

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:

Wisconsin Cheese Makers Association is a nonprofit trade association representing, among others, 52 small businesses in Wisconsin that manufacture cheese from fresh farm milk.

WCMA is concerned that USDA may not have sufficiently considered the impact on small businesses when it made changes to the Class 3 price formula in the recommended decision published in the October 25, 2001 Federal Register.

To be clear, our member businesses are true small businesses: all of the companies and cooperatives listed at the end of these comments employ fewer than 500 people, and in fact most of the plants on this list employ 100 persons or less.

The small cheese businesses represented by WCMA perform the vital service of producing high quality cheeses as well as specialty cheeses that become the popular commodity cheeses of tomorrow. Mozzarella was once a specialty cheese that high volume plants could not afford to produce. Today, feta cheese is moving from a low volume specialty to a high volume cheese. Small cheese plants are the artisans that draw consumers into the cheese category, and are the incubators that develop cheese varieties that large manufacturers cannot afford to manufacture. The nation's dairy producers benefit from the value these smaller plants bring to the cheese manufacturing spectrum.

Set a Higher Make Allowance to Include Small Plant Costs

WCMA is concerned that USDA has created price formulas based solely on data supplied by large factories. Data to create a make allowance for cheddar cheese should reflect an average cost of manufacture, not the costs at the largest, most efficient plants in the nation.

USDA has chosen to set the cheese make allowance based on two surveys (the RBCS and CDFA) that use data solely from large cheese factories. WCMA cannot add data to the hearing record at this time, but can ask that USDA use the existing data and reset the make allowance wittingly at the high side of the make allowance spectrum, such as the \$0.1708 found in the CDFA weighted average cost study.

Small cheese factories face higher costs due to their inability to capture every efficiency in the market. A simple example is the cost of film (bags) used in bulk cheese packaging. The cost per bag is higher for lower volume purchases. Bag costs decline as the volume of purchase increases. On the milk purchasing side, small plants do not have the resources to pool producer milk on several federal orders and gain additional dollars from order ppds to compete for local milk.

Also, these two surveys do not account for every cost faced by Wisconsin cheese plants. For example, Wisconsin's new dairy producer security law, implemented Jan. 1, 2002, introduces an assessment on cheese plants to fund a pool of money that will make payments to producers in the event of a dairy plant default. Also, the two surveys used by USDA do not account for a new requirement from the U.S. Food and Drug Administration (to be implemented March 1, 2002) that requires plants to install a \$3,000 reader and printer to screen milk samples for antibiotic residues.

Large dairy plants have the ability to spread these new costs over millions of units of product. But these and other new government fees make a noticeable impact on a small cheese factory's bottom line.

The RBCS and CDFA cost surveys do not capture higher costs faced by small cheese factories and do not account for other costs that are new or unique to Wisconsin. For these reasons, USDA should err on the high side when setting a cheese plant make allowance.

In Wisconsin, a high dairy plant make allowance benefits dairy producers. Even if a higher make allowance generates a better return for dairy plants, that return is offered to producers in the form of over-order premiums to dairy producers.

Wisconsin is a milk deficit state and processors compete with premiums each month to secure adequate supplies of milk for their vats.

USDA should not base a make allowance solely on costs faced by the smallest plants, but USDA also should not ignore the higher costs these plants face. By resetting a higher make allowance, USDA will better reflect the costs to these small plants.

Change Flaws in your New Butterfat Portion of the Protein Price Formula

In the recommended decision, USDA makes a fundamental mistake in logic in adjusting its protein price formula in Class 3.

USDA notes that the butterfat cheese yield multiplier of 1.582 used to calculate the value of butterfat in cheese assumes that 90 percent of the fat is captured in the cheese.

USDA concludes that if one is looking at a yield of butterfat in cheese that is based on 90 percent of the fat in the raw milk, then—apples to apples— one should only give credit for 90 percent of the butterfat paid for at the Class 3 butterfat price in the major subtraction in this formula. That should yield the difference between the value of butterfat in cheese and the value of butterfat in butter.

But there's two flaws in that decision. Giving credit for 90 percent of the value of butterfat means leaving 10 percent of butterfat priced at the Class 3 fat price, figured on the Grade AA butter price. Meanwhile, the 10 percent of butterfat that leaks out of cheesemaking isn't valued at the Grade AA butter price in the marketplace. Some of that 10 percent never makes it to the vat (shrinkage), some of it is lost in the cheddaring and pressing process, some remains in the sweet whey and some is recovered as whey cream. Probably only 5 percent, instead of 10 percent, of milkfat is actually recovered as whey cream. And whey cream always has a value less than the Grade AA butter price.

USDA's adjustment grabs money for product that isn't there. Instead of giving credit for 90 percent of fat, leaving 10 percent priced at a AA butter value, USDA needs to give credit for 95 percent of the fat. This will leave 5 percent that is recovered in whey cream. And whey cream prices and sweet cream prices don't compare apples to apples. USDA needs to account for the difference in value of these two types of fat in order to correctly execute the protein price formula.

USDA Should Not Set a Class 3 Price Significantly Higher than Non-regulated Areas

USDA should make adjustments to the Class 3 and Class 4 price formulas with consideration to how these prices will affect competition between regulated (federal order) regions and non-regulated regions.

Wisconsin's cheese factories should not be placed at a competitive disadvantage to large businesses in California due to a government program. The inherent inefficiencies in operating a small business alone handicap our manufacturers' ability to compete.

Federal order milk prices for Class 3 and Class 4 should be maintained at the lowest possible level to allow fair competition, and to allow our manufacturers to use price premiums to gain the best possible milk.

USDA Should Let Milk Price Premiums, Not Base Prices, Drive Innovation and Improvements in our Dairy Industry

In USDA's recommended decision (October 25, 2001 Federal Register), the agency notes: "The calculation of the Class 3 price at 3.5 percent butterfat, based on the formulas in this decision, would have averaged about \$0.48 per hundredweight above the 3.5 percent Class 3 price based on the Class 3 formulas implemented under Federal order reform." (p. 54086)

USDA makes the point that small cheese plants in Wisconsin would have faced a higher Class 3 milk price if these new formulas had been in place. In the least harmful scenario, this higher price would result in a commensurate lowering of over order premiums paid in Wisconsin. The plants would not be able to "discover" \$0.48 per hundredweight in new dollars to pay producers. Or in a more troubling scenario, competitive forces would not allow plants to lower premiums by the entire 48 cents per hundredweight, and equity or credit line funds intended for modernization, research & development or marketing would bleed from these plants.

Even if the entire increase in the Class 3 price is offset by lower premiums, both dairy producers and cheesemakers are losers. Premiums incent producers to make milk of higher quality (low somatic cell count or low bacteria count) or higher

protein or higher yield. Removing these premiums reduces the incentive for producers to make cleaner, more wholesome milk. Removing protein and cheese yield premiums removes the ability of cheese plants to tailor a milk supply that optimizes cheese yield.

Premiums are the closest thing to the free market in the federal order system. In its recommended decision, USDA pushes more dollars back into generic base prices, and removes the monetary incentives that allow dairy producers to improve their operations and their milk quality and usefulness.

Again, federal order milk prices for Class 3 and Class 4 should be maintained at the lowest possible level to allow fair competition, and to allow our manufacturers to use price premiums to gain the best possible milk.

Thank you for considering these comments,

Regards,

WISCONSIN CHEESE MAKERS ASSOCIATION

(signed)

John T. Umhoefer
Executive Director

ADDENDUM:

These WCMA member small businesses purchase milk from dairy producers:

Lactalis USA Belmont, Inc., Belmont, WI
Burnett Dairy Cooperative, Grantsburg, WI
Cedar Valley Cheese, Inc., Belgium, WI
Chalet Cheese Co-op, Monroe, WI
Crystal Lake Cheese Factory, Inc., Comstock, WI
Deppeler Cheese Factory, Monroe, WI
Eau Galle Cheese Factory, Durand, WI
Gad Cheese, Inc., Medford, WI
Gobeli Cheesemakers - Franklin Cheese, Monroe, WI
Klondike Cheese Company, Monroe, WI
Maple Leaf Cheese Co-op, Monroe, WI
Meister Cheese Company, Muscoda, WI
Park Cheese Company, Inc., Fond du Lac, WI
Sartori Food Corporation, Plymouth, WI
Widmer's Cheese Cellars, Theresa, WI
Wisconsin Dairy State Cheese Co., Rudolph, WI
Silver Lewis Cheese Factory, Monticello, WI
Baker Cheese, Inc., St. Cloud, WI
BelGioioso Cheese Inc., Denmark, WI
Chula Vista Cheese Co., Browntown, WI
Dupont Cheese, Inc., Marion, WI
Specialty Cheese Company, Inc., Madison, WI
La Grander's Hillside Dairy, Inc., Stanley, WI
Mullins Cheese, Mosinee, WI
Torkelson's Prairie Hill Cheese Plant, Inc., Monroe, WI
Rosewood Dairy, Inc., Algoma, WI
Schneider Cheese, Waldo, WI
Zimmerman Cheese Inc., South Wayne, WI
Grassland Dairy Products, Inc., Greenwood, WI
Gibbsville Cheese Company, Sheboygan Falls, WI
Roth Kase USA Ltd., Monroe, WI
Pine River Dairy Inc., Manitowoc, WI
Valley View Cheese / Alpine Cheese, South Wayne, WI
Warren Cheese Plant, Warren, IL
Cedar Grove Cheese, Inc., Plain, WI
Lynn Dairy, Inc., Granton, WI

Swiss Heritage Cheese, Inc., Monticello, WI
Antigo Cheese Company, Antigo, WI
Shullsburg Creamery, Inc., Shullsburg, WI
Decatur Dairy, Inc., Brodhead, WI
Cascade Cheese Company, Cascade, WI
Nasonville Dairy, Inc., Marshfield, WI
Zivney Cheese, Inc., Minonk, IL
Level Valley Creamery Inc., West Bend, WI
Whitehall Specialties, Inc., Whitehall, WI
Rondele Specialty Foods, Merrill, WI
Weyauwega Milk Products Inc., Weyauwega, WI
Edelweiss Cheese Co., Inc., Marshfield, WI
Henning Cheese Inc., Kiel, WI
Valley Queen Cheese Company, Milbank, SD
Crave Brothers Farmstead Cheese LLC, Waterloo, WI
Swiss Valley Farms/Old WI Cheese, Platteville, WI