

To: Joyce McPherson, USDA
Re: Docket No. AO-14-A69, et al.; DA-00-03
From: Jon Davis, General Manager – Davisco Foods Cheese Division
Date: 01-25-02

To All Interested Parties,

I'm sure that you've be inundated with correspondence concerning the recommended decision published 10-25-01. I also quite confident that most of those comments reflect on specific items concerning the recommended decisions, with arguments for increasing certain pieces of the complex formulas, and certainly arguments for decreasing those exact same pieces. I could appreciate you arriving at the conclusion, these being competing opinions, that somewhere in the middle, probably exactly where the recommended decision finished would be the fair and equitable area in which to regulate Class III and Class IV prices.

I implore you to look, from afar, at the bigger picture. Though I certainly agree that there are areas where the recommended decision is flawed, the most prevalent being the lack of equitable farm to plant losses, the overvaluing of whey cream fat, and the addition of \$.03 to the reported NASS barrel price, when in fact the department has already made up for a good part of the cost difference between blocks and barrels by decreasing the standard moisture to 38%, I must say that at the end of the day, those specific issues all come together to result in a disparity between the FMMO regulated price, and the California State regulated price that will cause significant disruption in the marketplace.

USDA cannot determine regulated prices that are in direct contrast to the largest milk producing state, which happens to be outside of USDA's domain. At the same time your suggesting increasing the regulated price for cheese milk, the regulating body functioning as you are, in California, has just reduced their regulated price for cheese milk. That disparity puts the two cheese plants at a significant disadvantage in the marketplace as I try to convert milk into cheese in both Idaho and Minnesota, and in turn compete on the "street" against the lower cost California cheese. This situation will only insure that milk production into cheese will only continue to decrease in areas such as the Midwest, and continue to increase in California. Certainly that cannot be the outcome the department is intending to reach.

In addition, by recommending that the regulated price for Class III milk be increased, the Department is establishing regulated prices well above what a manufacturer can expect in the marketplace. This leaves no room for any ability to profit, or account for any yield losses, not included in the decision, of which there are many.

I appreciate also, that the Department may conclude that by increasing the regulated price for cheese milk in the FMMO system, California will be naturally encouraged to increase their regulated price. That, I fear, will be a fatal error in judgment by the department. California has just recently decreased their regulated cheese milk price in reaction to increased energy costs, in the face of the Department suggesting an increase in the FMMO regulated cheese milk price. California will react, as they have historically, based on the ability to insure a competitive supply of milk in California. A milk supply that will only become more competitive as the disparity between cheese milk in the Federal Order system and cheese milk in California widens. They will quickly recognize that the Department increasing the regulated price in the FMMO system, will allow California to become that much more competitive in relation to the rest of the United States. This recognition has long been apparent as California has reacted to changes in the FMMO regulated pricing.

I thank you for your time, and also your patience, as we try and come to equitable conclusions in the way of regulated pricing. I close with this, the Department can not rationally make decisions in the way of regulated pricing in a vacuum. The effect on the marketplace, and ultimately the consumer must be foremost in your mind as you construct these complex regulated pricing mechanisms. You have no choice but to be concerned with what comes out the “other side” as it relates to you complex formulas taking into yield and market place realities. Again, thank you for your time, and I appreciate in advance your consideration.

Jon Davis
Davisco Foods International