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Clifford M. Carman; Chief, Order Formulation Branch
USDA/AMS/Dairy Programs
Stop 0231, Room 2971-S
14th & Independence Avenue, SW
Washington, DC 20250-0231

Re: Milk in the Northeast and Other Marketing Areas; Recommended Decision, etc.
[Docket No. AO-14-A69, et al.; DA-00-03]

Dear Mr. Carman,

As the representative of three quarters of America's 80,000 commercial dairy farmers, through our 30 member cooperative associations, the **National Milk Producers Federation supports USDA's recommended decision on the Class III and IV price formulas.**

The decision is well-considered and consistent with the principle of defining the Class III and IV milk prices by the value of the milk used to produce cheese, whey, butter, and powder.

The Federation further supports the continued use of four separate classes of milk as supported by the record of nearly six years of federal order reform proceedings.

We appreciate the opportunity to comment, and recognize the enormous effort that has gone into the entire order reform process. Above all, the Federation and its members look forward to a firm conclusion of that process after nearly six years. The certainty of finished proceedings on the Class price formulas will benefit all participants in the dairy markets.

The attached brief outlines in more detail our reasons for supporting the Department's decision.

Sincerely,

Jerome J. Kozak
Chief Executive Officer

cc: The Honorable Ann M. Veneman, Secretary of Agriculture
William T. Hawks, Under Secretary for Marketing and Regulatory Programs

NATIONAL MILK PRODUCERS FEDERATION
Comments Regarding Docket No. AO-14-A69, et al.; DA-00-03:
Milk in the Northeast and Other Marketing Areas; Recommended Decision

The National Milk Producers Federation (NMPF) welcomes the opportunity to comment on USDA's recommended decision on the Class III and IV pricing formulas. NMPF supports the recommended decision and urges USDA to allow the resulting four Class pricing and classification system to work.

NMPF is the national trade association that represents dairy producers and the cooperative milk marketing associations they own and operate throughout the United States. NMPF is the national dairy policy voice of nearly 60,000 dairy producers. The Federation develops and carries out policies that advance the well-being of U.S. dairy producers and the cooperatives they collectively own. NMPF's 31 member cooperatives market the majority of the U.S. milk supply and manufacture 45% of the butter, 55% of the nonfat dry milk, and 30% of the cheese marketed in the U.S.

The recommended decision issued on October 19, 2001, makes four changes to the formulas currently in effect:

- An increase in the make allowance for dry whey from 14¢ to 15.9¢ per pound.
- The elimination of the snubber in the other solids formula.
- A change in the butterfat to protein ratio in the protein formula that corresponds to milk with 3.5% butterfat and 2.99% protein.
- A change in the protein formula to account for the value of the 10% of butterfat that is recovered in whey cream.

Change in the Whey Make Allowance in the Other Solids Price

The current other solids price formula uses the same 14¢ per pound make allowance for dry whey and nonfat dry milk. Liquid whey contains more water per pound of solids than does skim milk. At hearing, NMPF requested an increase of 1¢ per pound in the dry whey make allowance to account for the costs of removing this additional water. In raising the whey make allowance to 15.9¢, USDA made use of a private survey.

For the purposes of this decision, NMPF accepts this choice, but recommends that USDA pursue more formal means of defining such costs for future decisions.

Elimination of the Snubber on the Other Solids Price

The tentative decision signed on November 29, 2000, provided that "the other solids price shall not be less than zero." The stated basis for this decision was confusion among farmers that would be produced by a negative component value. The recent recommended decision reverses that change and eliminates the snubber on the other solids price, arguing that a zero snubber is "an arbitrary adjustment to the price formula."

The zero snubber does somewhat simplify the administration of the order and the communication of its elements to farmers. However, NMPF accepts the principle that the market value of milk's components must be adequate to pay the minimum value set by USDA. Therefore, NMPF accepts the elimination of the zero snubber on the other solids price.

Reduction of the Butterfat-to-Protein Ratio in the Protein Price

The protein price formulas used since January 2000 were derived from the van Slyke cheese yield formula for milk at a 3.82% butterfat test. As a result, the price of Class III milk, both at the typical producer test of 3.67% and at the federal order standard test 3.5%, fell when the butter price rose and rose when the butter price fell. In the recommended decision the butterfat-to-protein ratio is changed from 1.28 (reflecting milk at 3.82% butterfat and 2.98% protein) to 1.17 (3.5% butterfat and 2.99% protein).

The change to 1.17 is consistent with the standard pricing of milk under the Federal orders. It also reverses the effect of the butter price on producer milk at most normal butterfat tests. This is especially important in those Federal order markets whose producers are paid for all their components on the basis of the Class III component prices. NMPF supports this change.

Introduction of a 90% Butterfat Retention Factor in the Protein Price

This change is the most significant element of the recommended decision. In most cases it will have the largest impact on the protein and Class III prices (see Appendix); and it represents the most significant innovation in the formulas themselves.

The van Slyke cheese yield formula upon which the incumbent protein price formula is based contains an implied butterfat retention factor of 90%. However, the value of the 10% of butterfat recovered in the whey cream has not been represented in the calculation of Class III values.

The addition of this 90% factor to the formula stops giving the cheesemaker "credit" for the recovered 10%, since he is either re-using that butterfat or capturing its value in some other way. This is consistent with the principle that the milk price should correspond to the recoverable value of its components.

[If butterfat retention is higher, say 93% or 94%, the yield would be correspondingly higher than that assumed in the current formulas, which should offset the change in the retention factor.]

This change also reverses the effect of the butter price on producer milk at most normal butterfat tests. Again, this is especially important in those Federal order markets whose producers are paid for all their components on the basis of the Class III component prices.

For the above reasons, NMPF supports this change.

Conclusion

NMPF supports the recommended decision in its entirety. As a whole, the decision represents a substantial improvement on the current formulas. In the interests of market certainty, NMPF urges USDA to finalize its proposals with all due haste.

More importantly, NMPF supports the product of nearly six years of federal order reform proceedings. These proceedings included input from all segments of the dairy industry and consumed an enormous stock of private and public resources. Following the implementation of this decision, which is the culmination of these proceedings, we would urge USDA to maintain the current Federal order provisions, in the main. In the absence of a clear-cut industry consensus for change, and without clear evidence of a market failure caused by federal order provisions, we believe it would be detrimental to the industry to reopen these proceedings in the near future.

National Milk Producers Federation appreciates the opportunity to submit comments on the recommended decision and commends USDA staff for their hard work. We stand ready to respond to any questions or provide additional information to support our positions. Thank you for your consideration of these comments.

APPENDIX

Table 1. Estimated Impact of new formula on Class III price Including all changes						
Butter						
Cheese	1.00	1.25	1.50	1.75	2.00	2.25
1.00	0.19	0.39	0.60	0.81	1.01	1.22
1.15	0.11	0.32	0.52	0.73	0.94	1.14
1.30	0.03	0.24	0.44	0.65	0.86	1.07
1.45	(0.05)	0.16	0.37	0.57	0.78	0.99
1.60	(0.13)	0.08	0.29	0.50	0.70	0.91
1.75	(0.20)	0.00	0.21	0.42	0.62	0.83
1.90	(0.28)	(0.08)	0.13	0.34	0.55	0.75

Table 2. Estimated Impact of new formula on Class III price Including Increase in Whey Make Allowance Only						
Butter						
Cheese	1.00	1.25	1.50	1.75	2.00	2.25
Any	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)

Table 3. Estimated Impact of new formula on Class III price Including All Changes to Protein Formula only						
Butter						
Cheese	1.00	1.25	1.50	1.75	2.00	2.25
1.00	0.30	0.51	0.71	0.92	1.13	1.33
1.15	0.22	0.43	0.63	0.84	1.05	1.26
1.30	0.14	0.35	0.56	0.76	0.97	1.18
1.45	0.06	0.27	0.48	0.69	0.89	1.10
1.60	(0.01)	0.19	0.40	0.61	0.81	1.02
1.75	(0.09)	0.11	0.32	0.53	0.74	0.94
1.90	(0.17)	0.04	0.24	0.45	0.66	0.86

Table 3a. Estimated Impact of new formula on Class III price Including Change from 1.28 to 1.17 Bf:Protein Ratio in Protein Formula Only						
Butter						
Cheese	1.00	1.25	1.50	1.75	2.00	2.25
1.00	(0.08)	0.02	0.12	0.22	0.32	0.42
1.15	(0.16)	(0.06)	0.04	0.14	0.24	0.34
1.30	(0.24)	(0.14)	(0.04)	0.07	0.17	0.27
1.45	(0.31)	(0.21)	(0.11)	(0.01)	0.09	0.19
1.60	(0.39)	(0.29)	(0.19)	(0.09)	0.01	0.11
1.75	(0.47)	(0.37)	(0.27)	(0.17)	(0.07)	0.03
1.90	(0.55)	(0.45)	(0.35)	(0.25)	(0.15)	(0.05)

Table 3b. Estimated Impact of new formula on Class III price
Including Addition of 90% Recovery Factor in Protein Formula Only

	Butter					
Cheese	1.00	1.25	1.50	1.75	2.00	2.25
Any	0.41	0.53	0.65	0.76	0.88	1.00