

UPSTATE FARMS COOPERATIVE, INC.

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January 25, 2002

Hearing Clerk
Room 1083
South Building
United States Department of Agriculture
Washington, D.C. 20250

Delivered by e-mail to: joyce.mcpherson@usda.gov

Re: Recommended Decision Issued October 19, 2001
Docket No. AO-14-A69.; DA-00-03

Dear Agricultural Marketing Service:

With respect to the above-referenced decision concerning minimum Class III and Class IV price formulas, Upstate Farms Cooperative, Inc. ("Upstate") agrees with the comments being submitted by the National Milk Producers Federation.

In addition, Upstate wants to draw attention to a problem of alignment with California pricing for evaporated milk products.

Upstate is a dairy cooperative with about 350 dairy farm members in Western New York who ship about one billion pounds of milk annually. Upstate owns a controlling interest in O-AT-KA Milk Products Cooperative, Inc., a joint venture located in Batavia, New York with annual gross revenues of about \$161 million that markets about 640 million pounds of milk annually for its three member cooperatives: Dairylea Cooperative Inc., Niagara Milk Cooperative, Inc., and Upstate.

Evaporated milk is one of O-AT-KA's most important product lines, accounting for \$54.3 million in gross revenues and 220 million pounds of milk in 2000 and \$53.8 million in gross revenues and 205 million pounds of milk in 2001.

Sales and profitability of O-AT-KA's evaporated milk declined sharply in 2001 because pricing for milk used in evaporated milk in Federal Orders became materially out of alignment with the pricing for milk used in evaporated milk in California. Business that was maintained to meet customer requirements has become so unprofitable that O-AT-KA will be forced to further reduce volume in a market segment that they have spent 35 years building.

In the Federal Order system, evaporated milk products are classified as Class III. But California puts evaporated milk in Class 4(a) that tracks powder prices. Accordingly, when the butter/powder tilt was changed in 2001, O-AT-KA was put at a significant competitive disadvantage compared to its major competitor in California. This unfair competitive disadvantage will worsen if, as expected, the butter/powder tilt is changed further to lower powder prices in 2002 and if the Class III price formula in the Recommended Decision is implemented.

Accordingly, it is respectfully requested that this misalignment problem be rectified in this proceeding or in some other proceeding in the near future.

Respectfully submitted,

UPSTATE FARMS COOPERATIVE, INC.

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Director of Pricing and Economics

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