

South East Dairy Farmers Association

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September 29, 2006

Gino Tosi

USDA/AMS/Dairy Programs, Order Formulation and Enforcement Branch
Stop 0231-Room 2971
1400 Independence Ave., SW
Washington, D.C. 20250

Re: Docket No. A0-14-A74, et.al; DA-06-01

In the matter of Class III/IV Make Allowances in Proposed Amendments of Tentative Marketing Agreements and Orders, the members of South East Dairy Farmers Association wish to comment on what we believe to be unintended consequences of the proposal and to propose a way to mitigate those consequences for producers in the region.

Manufacturers of dairy products have petitioned for an increase in the Make Allowances included in the formulas for calculating Class III and IV prices due to rising costs. At the same time, however, producers of milk destined primarily for Class I markets, such as those in the southeastern United States, and Class II markets have also experienced significantly higher production costs. We do not believe that the reduction in Class I and Class II prices, which would result from any increase in Class III and Class IV Make Allowances, is justified. In addition, those producers would also feel the negative effects of the increase in Class III and Class IV Make Allowances on the percentage of their milk marketed in those two classes each month.

Estimates of the negative impact on Class I and Class II that have already been submitted to the Department by other sources indicate that the impact on producers in the southeast would be substantial. Those estimates range from a decrease in the monthly Class I price of \$0.20/cwt to \$0.60/cwt. For milk marketed as Class I in 2005, producers in FO 5 would have lost a minimum of \$840 million and a maximum of \$2.52 billion. In FO 6, the impact would have been between \$514 million and \$1.54 billion. In FO 7, producers would have lost between \$930 million and \$2.79 billion.

Dairy producers in the southeastern U.S. are struggling to keep the market in the region adequately supplied with milk marketed as Class I. Declines in prices for the majority of their milk, resulting from changes to Make Allowances for Classes III and IV, will only make that struggle more difficult.

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In order to provide relief to producers who primarily supply Class I markets, we ask the Department to consider the following proposal in the above-referenced proceeding:

If the "make allowances" for computing the Class III and Class IV prices, and the Advanced pricing factors for Class I milk and Class II Skim milk, pursuant to **\$1000.50, Class Prices, component prices and advanced pricing factors** are increased, then:

1. **\$1000.52, Adjusted Class I differentials.**

Increase the Class I differentials in all listed areas by the greater of the per hundredweight amount that the change in the "make allowances" decreases the per hundredweight Class III or Class IV price pursuant to §1000.50.

2. **\$1000.50, Class Prices, component prices and advanced pricing factors: (e) Class II Skim milk price, and (q) Advanced pricing factors.**

Increase the Class II differential of \$0.70 per hundredweight of skim milk by the per hundredweight amount that the change in the "make allowance" decreases the per hundredweight Class IV skim price pursuant to §1000.50(k) and (q).

3. **\$1000.50, Class Prices, component prices and advanced pricing factors: (g) Class II butterfat price.**

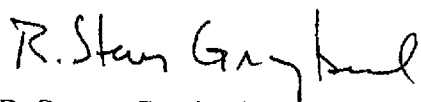
Increase the Class II differential of \$0.007 per pound of butterfat by the per pound amount that the change in the "make allowance" decreases the per pound butterfat price pursuant to §1000.50(l).

While the impact of higher Class III and IV Make Allowances would be greatest on producers in relatively high Class I markets since those producers tend not to share ownership in manufacturing plants that would benefit from a decision, these three modifications would mitigate the resulting harm to producers everywhere on their Class I and II milk. As stated earlier, we believe that harm would be an unintended consequence of the proposal to raise Class III and IV Make Allowances.

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These comments are submitted on behalf of the following organizations: Arkansas Dairy Cooperative Association, Damascus, AR; Cooperative Milk Producers Association, Blackstone, VA; Dairymen's Marketing Cooperative, Inc., Mountain Grove, MO; Lone Star Milk Producers, Inc., Windthorst, TX; Maryland and Virginia Milk Producers Cooperative Association, Inc., Reston, VA; and Piedmont Milk Sales, Inc., Blountville, TN.

Sincerely,

A handwritten signature in black ink that reads "R. Steven Graybeal". The signature is written in a cursive, slightly slanted style.

R. Steven Graybeal,
President