

United States Senate

WASHINGTON, DC 20510

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2000 DEC 19 P 2:32

December 4, 2000

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The Honorable Secretary of Agriculture Dan Glickman
United States Department of Agriculture
Washington, D.C. 20250

Dear Secretary Glickman:

We write in response to your tentative final decision on Class III and IV price formulas for all milk marketing orders. We urge you to reconsider a number of aspects of your decision before implementing it.

Over the past six months, the protein price formula and the new Class I mover have hurt the ability of our dairy markets to function and have disproportionately hurt producers in orders with high Class III utilization. We urge you to reconsider your tentative rule and to instruct the Food and Agricultural Policy Research Institute to study the impact on America's dairy industry of both the January 1, 2000, reforms and your most recent proposal.

The current protein price formula, in which the protein value is negatively related to butter price, is seriously flawed when butter prices are out of line with cheese prices. With current product prices for cheese, whey, and nonfat dry milk, the recent increase in butter prices to \$1.85 will yield a protein price of less than \$.50 per pound. This formula is clearly inequitable to Class III producers: The associated Class III skim price is less than \$2.00, and the Class III whole milk price is \$9.30. These historically low prices compare with Class IV skim and whole milk prices of \$7.76 and \$14.89.

We are also deeply concerned that flaws in the current system have hindered the ability of USDA effectively to maintain the \$9.90 support price. Current prices indicate that the Class III price is \$1.33 below the support price. Even with the proposed new Class III formulas and current prices for other dairy products, the Class III price will fall short of the support price by \$.40 per cwt.

We recognize that you have made an effort to address this issue through your decision to provide for separate butterfat prices for milk used in Class III and Class IV. We are concerned, however, that your analysis seems to indicate that the adjustments will result in a wider price gap between Class III and IV due to a greater boost for Class IV prices relative to the Class III increase. Our analysis indicates that use of the new formulas from January through November 2000 would have increased the average Class IV-Class III price gap by almost \$.20 per cwt.

Unless these formula problems are addressed, they, along with the use of the higher of the advanced Class III or advanced Class IV price, will result in the gap between Class III and IV

prices to continue.

Because of this widening gap, we are also concerned that in your decision you expressed that you lacked the ability to replace the existing Class I mover with a weighted average of the advanced Class III and Class IV prices. During the hearing, the administrative law judge accepted testimony regarding such a proposal and also ruled that it was within your ability to make the proposed changes. We urge you to reconsider your decision and replace the current Class I mover with a weighted average of the advanced Class III and Class IV prices based on the portion of manufactured milk used for Class III and IV during the previous year.

Mr. Secretary, these are difficult times for our dairy industry. This month, USDA announced that the Class III milk price will be at \$8.57 per hundredweight. This price is more than a dollar below the price support level of \$9.90, and would be the lowest level in over twenty years. You can take a common sense step to restore rationality to our dairy markets by implementing these reforms.

With respect and appreciation, we look forward to working with you on this important issue.

Sincerely,

Nam Feingold

Herb Kohl