in those products. Unfortunately, based upon current Class 1 and Class 2 milk price formulas, these changes in the Class 3 and Class 4 make allowances will also result in unnecessarily lower prices for Class I and Class 2 milk and corresponding lower income for dairy farmers.

NMPF's proposals address this unnecessary and inequitable hardship that is about to be imposed upon dairy farmers. NMPF's proposed changes in the Class 1 and Class 2 milk formulas will offset the economic impact caused by the amended make allowances of between 17¢/cwt to 25¢/cwt depending upon which of the advance pricing factors is used to calculate Class 1 and Class 2 milk prices.

NMPF's proposals will also update the Class 1 and Class 2 price formulas to better reflect current costs. The formulas currently used were first proposed in 1998 and ultimately adopted in the 2000 final order pertaining to federal order reform. MMPA's witness, Mr. Tim Hood, presented testimony (Ex # 19) about changes in the cost of supplying milk for Class 1 and Class 2 that are borne by dairy farmers and how those have changed since 2000. Mr. Hood challenged the USDA to give full consideration of increases in these cost factors when ruling upon the merits of the NMPF proposals. MMPA believes that NMPF's proposals, especially Proposal #1 fairly and accurately account for these increases.

### **III. Opposition to Proposals #1 - #5**

Numerous witnesses expressed opposition to NMPF's proposals for various reasons. However, there were two arguments that were common in many of the statements presented by these witnesses. MMPA would like to submit comments pertaining to both of those arguments.

#### **A. Price elasticities**

Witness after witness expressed opposition to the proposals presented by NMPF based upon their analysis of the impact of an increase in prices upon Class 1 and Class 2 milk usage. Various attempts were made by the industry, academia, and government agencies to quantify the impact of the proposed Class 1 and Class 2 price changes on the demand for the products in those classifications. Most all agreed that the industry should anticipate a lower demand for Class 1 and Class 2 products as a result of higher retail prices for these products. This sentiment was specifically expressed on Page 4 of Exhibit #26 by Dr. Brian Gould from the University of Wisconsin.

MMPA has serious doubts about how significant an impact the change in the cost of raw milk truly bears upon the retail price of dairy products in today's market place. Based upon the Bureau of Labor Statistics annual retail price survey for selected dairy products, NMPF has calculated that the farm price as a percent of the retail price has declined from 52% in 1980 to as little as 28% in recent years<sup>1</sup>. Granted, Class 1 prices and premiums exceed the level of the farm price but the Class 2 price is less. The trend for the past 25 years indicates that the dairy farmer's share of the retail dollar has declined dramatically.

Processors do not seem to be overly concerned about price elasticities and the negative impact upon product consumption when it is time to pass on increased costs of business related to processing, packaging, and distribution costs. In fact, NMPF's analysis would indicate that today those costs have more of an impact on the retail price than the cost of the raw ingredient.

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<sup>1</sup> Source: NMPF 2007 Dairy Producer Highlights, Table 14 and Figure 8

After taking into account the reduction in the Class 1 price when applying the new make allowance factors in the tentative final decision, NMPF's proposal #1 will at most add 60¢/cwt or 5¢ to the cost of a gallon of milk. As a % of the retail price for a product that exceeds \$3.00/gallon, that is a very small percentage. When applied to smaller size units, such as a 16 oz. single serve bottle, the cost increase becomes unrecognizable. When a 16 oz. bottle of plain white milk retails for \$1.09 and a national brand flavored milk retails for \$1.49, an increase of 2/3¢/unit seems pretty insignificant. I make reference to 16 oz. flavored milk prices because of the reference by the witness from Nestles USA about results of their elasticity studies relative to 16 oz. and 64 oz. flavored milk beverage sales in Exhibit #33, page 4.

#### **B. Objections to short hearing notice provided**

Numerous witnesses complained about the limited amount of notice provided by the Department of Agriculture in light of the importance of the issues addressed at this hearing. I refer specifically to IDFA's Exhibit #45, page 3, Dean Foods' Exhibit #31, page 13, H.P.Hood's Exhibit #41, page 1, and Muller Pinehurst's Exhibit #31, page 13. IDFA's witness argued that the proceedings should be suspended or that NMPF's proposals should be denied because of an inadequate amount of time to prepare data for the public hearing. The Muller Pinehurst witness argued against a request for determination of an emergency marketing condition because of the short notice period. MMPA strongly encourages USDA to disregard those arguments and determine whether there exists a need for an emergency decision based upon the entire hearing record.

The entire dairy industry was aware that NMPF had attempted to amend the Class 1 and Class 2 milk price formulas at the time of the January 2006 make allowance hearing but was prohibited from doing so because their proposal was ruled to be outside the scope of the notice for that hearing. It should not have surprised anyone that NMPF would request another hearing to address these issues.

#### **IV. Conclusion**

Because of the pending implementation of the tentative final Class 3 and Class 4 rule, it is imperative that USDA provide expeditious consideration to the changes proposed by NMPF. Without a timely update of the Class 1 and Class 2 milk price formulas, dairy farmers will be subjected to substantial and irretrievable losses. Therefore, MMPA urges that the Department ignore opposition arguments to delay or deny such change and provide immediate and expeditious attention to this matter.

Respectfully submitted,

Carl Rasch  
MMPA Director of Milk Sales