

The Alliance

of Western Milk Producers

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February 5, 2001

Mr. Richard McKee, Director
Dairy Division, AMS
United States Dept. of Agriculture
P.O. Box 96456
Washington, D.C. 20090-6456

SUBJECT: Comments regarding USDA FMMO Tentative Decision

Dear Mr. McKee:

The Alliance of Western Milk Producers is a trade association that represents three major operating cooperatives in California. These organizations market milk and manufacture dairy products for more than 1100 producer-owners producing 60 percent of the state's milk. These products are marketed throughout the United States.

Alliance members are very concerned about USDA's Tentative Final Rule for Class III butterfat and protein pricing. They believe the changes made will lead to disorderly marketing and would provide an incentive for processors to seek alternative sources for butterfat. This, of course, would have a negative impact on producer income, including California producers.

The majority of cheese produced in the United States is not cheddar cheese. While cheddar accounts for 34 percent of the cheese produced, Italian cheese makes up for 40 percent. Italian cheeses have lower butterfat, higher solids not fat and higher moisture content than cheddar cheese. Processors of Italian cheeses benefit greatly from the allocation of component values in the tentative decision.

Therefore, we urge USDA to maintain the Class III butterfat and protein formulas in place prior to the January 1, 2001, implementation of the tentative decision. We would, however, suggest one adjustment to the protein formula which the Alliance believes will address, in part, the butterfat issue AMS tried to address in the tentative decision.

The pre-January 1, 2001, protein formula included a factor to account for the additional butterfat higher protein milk captures. The flaw with the protein formula fat adjustment is that it can result in under valuing protein. This occurs when the pre-January 1, 2001, butterfat value is greater than the value calculated in the protein formula (multiplying the cheese price less a make allowance by 1.582).

The way to address this problem would be to limit the butterfat factor adjustment in the protein formula. That is, the cheese price less a make allowance multiplied by 1.582 less the Class IV

butterfat value would be floored at zero, it could not be a negative number. If AMS is concerned that this would result in over valuing butterfat in Class III, the Class III fat value could be capped at the cheese price less a make allowance multiplied by 1.582.

Summary

California producers and processors are affected by what occurs in federal milk marketing orders. This fact is recognized in part by California law which requires that California Class 1 milk prices be in a reasonable relationship to Class I producer milk prices in surrounding federal orders. California manufactured product prices as well as milk component prices are impacted by federal order pricing schemes also.

Therefore, the Alliance urges USDA-AMS to allow the result of the court's injunction – reverting to the pre-January 1, 2001, Class III fat and protein formulas – to stay in place and to give consideration to the modifications suggested herein.

Respectfully submitted,
Alliance of Western Milk Producers



James E. Tillison
Executive Director/CEO