



January 25, 2002

Ann Veneman, Secretary
U.S. Department of Agriculture
C/o Office of the Hearing Clerk
Room 1081 South Building
U.S. Department of Agriculture
Washington, D.C. 20250

e-copy: Gino.Tosi@usda.gov

Re: Milk in the Northeast and Other Marketing Areas Docket
Nos. AO 14-A69, *et al.*; DA-00-03; 66 Fed. Reg. 54064.

Dear Secretary Veneman:

I am submitting comments by this letter (with 5 extra copies) to express the opposition and exceptions of our company, Valley Queen Cheese Factory, Inc. of Milbank, SD, to the Recommended Decision of the Dairy Programs Branch, Agricultural Marketing Service, for a significant reduction in the manufacturing allowance for Class III milk used to produce cheese and cheese byproducts.

Valley Queen Cheese Factory, Inc. makes American style natural cheeses, such as cheddar, colby, and monterey jack, from milk classified as Class III under the federal milk order system. We have fewer than 500 employees, and are therefore considered a "small business" for regulatory purposes. In our small rural community of Milbank, South Dakota, our business, the milk producers who supply milk, and our 105 employees represent a significant contribution to our local economy.

We understand that USDA proposes to reduce cheese plant manufacturing margins by about 50 cents per hundredweight of farm milk at average test. That is, the Department intends to reduce the spread between regulated Class III prices and market prices for cheese and cheese by-products.

In its Decision, USDA concludes, among other things, that the proposed manufacturing allowance rate (a) will have negligible impact on small businesses, (b) will not disproportionately burden small businesses such as our company compared to larger manufacturing concerns, (c) that the proposed rule will not raise barriers to the ability of small handlers to compete in the marketplace, and (d) that most cheese makers will be able to recover their costs plus a return on investment under the rule.

I am writing to state unequivocally that USDA's conclusions are absolutely wrong as applied to our small business cheese plant. Based on my knowledge of the industry and other plants, the conclusions are wrong about most, if not all, small cheese plants.

The Decision assumes that small business cheese plants, on average, experience the same costs, have the same opportunity to realize by-product revenue, and enjoy the same product yields as larger plants. This is not true. We certainly do not enjoy some of the economies of scale and purchasing power of our larger competitors. We feel by being more agile and aware of new opportunities than our larger competitors that we can remain viable; however, we certainly do not have room in our return on investment to absorb an additional cost of 5 cents per pound cheese. Additionally, we must compete in a national cheese market with plants that receive unregulated milk, with regulated cooperative plants that are not required to pay producers regulated prices, and with California cheese manufacturers who just last month were granted an *increase* in manufacturing margins.

From our observations of the Decision, USDA gave scant weight to the experience of individual manufacturers that varied from the assumed range of costs, yields or product revenues. We nevertheless hope that our experience will be weighed before a final decision is made, and ask the Department to reopen the hearing and make an objective study of small business cheese plants for that purpose.

Very truly yours,

Mark Leddy
Co-CEO
Valley Queen Cheese Factory, Inc.