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STATEMENT

HEARING PROPOSAL NO. 3

CLASSIFICATION OF MILK AND CREAM BULK INVENTORIES

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ON BEHALF OF

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AT HEARING HELD OCTOBER 21, 2003

ALEXANDRIA, VIRGINIA

Proposal No. 3 simply provides that ending bulk inventory of fluid milk and cream be classified in the lowest valued class (normally the lower of class 3 or class 4 prices applicable for the month), rather than always to class 4. It was originally one of several proposals submitted by NYSDFI, designed to shore up the classification and assignment provisions made effective under the Reform Order rules pertaining to receipts of other source milk in the Northeast Order.

This proposal was not included by USDA among the proposed amendments considered at the Northeast Order hearing held September 10, 2002, because the Secretary considered this proposal would best be taken up at future hearing involving any amendments to Section 1000.40 pertaining to all the milk Orders.

There does not appear to be a compelling need to restrict the classification of ending bulk inventory of milk and cream to class 4. By doing so, it tends to increase the volume of other source milk assigned to a higher-valued class use at transferee plants than is accorded producer milk, **whenever class 4 prices are higher than another class price.** The reason this happens, is that the Reform Order assignment rules under Section 1000.44 (a)(3), require that certain other source milk receipts, including dairy farmer for other market milk, be assigned "**in series beginning with class IV".**

Ending bulk inventory of fluid milk product, like allowable shrinkage, dumpage, and involuntary product loss, should be classified in the lowest valued class use. Since either class 4 or class 3 may not always be the lowest valued class, provision should be made to assure classification to the lowest valued class, to enable a more equitable sharing of pool proceeds between producer and other source milk receipts.

While the Department may have believed class 4 would be the lowest class use value under Order Reform, actual experience from January 2000 to April, 2003 (date of recent amendment to manufacturing milk price formulas), has been that class 4 milk prices averaged significantly higher than class 3 milk prices. In fact, over the past two years (2001 & 2002), class 4 prices averaged $0.66 and $0.40 per hundredweight higher, respectively, than class 3 milk prices. The monthly price difference ranged from $2.36 per hundred above class 3 (April 2001) to $1.83 under (October, 2001). See attached statistical price data – offered as Exhibit No._ _

At first glance, one might think our proposal to classify ending bulk inventories at the lowest class value, is intended to reduce milk costs for fluid milk dealers. **This simply is not the case.** The reason is that the Orders presently re-classify beginning bulk inventories to the higher class 1 use the following month, so the lower previous classification is compensated for at the class 1 price applicable when the milk is actually processed.

It is true that the amendment to the manufacturing milk price formulas effective April 2003 greatly improved the classification and assignment inequities NYSDFI initially proposed to correct. From more recent 2003 price data, the spread between class 3 and class 4 milk prices have reversed. Increased "make allowances" in the class 4 formula, are largely responsible for reversing the previous trend. **However, the amendments don't guarantee that class 4 prices will always be the lowest of the class prices.**

A combination of increased milk powder and butter prices relative to market cheese prices could conceivably make class 4 values higher than class 3 in any given period. Also, we recently experienced sharp divergence between advanced class 1 price movers and the final class 3 price ($7.07 vs. $13.80 in Aug. '03). This unusually large run-up in final August class 3 price relative to the advanced August "class 1 mover", actually resulted in class 1 and class 2 milk values in some areas that were lower than final class 3 component milk values in the same month, which produced "negative" PPD (producer price differentials) in final statistical uniform price calculations.

Our proposal would automatically correct classification of ending bulk inventories for these unusual changes in monthly formula milk values, by classifying it according to lowest class use value for the month. We therefore respectfully urge its adoption.

This concludes my direct testimony on proposal number 3.

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MANUFACTURING MILK PRICE ESTIMATES (CLASSES 2, 3, & 4) , YEAR 2001

2001	COMPONENT PRICE ESTIMATES PROTEIN	CL4 BF	CL2 BF	NFS	OS	ADV CL 2 SKIM	FO1 CLASS 2	Class 3 Skim Price	FO1 CLASS 3	Class 4 Skim Price	FO1 CLASS 4	DIFF CL4-CL3
JAN	$ 1.6180	$ 1.2896	$ 1.2966	$ 0.8765	$ 0.1120	$ 8.58	$ 12.82	$ 5.68	$ 9.99	$ 7.89	$ 12.13	$ 2.14
FEB	$ 1.4951	$ 1.4626	$ 1.4696	$ 0.8737	$ 0.1199	$ 8.59	$ 13.43	$ 5.34	$ 10.27	$ 7.86	$ 12.70	$ 2.43
MAR	$ 1.6499	$ 1.6820	$ 1.6890	$ 0.8727	$ 0.1039	$ 8.56	$ 14.17	$ 5.73	$ 11.41	$ 7.85	$ 13.46	$ 2.05
APR	$ 1.5443	$ 1.9483	$ 1.9553	$ 0.8745	$ 0.1081	$ 8.56	$ 15.10	$ 5.43	$ 12.05	$ 7.87	$ 14.41	$ 2.36
MAY	$ 1.9107	$ 2.1191	$ 2.1261	$ 0.8780	$ 0.1229	$ 8.58	$ 15.72	$ 6.65	$ 13.83	$ 7.90	$ 15.04	$ 1.21
JUN	$ 2.1670	$ 2.2089	$ 2.2159	$ 0.8748	$ 0.1409	$ 8.60	$ 16.05	$ 7.55	$ 15.02	$ 7.87	$ 15.33	$ 0.31
JUL	$ 2.3175	$ 2.1883	$ 2.1953	$ 0.8234	$ 0.1510	$ 8.58	$ 15.96	$ 8.08	$ 15.45	$ 7.41	$ 14.81	$ (0.64)
AUG	$ 2.2188	$ 2.2976	$ 2.3046	$ 0.8073	$ 0.1535	$ 8.20	$ 15.98	$ 7.78	$ 15.55	$ 7.27	$ 15.06	$ (0.49)
SEP	$ 2.1647	$ 2.4449	$ 2.4519	$ 0.8097	$ 0.1520	$ 7.94	$ 16.24	$ 7.61	$ 15.90	$ 7.29	$ 15.59	$ (0.31)
OCT	$ 2.6664	$ 1.6526	$ 1.6596	$ 0.8041	$ 0.1482	$ 8.00	$ 13.53	$ 9.14	$ 14.60	$ 7.24	$ 12.77	$ (1.83)
NOV	$ 1.8041	$ 1.4500	$ 1.4570	$ 0.7949	$ 0.1470	$ 7.96	$ 12.78	$ 6.46	$ 11.31	$ 7.15	$ 11.97	$ 0.66
DEC	$ 1.9782	$ 1.4322	$ 1.4392	$ 0.7799	$ 0.1517	$ 7.85	$ 12.61	$ 7.03	$ 11.79	$ 7.02	$ 11.79	$ -
AVG	$ 1.9612	$ 1.8480	$ 1.8550	$ 0.8391	$ 0.1343	$ 8.33	$ 14.53	$ 6.87	$ 13.10	$ 7.55	$ 13.76	$ 0.66

UPDATED: 1/4/2002

NORTHEAST ORDER

MANUFACTURING MILK PRICE ESTIMATES (CLASSES 2, 3, & 4) , YEAR 2002

2002	COMPONENT PRICE ESTIMATES PROTEIN	CL4 BF	CL2 BF	NFS	OS	ADV CL 2 SKIM	FO1 CLASS 2	Class 3 Skim Price	FO1 CLASS 3	Class 4 Skim Price	FO1 CLASS 4	DIFF CL4-CL3
JAN	$ 1.9659	$ 1.4846	$ 1.4916	$ 0.7761	$ 0.1392	$ 7.74	$ 12.69	$ 6.92	$ 11.87	$ 6.98	$ 11.93	$ 0.06
FEB	$ 2.0884	$ 1.3817	$ 1.3887	$ 0.7721	$ 0.0965	$ 7.69	$ 12.28	$ 7.04	$ 11.63	$ 6.95	$ 11.54	$ (0.09)
MAR	$ 1.8342	$ 1.3638	$ 1.3708	$ 0.7660	$ 0.0688	$ 7.66	$ 12.19	$ 6.09	$ 10.65	$ 6.89	$ 11.42	$ 0.77
APR	$ 2.0108	$ 1.2890	$ 1.2960	$ 0.7575	$ 0.0566	$ 7.61	$ 11.88	$ 6.57	$ 10.85	$ 6.82	$ 11.09	$ 0.24
MAY	$ 2.2097	$ 1.1433	$ 1.1503	$ 0.7572	$ 0.0371	$ 7.53	$ 11.29	$ 7.07	$ 10.82	$ 6.81	$ 10.57	$ (0.25)
JUN	$ 2.0148	$ 1.1211	$ 1.1281	$ 0.7605	$ 0.0247	$ 7.50	$ 11.19	$ 6.39	$ 10.09	$ 6.84	$ 10.52	$ 0.43
JUL	$ 1.8094	$ 1.0929	$ 1.0999	$ 0.7633	$ 0.0150	$ 7.55	$ 11.14	$ 5.70	$ 9.32	$ 6.87	$ 10.45	$ 1.13
AUG	$ 1.9021	$ 1.0701	$ 1.0771	$ 0.7674	$ 0.0177	$ 7.56	$ 11.07	$ 6.00	$ 9.54	$ 6.91	$ 10.41	$ 0.87
SEP	$ 2.0646	$ 1.0099	$ 1.0169	$ 0.7696	$ 0.0367	$ 7.62	$ 10.91	$ 6.62	$ 9.92	$ 6.93	$ 10.22	$ 0.30
OCT	$ 2.1840	$ 1.0726	$ 1.0796	$ 0.7765	$ 0.0755	$ 7.61	$ 11.12	$ 7.22	$ 10.72	$ 6.99	$ 10.50	$ (0.22)
NOV	$ 1.8469	$ 1.0923	$ 1.0993	$ 0.7777	$ 0.0850	$ 7.68	$ 11.26	$ 6.23	$ 9.83	$ 7.00	$ 10.58	$ 0.75
DEC	$ 1.7506	$ 1.1922	$ 1.1992	$ 0.7282	$ 0.0584	$ 7.69	$ 11.62	$ 5.77	$ 9.74	$ 6.55	$ 10.49	$ 0.75
AVG	$ 1.9735	$ 1.1928	$ 1.1998	$ 0.7643	$ 0.0593	$ 7.62	$ 11.55	$ 6.47	$ 10.42	$ 6.88	$ 10.81	$ 0.40

UPDATED: 1/15/2003

NORTHEAST ORDER

MANUFACTURING MILK PRICE ESTIMATES (CLASSES 2, 3, & 4) , YEAR 2003

2003		COMPONENT PRICE ESTIMATES PROTEIN	CL3-4 BF	CL2 BF	NFS	OS	ADV CL 2 SKIM	FO1 CLASS 2	Class 3 Skim Price	FO1 CLASS 3	Class 4 Skim Price	FO1 CLASS 4	DIFF CL4-CL3
JAN	actual	$ 1.8164	$ 1.1856	$ 1.1926	$ 0.6807	$ 0.0339	$ 7.37	$ 11.29	$ 5.83	$ 9.78	$ 6.13	$ 10.07	$ 0.29
FEB	actual	$ 1.8538	$ 1.1373	$ 1.1443	$ 0.6711	$ 0.0240	$ 6.90	$ 10.66	$ 5.89	$ 9.66	$ 6.04	$ 9.81	$ 0.15
MAR	actual	$ 1.6648	$ 1.1459	$ 1.1529	$ 0.6651	$ 0.0206	$ 6.74	$ 10.54	$ 5.28	$ 9.11	$ 5.99	$ 9.79	$ 0.68
APR	actual	$ 1.8006	$ 1.1503	$ 1.1573	$ 0.6564	$(0.0008)	$ 6.62	$ 10.44	$ 5.58	$ 9.41	$ 5.91	$ 9.73	$ 0.32
MAY	actual	$ 1.9275	$ 1.1512	$ 1.1582	$ 0.6574	$(0.0144)	$ 6.61	$ 10.43	$ 5.89	$ 9.71	$ 5.92	$ 9.74	$ 0.03
JUN	actual	$ 1.9434	$ 1.1576	$ 1.1646	$ 0.6574	$(0.0200)	$ 6.62	$ 10.46	$ 5.91	$ 9.75	$ 5.92	$ 9.76	$ 0.01
JUL	actual	$ 2.5480	$ 1.2055	$ 1.2125	$ 0.6605	$(0.0124)	$ 6.62	$ 10.63	$ 7.83	$ 11.78	$ 5.94	$ 9.95	$ (1.83)
AUG	actual	$ 3.1438	$ 1.2514	$ 1.2584	$ 0.6638	$ 0.0026	$ 6.64	$ 10.81	$ 9.76	$ 13.80	$ 5.97	$ 10.14	$ (3.66)
SEP	actual	$ 3.3180	$ 1.2218	$ 1.2288	$ 0.6644	$ 0.0170	$ 6.69	$ 10.76	$ 10.39	$ 14.30	$ 5.98	$ 10.05	$ (4.25)
OCT	EST	$ 3.2730	$ 1.2624	$ 1.2694	$ 0.6669	$ 0.0304	$ 6.66	$ 10.87	$ 10.33	$ 14.38	$ 6.00	$ 10.21	$ (4.17)
NOV	EST	$ 3.2763	$ 1.2660	$ 1.2730	$ 0.6707	$ 0.0309	$ 6.70	$ 10.92	$ 10.34	$ 14.41	$ 6.04	$ 10.26	$ (4.15)
DEC	EST	$ 2.9541	$ 1.1880	$ 1.1950	$ 0.6732	$ 0.0319	$ 6.76	$ 10.71	$ 9.35	$ 13.18	$ 6.06	$ 10.01	$ (3.17)
AVG		$ 2.4600	$ 1.1936	$ 1.2006	$ 0.6656	$ 0.0120	$ 6.74	$ 10.71	$ 7.70	$ 11.61	$ 5.99	$ 9.96	$ (1.65)

Forecast 10/10/2003

SPECIAL NOTES: 1. BASED ON REVISED USDA MFG PRICE FORMULAS EFFECTIVE APRIL, 2003.
2. PRICES IN BOLD TYPE ARE ACTUAL ANNOUNCED PRICES.

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