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**STATEMENT OF SUE M. TAYLOR
LEPRINO FOODS COMPANY**
at the
UNITED STATES DEPARTMENT OF AGRICULTURE PUBLIC HEARING

**In the Matter of Milk in the Mideast Marketing Area
Docket Nos.: AO-168-A68 et al; DA-01-04
Wadsworth, Ohio
October 23, 2001**

Introduction

I am Sue Taylor, Vice President of Dairy Policy and Procurement for Leprino Foods Company (Leprino), headquartered in Denver, Colorado. Our business address is 1830 West 38th Avenue, Denver, Colorado 80211-2200. Leprino operates eleven plants in the United States, manufacturing mozzarella cheese and whey products domestically and marketing our products both domestically and internationally. Our cheese is primarily used as an ingredient by major pizza chains, independent pizza restaurants, as well as many of the nation's leading food companies. Leprino operates two manufacturing facilities that receive milk regulated by the Mideast Order. These facilities are located in Allendale and Remus, Michigan.

I am testifying today in opposition to proposal number 4, the proposal to increase the partial payment rate from the lowest Class price to 110% of the lowest Class price from the prior month.

The proponents of proposal 4 point to producer cash flow challenges that exist due to the disparity between the level of the partial payment and the level of the final payment. They suggest that the partial payment should be structured to more closely resemble the blend price. We do not contest the concern regarding producer cash flow; however, our analysis shows that the proposal does not achieve the objective of more closely emulating the blend price. The proposed remedy does not address the root cause of the issue, but rather simply transfers the cash flow burden to processors. The result of the proposal is that manufacturers of products in the lowest Class, and in many months in the lowest two Classes, will be forced to pay more than the classified value of their milk in the partial payment. This violates the minimum pricing intent of the Orders. Additionally, the application of the proponent's logic across several Orders results in inequities in the form of different prepayment levels amongst competitors in manufactured product markets. Addressing the concern expressed by the proponents of Proposal 4 in this

manner is both illogical and inequitable.

Issue

The source of the differences between the prepayment rate and the final payment rate is two-fold. First, the partial payment is based on the prior month's rather than the current month's market value. Second, the partial payment does not capture the incremental value contributed to the final payment by utilizations with higher classified values than the lowest Class price. This incremental value is captured for the final payment through the pooling process administered by the Market Administrator.

The first source of difference, the use of prior month rather than current month market values in setting the minimum advance price, is generally not referenced as a concern since the resulting prepayment price is sometimes above, and sometimes below current month market values. To the extent that a concern exists, the processor obligation for the partial payment could be updated to current month market values. Since not all market values for the full month are known at the time of the partial payment, the partial payment could be calculated based on the factors for that portion of the month for which the data has been published prior to the partial payment deadline. This additional calculation and announcement would require additional administration due to the additional price calculations and the necessary communication to market participants.

The second and more important source of difference between the prepayment and final payment is the absence of contribution of the incremental value from the higher Classes of milk in the prepayment. Although they have not explicitly characterized it as such, this appears to be of primary concern to the proponents of proposal 4.

Analysis

Proposal 4 fails to address either of the sources of differences between the prices. The proposal does not result in an increased correlation between the prepayment and the blend price. Analysis of the period from January 1997 through September 2001 is shown in Attachment 1. Key observations over this period are that the prepayment price is increased by \$1.19, reducing the average shortfall of the advance relative to the blend from \$1.80 to \$0.61. However, the monthly differences between the prepayment and blend range from an "underpayment" of \$5.01 to an "overpayment" of \$3.37, a clear indication that the proposal does not emulate the final payment. The standard deviation of the differences between the prepayment and the blend is increased from \$1.37 under the current system to \$1.46 per cwt. under proposal 4. The graph in Attachment 2 shows the wide fluctuations in individual month differences between the proposed prepayment rate and the blend.

Violation of Basic Tenets of Minimum Manufacturing Prices

The proposal violates two basic tenets of pricing for milk manufactured into Class III and IV products. These are that Federal Milk Marketing Orders establish minimum pricing, and that since manufactured products are marketed nationally, the minimum regulated price level for Classes III and IV are consistent across all Orders.

Proposal 4 violates the minimum pricing concept by setting regulated milk prices for the prepayment above the equivalent market value for Classes III and IV. For example, during the period from January 1997 through September 2001, the minimum prepayment obligation would have exceeded the Class III price by \$0.80 per hundredweight on average.

The proponents of proposal 4 are advocating similar provisions in other Orders. However, the factor that is being proposed is different for different Orders, resulting in disparate economic positions for competing Class III and IV manufacturers located in different Orders. For example, the proposed factor in the Upper Midwest Order is 103%, which would result in an average prepayment price that is \$0.83 per cwt lower than that proposed for the Mideast Order.

Conclusion

The logical conclusion from the above analysis is that the most appropriate approach to the concern that the prepayment does not closely enough resemble the blend price is to implement a similar minimum payment and pooling structure for the prepayment that currently exists for the final payment. Although this is the logical remedy, I am not proposing that it be adopted at this time. This remedy would require significant additional administration in terms of plant reporting, report analysis, pool calculation, and movement of funds into and out of the pool than the current system of minimum payment at the lowest Class price. Additionally, such an approach would significantly impact many handlers who are not participating in the hearing today, since the concept was not properly noticed. A more comprehensive review of all provisions of the Orders that would be impacted and the associated impacts would also be necessary prior to serious consideration of such an approach.

Although we are sympathetic to the issue of concern that is cited by proponents of proposal 4, we do not agree that the proposed solution is appropriate or equitable. Although we have outlined a more appropriate approach to addressing the concern, that approach should not be considered a proposal as part of this rulemaking process since it has not been properly noticed. USDA should reject proposal 4 since it does not appropriately address the issue it purports to remedy, and it violates the minimum pricing concepts for manufacturers.

Attachment 1

Comparison of Prepayment Price under Current System and Proposal 4 with Blend

	Class III \$/cwt	Central Class III-A / B \$/cwt	'Lower of'	110 % of 'Lower of'	Impact of Proposal 4 on Advance	Mideast Blend (as quoted by DFA)	Current Advance less Blend	Proposal 4 Advance less Blend
Jan-97	\$11.94	\$11.50	\$11.50	\$12.65	\$1.15	\$12.82	(\$1.32)	(\$0.17)
Feb-97	\$12.46	\$12.36	\$12.36	\$13.60	\$1.24	\$12.77	(\$0.41)	\$0.83
Mar-97	\$12.49	\$12.78	\$12.49	\$13.74	\$1.25	\$13.16	(\$0.67)	\$0.58
Apr-97	\$11.44	\$12.10	\$11.44	\$12.58	\$1.14	\$13.22	(\$1.78)	(\$0.64)
May-97	\$10.70	\$11.56	\$10.70	\$11.77	\$1.07	\$12.99	(\$2.29)	(\$1.22)
Jun-97	\$10.74	\$12.22	\$10.74	\$11.81	\$1.07	\$12.28	(\$1.54)	(\$0.47)
Jul-97	\$10.86	\$12.06	\$10.86	\$11.95	\$1.09	\$11.82	(\$0.96)	\$0.13
Aug-97	\$12.07	\$11.88	\$11.88	\$13.07	\$1.19	\$12.17	(\$0.29)	\$0.90
Sep-97	\$12.79	\$11.87	\$11.87	\$13.06	\$1.19	\$12.46	(\$0.59)	\$0.60
Oct-97	\$12.83	\$13.40	\$12.83	\$14.11	\$1.28	\$13.44	(\$0.61)	\$0.67
Nov-97	\$12.96	\$14.01	\$12.96	\$14.26	\$1.30	\$13.95	(\$0.99)	\$0.31
Dec-97	\$13.29	\$12.46	\$12.46	\$13.71	\$1.25	\$14.03	(\$1.57)	(\$0.32)
Jan-98	\$13.25	\$12.04	\$12.04	\$13.24	\$1.20	\$14.10	(\$2.06)	(\$0.86)
Feb-98	\$13.32	\$12.89	\$12.89	\$14.18	\$1.29	\$14.37	(\$1.48)	(\$0.19)
Mar-98	\$12.81	\$12.67	\$12.67	\$13.94	\$1.27	\$14.16	(\$1.49)	(\$0.22)
Apr-98	\$12.01	\$12.88	\$12.01	\$13.21	\$1.20	\$13.94	(\$1.93)	(\$0.73)
May-98	\$10.88	\$13.96	\$10.88	\$11.97	\$1.09	\$13.31	(\$2.43)	(\$1.34)
Jun-98	\$13.10	\$15.38	\$13.10	\$14.41	\$1.31	\$13.44	(\$0.34)	\$0.97
Jul-98	\$14.77	\$15.59	\$14.77	\$16.25	\$1.48	\$12.88	\$1.89	\$3.37
Aug-98	\$14.99	\$16.52	\$14.99	\$16.49	\$1.50	\$14.66	\$0.33	\$1.83
Sep-98	\$15.10	\$19.81	\$15.10	\$16.61	\$1.51	\$16.05	(\$0.95)	\$0.56
Oct-98	\$16.04	\$18.13	\$16.04	\$17.64	\$1.60	\$16.43	(\$0.39)	\$1.21
Nov-98	\$16.84	\$14.87	\$14.87	\$16.36	\$1.49	\$16.63	(\$1.76)	(\$0.27)
Dec-98	\$17.34	\$13.48	\$13.48	\$14.83	\$1.35	\$17.26	(\$3.78)	(\$2.43)
Jan-99	\$16.27	\$13.45	\$13.45	\$14.80	\$1.35	\$17.59	(\$4.14)	(\$2.80)
Feb-99	\$10.27	\$12.71	\$10.27	\$11.30	\$1.03	\$16.31	(\$6.04)	(\$5.01)
Mar-99	\$11.62	\$12.56	\$11.62	\$12.78	\$1.16	\$15.90	(\$4.28)	(\$3.12)
Apr-99	\$11.81	\$11.26	\$11.26	\$12.39	\$1.13	\$11.73	(\$0.47)	\$0.66
May-99	\$11.26	\$11.53	\$11.26	\$12.39	\$1.13	\$11.79	(\$0.53)	\$0.60
Jun-99	\$11.42	\$13.14	\$11.42	\$12.56	\$1.14	\$12.78	(\$1.36)	(\$0.22)
Jul-99	\$13.59	\$12.79	\$12.79	\$14.07	\$1.28	\$12.88	(\$0.09)	\$1.19
Aug-99	\$15.79	\$12.77	\$12.77	\$14.05	\$1.28	\$13.28	(\$0.51)	\$0.77
Sep-99	\$16.26	\$12.67	\$12.67	\$13.94	\$1.27	\$15.24	(\$2.57)	(\$1.30)
Oct-99	\$11.49	\$11.83	\$11.49	\$12.64	\$1.15	\$15.63	(\$4.14)	(\$2.99)
Nov-99	\$9.79	\$11.54	\$9.79	\$10.77	\$0.98	\$15.52	(\$5.73)	(\$4.75)
Dec-99	\$9.63	\$10.87	\$9.63	\$10.59	\$0.96	\$12.07	(\$2.44)	(\$1.48)
Jan-00	\$10.05	\$10.73	\$10.05	\$11.06	\$1.01	\$11.62	(\$1.57)	(\$0.56)
Feb-00	\$9.54	\$10.80	\$9.54	\$10.49	\$0.95	\$11.52	(\$1.98)	(\$1.03)
Mar-00	\$9.54	\$11.00	\$9.54	\$10.49	\$0.95	\$11.68	(\$2.14)	(\$1.19)
Apr-00	\$9.41	\$11.38	\$9.41	\$10.35	\$0.94	\$11.77	(\$2.36)	(\$1.42)
May-00	\$9.37	\$11.91	\$9.37	\$10.31	\$0.94	\$12.21	(\$2.84)	(\$1.90)
Jun-00	\$9.46	\$12.38	\$9.46	\$10.41	\$0.95	\$12.38	(\$2.92)	(\$1.97)
Jul-00	\$10.66	\$11.87	\$10.66	\$11.73	\$1.07	\$12.68	(\$2.02)	(\$0.95)
Aug-00	\$10.13	\$11.87	\$10.13	\$11.14	\$1.01	\$12.49	(\$2.36)	(\$1.35)
Sep-00	\$10.76	\$11.94	\$10.76	\$11.84	\$1.08	\$12.53	(\$1.77)	(\$0.69)
Oct-00	\$10.02	\$11.81	\$10.02	\$11.02	\$1.00	\$12.04	(\$2.02)	(\$1.02)
Nov-00	\$8.57	\$13.00	\$8.57	\$9.43	\$0.86	\$11.91	(\$3.34)	(\$2.48)
Dec-00	\$9.37	\$13.27	\$9.37	\$10.31	\$0.94	\$12.16	(\$2.79)	(\$1.85)
Jan-01	\$9.99	\$12.13	\$9.99	\$10.99	\$1.00	\$12.54	(\$2.55)	(\$1.55)
Feb-01	\$10.27	\$12.70	\$10.27	\$11.30	\$1.03	\$12.28	(\$2.01)	(\$0.98)
Mar-01	\$11.42	\$13.46	\$11.42	\$12.56	\$1.14	\$13.24	(\$1.82)	(\$0.68)
Apr-01	\$12.06	\$14.41	\$12.06	\$13.27	\$1.21	\$13.94	(\$1.88)	(\$0.67)
May-01	\$13.83	\$15.04	\$13.83	\$15.21	\$1.38	\$15.12	(\$1.29)	\$0.09
Jun-01	\$15.02	\$15.33	\$15.02	\$16.52	\$1.50	\$15.97	(\$0.95)	\$0.55
Jul-01	\$15.46	\$14.81	\$14.81	\$16.29	\$1.48	\$16.24	(\$1.43)	\$0.05
Aug-01	\$15.55	\$15.06	\$15.06	\$16.57	\$1.51	\$16.54	(\$1.48)	\$0.03
Sep-01	\$15.90	\$15.59	\$15.59	\$17.15	\$1.56	\$16.87	(\$1.28)	\$0.28
Mean								
1997	\$12.05	\$12.35	\$11.84	\$13.02	\$1.18	\$12.93	(\$1.09)	\$0.10
1998	\$14.20	\$14.85	\$13.57	\$14.93	\$1.36	\$14.77	(\$1.20)	\$0.16
1999	\$12.43	\$12.26	\$11.54	\$12.69	\$1.15	\$14.23	(\$2.69)	(\$1.54)
2000	\$9.74	\$11.83	\$9.74	\$10.71	\$0.97	\$12.08	(\$2.34)	(\$1.37)
YTD 2001	\$13.28	\$14.28	\$13.12	\$14.43	\$1.31	\$14.75	(\$1.63)	(\$0.32)
Period Mean	\$12.29	\$13.05	\$11.90	\$13.09	\$1.19	\$13.70	(\$1.80)	(\$0.61)
Period Standard Deviation							\$1.37	\$1.46

Attachment 2

Proposed Prepayment less Blend

